A REVIEW OF OUR SEGMENTAL PERFORMANCE

Segmental analysis

We implemented a Group reorganisation with effect from January 2016. The reorganisation has improved our efficiency through de-layering and centralising back-office services, while allowing us to maintain our focus on delivery, and our responsiveness, both to market conditions and our clients' needs.

From January 2016, our three reporting segments are:

Engineering & Construction – comprising our lump-sum businesses: Onshore Engineering & Construction, Offshore Capital Projects and Technical Services

Engineering & Production Services – comprising our reimbursable businesses: Offshore Projects & Operations and Engineering & Consulting Services, as well as Petrofac Training and consultancy businesses

Integrated Energy Services – our upstream business

The diagram below shows our 2015 service lines, 2015 reporting segments and our new reporting segments for January 2016 onwards.

2016 Reporting segments	**Engineering & Construction (E&C)**		**Engineering & Production Services (EPS)**			**Integrated Energy Services (IES)**	
2015 Service lines	Onshore Engineering & Construction (OEC)	Offshore Capital Projects (OCP)	Offshore Projects & Operations (OPO)	Engineering & Consulting Services (ECS)	Training Services	Production Solutions	Developments
2015 Reporting segments	Onshore Engineering & Construction	Offshore Projects & Operations		Engineering & Consulting Services	Integrated Energy Services		

We present below an update on each of the Group's reporting segments[1]:

US$ million	Revenue		Net profit		EBITDA	
For the year ended 31 December	**2016**	2015	**2016**	2015	**2016**	2015
Engineering & Construction	**5,928**	4,821	**311**	(1)	**463**	60
Engineering & Production Services	**1,725**	1,739	**111**	58	**140**	88
Integrated Energy Services	**271**	379	**(42)**	7	**99**	166
Corporate, others, consolidation adjustments & eliminations	**(51)**	(95)	**(60)**	(55)	**2**	(2)
Group	**7,873**	6,844	**320**	9	**704**	312

Growth/margin analysis %	Revenue growth		Net margin		EBITDA margin	
For the year ended 31 December	**2016**	2015	**2016**	2015	**2016**	2015
Engineering & Construction	**23.0**	34.4	**5.2**	0.0	**7.8**	1.2
Engineering & Production Services	**(0.8)**	(20.2)	**6.4**	3.3	**8.1**	5.1
Integrated Energy Services	**(28.5)**	(35.9)	**(15.5)**	1.8	**36.5**	43.8
Group	**15.0**	9.7	**4.1**	0.1	**8.9**	4.6

1 2015 restated to reflect the Group reorganisation.

Engineering & Construction (E&C)

Engineering & Construction 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.

7,500
E&C headcount at 31 December 2016 (2015: 12,000)

We have made good progress executing our portfolio of lump-sum engineering and construction projects, working approximately 200 million man-hours across our portfolio. Significant milestones reached during the year included:

- Completed and commenced production from the central processing facility for the In Salah southern fields development in Algeria
- Completed the Bab Compression project in Abu Dhabi
- Achieved mechanical completion on the third and final processing train on the Badra project in Iraq
- Substantially completed the SARB3 project, offshore Abu Dhabi
- The Laggan-Tormore project in Shetland, UK, handed over and completed in the first half of the year
- On the Upper Zakum project, offshore Abu Dhabi, delivered 145 modules to site (of 181 separate modules being fabricated in 18 yards worldwide) and installed the early water injection facilities
- Largely completed the engineering and construction of the central processing facility on the Khazzan project in Oman
- Substantially completed the Sohar Refinery Improvement project in Oman with hydrocarbons expected to be introduced early in 2017

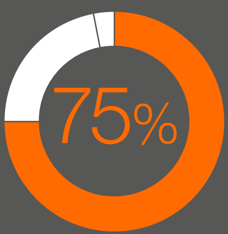
New awards

New order intake for the year totalled US$0.6 billion, comprising the following major award:

Salalah LPG, Oman

In December 2016, we received a letter of award for a project worth close to US$600 million with Salalah LPG SFZCO LLC (SLPG), wholly owned subsidiary of Oman Oil Facilities Development Company LLC to undertake the engineering, procurement and construction of its Salalah LPG extraction project in the southern part of Oman. Under the terms of the 36-month lump-sum contract, Petrofac's scope of work will include construction of the liquefied petroleum gas (LPG) unit and associated facilities including tie-ins to existing pipeline infrastructure, LPG storage and jetty facilities at the Port of Salalah.

Group revenue contribution



Revenue

+23%

US$3,587m	2014
US$4,821m	2015
US$5,928m	**2016**

Net profit/(loss)

+31,200%

US$438m	2014
US$(1)m	2015
US$311m	**2016**

Net profit margin

12.2%	2014
0.0%	2015
5.2%	**2016**

Business model p4

Delivering locally in Oman

BP's Khazzan central processing facility (CPF) is one of five Petrofac mega-projects currently underway in Oman.

Valued at over US$1 billion, the engineering, procurement, construction and commissioning (EPCC) contract includes two gas processing trains, each with a capacity of 525 million cubic feet of gas per day, plus a condensate processing system, power generation plant and water treatment system, as well as all the associated utilities and infrastructure.

One of the big challenges on the project is the tight timescale, which made particular demands of our technical teams in both Mumbai and Sharjah. In fact, during a particularly intensive 13-month period, our engineers were producing more than 350 isometric drawings every single week.

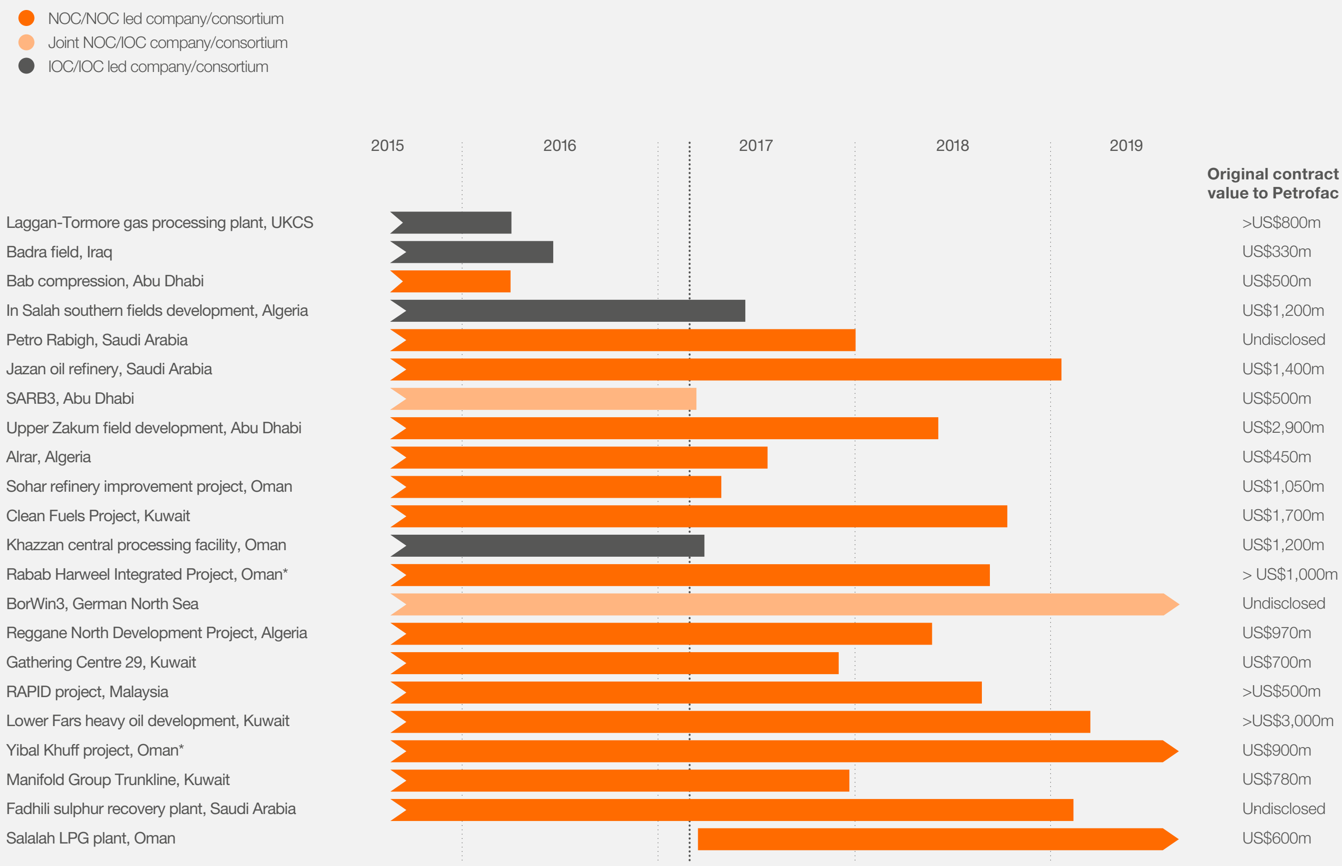
Another consideration was the need to transport large pre-fabricated equipment to the site's remote location. On one occasion, a special convoy of hydraulic trailers were deployed to transport eight pressure vessels of over 200 MT each in a single lot. On another, a large glycol regeneration skid was led through a purpose-built underpass to keep it clear of the overhead power lines.

Fully committed to the maximisation of Omanisation and In Country Value (ICV), Petrofac has achieved a 60% increase in goods and services expenditure in-country so far on the project.

Despite the challenges of construction in a remote location, Petrofac and its contractors have maintained continuous training and focus on HSE and had delivered 30 million hours without lost time incident by the end of 2016.

Engineering and construction is largely completed with initial handover to BP expected later in 2017.

Timeline for E&C/EPS* projects



Results

We delivered strong revenue growth in the year, with revenue up 23% to US$5,928 million (2015: US$4,821 million). This reflects high levels of activity as we deliver progress on our portfolio of projects, having closed 2015 with a record level of year-end backlog.

Net profit for the year before exceptional items and certain re-measurements was US$311 million, compared with a loss of US$1 million in 2015 when losses on the Laggan-Tormore project were larger (see note 3 to the financial statements). The final charge on the Laggan-Tormore project in 2016 of US$101 million principally comprises the partial application of liquidated damages as part of the final commercial settlement with our client in respect of the project.

Net profit for the year before recognising losses on the Laggan-Tormore project was US$412 million (2015: US$430 million). Net margin for the year was 7.0% (2015: 8.9%) reflecting the impact of project phasing and mix and commercial settlements in tighter market conditions, partially offset by operational and overhead savings.

Engineering & Construction headcount stood at 7,500 at 31 December 2016 (31 December 2015: 12,000), with the reduction predominantly in our offices in the United Arab Emirates and India. The reduction reflects ongoing focus on delivering cost efficiencies and the phasing of project delivery.

Engineering & Construction backlog decreased to US$8.2 billion at 31 December 2016 (31 December 2015: US$13.3 billion), reflecting progress delivered on the existing project portfolio and the relatively low level of new orders in the year.

Engineering & Production Services (EPS)

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

5,200

EPS headcount at 31 December 2016 (2015: 5,000)

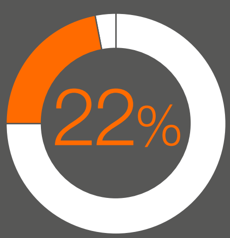
Through Engineering & Production Services we:

- Support our clients across the asset life cycle from conceptual greenfield developments to brownfield modifications, operations, maintenance, decommissioning and abandonment
- Conceptualise, design and provide modifications solutions for onshore and offshore assets
- Execute oil and gas infrastructure projects through our Engineering, Procurement and Construction Management (EPCm) service line
- Provide differentiated outsourced asset operations management including Duty Holder and Service Operator models and integrated specialist services such as asset integrity, well engineering, well project management and subsea capability
- Provide training and competence management solutions

Our reimbursable business continues to perform in line with expectations, including good progress on our EPCm projects. We secured awards and extensions worth approximately US$1.3 billion during 2016, across our global operations, including:

- A new five-year Service Operator contract in the North Sea for Anasuria Operating Company Limited, a UK joint venture formed between Hibiscus Petroleum Berhad and Ping Petroleum Limited
- A Duty Holder contract from BP to support the late life management of the Miller platform, located in the Central North Sea, in preparation for the next phase of its planned decommissioning programme
- A well decommissioning contract from Tullow Oil to provide plug and abandonment project management on the Horn and Wren platform where Petrofac is also Duty Holder
- An enhanced three-year contract extension on the Alwyn and Dunbar platforms in the Northern North Sea for Total E&P UK
- Two major contracts with Repsol Sinopec Resources UK for the provision of engineering support services and onshore and offshore personnel for three years

Group revenue contribution



Revenue

-1%

Net profit

+91%

Net profit margin

Segmental performance
continued

- Appointed as the Well Operator for Hurricane Energy in a three-year deal to support its assets West of Shetland
- A new five-year training partnership contract for Training and Emergency Response Services with Statoil (U.K.) Limited to support its UKCS operations
- The award of an extension to December 2021 for the provision of integrated support services on the Cygnus gas field in the Southern North Sea
- New and modified 'life of field' operations and maintenance contract with Mubadala Petroleum relating to the FPF-003 floating production, storage and offloading vessel located in the Gulf of Thailand, which has the potential to run until 2023
- A contract worth US$75 million from South Oil Company (SOC) for its Iraq Crude Oil Export Expansion Project
- A new contract to provide maintenance management services in Southern Iraq and Training services in support of international oil companies in Iraq
- Various engineering services and consultancy contracts in the UK, Middle East, Far East and Gulf of Mexico

Business model p4

Adding value in our core markets

Through Engineering & Production Services, we support our clients with services across the oil and gas asset life cycle. And, by thinking differently about delivery we often create significant added value.

One example is our innovative new Service Operator model. This is a service we provide to the Anasuria Operating Company (AOC) for its Anasuria cluster in the UK North Sea.

Under this five-year agreement, awarded in March 2016, we evolved our traditional outsourced Duty Holder model to take responsibility for AOC's FPSO operations, as well as for monitoring and managing its pipelines and wells*. As a result, we provide an integrated, aligned approach which is fit for purpose in the current climate and is focused on driving shared value.

We worked closely with AOC from the outset and by the end of 2016, the oil export rate was the highest from the asset since 2010 and third highest since 2006.

On the other side of the world, in Iraq, we built on our four-year track record when we re-secured our operations and maintenance contract for the South Oil Company (SOC) for its Iraq Crude Oil Export Expansion Project.

During our tenure over 1.67 billion barrels of oil have been exported, which represents a substantial proportion of Iraq's oil export. We have also undertaken a number of additional scopes designed to drive enhanced value. This included the creation of an entirely new and unprecedented approach to the lifting of a critical spare - a 300-tonne single point mooring (SPM), for transfer and storage. Conventionally a 600-tonne crane would be used – a time-consuming, high-cost operation, with many risks to mitigate.

Instead, we proposed a synchrolift, typically used to lift ships. As this had never been attempted before, we worked with the SPM manufacturer to understand the risks and carefully plan the procedure. As a result, a four-week operation was completed safely in just four days, the cost was reduced by 65%, and a new industry standard was set and subsequently adopted by the Original Equipment Manufacturer.

* excludes the Cook well

Segmental performance
continued

Petrofac re-secured its operations and maintenance contract for the South Oil Company for its Iraq Crude Oil Export Expansion Project.

Results

Revenue for the year was broadly unchanged at US$1,725 million (2015: US$1,739 million). An increase in revenues from engineering, procurement and construction management (EPCm) projects in Oman and Abu Dhabi was more than offset by a reduction in activity and cost deflation on operations and engineering services contracts, particularly in the UK, where revenues were also impacted by the lower sterling to US dollar exchange rate.

Net profit for the year before exceptional items and certain re-measurements increased 91% to US$111 million (2015: US$58 million), with net margin increasing to 6.4% (2015: 3.3%). The increase in net profit reflects business mix and performance, including the phasing of EPCm projects, supplemented by reductions in overhead costs from de-layering and centralising back-office services as part of the Group reorganisation.

Headcount increased marginally to 5,200 at 31 December 2016 (31 December 2015: 5,000), reflecting new contract wins during the year.

Engineering & Production Services backlog stood at US$3.5 billion at 31 December 2016 (31 December 2015: US$4.4 billion). Approximately US$0.5 billion of the reduction in backlog was due to the lower sterling to US dollar exchange rate and a reduction in expected revenues from some projects due to cost deflation and scope changes.

Integrated Energy Services (IES)

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, related energy infrastructure projects, and can include investment.

800

IES headcount at 31 December 2016 (2015: 1,900)

IES deploys the Group's capabilities to meet the individual needs of our clients, using a range of commercial frameworks, including:

- Production Enhancement Contracts (PECs)
- Risk Service Contracts (RSCs)
- traditional Equity Upstream Investment models including both Production Sharing Contracts (PSCs) and concession agreements

Production Enhancement Contracts

We earn a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. During the year, we earned tariff income on a total of 6.4 million barrels of oil equivalent (mboe) (2015: 7.5 mboe), due to a decrease in production in Mexico and exit from the Ticleni PEC in Romania in August 2016.

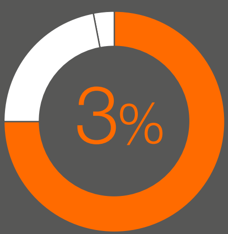
As part of the ongoing energy reforms in Mexico, we continue to work towards migration of our PECs to PSCs.

Risk Service Contracts

We reached mutual agreement with PETRONAS in July 2016 for the cessation of the Berantai RSC, offshore Malaysia. With the cessation of the RSC, which was effective from 30 September 2016, PETRONAS agreed to reimburse the balance of outstanding capital and operational expenditures to Petrofac and its partners over the period to June 2017. As part of this arrangement the Berantai FPSO, which was held as an asset under finance lease, was transferred to PETRONAS.

Gross production for the Berantai RSC for the period to 30 September 2016 was ahead of target at 5.1 mboe (2015: 7.0 mboe for 12 months), in part due to high uptime on the facilities.

Group revenue contribution

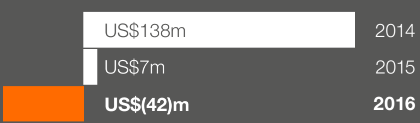


Revenue

-28%

Net (loss)/profit

-700%



Net (loss)/profit margin

Business model p4

Oil flows from the Greater Stella Area

A major landmark for IES in 2016 was the completion of the upgrade to the FPF1 floating production facility and its subsequent sailaway to its current location at the Stella field in the Central North Sea.

Following the completion of the onshore construction and commissioning works, the FPF1 was towed out of the Remontowa shipyard at Gdansk in July, ready for its 700-mile onward voyage to the Stella field prior to hook up and offshore commissioning. The modifications to the FPF1 were significant and included entirely new topside oil and gas processing equipment which should enable high operational uptime performance.

As well as managing the modification and upgrade of the facility and providing Duty Holder services to the operator, Ithaca Energy, Petrofac is taking a 20% interest in the Stella and Harrier licence block. First hydrocarbons were announced by Ithaca in mid-February and prompt ramp-up of production is now anticipated, leading to an expected initial annualised gross production rate of approximately 30,000 barrels of oil equivalent per day.

Going forward, Petrofac's Duty Holder contract includes incentivised cost and uptime performance terms and, over time, the FPF1 may also become a production hub for adjacent fields.

Equity Upstream Investments

On Block PM304 in Malaysia, we achieved high uptime of the facilities and production levels were 13% higher than in 2015. The Chergui gas plant in Tunisia was shut-in for the majority of the year as a result of civil unrest in the country. Following sailaway of the FPF1 floating production facility in August 2016, we achieved successful start-up of production from the Greater Stella Area development in February 2017.

Our net entitlement from production for the year was lower at 2.1 mboe (2015: 2.4 mboe), with increased production from Block PM304 more than offset by the extended shut-ins of the Chergui gas plant.

Results

Revenue decreased to US$271 million (2015: US$379 million), primarily reflecting lower production, lower investment in our PECs in Mexico and lower realised oil and gas prices.

Summary of IES key projects

	2015–2019	End date
Production Enhancement Contracts (PEC)		
Magallanes and Santuario, Mexico		2037
Pánuco, Mexico*		2043
Arenque, Mexico		2043
Risk Service Contracts		
Berantai development, Malaysia**		2020
Equity Upstream Investments		
Block PM304, Malaysia		2026
Chergui gas plant, Tunisia		2031
Greater Stella Area, UK		Life of field

* In joint venture with Schlumberger.
** Exited with effect from 30 September 2016.

IES made a net loss before exceptional items and certain re-measurements of US$42 million (2015: US$7 million net profit). The net loss reflects lower production and a change in production mix, lower realised oil and gas prices, a higher depreciation charge in Mexico, reflecting the change in depreciation policy (see note 2 to the consolidated financial statements, page 126), and a reduction in operating costs, overheads and taxation. The prior period also benefited from the receipt of a US$9 million break fee in respect of our exit from the Etinde project in Cameroon.

Exceptional items and certain re-measurements of US$273 million post-tax (2015: US$325 million) were recognised in IES in the year. These are primarily in relation to: the impairment of the carrying value of the Group's available-for-sale investment in Seven Energy and fair value re-measurements and net costs in relation to exiting the Berantai RSC, and a non-cash impairment charge in respect of the FPSO Opportunity (see note 5 to the consolidated financial statements for details).

Headcount decreased to approximately 800 at 31 December 2016 (31 December 2015: 1,900), predominantly reflecting the exits from the Ticleni PEC and Berantai RSC.

IES backlog decreased to US$2.6 billion at 31 December 2016 (31 December 2015: US$3.0 billion), reflecting the cessation of the Berantai RSC. IES' remaining backlog relates to the four PECs in Mexico. We will stop recognising backlog in respect of these contracts upon completion of their migration to Production Sharing Contracts.

Financial review

"The Group delivered record revenues of US$7.9 billion, net profit of US$320 million[1] and a 10% reduction in net debt driven by strong cash generation."

At a glance

- Record revenues, up 15% to US$7.9 billion
- EBITDA up 126% to US$704 million[1]
- Strong growth in net profit to US$320 million[1]
- Fully diluted EPS of 93.29 cents[1]
- Group backlog down 31% to US$14.3 billion
- Cash conversion of 114%[2]
- Free cash flow up 10% to US$386 million
- Net debt down 10% to US$617 million
- Full year dividend maintained at 65.80 cents per share

1 Business Performance before exceptional items and certain re-measurements
2 See page 25

Alastair Cochran
Chief Financial Officer

Revenue

Group revenue increased 15% to US$7,873 million (2015: US$6,844 million), predominantly as a result of revenue growth in the Engineering & Construction reporting segment. This reflects high levels of activity across our portfolio of projects, having closed 2015 with a record level of year-end backlog. Revenue growth in Engineering & Construction more than offset a decline in Integrated Energy Services, predominantly reflecting lower production, lower investment in our PECs in Mexico and lower realised oil and gas prices. Revenues in Engineering & Production Services were broadly unchanged year on year.

Backlog

The Group's backlog decreased 31% to US$14.3 billion at 31 December 2016 (2015: US$20.7 billion), predominantly reflecting low order intake during the year in E&C. EPS generated new orders of US$1.3 billion, principally in the UK and Iraq.

	31 December 2016 US$ billion	31 December 2015 US$ billion
Engineering & Construction	**8.2**	13.3
Engineering & Production Services	**3.5**	4.4
Integrated Energy Services	**2.6**	3.0
Group	**14.3**	20.7

IES backlog relates to our four PECs in Mexico, which we will cease to recognise when they migrate to PSCs. Group backlog excluding IES decreased 34% to US$11.7 billion at 31 December 2016 (2015: US$17.6 billion).

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

Business Performance EBITDA was significantly higher at US$704 million (2015: US$312 million) due to lower losses from the Laggan-Tormore project in the year. EBITDA before recognising losses on the Laggan-Tormore project increased 2% to US$805 million (2015: US$792 million), representing an EBITDA margin of 10.2% (2015: 11.6%).

Finance costs/income

Finance costs for the year remained unchanged at US$101 million (2015: US$101 million), with an increase in debt interest costs, due to higher average levels of debt in the year, offset by a reduction in finance lease interest cost following our exit from the Berantai RSC. Finance income was US$3 million (2015: US$9 million), with all of the finance income in the current year relating to bank interest. Included in the prior year was US$8 million in relation to the unwinding of the discount on long-term receivables from customers.

Taxation

The Group's total income tax charge for the year was US$86 million (2015: US$9 million), an effective tax rate of 86.0% (2015: negative 2.7%). The Group's effective tax rate, excluding the impact of exceptional items and certain re-measurements, for the year ended 31 December 2016 is 20.3% (2015: 30.0%).

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US$ millions	Year ended 31 December 2016 Business performance[1]	Exceptional items and certain re-measurements	Total	Year ended 31 December 2015 Business performance[1]	Exceptional items and certain re-measurements	Total
Revenue	**7,873**	**–**	**7,873**	6,844	–	6,844
EBITDA before losses on Laggan-Tormore project	**805**	**n/a**	**n/a**	792	n/a	n/a
EBITDA	**704**	**n/a**	**n/a**	312	n/a	n/a
Net profit before losses on Laggan-Tormore project	**421**	**n/a**	**n/a**	440	n/a	n/a
Net profit/(loss)[2]	**320**	**(319)**	**1**	9	(358)	(349)

A number of factors have impacted the overall effective tax rate, with key drivers being: exceptional items and certain re-measurements, which are not subject to tax; and, the disallowance of expenditure, which is not deductible for tax purposes. In line with prior years, the effective tax rate is also driven by the mix of profits in the jurisdictions in which profits are earned.

As announced in the 2016 Budget, the main rate of UK corporation tax will be reduced by a further 1% to 17% from 1 April 2020. The change in the UK rate was substantively enacted prior to the reporting date and therefore the impact of the change is reflected within the current year charge. Also in the 2016 Budget, the UK Government proposed changes to the carry forward tax loss relief rules. However, these were not substantively enacted by the reporting date and hence any impact has not been included within the calculations. The impact, as a result of the proposed change in legislation, is estimated to be a decrease to the recognised deferred tax asset of US$22 million, approximately 42%.

The approach and policies applied to the management of the Group's tax affairs, as approved by the Board, are available in Tax Reporting in the 'Responsibility' section of the Group's website, www.petrofac.com.

Net profit

Business Performance net profit increased to US$320 million (2015: US$9 million) due to lower losses from the Laggan-Tormore project in the year. Reported net profit was US$1 million (2015: US$349 million net loss).

Business Performance net profit for the year before recognising losses on the Laggan-Tormore project was marginally lower at US$421 million (2015: US$440 million). Group net margin on the same basis decreased to 5.3% (2015: 6.4%) due to:

- The net loss in IES of US$42 million (2015: US$7 million net profit) predominantly reflecting lower production and a change in production mix, lower realised oil and gas prices and a change in depreciation policy in Mexico
- Lower net margins in Engineering & Construction, reflecting the impact of project phasing and mix and commercial settlements in tighter market conditions, partially offset by operational and overhead savings
- Net profit growth in Engineering & Production Services reflecting business mix and performance, including the phasing of EPCm projects, supplemented by reductions in overhead costs from de-layering and centralising back-office services as part of the Group reorganisation

1 Business Performance before exceptional items and certain re-measurements.
2 Profit for the year attributable to Petrofac Limited shareholders.

Earnings per share

Business Performance earnings per share was 93.29 per share on a fully diluted basis (2015: 2.65 cents), reflecting the increase in Business Performance net profit. Total reported earnings per share was 0.29 cents per share (2015: loss of 102.65 cents), impacted by impairments relating to the IES portfolio and other exceptional items.

Operating cash flow

Net cash flows from operating activities were US$651 million for the year ended 31 December 2016 (2015: US$669 million). The key components were:

- An increase in operating profits before changes in working capital and other non-current items to US$739 million (2015: US$313 million), predominantly reflecting an increase in profit before tax to US$100 million (2015: US$335 million loss) due to significantly lower losses from the Laggan-Tormore project in the year
- Net working capital inflows of US$85 million (2015: US$602 million), including:
  - an increase in trade and other receivables of US$112 million, in part due to delays in collecting agreed variation orders
  - an increase in accrued contract expenses of US$800 million partially offset by an increase in work in progress of US$388 million reflecting high activity levels in Engineering & Construction
  - an inflow of US$384 million from a reduction in other financial assets, predominantly in relation to the cessation of the Berantai RSC. US$257 million of Berantai RSC receipts were received during the year, including accelerated receipts through a non-recourse sale
  - a decrease in trade and other payables of US$441 million, predominantly due to an unwinding of advances received from customers on existing Engineering & Construction projects with no new advances received during the year due to low order intake
- Interest paid on borrowing and finance leases of US$94 million (2015: US$96 million)
- Net income taxes paid of US$40 million (2015: US$49 million)

Capital expenditure

Cash basis

Total capital expenditure for the year on a cash basis decreased 18% to US$303 million (2015: US$370 million):

	31 December 2016 US$ million	31 December 2015 US$ million
Purchase of property, plant and equipment	**165**	169
Payments for intangible oil and gas assets	**2**	17
Additional investment made to available-for-sale investment	**12**	–
Investments in associate and joint ventures	**5**	2
Loan in respect of the Greater Stella Area development	**119**	182
Cash capital expenditure	**303**	370

Balance sheet

Capital expenditure on property, plant and equipment (as per note 10 to the consolidated financial statements) totaled US$143 million for the year ended 31 December 2016 (2015: US$260 million). The main components were:

- US$80 million on the Petrofac JSD6000 installation vessel
- US$37 million on temporary camps on Engineering & Construction projects
- US$15 million on field development costs on IES' PECs in Mexico

In addition, there was an increase of US$119 million in the loan in respect of the Greater Stella Area development. The nature of the loan is Petrofac's contribution to the capital cost of the project.

Capital expenditure on intangible oil and gas assets (as per note 14 to the consolidated financial statements) during the year was US$3 million (2015: US$10 million).

Free cash flow

The Group defines free cash flow as net cash flows from operating activities less net cash flows used in investing activities. Free cash flow increased to US$386 million (2015: US$351 million), predominantly due to an 18% reduction in cash capex.

	31 December 2016 US$ million	31 December 2015 US$ million
Net cash flows from operating activities	**651**	669
Net cash flows used in investing activities	**(265)**	(318)
Free cash flow	**386**	351

Dividends

The Company proposes a final dividend of 43.80 cents per share for the year ended 31 December 2016 (2015: 43.80 cents), which, if approved, will be paid to shareholders on 19 May 2017 provided they are on the register on 21 April 2017 (the 'record date'). Shareholders who have not elected to receive dividends in US dollars will receive a sterling equivalent, based on the exchange rate on 26 April 2017.

Shareholders have the opportunity to elect by close of business on the record date to change their dividend currency election. Together with the interim dividend of 22.00 cents per share (2015: 22.00 cents), this gives a total dividend for the year of 65.80 cents per share (2015: 65.80 cents), in line with the prior year.

Balance sheet

IES carrying value

The carrying value of Integrated Energy Services' portfolio is US$1,208 million (2015: US$1,694 million), largely reflecting the impact of the cessation of the Berantai RSC and the impairment charge of US$212 million in the year. Full details are provided in the table on page 51:

Working capital

The key movements in working capital during the year were:

- An increase in work in progress of US$388 million to US$2,182 million (2015: US$1,794 million), due to the high level of activity in the Engineering & Construction division, and a reduction in billings in excess of cost and estimated earnings of US$157 million to US$44 million (2015: US$201 million) as favourable milestone billing positions unwound during the year
- A decrease in trade and other payables of US$536 million to US$1,974 million (2015: US$2,510 million), predominantly due to the unwinding of advances received from customers of US$399 million
- An increase in accrued contract expenses of US$827 million to US$2,060 million (2015: US$1,233 million), predominantly reflecting the ramp-up in activity in the Engineering & Construction division

Finance leases

Net finance lease liabilities were considerably lower at US$182 million (2015: US$385 million, see note 17 to the consolidated financial statements), primarily as a result of a reduction of US$163 million upon the transfer of ownership of the Berantai FPSO to PETRONAS.

Total equity

Total equity at 31 December 2016 was US$1,123 million (2015: US$1,232 million), reflecting profit for the year of US$14 million and other comprehensive income of US$104 million, less dividends paid in the year of US$225 million.

Return on capital employed

The Group's return on capital employed for the year ended 31 December 2016 increased to 17% (2015: 3%), reflecting improved profitability due to a decrease in losses from the Laggan-Tormore project.

Capital, net debt and liquidity

The Group's net debt decreased 10% to US$617 million at 31 December 2016 (2015: US$686 million) reflecting strong cash generation in the year and the rephasing of capex.

Expenditure on Integrated Energy Services projects

Cost	Oil and gas assets (Block PM304, Chergui and PECs; note 10) US$m	Intangible oil and gas assets (Block PM304, and other pre-development costs; note 14) US$m	Greater Stella Area development (note 17) US$m	Total US$m
At 1 January 2016	1,426	86	160	1,672
Additions	15	3	119	137
Revision to decommissioning estimates	(101)	–	–	(101)
Disposals	(103)	–	–	(103)
Write off/accrual adjustment	–	(14)	–	(14)
Transfers	(91)	5	–	(86)
At 31 December 2016	**1,146**	**80**	**279**	**1,505**
Depreciation and impairment				
At 1 January 2016	(525)	–	–	(525)
Charge for the period	(82)	–	–	(82)
Charge for impairment	–	–	(3)	(3)
Disposals	103	–	–	103
Transfers	38	–	–	38
At 31 December 2016	**(466)**	**–**	**(3)**	**(469)**
Net carrying amount:				
At 31 December 2016	**680**	**80**	**276**	**1,036**
At 31 December 2015	901	86	160	1,514
Add Other (FPSO Opportunity US$18m net, assets held for sale US$94m (note 13), interest in associates US$60m (note 15))				172
Total excluding working capital				**1,208**

The Group's total gross borrowings less associated debt acquisition costs and the discount on senior notes issuance at the end of 2016 were marginally lower at US$1,784 million (2015: US$1,790 million).

Gearing ratio	**31 December 2016**	31 December 2015
	US$ millions (unless otherwise stated)	
Interest-bearing loans and borrowings (A)	**1,784**	1,790
Cash and short term deposits (B)	**1,167**	1,104
Net debt (C = B - A)	**(617)**	(686)
Equity attributable to Petrofac Limited shareholders (D)	**1,097**	1,230
EBITDA (E)	**704**	312
Gross gearing ratio (A/D)	**163%**	146%
Net gearing ratio (C/D)	**56%**	56%
Net debt/EBITDA (C/E)	**88%**	220%

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

Excluding bank overdrafts, the Group's total available borrowing facilities were US$2,393 million at 31 December 2016 (2015: US$2,450 million; see note 26 to the consolidated financial statements for further details). Of these facilities, US$631 million was undrawn as at 31 December 2016 (2015: US$660 million). Combined with the Group's cash balances of US$1,167 million (2015: US$1,104 million), the Group has substantial sources of liquidity available.

Exceptional items and certain re-measurements

The following items, described as 'exceptional items and re-measurements' are excluded from Business Performance as exclusion of these items provides a clearer presentation of the underlying performance of the Group's ongoing business. For a full reconciliation between Petrofac's Total and Business Performance results, see note 3, page 137. For further details of amounts comprising exceptional items and re-measurements, see note 5, page 141.

Exceptional items and re-measurements in 2016 amounted, in aggregate, to a post-tax loss of US$319 million (2015: US$358 million loss). Re-measurements included fair value re-measurements of US$30 million (post-tax) relating to the cessation of the Berantai RSC. Exceptional items included impairments of US$212 million and exceptional hedging losses of US$35 million in relation to Kuwaiti dinar hedging losses within the Engineering & Construction division.

As part of our normal year-end process, we review the carrying value of the IES portfolio for potential impairment. The impairment charge of US$212 million comprises:

- impairment of the carrying value of the Group's investment in Seven Energy of US$197 million
- a non-cash impairment charge in respect of the FPSO Opportunity of US$15 million

Alastair Cochran
Chief Financial Officer