Segmental overview

Engineering & Construction

Revenue

2019	4,475
2020	3,090
2021	**1,971**

Business performance net margin

2019	6.2%
2020[2]	2.0%
2021	**0.4%**

Business performance net profit[1]

2019	278
2020[2]	63
2021	**8**

Group revenue contribution (2021)

64%

Headcount at 31 Dec 21

3,350

Asset Solutions

Revenue

2019	889
2020	933
2021	**1,111**

Business performance net margin

2019	5.4%
2020[2]	4.3%
2021	**7.7%**

Business performance net profit[1]

2019	48
2020[2]	40
2021	**86**

Group revenue contribution (2021)

34%

Headcount at 31 Dec 21

4,350

Integrated Energy Services

Revenue

2019	195
2020	110
2021	**50**

Business performance net margin

2019	(2.1)%
2020	(16.4)%
2021	**(10.0)%**

Business performance net loss[1]

2019	(4)
2020	(18)
2021	**(5)**

Group revenue contribution (2021)

2%

Headcount at 31 Dec 21

250

US$ million	Revenue		Business performance net profit[1,2]		EBITDA	
For the year ended 31 December	**2021**	2020	**2021**	2020[3]	**2021**	2020[3]
Engineering & Construction	**1,971**	3,090	**8**	63	**10**	114
Asset Solutions	**1,111**	933	**86**	40	**84**	60
Integrated Energy Services	**50**	110	**(5)**	(18)	**21**	39
Corporate, others, consolidation adjustments and eliminations	**(75)**	(52)	**(54)**	(35)	**(11)**	(2)
Group	**3,057**	4,081	**35**	50	**104**	211

%	Revenue growth		Business performance net margin[1,2]		EBITDA margin	
For the year ended 31 December	**2021**	2020	**2021**	2020[3]	**2021**	2020[3]
Engineering & Construction	**(36.2)**	(30.9)	**0.4**	2.0	**0.5**	3.7
Asset Solutions	**19.1**	4.9	**7.7**	4.3	**7.6**	6.4
Integrated Energy Services	**(54.5)**	(43.6)	**(10.0)**	(16.4)	**42.0**	35.5
Group	**(25.1)**	(26.2)	**1.1**	1.2	**3.4**	5.2

1 Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
2 This measurement is shown by Petrofac as a means of measuring underlying business performance (see note 4 of the consolidated financial statements).
3 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Elie Lahoud
E&C Chief Operating Officer

Engineering & Construction

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models. The division has a 40-year track record in designing and building major oil, gas, refining, petrochemicals and new energies projects.

1 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Operational performance

E&C continued to demonstrate its ability to deliver for clients across the portfolio despite the challenges presented by the COVID-19 pandemic. Operational performance was impacted by stringent health protocols, travel restrictions, and supply chain disruption, resulting in a reduction in productivity and extensions to project schedules. The emergence of the Omicron variant caused further disruption in Q4 and extended the expected period through which such challenges will need to be navigated.

Force majeure claims in our contracts allow for extensions of time in response to the disruption, but clients have generally adopted more inflexible commercial positions in relation to the recovery of incremental costs, which has had a material impact on profit margins. We experienced some improvements in the second half of the year, with several clients agreeing variation orders that provide partial compensation for the additional costs.

Despite the challenging environment, we have continued to deliver to a high standard for our clients, minimising delays and disruption, and good progress was made on all projects in 2021. Notably, our LPG project for OQ was commissioned in Salalah, Oman. The Yibal Khuff Project, delivered for Petroleum Development Oman, was officially inaugurated in December 2021. We also completed the successful integration of Kuwait Oil Company's new Crude Oil Control Centre at the Lower Fars heavy oil development project.

In our offshore wind portfolio, both substation jackets were successfully installed for HZK Alpha and Beta and the first of two topside High Voltage Alternating Current (HVAC) units was installed in December. On the Seagreen offshore wind project, we reached a major milestone with the successful installation of the offshore substation jacket, also in December and ahead of schedule.

Our delivery of the Ghazeer project was recognised at the 2021 Construction Week Oman Awards, securing the 'Commercial Project of the Year' title, having been safely delivered ahead of schedule and exceeding a demanding in-country-value target.

Financial performance

Revenue for the year decreased 36% to US$2.0 billion (2020: US$3.1 billion), driven by a decline in project activity and COVID-19 related project delays. Business performance net profit decreased to US$8 million (2020 restated[1]: US$63 million), with net profit margin declining 1.6ppts to 0.4% (2020 restated[1]: 2.0%) due to cost increases related to continued COVID-19 related disruption and the recognition of full life losses on a small number of contracts. This was partly mitigated by management actions to reduce costs and by tax provision releases. The latter contributed US$29 million to net profit in the year.

Backlog at 31 Dec 21 by country

Lithuania	26%	Iraq	4%
Thailand	24%	Kuwait	3%
Algeria	19%	UK	3%
Oman	11%	Others	6%
Libya	4%		

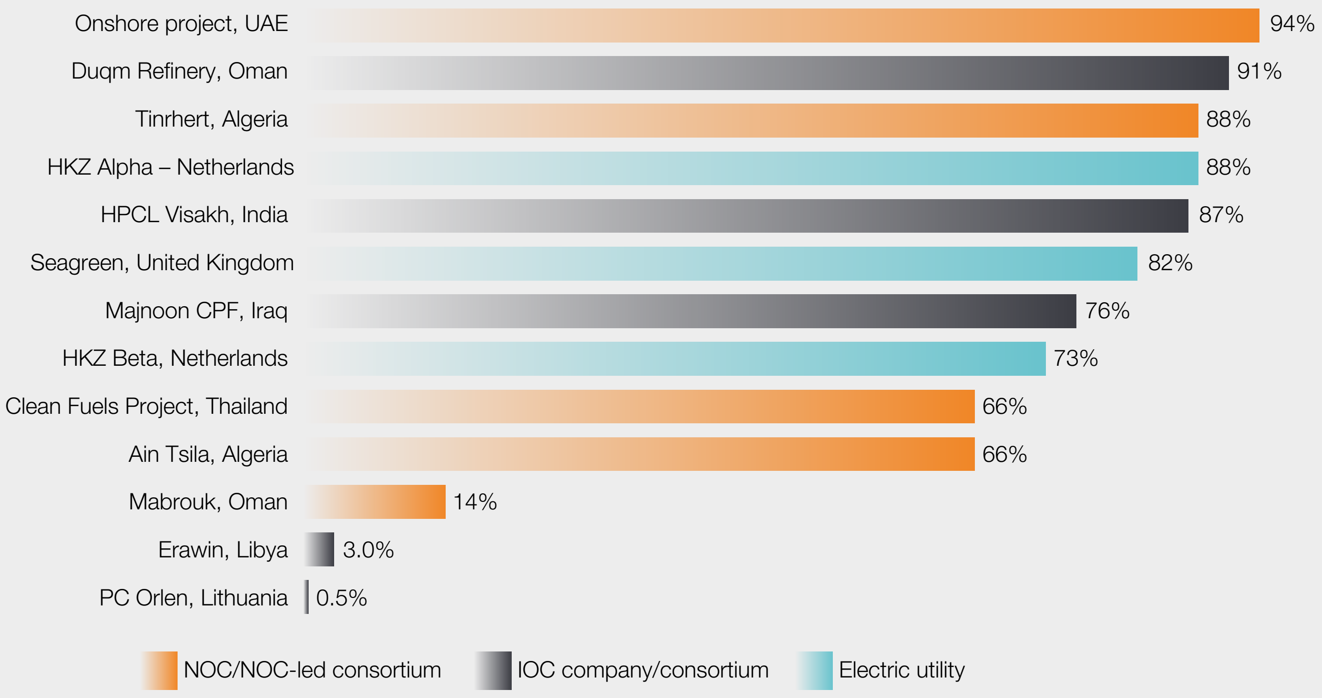
Backlog at 31 Dec 21 by market

Refining	57%
Upstream gas	24%
Upstream oil	14%
New energies	5%

Engineering & Construction – Key project progress

Value of Work Done (VOWD) at 31 December 2021[1]

Key Project status, % completion, December 2021



1 Excludes projects that are >95% complete.

New orders
The contraction in capital spending by clients, initially triggered by the decline in oil prices and the COVID-19 pandemic in 2020, continued into 2021 in our addressable markets. As a result, new order intake in the year was US$1.2 billion (2020: US$0.7 billion), comprising EPC contracts in Oman, Libya and Lithuania and other net variation orders.

Marmul Gas Compression project, Oman
In February 2021, E&C secured a c.US$100 million EPC contract with Petroleum Development Oman (PDO), along with a c.US$200 million project delivery contract for the Asset Solutions division. This new facility will eliminate permanent flaring and manage associated gas production from the Marmul development.

Erawin Field Development Project, Libya
In September 2021, we secured a contract valued at over US$100 million with Zallaf Libya Oil & Gas Exploration and Production Company, to deliver their Erawin Field Development Project Phase 1 Early Production Facilities. Libya holds some of the largest oil and gas reserves in Africa and this contract represents an attractive entry point to position the Group for a large potential pipeline of opportunities.

Mažeikiai Refinery upgrade and expansion project, Lithuania
In October 2021, we were awarded an EPC contract by PC ORLEN Lietuva, valued at around EUR550 million (approx US$640 million), to support a comprehensive modernisation, environmental upgrade and expansion programme at its Mažeikiai Refinery in North-West Lithuania. This project is designed to meet the requirements for cleaner fuels and improve the operational and carbon efficiency of the plant. Project completion is planned for the end of 2024.

Strategic partnership with Gazprom
In October 2021, we signed a strategic partnership with Gazprom through Gazprom's INTI - Russian Institute Oil/Gas Technology Initiatives to export and promote the ambition, quality, and standards of the Russian energy industry domestically and internationally.

However, in light of the current geopolitical situation in Russia, the Group has decided to remove opportunities in this market from the bidding pipeline.

Nick Shorten
Asset Solutions
Chief Operating Officer

Asset Solutions

The Asset Solutions (AS) division (previously known as Engineering & Production Services) provides services across the full life cycle of energy infrastructure. It manages and maintains client operations, both onshore and offshore, delivers small to medium scale brownfield EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering, decommissioning and training capabilities. The majority of AS services are executed on a reimbursable basis.

1 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).

Operational performance

Operational performance for Asset Solutions in 2021 was strong, with growth across each of its service lines (Asset Operations, Asset Development, and Wells and Decommissioning). Engineering, procurement and construction activity on Asset Developments project portfolio progressed well, overcoming challenges presented by the COVID-19 pandemic, with a notable increase in activity levels on several projects in the MENA region. Activity in Asset Operations increased, particularly in the UK, due to healthy order intake and the recovery from fewer people working offshore in 2020 as a result of the pandemic. In the US, our subsidiary W&W, which provides field maintenance and production services in the Permian basin, recovered quickly from the downturn, delivering results in Q4 above its pre-pandemic levels.

The volume of work in new energies sectors, including carbon capture and storage, hydrogen, waste-to-value and offshore wind increased markedly from 2020, with Asset Solutions executing 16 contracts, predominantly Pre-FEED and FEED studies, up from two contracts in 2020. We invested in capability, expanding the business development team and range of subject matter experts, positioning this business segment for continued momentum into 2022 and beyond.

Financial performance

Growth in both revenue and margins delivered a strong financial performance in Asset Solutions. Revenue for the year increased 19% to US$1.1 billion (2020: US$0.9 billion). Business performance net profit increased 115% to US$86 million (2020 restated[1]: US$40 million), with business performance net profit margin increasing 3.4ppts to 7.7% (2020 restated[1]: 4.3%) reflecting higher revenues, a lower overhead ratio, higher contract margins on certain projects, higher income from associates and tax provision releases. The underlying business performance net profit margin, excluding tax provision releases, was 5.5%, a 1.2ppts increase on prior year.

New orders

Asset Solutions had another strong year of order intake, securing US$1.0 billion of awards and extensions in the year (2020: US$0.9 billion), representing a book-to-bill of 0.9x.

Key awards included:

- In Asset Developments (previously named 'Projects'), we secured a number of EPC contracts for upstream oil and gas facilities in Oman, Bahrain, Malaysia and Algeria. Many of these awards are evidence of the synergistic potential of an improved 'one Petrofac' approach, leveraging E&C's strong relationships in Oman and Algeria, and our front-end engineering capability through RNZ in Malaysia. Continued geographic expansion through growth in small to medium size projects is a core part of our strategy and is an area where we see growth as operators allocate capital to existing assets to protect asset integrity, enhance production and extend asset life.
- In Asset Operations (previously named 'Operations'), we extended our contract

Backlog at 31 Dec 21 by country

UK	53%	Malaysia	6%
Azerbaijan	11%	Iraq	4%
Oman	8%	Kazakstar	3%
Bahrain	7%	Other	8%

Backlog at 31 Dec 21 by market

Asset operations	47%
Asset development	40%
Wells & Decommissioning	13%

to operate the Iraq Crude Oil Export Expansion Project (ICOEEP), as well as securing a number of new awards and extensions with clients, such as Shell, AOC, NEO, and Ithaca in the UK North Sea, maintaining our exceptional track record of contract renewals
- In Wells, we announced a number of well management and well operator support contracts in the UK North Sea, including with Dana Petroleum and NEO to support ongoing drilling operations. Internationally we have also been successful in MENA and Asia Pacific

Good progress was made in New Energies with a significant increase in awards in 2021, including:

- **Carbon Capture:** several contracts for the Acorn project in the UK, supporting the lead developer as their technical delivery partner, including the pre-FEED for the first large-scale Direct Air Capture Facility in Europe. Awards also included a FEED contract for a CO_2 capture facility at a combined heat and power plant in Sweden, for Stockholm Exergi, which will be the largest Bio Energy Carbon Capture and Storage (Bio-CCS) plant anywhere in Europe (see page 27)
- **Hydrogen:** expansion of engineering scope on Arrowsmith in Australia, which has the potential to be a large-scale green hydrogen project (see page 26); pre-FEED and FEED contracts for green hydrogen project developments to support the decarbonisation of clients in the food and beverage sector, displacing their use of natural gas for process heat and enabling hydrogen fuelled trucking
- **Waste-to-value:** a number of pre-FEED and FEED contracts for projects ranging from tyre waste-to-fuel plants to sewage-to-sustainable aviation fuel
- **Offshore wind:** engineering studies for several offshore wind developments

In addition to the new contracts secured, we entered into a number of strategic alliances with leading technology providers. These included:

- **Protium (hydrogen):** Strategic partnership to leverage Protium's leading green hydrogen expertise in the UK with Petrofac's world-class engineering and EPC capabilities
- **CO_2Capsol (carbon capture):** Preferred engineering and EPC partner for CO_2Capsol's hot potassium carbonate carbon capture technology. We are currently working together on the Stockholm Exergi Bio-CCS project
- **Storegga (carbon capture):** Technical Delivery Alliance partner to support Storegga in developing future carbon capture, utilisation and storage projects globally, leveraging our combined experience and learnings from the Acorn project in the UK through PMC, owner's engineer, engineering and operations support services

Integrated Energy Services

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements.

Following the completion of the sale of our 51% interest in our Mexico operations in November 2020, our interest in the Production Sharing Contract (PSC) for Block PM304 in Malaysia's offshore Cendor field is our sole remaining material IES asset.

Operational performance
On a like-for-like basis, excluding production from the divested Mexico assets in 2020, net production for the year decreased by 35% to 640 thousand barrels of oil equivalent (kboe) in 2021 (2020 PM304: 990 kboe).

Production in the main Cendor field was approximately 60% lower than the prior year (c.0.9 kboed) due to an unplanned outage that occurred in December 2020. The issue is expected to be resolved in the second half of 2022, returning production in this field close to previous levels.

The East Cendor development topsides were installed and development drilling commenced in Q2 2021, with six production wells and two water injectors being drilled on schedule and under budget. Production commenced in June 2021, rising to a peak production of 1.6 kboed by the end of December, with all wells flowing naturally and responding well to water injection.

As a result of the production from East Cendor, the exit rate net production was 2.9 kboe/d compared with an average of 1.8 kboe/d for the full year. The average realised oil price increased by 92% to US$75/boe in 2021 (2020: US$39/boe).

IES has placed a strong emphasis on reducing the carbon intensity of its production and made significant progress in 2021. In November, a workover was performed on a well to shut off some of the gas producing reservoir zones. This achieved the desired effect of reducing the amount of gas flared by approximately 5mmscf per day (gross).

Financial performance
Revenue for the year decreased 55% to US$50 million (2020: US$110 million), reflecting the disposal of our Mexico operations in the second half of 2020 and the unplanned outage in the main PM304 Cendor field, partly offset by production from the East Cendor development. Like-for-like revenue, excluding the divested Mexico assets, increased by 19%, with the increase in oil price more than offsetting lower production in PM304.

EBITDA declined 46% to US$21 million (2020: US39 million), principally reflecting the divestment of the Mexico assets. On a like-for-like basis, EBITDA increased by 40%.

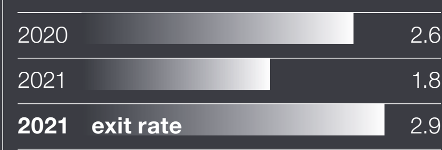
IES generated a business performance net loss of US$5 million (2020: US$18 million; US$14 million loss on a like-for-like basis), with lower interest and depreciation partially offset by lower EBITDA and lower tax credits.

Impairment of PM304
The PSC for Block PM304 in Malaysia expires in 2026, and we are currently in technical and commercial discussions with Petronas and the joint venture partners in respect of an extension.

However, based on developments in the current year and the associated uncertainty in respect of securing that extension, management feels it is no longer appropriate to assume that it will be secured when assessing the carrying value of the asset at the year-end. Consequently, management has concluded that an impairment charge of US$15 million should be recognised, reducing the carrying value of the asset. Furthermore, given the significant impact this assumption has on the recoverability of the associated deferred tax asset (DTA), management has also written off the full amount of the DTA balance brought forward at 1 January 2021, of $43 million.

As a result of the impairment, the net book value carrying amount of Block PM304 as of 31 December 2021 is US$99 million.

Net PM304 production (kboe/d)



Financial review

“Successful capital raise and debt refinancing for long term capital structure”

Afonso Reis e Sousa
Chief Financial Officer

The Group’s financial performance in 2021 reflected lower activity levels and challenging market conditions for Engineering & Construction (E&C), caused by continued COVID-19 related disruption and delays to tender awards, partly offset by strong performance in Asset Solutions (previously known as Engineering & Production Services). Overall, revenue and profitability declined, while the impact on net margins was mitigated by management actions to reduce costs and the impact of tax provision releases, following successful tax audits and assessments resolved during the year.

In November 2021, we successfully concluded a comprehensive refinancing and capital raise to create a long term capital structure. This included an equity raise of US$275 million[4], US$600 million of senior secured notes due in 2026 and a new US$180 million two-year revolving credit facility. An existing US$90 million bilateral term loan was also repaid and replaced with a new US$50 million term loan, maturing in October 2023.

	Year ended 31 December 2021			Year ended 31 December 2020 (restated)[3]		
	Business performance[2] US$m	**Separately disclosed items US$m**	**Reported US$**	Business performance[2] US$m	Separately disclosed items US$m	Reported US$
Revenue	**3,057**	**–**	**3,057**	4,081	–	4,081
EBITDA	**104**	**n/a**	**n/a**	211	n/a	n/a
Net profit/(loss)[1]	**35**	**(230)**	**(195)**	50	(242)	(192)

Income statement

Revenue

Group revenue decreased 25% to US$3.1 billion (2020: US$4.1 billion). This was principally due to a decline in revenue in the E&C operating segment, which decreased 36%, driven by a decline in backlog and COVID-19 related project delays. Revenue in Asset Solutions increased by 19% with growth across all of its service lines (Asset Operations, Asset Development and Wells). Revenue in the Integrated Energy Services (IES) operating segment decreased 55%, primarily reflecting prior year asset sales in Mexico. On a like-for-like basis, revenue in IES increased by 19% with higher realised oil prices partially offset by lower production in PM304 due to the outage in the main Cendor field.

The Group generated revenue from a broad range of geographic markets in 2021, with UK, Algeria, Thailand and Oman generating 65% of Group revenue (2020: top four markets – Oman, Thailand, Algeria and UK generated 60% of revenue).

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)[2]

Business performance EBITDA decreased 51% to US$104 million (2020: US$211 million), reflecting lower revenue and margins. The decline in E&C margins was driven by cost increases due to continued COVID-19 related disruption, the relative maturity of the current project portfolio and the recognition of losses on a small number of contracts. Higher margins in Asset Solutions were due to a lower overhead ratio, higher contract margins on certain projects and higher net profit from associates. The decline in IES margins principally reflects the divestment of the Mexico assets in the prior year. Consequently, Group EBITDA margin declined to 3.4% (2020 restated[3]: 5.2%).

Revenue by geography: 2021

UK	24%
Algeria	14%
Thailand	14%
Oman	13%
Kuwait	6%
Iraq	5%
UAE	5%
Netherlands	4%
Other	15%

> UK, Algeria, Thailand and Oman were the top four markets in 2021."

Year ended 31 December 2021	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m
Total revenue	**1,971**	**1,111**	**50**	**–**	**(75)**	**3,057**
EBITDA	**10**	**84**	**21**	**(11)**	**–**	**104**
EBITDA margin	**0.5%**	**7.6%**	**42.0%**	**n/a**	**n/a**	**3.4%**

Year ended 31 December 2020[3]	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m
Total revenue	3,090	933	110	–	(52)	4,081
EBITDA	114	60	39	(2)	–	211
EBITDA margin	3.7%	6.4%	35.5%	n/a	n/a	5.2%

Depreciation and amortisation

The depreciation and amortisation decreased to US$68 million (2020 restated[3]: US$123 million), principally due to a one-off US$34 million impairment charge in IES in the prior year (recorded within amortisation), predominantly in relation to the disposal of our Mexico operations. On a like-for-like basis, excluding the impairment recognised in the prior year, depreciation and amortisation reduced by 23%.

	2021 US$m	2020 (restated)[3] US$m
Engineering & Construction	**24**	35
Asset Solutions	**10**	10
Integrated Energy Services	**27**	69
Corporate	**7**	9
Total	**68**	123

Finance income/(expense)

Finance income decreased to US$6 million (2020: US$9 million) due to lower bank interest and lower unwinding of discount on receivables. Business performance finance expense increased to US$44 million (2020: US$37 million), largely reflecting higher amortisation of debt acquisition costs following the refinancing processes completed in April and November 2021. Finance expense on Group borrowings marginally increased with a higher interest expense following the November refinancing offsetting lower average interest rates prior to the refinancing, which benefited from the relatively low cost of the £300 million COVID Corporate Finance Facility that was in place between 1 February and 30 November 2021.

Finance income	2021 US$m	2020 US$m
Bank interest	**1**	3
Unwinding of discount on receivables	**5**	6
Total finance income	**6**	9

Finance expenses	2021 US$m	2020 US$m
Group borrowings (including amortisation of debt acquisition costs)	**(36)**	(27)
Lease liabilities	**(7)**	(9)
Other	**(1)**	(1)
Total business performance finance expense	**(44)**	(37)

Taxation

The Group benefited from a business performance income tax credit for the year of US$40 million (2020: US$19 million expense), principally reflecting successful tax audits and assessments resolved during the year resulting in the release of of US$57 million of tax provisions, as well as the change in mix of profits in the jurisdictions in which the profits are earned.

Reported income tax expense was US$3 million (2020: US$18 million) due to the write-down of a US$43 million deferred tax asset in Malaysia as part of the impairment of the PM304 asset (see 'Separately disclosed items').

Separately disclosed items

During the year, the Group incurred US$230 million (2020: US$242 million) of separately disclosed items.

These predominantly related to:

- US$106 million penalty imposed by the UK courts in connection with the conclusion of the SFO investigation
- US$10 million of legal and other costs associated with the SFO resolution
- US$28 million of costs in relation to the Group's refinancing in Q4 2021
- A non-cash impairment charge of US$58 million (post-tax) following a review of the carrying amount of the investment in Block PM304 in Malaysia based on the likelihood of agreeing an extension for the Production Sharing Contract beyond the current term, which expires in 2026. This comprises:

  1. A US$15 million impairment charge of the carrying amount of the asset; and

  2. A US$43 million write-down of the associated deferred tax asset based on the shorter recoverability period.
- Other net separately disclosed items of US$28 million, including cloud ERP software implementation costs (US$12 million), other fair value adjustments (US$8 million), a loss in Asset Solutions related to the disposal of part of the UK training business, and professional service fees in the Corporate reporting segment (total of US$4 million)

Further details of these separately disclosed items can be seen in note 6 of the consolidated financial statements.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders for the year decreased 30% to US$35 million (2020 restated[3]: US$50 million) with the lower EBITDA and higher net finance expense being partially offset by the income tax credit and lower depreciation and amortisation. Business performance net margin was broadly in line with the prior year at 1.1% (2020 restated[3]: 1.2%).

A reported net loss of US$195 million (2020 restated[3]: US$192 million) resulted from separately disclosed items of US$230 million (2020 restated[3]: US$242 million), as noted above.

Earnings per share

Business performance diluted earnings per share decreased 34% to 9.7 cents per share (2020 restated[3]: 14.8 cents per share), reflecting both the decrease in business performance net profit and a higher weighted average number of ordinary shares as a result of the equity raise (see note 9 of the consolidated financial statements). Reported diluted loss per share was 53.8 cents per share (2020 restated[3]: 57.0 cents loss per share), reflecting lower business performance profit and the increased number of shares in issue.

Cash flow

Operating cash flow

Operating activities generated a net cash outflow of US$161 million (2020 restated[3]: US$30 million), principally reflecting the decline in EBITDA, operating profit cash flow adjustments and a working capital outflow during the year. The operating profit cash flow adjustments of US$(70) million included payment of end of service employment benefits that were provided for in the prior year, the reversal of certain expected credit losses (for which the associated receivable balances will now be collected in future periods) and the impact of a reduction in other provisions. Net income taxes paid decreased to US$42 million (2020: US$74 million).

	2021 US$m	2020 (restated)[3] US$m
EBITDA	**104**	211
Operating profit adjustments	**(70)**	26
Operating profit before changes in working capital and other items	**34**	237
Net working capital movement	**(125)**	(160)
Separately disclosed items paid	**(28)**	(33)
Net income taxes paid	**(42)**	(74)
Net cash flows used in operating activities	**(161)**	(30)

The net working capital outflow of US$125 million (2020: US$160 million) was due to cash outflows on accrued contract expenses and contract liabilities more than offsetting cash inflows in trade and other receivables and contract assets. These cash inflows were largely driven by the reduction in revenue in the E&C division, while the underlying DSO (days sales outstanding) increased due to longer billing cycles as a result of COVID-19 related disruption on E&C projects as well as slower cash collections from clients.

Accrued contract expenses decreased due to lower volumes, higher payment milestones being reached in the year relating to vendors and subcontractors predominantly in the E&C division and the maturity of the E&C project portfolio. Consequently, trade and other payables increased as accrued contract expenses migrated into trade payables.

Working capital inflow/(outflow):	2021 US$m	2020 (restated)[3] US$m
Inventories	**(15)**	4
Trade and other receivables	**211**	122
Contract assets	**78**	409
Related party receivables	**–**	1
Other net current financial assets	**(106)**	(25)
Assets and liabilities held for sale	**–**	7
Trade and other payables	**120**	(156)
Contract liabilities	**(59)**	(153)
Accrued contract expenses	**(354)**	(369)
Net working capital movements	**(125)**	(160)

Free cash flow

The free cash outflow for the year of US$(281) million (2020 restated[5]: US$(123) million) primarily reflects the higher net cash outflow generated from operating activities.

Group capital expenditure increased to US$53 million (2020 restated[3]: US$43 million), with approximately 50% being incurred in IES for the planned East Cendor development in Malaysia. Free cash flow benefited from the lower amount of interest paid in the year as well as lower repayments of lease liabilities.

	2021 US$m	2020 (restated)[3] US$m
Net cash flows used in operating activities	**(161)**	(30)
Capital expenditure	**(53)**	(43)
Divestments	**9**	28
Other investing activities, including dividends received from associates and JVs	**14**	8
Net cash flows used in investing activities	**(30)**	(7)
Interest paid	**(27)**	(36)
Separately disclosed items – refinancing-related costs paid	**(23)**	–
Repayment of lease liabilities	**(40)**	(50)
Free cash flow	**(281)**	(123)

Balance sheet

IES carrying amount

The carrying amount of the IES portfolio stood at US$99 million at 31 December 2021 (2020: US$116 million), solely comprising the Group's interests in its operations in Malaysia and reflecting the impairment described above.

Deferred and contingent consideration associated with the sale of non-core assets in prior years is excluded from the IES carrying amount as it is included in other financial assets (see note 17 of the consolidated financial statements).

Leases

Net lease liabilities, calculated as gross lease liabilities less the amount receivable from joint operation partners, decreased 9% to US$124 million at 31 December 2021 (31 December 2020: US$136 million). Net lease liabilities attributable to PM304 amounted to US$59 million (31 December 2020: US$76 million) and largely relate to the bareboat charters for the floating equipment used for block operations.

Total equity

Total equity at 31 December 2021 increased to US$485 million (2020 restated[3]: US$410 million), reflecting US$250 million generated from the issue of shares through the equity raise (net of associated costs), offset by the reported loss for the year of US$192 million. No dividends were paid in the year (2020: nil).

Of the US$485 million total equity at 31 December 2021, US$475 million (2020 restated[3]: US$403 million) was attributable to Petrofac Limited shareholders and US$10 million (2020: US$7 million) was attributable to non-controlling interests.

Refinancing, net debt and liquidity

Refinancing and capital raise

In October and November 2021, the Group successfully concluded a comprehensive refinancing and capital raise. This included a capital increase of US$275 million[4], US$600 million of senior secured notes (due 2026), a new US$180 million two-year revolving credit facility, a new US$50 million bilateral loan facility maturing in October 2023 (denominated in AED) and amendments to an existing US$50 million bilateral loan facility maturing in November 2023.

The new facilities, together with the proceeds from the capital raise, were used in part to repay and cancel existing credit facilities including the £300 million of commercial paper under the UK Government's COVID Corporate Financing Facility (US$405m at 30 November 2021, when it was repaid), the previous revolving credit facility and a bilateral term loan.

Details of the Group's interest-bearing loans and borrowings are set out in note 26 of the consolidated financial statements.

Net debt

Net debt, excluding net finance leases, increased to US$144 million at 31 December 2021 (2020: US$116 million), predominantly reflecting lower cash conversion (see A10 in Appendix A of the consolidated financial statements).

Total gross borrowings less associated debt acquisition costs were US$764 million at 31 December 2021 (2020: US$800 million). This consisted of US$580 million senior secured notes, US$85 million drawn on the revolving credit facility and US$99 million of term loans (all net of debt acquisition costs).

	31 December 2021 US$m	31 December 2020 US$m
Cash and short-term deposits	**620**	684
Interest-bearing loans and borrowings	**(764)**	(800)
Net debt	**(144)**	(116)

Liquidity

Following the refinancing, the Group's total available borrowing facilities, excluding bank overdrafts, were US$880 million at 31 December 2021 (2020: US$1,250 million).

Of these facilities, US$85 million was undrawn at 31 December 2021 (2020: US$495 million). Combined with the Group's cash and short-term deposits of US$620 million (2020: US$639 million, excluding US$45 million cash from bank overdrafts), the Group had US$705 million of liquidity available at 31 December 2021 (2020: US$1,133 million).

Borrowing facilities	Amount (US$m)	Maturity date
Senior secured notes	600	Nov-26
Revolving credit facility	180	Oct-23
Term loan 1	50	Oct-23
Term loan 2	50	Nov-23
Total borrowing facilities	880	

The revolving credit facility and the term loans are subject to two financial covenants relating to leverage (net debt to EBITDA) and interest cover (EBITDA to finance expense). At 31 December 2021, the Group was in compliance with both covenants:

	Leverage	Interest cover
Covenant	≤3.75x	≥3.0x
Ratio at 31 December 2021	2.8x	3.1x

The Group has a BB- (positive outlook) credit rating from S&P and a B+ (negative outlook) credit rating from Fitch.

Backlog

The Group's backlog decreased 20% to US$4.0 billion at 31 December 2021 (2020: US$5.0 billion), reflecting low new order intake in E&C due to the contraction in capital spending by clients, initially triggered by the decline in oil prices and the COVID-19 pandemic in 2020. Backlog in Assets Solutions declined marginally.

Overall, Group order intake for the year was US$2.2 billion, representing a book-to-bill of 0.7x. Order intake in E&C was US$1.2 billion (2020: US$0.7 billion), comprising EPC contracts in Oman, Libya and Lithuania and other net variation orders. Order intake in Asset Solutions increased to US$1.0 billion (2020: US$0.9 billion), with good growth in awards in the Asset Developments service line including brownfield projects in Oman, Bahrain, Malaysia and Algeria.

	31 December 2021 US$m	31 December 2020 US$m
Engineering & Construction	**2.4**	3.3
Asset Solutions	**1.6**	1.7
Group	**4.0**	5.0

Return on capital employed

The Group's return on capital employed for year decreased to 3.7% (2020 restated[3]: 7.1%), due to the reduction in business performance earnings before interest, tax and amortisation (EBITA), partially offset by a reduction in the average capital employed. Details of this alternative performance metric calculation are contained in A9 in Appendix A.

Dividends

In April 2020, the Board cancelled the payment of the final dividend in response to the COVID-19 pandemic and the fall in oil prices. The Board recognises the importance of dividends to shareholders and expects to reinstate them in due course, once the company's performance has improved. Under the terms of the new debt facilities, the company will be permitted to pay dividends from 1 January 2023, subject to the satisfaction of certain covenant tests.

Afonso Reis e Sousa
Chief Financial Officer
23 March 2022

Notes:
1 Attributable to Petrofac Limited shareholders.
2 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 4 of the consolidated financial statements.
3 The prior year numbers are restated in relation to the adoption of the IFRIC decision on cloud configuration and customisation costs, in April 2021 (see note 2.9 of the consolidated financial statements).
4 On 26 October 2021, the Company announced a proposed equity raise of US$275 million via the issuance of 173,906,085 ordinary shares. On completion of the equity raise on 15 November 2021 shares were issued at £1.15 per share generating gross proceeds of approximately £200 million (US$268 million) before issue and associated costs of US$18 million.
5 Definition amended to include the repayment of lease liabilities.