Annual report and accounts 2022

Rebuilding

for the future

Petrofac

Our purpose

We enable our clients to meet the world's evolving energy needs.

SEE OUR BUSINESS MODEL /
Page 14

We are a leading energy services company that helps our clients meet the world's evolving energy needs. We use our engineering know-how and our consultancy expertise to design, build, and operate world-class energy facilities that are engineered for safety, optimal efficiency, and low emissions.

We operate in a range of markets and work across the entire asset life cycle – from design to decommissioning. These competencies, supported by flexible commercial models, differentiated local delivery, and a technology neutral approach, set us apart. Core to our offering is our distinctive, delivery-focused culture.

Highlights 2022

Revenue
US$2,591 million
2021 (restated)[9] | US$3,038 million

Backlog[8]
US$3.4 billion
2021 | US$4.0 billion

Free cash flow[7]
US$(188) million
2021 | US$(281) million

Business performance EBIT[1,4]
US$(205) million
2021 (restated)[9] | US$(12) million

Reported EBIT[5]
US$(212) million
2021 (restated)[9] | US$(189) million

Net debt
US$349 million
2021 | US$144 million

Business performance EBITDA[1,2]
US$(126) million
2021 (restated)[9] | US$56 million

Reported EBITDA[3]
US$(138) million
2021 (restated)[9] | US$(86) million

CDP rating
B
2021 | B

Business performance net profit/(loss)[1,6]
US$(284) million
2021 (restated)[9] | US$3 million

Reported net profit/(loss)[6]
US$(310) million
2021 (restated)[9] | US$(245) million

In-country value spend
32%
2021 | 54%

1. Business performance before separately disclosed items. This measures underlying business performance.
2. Business performance earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as business performance operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A to the consolidated financial statements).
3. Reported earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as reported operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A14 in Appendix A to the consolidated financial statements).
4. Business performance earnings before interest and tax (EBIT) is calculated as business performance operating profit, including the share of net profit of associates and joint ventures (see A4 in Appendix A of the condensed consolidated financial statements).
5. Reported earnings before interest and tax (EBIT) is calculated as reported operating profit, including the share of net profit of associates and joint ventures (see A15 in Appendix A of the condensed consolidated financial statements).
6. Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
7. Free cash flow is defined as net cash flows from operating activities, plus net cash flows from investing activities, less interest paid and the repayment of finance lease principal plus amount received/paid from/to non-controlling interest (see A7 in Appendix A of the condensed consolidated financial statements).
8. Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, for Asset Solutions, 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.
9. The prior year numbers are restated as detailed in note 2.9 to the consolidated financial statements.

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For the latest investor news, visit our website / **petrofac.com/investors**

Petrofac at a glance

Our vision
To be the preferred services partner to the energy industry.

Our purpose
We enable our clients to meet the world's evolving energy needs.

Wherever our clients are on their energy journey and whatever market they operate in, Petrofac has the expertise, capabilities and experience to support them across the entire asset life cycle.

Design

Build

Operate

Train

Decommission

FIND OUT MORE AT / **petrofac.com**

Our performance is driven by our strategic priorities:

Best-in-class delivery

Return to growth

Superior returns

SEE OUR STRATEGY / **Page 24**

We believe how we do business is just as important as what we do. Our sustainability strategy sets out our ESG goals, aligned to our purpose and business model.

Environmental
Minimise our environmental impact

Social
Inform, educate and engage

Governance
Embed integrity, transparency and trust

SEE OUR ESG REPORT / **Page 28**

Our values govern how we operate and underpin our purpose. They are superseded only by our unyielding commitment to safety and ethical behaviour.

Driven

Agile

Respectful

Open

SEE OUR GOVERNANCE REPORT / **Page 97**

All these elements align to create long-term value for our stakeholders

Shareholders

Employees

Clients

Suppliers

Communities

Governments, regulators and industry bodies

SEE OUR STAKEHOLDER ENGAGEMENT / **Page 20**

Engineering & Construction

Revenue 2021 (restated)[3] | US$1,952m	US$1,311m
Business performance EBIT[1] 2021 (restated)[3] | US$(62)m	US$(299)m
Reported EBIT 2021 (restated)[3] | US$(67)m	US$(300)m
Net profit/(loss)[1,2] 2021 (restated)[3] | US$(24)m	US$(274)m
Employees (as at 31 December 2022)	3,400

% of revenue

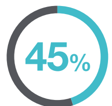
The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models. The division has more than 40 years' track record in designing and building major energy infrastructure projects.

FIND OUT MORE / **Page 69**

Asset Solutions

Revenue 2021 | US$1,111m	US$1,158m
Business performance EBIT[1] 2021 | US$74m	US$60m
Reported EBIT 2021 | US$(63)m	US$57m
Net profit/(loss)[1,2] 2021 | US$86m	US$50m
Employees (as at 31 December 2022)	4,000

% of revenue



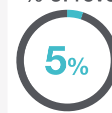
The Asset Solutions division manages and maintains client operations, both onshore and offshore, delivers small to medium scale EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering, decommissioning and training capabilities. The majority of AS' services are executed on a reimbursable basis, but we are responsive to clients' preferred commercial models to deliver our expertise.

FIND OUT MORE / **Page 73**

Integrated Energy Services

Revenue 2021 | US$50m	US$137m
Business performance EBIT[1] 2021 | US$(6)m	US$58m
Reported EBIT 2021 (restated)[3] | US$(43)m	US$71m
Net profit/(loss)[1,2] 2021 | US$(5)m	US$53m
Employees (as at 31 December 2022)	250

% of revenue



Integrated Energy Services (IES) is Petrofac's upstream oil and gas business. Our interest in the Production Sharing Contract (PSC) for Block PM304 Malaysia's offshore Cendor field is the sole asset in the portfolio.

FIND OUT MORE / **Page 75**

A sustainable mindset

At Petrofac, we believe that how we do business is just as important as what we do.

Our business model and our ESG agenda are completely aligned.

Environmental – ensuring that Petrofac is able to minimise its own environmental impact, while supporting our clients in achieving their lower carbon ambitions.

Social – promoting safe local delivery of our projects and services, drawing on ethical supply chains to create in-country value, address local skills gaps, and build a diverse and inclusive workforce.

Governance – underpinning everything we do with clear, consistent standards of ethical behaviour, bound by rigorous compliance and governance.

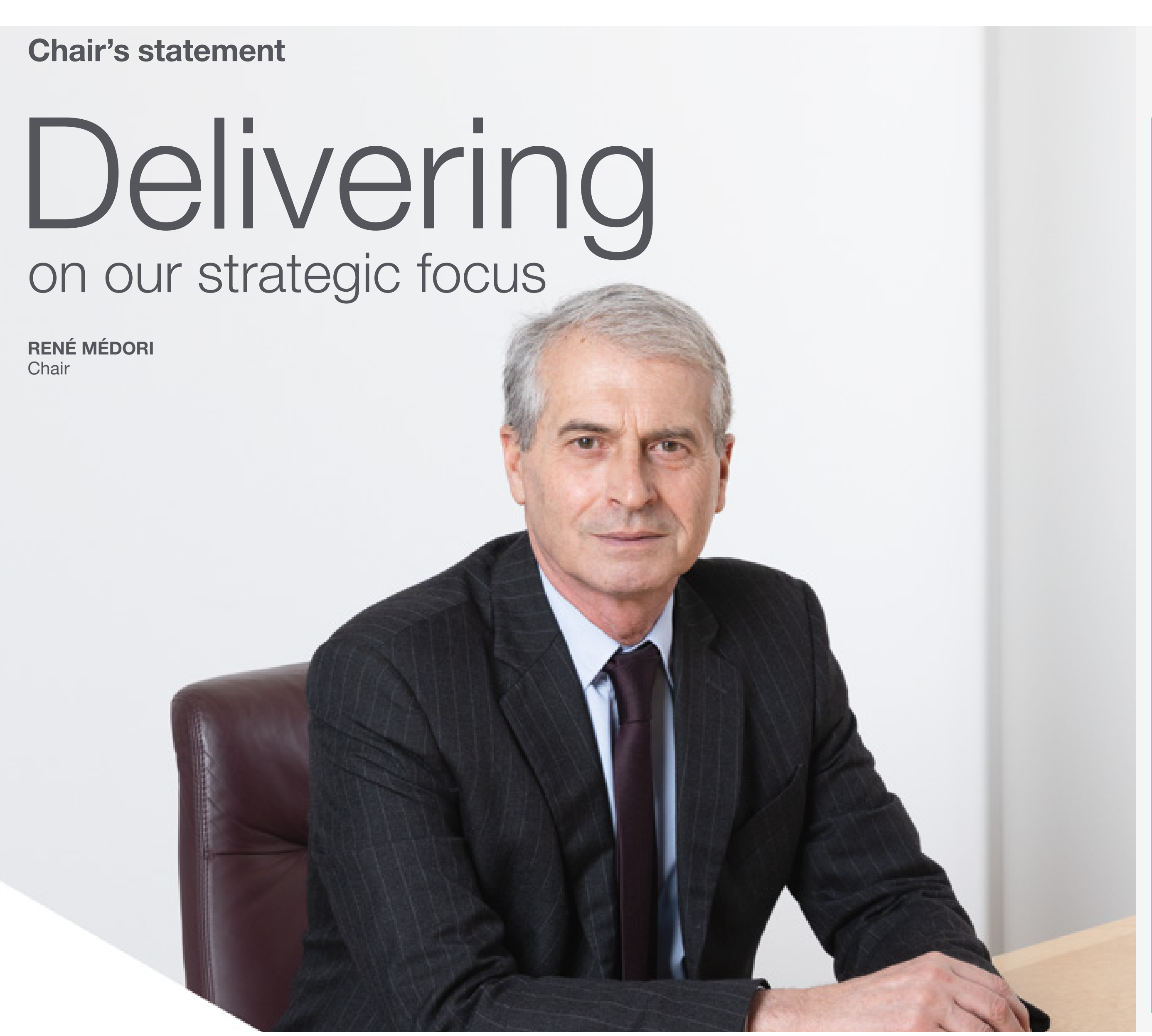
FIND OUT MORE AT / **petrofac.com**

1. Business performance before separately disclosed items. This measures underlying business performance.
2. Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
3. The prior year numbers are restated as detailed in note 2.9 to the consolidated financial statements.

Chair's statement

Delivering on our strategic focus

RENÉ MÉDORI
Chair



2022 was another challenging year for Petrofac, and from the outset, I would like to thank all our stakeholders for their patience. The fact is, further unrecovered cost overruns in the legacy portfolio, adverse commercial settlements, and cost increases on the Thai Oil Clean Fuels joint venture contract continued to impact the business, while growth opportunities did not materialise as quickly as had been widely anticipated.

Under these circumstances, the Group worked to capitalise on the progress made in 2021, namely the resolution of the SFO investigation and the capital raise and refinancing. Client relationships were restored, particularly in the United Arab Emirates, our execution capability was strengthened by embedding a single technical services organisation (1tec), a strong pipeline of bidding opportunities was pursued, and the excellent performance of Asset Solutions and IES continued.

Interactions with clients and all market analysis reviewed by the Board points to a much needed return to investment in our key geographies. As this happens, Petrofac is well-positioned for growth.

Benefiting from a strong reputation, bolstered by a clear ESG positioning

In meetings with stakeholders, I am continually reassured of Petrofac's enduring reputation for delivery. The message I hear from the market, time and time again, is that clients value Petrofac and they look forward to the Company playing a significant role as the sector evolves.

In these meetings, I am also reminded of the importance of the environmental, social and governance (ESG) agenda. The ability to demonstrate strong ESG credentials is a key strategic asset in today's world. Many of our most important stakeholders tell me that they are impressed by Petrofac's ESG-related achievements.

This includes the progress made in embedding a comprehensive compliance and governance regime, but extends also to our emphasis on employee wellbeing, diversity and inclusion, and our Net Zero commitments. A key strength is our local delivery model, which remains a clear differentiator for Petrofac, enabling us to capture efficiencies and reduce execution risks, while also making a strong and tangible contribution to the economies in which we operate.

Of course, energy transition also represents a significant business opportunity. In particular, the Board is encouraged by the scale of the opportunities in offshore wind. One customer alone has plans to install a further 40 gigawatts of grid capacity to support offshore wind power generation. Alongside a proven track record, new initiatives, like our collaboration with Hitachi, enable Petrofac to deliver a compelling service in this rapidly growing sector.

Maintaining a strong and stable Board

In November 2022, we announced that Sami Iskander would be leaving Petrofac to pursue other interests. Once again, I would like to thank Sami for his invaluable contribution since joining the Board. As well as overseeing the resolution of the historical SFO investigation and concluding the refinancing programme, Sami reshaped the business and put it firmly on a path to sustainable growth. As everyone who worked with him will agree, he also brought unwavering energy and decisive leadership at a critical time in Petrofac's history.

In terms of the Board itself, I would also like to thank Andrea Abt and George Pierson for their support and valued counsel during a particularly turbulent time. They both served for two consecutive three-year terms and stepped down at the 2022 AGM. This left us with a smaller, more focused Board, which is commensurate with the scale of the Group and the geographies in which it operates.

One of the Board priorities for 2022 had been to prepare for my own succession. In order to provide continuity, my term as Chair had already been extended. However, with a new Group Chief Executive joining in April 2023, the recommendation was that I should remain in place for at least another year. As Tareq Kawash continues to lead Petrofac on its path towards growth, he will need to be able to rely on a stable and supportive Board, and this will be one of our key priorities in 2023. Following the 2024 Annual General Meeting, we will address long-term succession, not just for me but for other long-standing Directors.

Providing clarity on our strategic priorities

As we planned for the transition to a new Group Chief Executive, the Board made it clear that the existing strategy must remain in place. Significant progress has been made in closing out the mature, pandemic-affected legacy contracts and positioning Petrofac for growth, so now is the time to capitalise on the work already achieved. Our priorities for 2023 are therefore clear, it will be about building on Sami's work, winning new business and getting Petrofac back to executing at sector-leading margins.

I would like to thank the entire Petrofac team for their continued commitment to the Group, their response to the ongoing challenges, and their contribution to the many achievements of 2022.

RENÉ MÉDORI
Chair
27 April 2023

Transitioning to a new Group Chief Executive

In our search for a suitable successor to Sami Iskander, we were fortunate to appoint Tareq Kawash, who joined the Board on 1 April 2023 from McDermott International, where he previously ran their sizeable onshore and offshore business across Europe, the Middle East and North Africa.

With deep knowledge of our core geographies, Tareq has impeccable credentials in winning and delivering EPC contracts. He also has pre-existing relationships with many of our key clients, plus several others. Having known and admired Petrofac for many years, he is clearly excited by the opportunity of leading the Group back to growth.

We expect that, given Tareq's strong business development credentials, he will be fully focused on further strengthening our client relationships and landing growth opportunities within our core markets and geographies.

Tareq will be supported by a strong, well-established Executive team, which is indicative of the deep pool of talent across Petrofac.

The Board welcomes the fresh perspectives that Tareq will bring, and we look forward to working with him closely as we take the business forward over the coming years.

Executive review

- While the 2022 results were disappointing, Petrofac is optimistic about a return to growth
- We made good progress in closing-out much of our mature Engineering & Construction (E&C) project portfolio heavily impacted by pandemic delays
- The market fundamentals are strong, with prospects of an increase in investment across our core markets
- Asset Solutions and Integrated Energy Services (IES) again performed well, with several important contract extensions, supported by breakthrough activity in decommissioning
- Bidding activity in both E&C and Asset Solutions is at record levels, extending to the Middle East, North Africa, India, Europe, and beyond

In 2022, strong performance in both Asset Solutions and IES was offset by adverse commercial settlements and further unrecovered cost overruns on our legacy E&C portfolio. Combined with delays in the award of new contracts, 2022 made for a disappointing year.

As we enter 2023, however, a mood of optimism has returned. We have substantially completed a number of projects in our legacy E&C portfolio, E&C bidding activity continues to be at record levels, Asset Solutions is delivering healthy growth and, in the new energies sector, Petrofac is well-placed to benefit from significant investment in offshore wind.

Managing our remaining legacy challenges

As 2022 unfolded, the sector's understanding of the severity of the challenges induced by the pandemic became clearer. Within our own mature portfolio, the pandemic-related issues were compounded by cost increases on the Thai Oil Clean Fuels contract.

By the end of the year, seven of the active lump-sum contracts had been completed or substantially completed, while five of the remaining eight are scheduled to complete in 2023 and we are closely monitoring any risks.

Going forward, the work done in reshaping the business, and comprehensively embedding a single technical services organisation (1tec) throughout the Group, will enable us to deliver future projects to a consistently high standard.

Bidding at scale and with discipline across several geographies

An important point to emphasise is the extent of our business development activity in E&C.

Bidding activity is high, with Petrofac vying for several major contracts in the Middle East and North Africa, Asia, and Europe. E&C is well positioned on a number of near-term prospects, with US$1.5 billion of opportunities where we were at preferred bidder stage, and a further US$3.0 billion of bids submitted. Including these, E&C had visibility of approximately US$40 billion scheduled for award by June 2024, of which US$23 billion is scheduled for award during 2023. At a Group level, the pipeline to June 2024 is US$51 billion.

Of course, we continued to maintain our bidding discipline, determined to pursue a quality backlog that supports sector-leading margins. We also began to enhance E&C bids with low-carbon offerings, enabling clients to reduce the carbon intensity of their assets, both during the build phase and throughout their operating life, while also highlighting our leadership credentials across this all-important dimension.

In the renewable energy sector, E&C is well-positioned to capitalise on material short-term opportunities in offshore wind.

As in our traditional sectors, in wind we always seek to take an innovative, problem-solving approach. A great example is our partnership with Hitachi Energy, which we entered into in June 2022. The initial aim was to help a key client, TenneT, to accelerate the preparatory works in its current 2GW programme, and pave the way for an eventual 40GW of offshore wind grid capacity.

This partnership ultimately led to an early works agreement between TenneT, Hitachi and Petrofac, which was further enhanced by the award of Petrofac's largest ever framework agreement – a multi-year deal worth approximately €13 billion at the end March 2023. We also hope that the partnership with Hitachi will help other clients to accelerate their respective wind farm developments.

Continuing to drive growth in Asset Solutions

Asset Solutions delivered another robust performance, with record order intake, continued growth prospects, and a healthy margin.

Beyond several significant contract awards and extensions in our traditional operations, maintenance, and well engineering, we also made a number of breakthroughs in late-life asset management and decommissioning. This was evidenced by significant new awards in Australia and the Gulf of Mexico.

Expertise gained in the mature and highly regulated UK market, including the integration of services across the asset life cycle, is a clear differentiator. It means we have a unique ability to provide a one-stop shop for full decommissioning services, including the ability to take full responsibility from a regulatory perspective. As energy transition continues to gather pace, and more oil and gas assets move towards decommissioning, this is another of the ways we can help to solve problems and create value for clients.

Across the new energy sectors, 2022 was another busy year. We continued to secure early-stage awards and enter into strategic alliances with technology providers for pioneering projects in areas such as hydrogen, carbon capture, utilisation and storage and waste-to-fuel.

Message from Sami Iskander

While cognisant of the disappointing 2022 results, as I look back on my two years leading Petrofac, I feel extremely proud of everything the team has achieved. We effectively rebalanced and reshaped the business, regained a reputation for business probity, secured a critical refinancing programme, and revived several key client relationships. My personal thanks go out to everyone who contributed.

I would also like to thank our shareholders and other investors for retaining their confidence in the Group. Over recent years, there has been much disappointing news for them to contend with, albeit balanced by evidence of tangible progress and the expectation of a return to growth.

I now ask the entire Petrofac team to put their full support behind my successor, Tareq Kawash, as he leads the Group through the next chapter. I truly believe this is a special company, with a strong positioning and a unique in-country delivery model. As a team, we have done much to resolve the challenges in the legacy portfolio, instil an intrinsic and authentic ESG culture, and position Petrofac for sustainable growth. The process of rebuilding the backlog is well underway, laying the foundations for a return to profitability, positive free cash flow and continued recovery and growth thereafter.

I believe that, with a strong outlook and a commitment to continue our bidding discipline, Petrofac will deliver on its ambition of returning to US$4 billion-US$5 billion annual revenue, with at least 20% coming from new energies, and delivering sector-leading margins.

Strategy in action

Delivery

Petrofac has a strong record for project execution, focused on delivering effective and safe solutions

Across every metric – whether it be productivity, safety, diversity, or environmental performance – we aim to be the industry leaders.

A Petrofac differentiator is our local delivery model. As well as creating in-country value, this is one of the ways we minimise costs, avoid complexity, manage risk, and overcome global skills shortages. The Ain Tsila Development Project in Algeria typifies our approach.

Link to strategy |

Best-in-class delivery

SEE OUR STRATEGY / **Page 24**

Ain Tsila

US$1.0 billion
project

90%
of the 4,500 workforce is Algerian

10.3 million
cubic metres of gas a day

1,600 tonnes
of LPG a day

1,800 tonnes
of condensate a day

Active in Algeria since 1997, we have delivered some of the country's most important energy assets. The Ain Tsila Development Project, valued at around US$1 billion, is one of the most strategically significant – both for Petrofac and for Algeria itself.

Located around 1,100 km south-east of Algiers, the Ain Tsila field will produce gas, LPG and condensate for the local market and for export. The scope involves engineering, procurement and construction of a Central Processing Facility, an offsite export pipeline and gathering system, and includes commissioning, start-up and performance testing.

During construction, 40,000 cubic metres of concrete were poured, 7,000 tonnes of steel erected, 2,000 km of cable pulled, and 410 km of pipelines laid.

As with any Petrofac project, local employment is a big consideration, and we have invested considerably in upskilling the local workforce. We operate the Hassi Messaoud Construction Skills Training Centre, with the capacity to deliver skills-based training to 400 delegates annually, and a new five-year development plan is set to deliver additional modules, third-party certification, and management training for supervisors.

Despite the disruptions caused by the pandemic, the project is on track for completion in the first half of 2023.

What is most rewarding about the Ain Tsila project is our contribution to the local community and the wider Algerian economy. Almost 90% of the 4,500 workforce is Algerian, and most live nearby. Together, we are building a new strategic asset for Algeria – a state-of-the-art energy facility that will produce more than 10 million cubic metres of gas for the domestic and export markets."

HUSSEIN SAWALHA
Project Director

Strategy in action continued

Growth

We regard the energy transition as a strategic growth opportunity for Petrofac.

With many transferable skills and capabilities, and a rapidly evolving track record in new energies, we are well-positioned to help our clients meet the world's evolving energy needs.

In the near term, the most material opportunity is in offshore wind, where capacity is expected to grow by more than 50% between 2022 and 2027[1]. Our involvement dates back to 2009, when we first started to provide people, maintenance, and support services to BorWin Alpha, the world's first offshore HVDC converter station. Since then, we have designed and constructed several of the most impressive offshore wind facilities, and managed some of the most challenging.

1. International Energy Agency, Renewable energy forecasts, https://www.iea.org/reports/renewables-2022/renewable-electricity

Link to strategy |

Return to growth

SEE OUR STRATEGY / Page 25

Seagreen

5,100 tonnes
jacket

4,800 tonnes
topside

Up to 58 metres
of water – the world's deepest fixed-bottom wind farm

1,075MW
of electricity generated

Located over 27 kilometres off the coast of Angus at its nearest point, the Seagreen Wind Farm development, a JV partnership between SSE Renewables and TotalEnergies, is Scotland's biggest, and is set to provide energy for two-thirds of the country's homes when it reaches full capacity.

We have provided the engineering, procurement, construction and installation of the High Voltage Alternating Current (HVAC) offshore substation platform and the onshore substation at Tealing in Scotland, including all civil work and major equipment.

The platform's six-legged jacket, weighing in at 5,100 tonnes, is engineered to withstand the extreme weather conditions in the UK North Sea. Installation progressed to plan, using low-hammer energy and acoustic deterrent devices to minimise any environmental impacts. With the topside added safely in 2022, it is scheduled to be fully operational in 2023.

As demand for wind energy increases, we are helping to frame the future for offshore assets. Our new partnership with Hitachi Energy enables the efficient integration of offshore assets with the onshore infrastructure and, through our collaboration with Seawind Technologies, we are active in the emerging market for floating wind farm concepts.

The skills we've developed in building hydrocarbon assets are directly transferable to a project like this. Similarly, our knowledge of what it takes to operate and maintain an offshore asset helps us to focus on operability, sustainability, and longevity, as well as constructability. Of course, there are different nuances and a different risk profile, but our technical, engineering and safety management skills are absolutely applicable."

VIPUL SAWE
Senior Project Director

Strategy in action continued

Expansion

Link to strategy |

Superior returns

SEE OUR STRATEGY / **Page 25**

As the energy transition picks up pace, and existing assets in mature basins reach the end of their operational life, the end-of-life management and decommissioning market is expected to grow significantly.

Indeed, a recent report suggests that, by 2027, the offshore decommissioning market will exceed US$8 billion annually*.

Petrofac is in a good position to benefit. We are the only tier-one contractor with the in-house capability to manage all well and asset decommissioning phases. And, with a one-team, integrated approach, we can simplify stakeholder management and contractual administration – offering clients a one-stop shop and a safe, predictable, cost-effective service.

Having honed our approach in one of the world's most mature and highly regulated basins, namely the North Sea, our track record and expertise can be exported worldwide and deployed in other regions that will ultimately follow the same trajectory.

It is therefore one of our routes to selective geographic expansion – especially when it is combined with other Petrofac differentiators, such as our local delivery ethos – as demonstrated by recent contract wins in Australia and the Gulf of Mexico.

* Marketresearch.com: https://www.marketresearch.com/MarketsandMarkets-v3719/Offshore-Decommissioning-Service-Plugging-Abandonment-14809120/

Northern Endeavour

274m
long vessel

550km
offshore

9
subsea wells to be suspended

Decommissioning and disconnection
from subsea infrastructure

The Northern Endeavour FPSO has a complicated history.

Moored between the Laminaria and Corallina oil fields 550 kilometres northwest of Darwin, the 274-metre-long vessel was originally installed in the mid-1990s and once processed 170,000 barrels of oil a day. However, in 2019, a regulatory inspection found it to be in a degraded state and insisted it was shut down, citing an immediate threat to health and safety. With the operator falling into liquidation, the Australian government sought a partner to manage the necessary decommissioning and selected Petrofac.

Given the state of the vessel it is a complex undertaking, involving meticulous planning, plenty of stakeholder engagement, and close collaboration with the regulators to get consent for each step. Although the global Petrofac organisation is providing expert support, the project team is located in Perth, and is working closely with several locally based supply chain partners. The first major milestone came in October 2022 when, following an intensive programme of due diligence and physical inspections, we officially took over operatorship of the Northern Endeavour.

The contract award could be worth up to AUD$325 million (US$236 million). It is the first step in an Australian decommissioning industry that will ultimately be worth several billion dollars.

This is a high-profile, landmark project, both for Petrofac and the Australian energy industry, which marks the start of the country's decommissioning sector. A critical element of our approach is the upskilling of the local workforce. Wherever we work, we aim to be a local company, generating local jobs, developing local skills, and nurturing the local supply chain."

JOSIE PHILIPS
Regional Director, Australia

Our business model

Our resources

The right people and culture
As a service business, it is our people, their capabilities and skills that set us apart from our competitors. Our values and behaviours underpin our ways of working. We are committed to developing our people, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential and make a real difference.

Strong and trusted relationships
Our deep understanding of our sector allows us to develop and deliver solutions that solve our clients' challenges.

Our knowledge and skills
We develop deep knowledge of the many businesses in our supply chain; we know when and how to call on their respective strengths to deliver for our clients.

Making a positive contribution
We aim to make a positive contribution to the societies in which we operate. We are committed to ethical conduct, put an emphasis on safety, care deeply about creating in-country value and, to minimise our environmental impact, have set a Net Zero target for carbon emissions.

What we do

Design
Engineering expertise is at the heart of everything we do. We provide a full suite of engineering services from conceptual and feasibility studies and Front-End Engineering and Design (FEED) to detailed design.

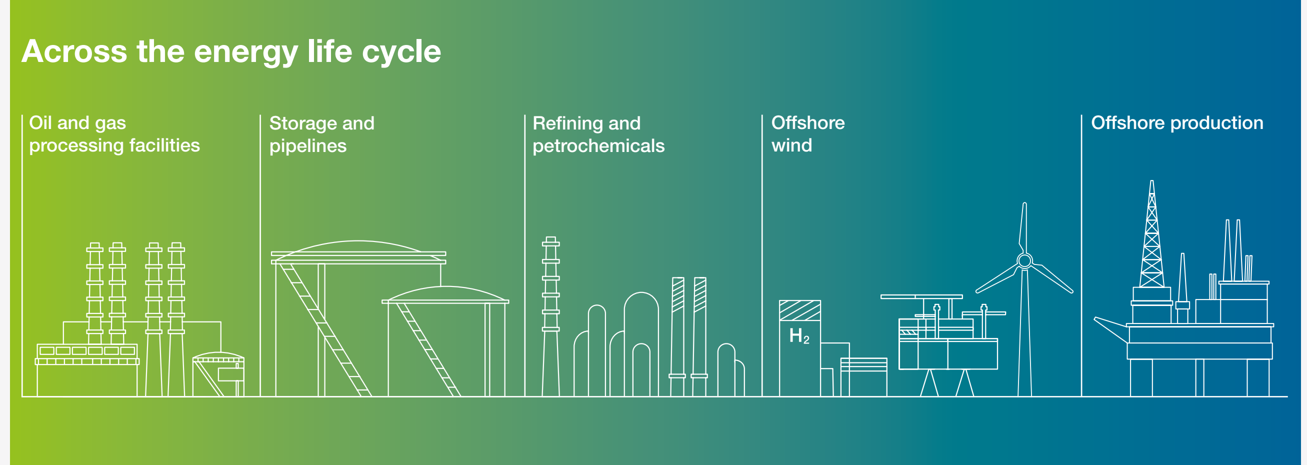
Build
We build some of the world's largest energy facilities, leveraging our differentiated engineering, procurement, construction and commissioning skills to safely deliver projects on time and on budget. We offer clients a range of flexible commercial delivery models, from lump-sum turnkey to fully reimbursable.

Operate
We safely operate and maintain energy facilities on behalf of our clients through a variety of services, from the provision of labour to fully managed solutions. The deployment of digital technologies is at the heart of our offering as we focus on maximising productivity, efficiency and extending field life.

Train
We develop local workforces through a range of services, from assessing capability needs and creating tailored training courses to designing, building and managing state-of-the-art training facilities. Our unique offering is supported by industry-leading software solutions.

Decommission
We decommission energy assets. As infrastructure nears end of life, we integrate our services to extend production, minimise operating and abandonment expenditure, ahead of safely decommissioning it.

Across the energy life cycle



Value created in 2022

Client value
Benefiting from certainty of cost and delivery, utilising commercial models that meet their needs.

In-country value
Developing local skills and capabilities, benefiting local development and stimulating productivity in local economies.

Social performance
32%
spent on local goods and services

Tax spend
US$170m

Employee value
86%
Employee engagement score

7,950
employees (3% decrease)

Emissions reduction
Emission reductions and low-carbon offering on tenders, enabling clients to meet their targets.

Why invest in Petrofac?

Best-in-class

Exceptional track record of safe, reliable, and innovative execution built over several decades – enhanced by simplifying the organisation, and creating an optimal structure, including 1tec, a single technical services and assurance function.

200+

More than 200 major projects executed across the world.

SEE OUR BUSINESS MODEL / **Page 14**

Well-positioned in resilient markets with attractive growth opportunities

As demonstrated by the scale of bidding activity, our core markets are returning to growth and actively investing in their energy assets – while our decarbonisation and new energies offerings continue to build momentum.

US$51bn

Group pipeline scheduled to be awarded before mid-2024

SEE OUR MARKET OUTLOOK / **Page 16**

A local delivery model that creates value for all stakeholders

We employ local people, nurture local supply chains, and develop local talent and capabilities – helping us to build client relationships, bid on challenging projects, reduce costs, protect margins, and de-risk delivery.

32%

In-country value spend

SEE OUR ESG REPORT / **Page 28**

Engineering expertise, expertly delivered across the life cycle of energy assets

Providing integrated services that span the entire asset life cycle – enabling us to embed and extend client relationships, deliver additional value to all our projects, and better withstand the cycles of the energy sector.

42 years

Our engineering and construction experts have been turning complex concepts into reality

SEE OUR SEGMENTAL OVERVIEW / **Page 68**

A trusted partner with long-standing client, supplier and partner relationships

A diverse portfolio of long-established clients, particularly NOCs in the MENA region – which enjoy some of the lowest marginal costs of production in the world and resilient spending on energy infrastructure through the cycle.

Top 3

EPC contractor in the Middle East

SEE OUR STAKEHOLDERS ENGAGEMENT / **Page 20**

A problem-solving culture that harnesses innovation and technology to find new ways to add value

With a client-focused mindset, we always look for new ways to meet clients' needs – including tailored financial models, applying the right technologies, and working with a range of vendors.

Partnership

A significant new partnership with Hitachi feeding through to awards

SEE OUR TENNET/HITACHI CASE STUDY / **Page 72**

A commitment to bidding discipline

Historically, we have a strong reputation for operating with financial integrity and efficiency and generating sector-leading margins – and now have a clear pathway back to growth and the delivery of superior returns.

Sector-leading margins

Achievable in the medium term

SEE OUR FINANCIAL REVIEW / **Page 88**

Market outlook

Well-positioned for future growth

As the world adjusts to the new challenges and opportunities brought about by an unprecedented energy crisis and macro-economic slowdown, countries worldwide are seeking to find the best long-term balance between energy security, affordability, and sustainability. Across each of these three dimensions, Petrofac has an extensive track record in helping clients to access additional energy sources, extend the productive life of, achieve lower costs across their assets' life cycle, and decarbonise their operations.

In the long term

The long-term fundamentals for Petrofac – and the industry – remain strong. Whatever the pace of the energy transition, all forms of energy will be required for several decades (see chart 1).

Absolute energy demand is expected to remain robust, and oil and gas will continue to be a significant proportion of the global energy mix, even as far as 2050.

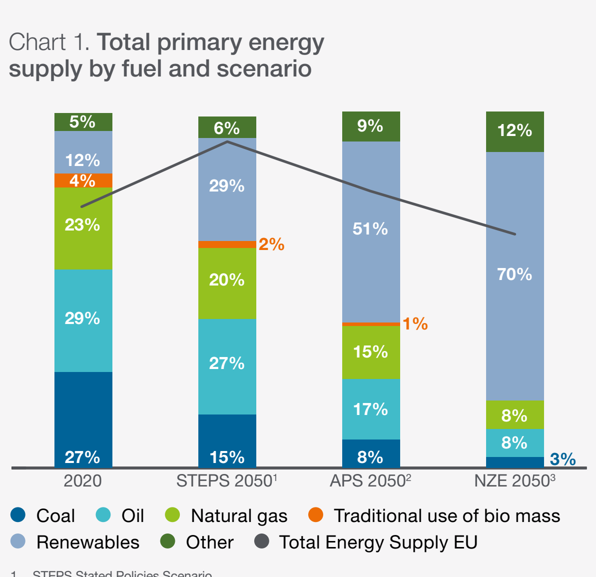
Hydrocarbons:

Engineering & Construction: We are active in the most robust hydrocarbon markets within the upstream, refinery and petrochemical sectors, and, following a decade of under-investment, expect to see growth in spending, particularly in the MENA region. (see chart 2)

Asset Solutions: As clients seek to maximise the value from their assets and subsequently plan for an exit from their operations in mature basins, the prospects for operational expenditure remain strong.

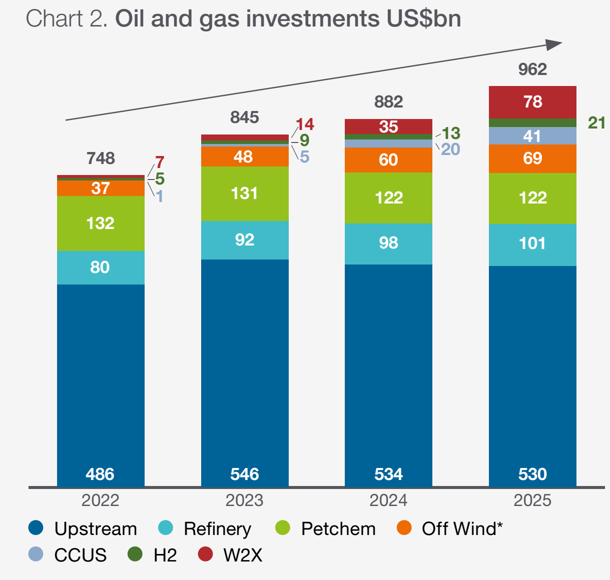
New energies: At the same time there will be an acceleration of investment in new energies, with clean energy investment expected to have exceeded US$1.4 trillion in 2022, including strong growth in offshore wind, carbon capture usage and storage (CCUS), hydrogen, and waste-to-value projects. In each of these areas, Petrofac has strong credentials and a rapidly developing track record, and we expect to see exponential growth. This is underpinned by our partnership with Hitachi to support the offshore HVAC and HVDC market (see chart 3).

Chart 1. **Total primary energy supply by fuel and scenario**



1. STEPS Stated Policies Scenario
2. APS Announced Pledges Scenario
3. NZE Net Zero Emissions by 2050

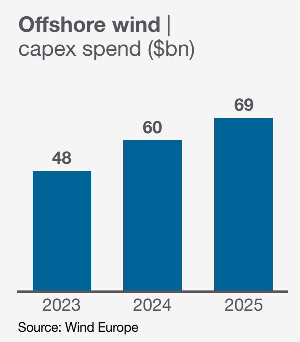
Chart 2. **Oil and gas investments US$bn**



Source: Rystad, GlobalData and Petrofac analysis

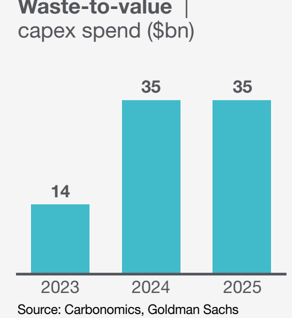
Chart 3. **New energy capex forecasts indicate exponential growth across our focus sectors**

Offshore wind | capex spend ($bn)



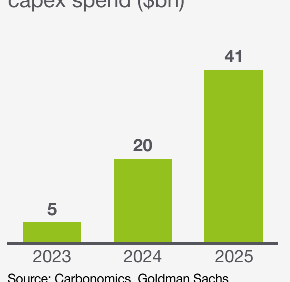
Source: Wind Europe

Waste-to-value | capex spend ($bn)



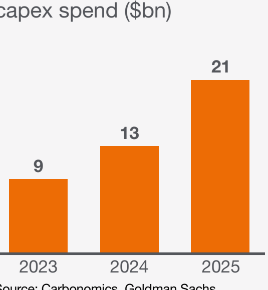
Source: Carbonomics, Goldman Sachs

Carbon Capture & Storage | capex spend ($bn)



Source: Carbonomics, Goldman Sachs

Hydrogen | capex spend ($bn)



Source: Carbonomics, Goldman Sachs

Market outlook continued

Given the climate commitments of respective governments, emissions reductions will continue to be a key priority in all markets. There will therefore be considerable pressure on energy companies to reduce the carbon intensity of their existing operations and to shift their focus to lower-intensity fuels. At Petrofac, we are well-equipped to assist clients in improving their emissions performance, as we continue to make progress towards our own 2030 Net Zero commitment.

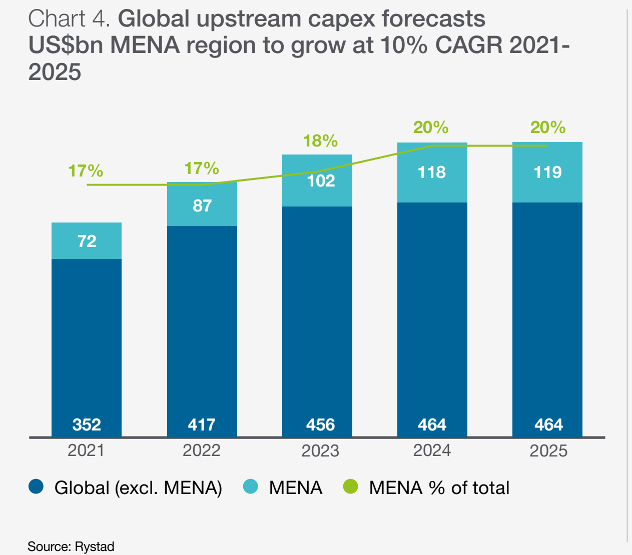
In the short to medium term

To satisfy immediate demand, compensate for a decade of under-investment, and adjust to the changing geopolitical climate, considerable spend is forecast in production infrastructure, particularly in Petrofac's core MENA markets.

The investment case is made stronger by sustained higher oil prices, which are expected to remain elevated due to ongoing supply shortages and the changing geopolitical climate and a return to pre-pandemic activity levels. With many of the International Oil Companies focusing on decarbonising, and allocating an increasing proportion of investments to new energies, much of the supply gap is expected to be met by the National Oil Companies, a high proportion of which are in our core MENA markets, which are set for a sustained period of production growth.

By virtue of our geographic focus, Petrofac is well-positioned to benefit from this increased investment. Given the low costs of production and anticipated commitments to boost upstream investment and capacity expansion, it is expected that the onus will increasingly fall on the MENA region to continue to meet the global demand for hydrocarbons – as indicated by the UAE's plans to increase its production capacity by one million barrels per day by 2025 (see charts 4 and 5).

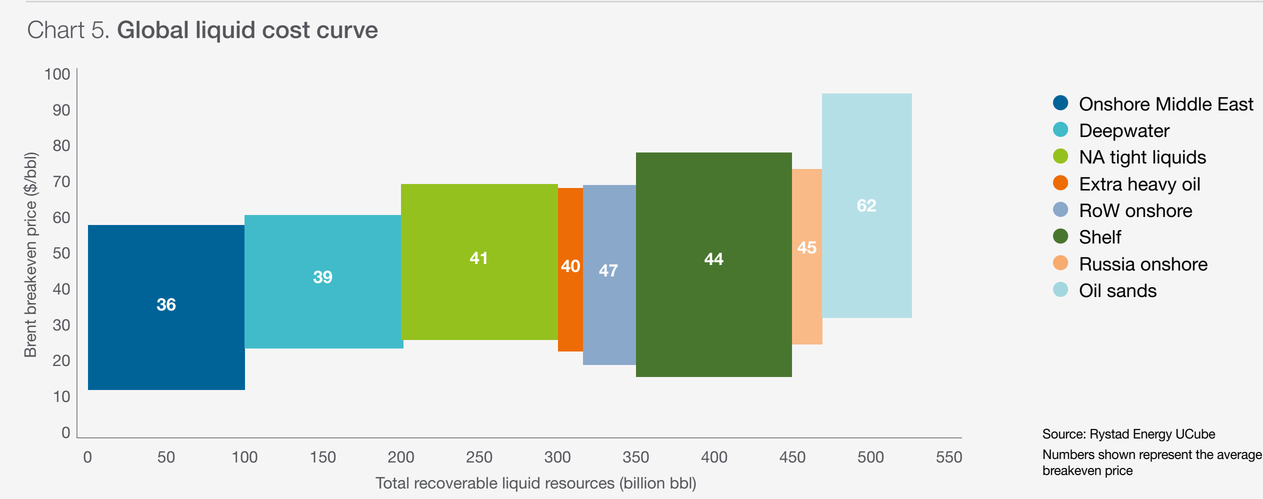
Chart 4. **Global upstream capex forecasts US$bn MENA region to grow at 10% CAGR 2021-2025**



Source: Rystad

Whatever the pace of the energy transition, all forms of energy will be required for several decades."

Chart 5. **Global liquid cost curve**



Source: Rystad Energy UCube
Numbers shown represent the average breakeven price

Petrofac has an extensive track record and a leading position in MENA, where investment is expected to grow to US$120 billion or roughly 20% of global spend by 2025. In 2022, we were named one of the region's top three EPC contractors by Oil & Gas Middle East magazine – an accolade which recognises our local delivery model and high proportion of in-country value, which enhances our understanding of local markets, de-risks delivery, and generates sector-leading margins.

Projections in our core regions:

UAE: ADNOC is expecting to invest US$127 billion over the period 2022-2026 on growth projects, including plans to raise oil production capacity by 1 million barrels per day by 2030.

Algeria: is aiming to double its gas production destined for exportation to reach 100 billion cubic meters.

Oman: intends to become one of the largest green hydrogen producers and exporters globally, targeting production of 1 million tonnes annually by 2030.

Growth in new energy projects

Meanwhile, as the energy transition gathers pace, we have continued to build on our new energy credentials. In addition to our strong position in offshore wind, we have secured a series of contracts across CCUS, hydrogen and waste-to-value, with early-stage works and emerging technologies providing momentum in anticipation of subsequent public support funding for these energy transition innovations (IEA, 2022). We have also created alliances with several technology providers and developers across these solutions, as well as the Hitachi Energy partnership in offshore wind, to best position the Group to grow in these sectors.

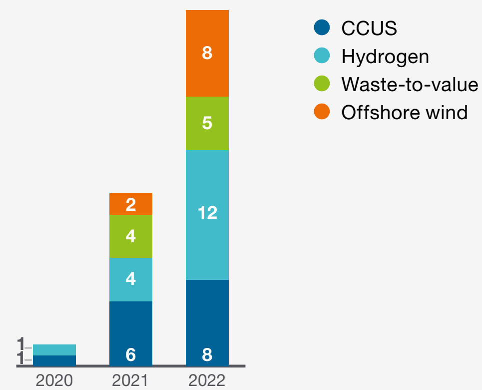
In the near term, offshore wind continues to represent the most material opportunity in new energies, and we expect to pursue several more EPC opportunities in 2023. The medium-term outlook is further strengthened given the new found emphasis on energy security, and the growing enthusiasm for wind power both in Europe and North America. An indication of the potential is TenneT's commitment to deliver 40GW of wind grid capacity in the German and Dutch North Sea, and its plans to invest US$32 billion in a substantial new grid-link build. For further information, please see the case study on page 72.

A significant addressable market and a busy bidding environment

In the medium term, the addressable market for Petrofac is expected to exceed US$127 billion per annum, comprising US$75 billion in upstream oil and gas, refining and petrochemicals, US$32 billion in new energies, and US$20 billion in operating expenditure. Against this background, our ambition is to deliver Group annual revenue of US$4 billion to US$5 billion, including at least US$1 billion from new energies.

Of course, uncertainty remains regarding the geopolitical climate, the economic environment, inflationary pressures, and supply chain constraints. However, with healthy bidding volumes, and a Group pipeline of US$51 billion scheduled for award by June 2024, of which US$31 billion in 2023 is scheduled to be awarded to the industry, we are well-positioned for recovery, and expect to deliver sustained growth over the medium term.

Growth in new energy projects
Number of contracts in execution in the year



New energies' pipeline[1]

US$11 billion

1. The bidding pipeline includes opportunities scheduled for award by June 2024.

Stakeholder engagement

Petrofac is focused on driving long-term sustainable performance for the benefit of all our stakeholders.

We believe that, by understanding what matters to our stakeholders, we are better able to secure long-term success for the business. We place a strong emphasis on proactive, transparent, and open engagement with all key stakeholder groups, which in turn promotes mutually beneficial relationships and value.

Given the challenges of recent years, disciplined and timely stakeholder engagement has been key to navigating a volatile business environment and pursuing our strategic goals. Similarly, as we return to growth and help our clients meet the world's evolving energy needs, we need to retain the support and confidence of all stakeholder groups.

In this section of the report, we identify these groups and their key interests, outline why they are so important, and detail how we engage with them, and factor their interests and concerns into our decision-making. Further details on Board stakeholder engagement can be found in our Governance report on page 106.

Our shareholders and other investors

Why they are important

Our shareholders and other investors are of critical importance to Petrofac and delivering an attractive return is a core priority for the Board. Shareholder views are considered during strategy discussions to enable the Board to provide information that will drive informed investment decisions. Continued access to capital is vital to the long-term performance of our business and we work to ensure that our shareholders and investors have a strong understanding of our strategy, performance, ambitions and culture.

How we create value for them

We run a sustainable business, with strong fundamentals, which is focused on achieving long-term growth and delivering differentiated returns.

THEIR KEY INTERESTS	KEY ENGAGEMENT CHANNELS	OUTCOME OF ENGAGEMENT
• Financial performance and returns • Application of our business model and implementation of our strategy • Governance matters, including Board effectiveness, succession, and remuneration • Sustainability and ESG performance • Strong leadership • Reputation	• Our Annual General Meeting, where shareholders can ask questions • Regular meetings and roadshows held with key investors to discuss strategy, operational and financial performance • Management presentations provided to institutional and credit investors following publication of our results, which are streamed live via a webcast and are available on our website • The Chair and Remuneration Committee Chair engage with investors on matters relating to governance, succession, and remuneration • Regular updates provided to the Board on investor sentiment	• The Board reflected on the ongoing external impacts on the Group and consequently no dividend was recommended • Continued engagement was undertaken throughout the year, with over 170 meetings held with key shareholders, investors and analysts

FURTHER LINKS / FINANCIAL REVIEW / **Page 88**

Our employees

Why they are important

Our greatest asset is our experienced, diverse and dedicated workforce. As a service business, it is our people, their attitude, capabilities and skills, who set us apart from our competitors. With a distinct, delivery-focused culture, we need employees to have a positive, problem-solving approach. Our employees are the driving force behind our Group and we are committed to ensuring we have safe and effective working environments, which enable everyone to perform to their true potential.

How we create value for them

We are committed to being a good employer, with an engaged and diverse workforce. We provide all employees with opportunities for personal and professional development. We also have a strong and demonstrable commitment to keeping people safe and looking out for their wellbeing.

THEIR KEY INTERESTS

- Career and development opportunities
- Diversity and inclusion matters
- Health, safety, and wellbeing
- Fair pay and reward
- Job security
- Implementation of the strategic and energy transition agenda and the impact of digitalisation
- Two-way engagement

KEY ENGAGEMENT CHANNELS

- Regular interaction between the Board and management during and after Board meetings, focusing on performance and strategy
- The Employee Workforce Forum
- Employee network groups
- Regular townhalls to update employees on performance, strategy and priorities
- Talent management and succession plan discussions
- Board sessions with graduates, future talent and senior management
- Annual PetroVoices employee engagement survey
- Internal engagement campaigns to reinforce important topics such as health and safety, compliance, diversity and inclusion, mental health awareness, and Net Zero initiatives

OUTCOME OF ENGAGEMENT

- Increased participation rate in our PetroVoices survey and strong engagement scores
- An election process for the Petrofac Workforce Forum with nominations received to fill the 12 positions
- Sessions held with graduates, middle and senior management during the Board visit to Sharjah, UAE
- Two new employee network groups established, one for young professionals and one for older employees
- New reward and recognition initiatives, including enhanced healthcare and life insurance benefits
- Achieved a reduction in the number and frequency of workplace injuries, with the lost time incident rates unchanged year-on-year
- Further development of our mentoring programmes across the Group

FURTHER LINKS / ESG / **Page 55**

Our clients

Why they are important

With strong client relationships, we are better able to identify and compete for new business and growth opportunities. By taking a client-centric approach, and seeking their feedback, we are better able to develop innovative solutions that create value and improve their overall experience. Drawing on demonstrable levels of satisfaction among existing clients, we are equipped to expand into adjacent sectors and new geographies.

How we create value for them

Deliver a positive client experience through superior, innovative EPC and service solutions, while designing, building, and operating safe, high-quality, highly operable energy assets and infrastructure.

THEIR KEY INTERESTS

- Operational delivery
- Implementation of the strategic agenda and evidence of a rigorous and integrated ESG strategy
- Ethical credentials
- Health and safety processes and initiatives
- High levels of in-country value

KEY ENGAGEMENT CHANNELS

- Meetings with key clients, involving Executive Directors, members of senior management and our project delivery teams
- Regular participation at industry events
- Our website and social media platforms
- Regular participation at trade shows and conferences
- Materiality review surveys and in-depth interviews

OUTCOME OF ENGAGEMENT

- New contracts and contract extensions signed during the year with several longstanding clients, including ADNOC, bp, EnQuest, Shell, Sonatrach, and Tullow Oil
- Continued development of long-term client relationships, especially among national oil companies
- Successfully executed new energy's opportunities
- Development of a range of flexible commercial delivery models
- Continued deployment of new digital technologies, that allow site audits and equipment inspections to be conducted virtually
- Maintained our client-centric ethos to harness innovation and digital technology to find new ways to add value

FURTHER LINKS / STRATEGY IN ACTION / **Pages 8-13**

Stakeholder engagement continued

Our suppliers

Why they are important

Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders, especially at a time when there are considerable supply chain constraints. By understanding the respective strengths of many suppliers and vendors, we can specify the most appropriate solution and technology for each client. By nurturing local supply chains, we are able to reduce delivery risk and freight miles.

How we create value for them

With a commitment to local delivery, we help suppliers to develop their capabilities, enhance their delivery, and conform to global ESG expectations, helping several businesses become significant international enterprises.

THEIR KEY INTERESTS

- Implementation of the strategic agenda
- Business model application
- Ethical and HSE credentials
- Transparent tendering process
- Reasonable terms and conditions
- Sustainable engagement
- Emissions targets

KEY ENGAGEMENT CHANNELS

- Attendance at industry events and trade shows
- Engagement between supply chain partners and our Compliance function to ensure understanding and compliance with our Code of Conduct
- Through our website and social media platforms
- An annual assessment of our extended supply chain to identify and address potential human rights issues
- Supplier roadshows at the start of major projects to understand their credentials and identify those with an appetite for growth
- Contractor safety forums organised to share HSE best practice initiatives

OUTCOME OF ENGAGEMENT

- An in-country value spend of US$304 million
- More than 100 partners attended or first Contractors' Safety Forum in Algeria
- Following the migration to a new due diligence platform, we enhanced the way our suppliers and business partners are monitored, enabling more in-depth due diligence reviews to be conducted
- Continued to work collaboratively with our supply chain to address potential human rights risks and ensure that everyone working on our projects is treated with fairness, dignity, and respect
- Developed our supplier portal, allowing improved collaboration
- We remain a member of the UK Prompt Payment Code
- We worked with our supply chain to assist in setting their emissions targets to support their lower carbon ambitions

FURTHER LINKS / STRATEGY IN ACTION / **Pages 8-13**

Local communities

Why they are important

Our local delivery model is a key differentiator for Petrofac and we want local communities to benefit from our presence. We actively support local communities to address local issues responsibly and manage the social and environmental impacts of our business, which we believe will bring long-term sustainability to the communities where we operate. Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.

How we create value for them

Wherever Petrofac operates, we are committed to creating shared value, by engaging with local communities, investing in local supply chains, employing local people, and stimulating local economies, while minimising any harm to the natural environment.

THEIR KEY NTERESTS

- Investments in local supply chains
- Supporting infrastructure improvement programmes
- Human rights matters
- Local employment opportunities
- The impact of activities on the wider community
- STEM education initiatives

KEY ENGAGEMENT CHANNELS

- Ad hoc face-to-face meetings with local communities
- Vocational development programmes with our local partners
- Public consultations
- Human Rights audits at project sites and in neighbouring communities

OUTCOME OF ENGAGEMENT

- We invested more than US$145,000 in community engagement and social performance initiatives
- We created a new Sustainability Manager role, for which one of the key focus areas is social investment
- Several social programmes are in place which are focused on building capacity with the local supply chain, creating local jobs, and supporting vocational training and apprenticeships and scholarship programmes
- Our in-country value programmes are continually reviewed and extended to grow sustainable economies and create value for the Group as well as local communities
- We conducted an in-depth human rights audit at our Duqm project in Oman, which involved an impact assessment on the local community

FURTHER LINKS / ESG / **Page 59**

Governments, regulators and industry bodies

Why they are important

We are subject to the laws and regulations of many governments and regulators across the world. We work closely with our regulators to help shape our industry, agreeing commitments and continually reporting our performance against these. As geopolitical situations evolve and the energy transition gathers pace, government policies will inevitably have an impact on our sector and consequently, we are committed to engaging constructively on a range of issues, both with government bodies and regulators and through industry associations to achieve the best outcomes for customers and the environment.

How we create value for them

The global economy runs on energy, and we are involved in building and operating significant energy assets and infrastructure and helping clients to meet the world's evolving energy needs. Aside from our direct investments in local economies, we contribute to public finances via the taxes we pay. Our local delivery model also sees us investing in local supply chains, employing local people, and stimulating local economies.

THEIR KEY INTERESTS	KEY ENGAGEMENT CHANNELS	OUTCOME OF ENGAGEMENT
• Health and safety matters • Performance against regulatory targets • Governance and compliance matters • The energy transition agenda • Taxation • The UN Climate Change Conference (COP27)	• Through the UK regulator North Sea Transition Authority (formerly Oil and Gas Authority) • Through our representation with trade bodies, such as OEUK, the EIC, CBI and Renewable UK • Participation in round table and industry consultations on issues that are relevant to our business, e.g. carbon capture, usage and storage (CCUS) business models • Responding to numerous consultations on issues affecting the industry • Attendance and participation in industry events	• We engaged directly and actively with state bodies, as well as national oil companies, in almost all of our territories • We participated at COP27 in Egypt • We have developed a range of training facilities, designed to increase capacity and skills in the local economy in several countries, and we are participating in national skills training initiatives in Algeria and Mozambique • John Pearson, Chief Operating Officer of our New Energy Services business, joined the Board of OEUK • Our total tax spend reached US$170 million

FURTHER LINKS / ESG / **Page 30**

We believe that open engagement is central to how we do business to ensure the effective delivery of our strategy."

An example where the Board actively considered stakeholders when making key decisions.

Rightsizing the business

Given the financial and operational challenges of 2022, it was necessary for management to continue to take actions to control costs, protect the Group's balance sheet and maintain liquidity.

Despite the many initiatives taken in 2021, additional cost reductions were necessary this year, including further redundancies in some parts of the Group.

The Board gave its full support to management with respect to the package of measures that was necessary to rightsize the business, while also considering the impact on the Group's employees.

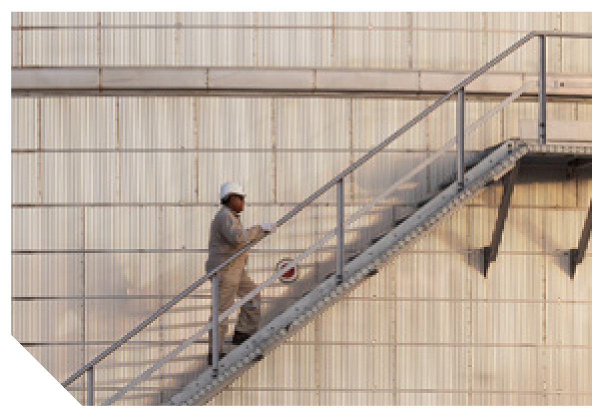
Through updates received from management, the Board remains satisfied that the actions taken were in line with the Group's culture and values and, importantly, that redundancies were made with respect and sensitivity, with the aim of mitigating the impact on those employees affected.

In its support of the rightsizing actions, the Board had regard to the interests of employees and to the needs of the Group's other stakeholders. The Board's decision to support management was based on its responsibility for safeguarding the future success of the Company.

Strategic framework

We are pursuing three clear strategic priorities to best position the Group for the long term and secure medium-term growth.

With a strong position in the most robust hydrocarbon markets, a strong track record in an ever-expanding offshore wind market and a rapidly evolving footprint in other new energies, we can enable our clients to meet the world's evolving energy needs.



Best-in-class delivery

- **Reshape the organisation**
- **Global capability, local execution**
- **Strategic partnerships/ technology neutral**
- **Digitally enabled**

Overview

We build on our traditional strengths, introducing new efficiencies and bringing greater consistency to the way we operate the business – with a single technical services organisation (1tec) providing delivery capability, support and assurance and enabling us to operate with optimal efficiency.

A Petrofac differentiator is our local delivery model, helping us bid on challenging projects, keep costs to a minimum, reduce risk, and build stronger relationships with local stakeholders. To build on this, we ensure that our local teams reflect the clients they serve and deliver the highest levels of in-country value (ICV) in our industry.

We invest in digitalisation and in our technical expertise to maximise productivity and provide optimal solutions to our clients. We develop strategic partnerships to help us achieve the best outcome for our clients. Being technology neutral means we can use our extensive experience to specify the best solution for each client, through partnerships with a wide range of technology suppliers.

2022 Performance

- Embedded 1tec across the Group
- Improved on an already strong HSE performance with embedding the new HSE strategy
- Significant new partnership with Hitachi Energy in offshore wind
- Challenges experienced in executing legacy pandemic-affected E&C contracts
- In-country value action plans are now implemented in all our key geographies

2023 Priorities

- Extend partnerships to bring the capabilities to meet our clients' needs
- Expand our in-country specialisms, through additional country managers
- Recruit, train and retain quality personnel for the projects ahead
- Execute remaining E&C legacy portfolio contracts on time and on budget

Link to KPIs

Employee numbers

7,950

LTI rate (per 200,000 work hours)

0.018

Offshore wind pipeline

US$5 billion

In-country value spend

32%

SEE OUR STRATEGY IN ACTION / **Page 8**

Return to growth

- **Rebuild backlog**
- **Selective growth in new geographies**
- **Leverage capabilities in new energies**
- **Customer-centric approach**

Overview

As the world adjusts to the changing geopolitical and economic circumstances, spending on the oil and gas infrastructure in our core MENA markets is expected to increase significantly and promises a sustained period of growth.

Our clear priority in Engineering & Construction is to capitalise on this recovery in our core markets.

In new energies, our expertise and track record in offshore wind, along with an expanding market, provides an additional tangible and immediate opportunity for growth. It also acts as an anchor for the development of three other clearly defined segments in which we have strong credentials – namely carbon capture usage and storage (CCUS), hydrogen and waste-to-value.

Meanwhile, Asset Solutions continues to deliver significant revenue growth, and is expected to continue this trajectory in 2023, supported by a strong order intake in 2022 and a healthy pipeline of opportunities across new and existing geographies. Integrated decommissioning is one of the areas in which we are uniquely placed.

As a services business, our clients sit at the heart of everything we do – and, as they work through their respective energy security, affordability, and sustainability challenges, we can help them to access additional energy sources, secure lower costs of production, while decarbonising their operations.

2022 Performance

- Reinstated on ADNOC's commercial directories
- 80% renewal rate and a growing backlog for Asset Solutions contracts
- Established a one-stop shop for integrated decommissioning
- Delay to backlog growth resulting principally from delays in clients reaching final investment decisions in 2022

2023 Priorities

- Grow our Engineering & Construction backlog from the healthy pipeline in core markets and geographies
- Continue backlog growth and geographical expansion in Asset Solutions
- Expand capabilities and track record in new energies

Link to KPIs

Revenue

US$2.6 billion

New awards

US$1.9 billion

Book-to-bill

0.7x

SEE OUR STRATEGY IN ACTION / **Page 10**

Superior returns

- **Integrated ESG delivery**
- **Enhanced risk management framework**
- **Deliver premium margins, consistently**
- **Capital light business model**
- **Maintain strong balance sheet**

Overview

Petrofac has traditionally had a strong reputation for operating with financial efficiency and generating sector-leading margins. The headwinds of recent years dented our operational and financial performance. We now have a clear pathway back to future growth and the delivery of superior returns.

Our best-in-class delivery and our local market model will enable us to keep costs down, whereas 1tec will provide a strong risk management and an independent assurance function. Our ESG commitment brings additional rigour to the way we manage the business, unlocks growth opportunities, and helps us meet client expectations.

We are confident that we will deliver our medium-term ambition of US$4 billion-US$5 billion in revenue (more than 20% of which from new energies), with sector-leading EBIT margins and a strong balance sheet with net cash.

2022 Performance

- Strong bidding discipline maintained, in both project selection and pricing
- Effective overhead cost and liquidity management throughout the year
- Challenges experienced in delivering differentiated margins on legacy Covid-affected E&C contracts

2023 Priorities

- Execute remaining projects on time and on budget
- Maintain bidding, cost and liquidity discipline
- Execute new projects with the 1tec model, to ensure consistent delivery and differentiated margins

Link to KPIs

Business performance EBIT

US$(205) million

Liquidity

US$506 million

CDP rating

B

SEE OUR STRATEGY IN ACTION / **Page 12**

Key performance indicators

Measuring our progress.

Petrofac sets key performance targets and assesses performance against these benchmarks on a regular basis.

R Part of the 2022 Executive Directors' Remuneration

Revenue

2022 US$2,591m (15)%
2021 (restated)[3] US$3,038m
2020 US$4,081m

Description – Measures the level of revenue of the business.

Measurement – Revenue for the year as reported in the consolidated income statement.

Business performance EBIT[1]

(1608)% US$(205)m 2022
US$(12)m 2021 (restated)[3]
2020 US$88m

Description – EBIT means earnings before interest and tax and provides a measure of the operating profitability of the business.

Measurement – EBIT is calculated as operating profit, including the share of net profit from associates and joint ventures (see A4 in Appendix A of the consolidated financial statements).

Reported EBIT

Description – EBIT means earnings before interest and tax and provides a measure of the operating profitability of the business.

Measurement – EBIT is calculated as reported operating profit, including the share of net profit from associates and joint ventures (see A15 in Appendix A of the consolidated financial statements).

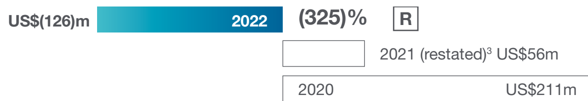
Backlog

2022 US$3.4bn (15)%
2021 (restated)[3] US$4.0bn
2020 US$5.0bn

Description – Provides a measure of the visibility of future revenues.

Measurement – Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, with regard to Asset Solutions, the estimated revenue attributable to the lesser of the remaining term of the contract and five years.

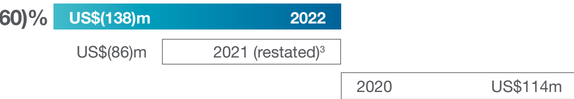
Business performance EBITDA[1]



Description – EBITDA means earnings before interest, tax, depreciation and amortisation.

Measurement – EBITDA is calculated as operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A4 in Appendix A of the consolidated financial statements).

Reported EBITDA



Description – EBITDA means earnings before interest, tax, depreciation and amortisation.

Measurement – EBITDA is calculated as reported operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A14 in Appendix A of the consolidated financial statements).

Business performance diluted earnings per share (EPS)[1,2,3]

Description – EPS provides a measure of net profitability of the Group taking into account changes in the capital structure, for example, the issuance of additional share capital.

Measurement – Business performance diluted EPS attributable to Petrofac Limited shareholders, as reported in the consolidated income statement and calculated in accordance with note 9 of the consolidated financial statements.

Free cash flow

33% R US$(188)m 2022

US$(281)m 2021

US$(123)m 2020

Cash conversion

Description – These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.

Measurement – Free cash flow, as per appendix A7 of the consolidated financial statements. Cash conversion is calculated as cash generated from operations divided by business performance EBITDA.

Employee numbers

2022 7,950 (3)%

2021 8,200

2020 9,400

Description – Provides an indication of the Group's service capacity.

Measurement – For the purposes of the Annual Report, employee numbers include contract staff and the Group's share of joint venture employees.

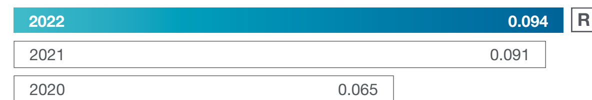
Lost time injury

2022 0.018 R

2021 0.018

2020 0.013

Recordable incident frequency rates



Description – Provides measures of the safety performance of the Group, including partners and subcontractors.

Measurement – Lost time injury (LTI) and recordable incident (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners, expressed as a frequency rate per 200,000 work hours. We aim continually to improve our safety record, but our target for these measures is zero.

1. Business performance before separately disclosed items. This measurement is shown by Petrofac as a means of measuring underlying business performance.
2. Attributable to Petrofac Limited shareholders, as reported in the consolidated income statement.
3. The prior year numbers are restated as detailed in note 2.9 to the consolidated financial statements.

Environmental, Social and Governance

Living up to our sustainability commitments

Alignment between our business model and our ESG agenda

We see the energy transition as a strategic opportunity. The creation of in-country value is central to our local delivery model, and our best-in-class delivery is characterised by uncompromising commitments to ethical behaviour, safety, employee wellbeing, diversity, and inclusion.

Ultimately, our purpose is to help clients to meet the world's evolving energy needs – and this means our purpose is intrinsically linked with overcoming the global challenge of climate change and advancing decarbonisation of the energy sector.

Decarbonisation is at the very centre of what we do

In 2022, the energy transition and energy security were high on the agenda for all our clients, and the way we work reflects that fact. In our everyday operations, we are reducing the carbon intensity of existing oil and gas facilities; designing and building a new generation of lower-intensity energy facilities; and creating a more sustainable future, fuelled by an abundant supply of new energies.

Operationalising our ESG commitments

With 25% of their incentives tied to it, ESG has the attention of our Executive team members, and we are making demonstrable progress on many fronts.

In 2022, for instance, we further strengthened our Health, Safety, Environment and Quality teams with several more senior-level appointments. We established a new Emissions Dashboard to drive awareness of our performance at the project, business unit, and corporate level. As a matter of routine, we also supplement our bids with a range of low-carbon options, covering the build of a new asset as well as its subsequent operations. We continued to reinforce the importance of ethical behaviour to our people and have invested considerably in our related teams, systems and processes. These are just a few examples from many – the details of which you can read in this report.

Creating value for our people and our communities

Another source of pride within Petrofac is the way we do business.

We have a local delivery model that enriches communities, creating new jobs, and bringing new wealth. We are a people-based business. We care deeply about personal and professional development, we have a culture that embraces diversity, we are a leader in protecting the safety and wellbeing of our people and, with a client-centric ethos, we nurture innovation and value creative problem solving.

These are all reasons to take pride in Petrofac, to embrace the future we are creating, and to celebrate the incredible things we are achieving together."

Defining our material issues

Understanding what matters most to our stakeholders

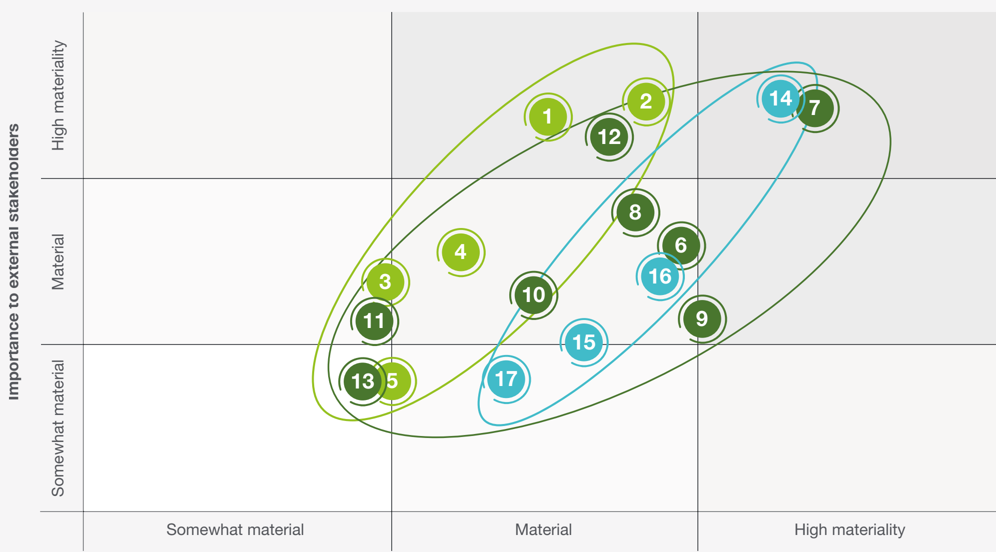
To understand what matters to them most, we formally engage with representatives from various stakeholder groups (including clients, suppliers, investors, NGOs, policymakers, employees, and our supply chain) and align our Environmental, Social and Governance (ESG) priorities to the material issues identified.

In 2022, we undertook a comprehensive materiality review, canvassing views from over 30 representatives from external stakeholder groups, complemented by several more focused one-on-one discussions. We also consulted over 100 employees from across the business through various webinars, engagement events, and surveys to understand their views and priorities.

Based on this engagement, we maintain a materiality matrix, which is used to inform our ESG programmes and monitor emerging issues. It is also used as a strategic business tool to apply a sustainability lens to business risk, opportunity, and enterprise risk management.

The 2022 engagement demonstrated that, irrespective of the changing geopolitical situation and its impact on energy prices and energy security, climate resilience and decarbonisation (Net Zero) remain high on the agenda. In addition, safety and sector-leading ethical compliance continue to be embedded in our culture and priorities for our stakeholders. Meanwhile, given increased economic pressures, there is an added emphasis on labour rights protection throughout our supply chain, as well as employee welfare and wellbeing.

The ESG issues that matter most to our stakeholders



Material issues |

Environmental aspects

1. Tackling climate change (Net Zero)
2. Climate resilience (energy transition)
3. Biodiversity protection
4. Circularity and waste management
5. Water management

Social aspects

6. Asset integrity and incident management
7. Worker health, safety & wellbeing
8. In-country value
9. Employee attraction, development and retention
10. Diversity and inclusion
11. 'Just' transition
12. Human rights
13. Community engagement

Governance aspects

14. Ethical behaviour and compliance
15. Revenue transparency
16. Responsible governance
17. Grievance management

An ESG framework focused on shared value

Delivering on our sustainability strategy

In our everyday business, our approach to sustainability has a high profile. Through an active programme of internal and external communications, we continue to make our people and our stakeholders aware of our ESG goals, and show how our purpose is aligned to our sustainability ambitions.

Our sustainability strategy is structured around the three ESG pillars:

- **Environmental** – ensuring that Petrofac minimises its own environmental impact, while supporting our clients in achieving their lower carbon ambitions
- **Social** – promoting safe, local delivery of our projects and services, drawing on ethical supply chains, building a diverse workforce, and helping to address the skills gaps that will support a just transition
- **Governance** – underpinning everything we do with clear, consistent standards of ethical behaviour, bound by rigorous compliance and governance

We maintain a dashboard to track our performance against each dimension.

Our strategic goals

Environmental
Minimise our environmental impact

Social
Inform, educate and engage

Governance
Embed integrity, transparency and trust

Links to the UN Sustainable Development Goals

Environmental: 7 Affordable and clean energy; 12 Responsible consumption and production; 13 Climate action

Social: 3 Good health and well-being; 5 Gender equality; 8 Decent work and economic growth

Governance: 5 Gender equality; 16 Peace, justice and strong institutions

STRATEGIC PRIORITIES	MATERIAL ISSUES[1]	OUR TARGETS[2]	PROGRESS IN 2022 (● ON TARGET ● PROGRESSING ● TARGET NOT ACHIEVED)		FURTHER INFORMATION
Addressing climate risk and resilience	1,2,3, 11	Net Zero by 2030 (scope 1 and 2 emissions)	Progressing	Our Flare Reduction Taskforce delivered a step-change in emissions performance and successfully reduced our flaring intensity by 49%.	SEE / **Page 33**
Circularity, waste and water management	4,5	Circular economy adopted by all sites	Progressing	We have made good progress phasing out the majority of non-essential single-use plastics from all our offices and are progressing phase-out programmes at our project sites.	SEE / **Page 36**
Sector-leading health and safety	6,7	Zero harm	On target	We saw a reduction in the number and frequency of work place injuries, as well as a decrease in the severity. We are also pleased to report there were no work place fatalities.	SEE / **Page 50**
Enhancing diversity and inclusion	9, 10	30% women in leadership roles by 2025	Progressing	We made modest increases in the proportion of women in senior management to 26%, and our female and LGBTQ+ employee network groups won the Equality, Diversity & Inclusion Initiative of the Year award at the Engineering Construction Industry Training & Development Awards.	SEE / **Page 56**
Respecting human rights	12,17	All third parties screened for human rights	Progressing	We continued to screen contracted third parties for human rights violations. The number of companies pre-screened, ahead of any prequalification request, within the E&C business unit, was 1,911 (increased from 1,475 in 2021). Unfortunately, we continue to uncover a small number of labour rights violations (such as late salary payments) at lower tiers of our supply chain.	SEE / **Page 63**
Optimising in-country value	8, 13	Sector-leading local delivery	On target	In-country value (ICV) action plans are now implemented in all our key geographies focusing on nationalisation, supply chain capacity building, local purchasing and investment. The proportion of local goods and services purchased decreased to 32%. The impact of supply chain disruptions on local capacity and availability, combined with the limited opportunities to procure certain high-tech equipment in some countries, all impacted our ability to purchase locally.	SEE / **Page 60**
Embedding ethical values and behaviours	14	No regulatory non-compliance	Progressing	We continued to embed a compliance ethos across the Group, saw improvements in the quality of Speak Up reports, and have enhanced our processes and controls through the use of our new cloud-based due diligence platform, operated by Dow Jones.	SEE / **Page 65**
Enhancing transparency, governance and disclosure	15, 16	Move beyond compliance	Progressing	We have continued to integrate the TCFD recommendations into our existing risk and governance processes, incorporating good practice recommendations from the Financial Reporting Council. Our governance practices were recognised by third parties and ranked as 'leading those of peers' by MSCI.	SEE / **Page 37**

Aligning with the UN Sustainable Development Goals

Our sustainability strategy seeks to address the material issues identified from our stakeholder engagement, and the ESG programmes are aligned with the seven UN Sustainable Development Goals that we believe are most relevant to Petrofac's business.

- We are also a signatory of the UN Global Compact, and this report serves as our Communication on Progress on the implementation of its ten principles. The report is also prepared in accordance with the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the recommendations of the Task Force on Climate-related Financial Disclosures.

[1] See page 29 for list of material issues
[2] See subsequent sections for specific metrics associated with each target

Environmental, Social and Governance continued

Environmental

Links to the SDG's

Why it is important to our business model and strategy

As an energy services company that designs, develops and operates large scale facilities, Petrofac's business is inextricably linked to environmental considerations.

A central consideration is our role in the global energy transition, including the requirement from clients to reduce the carbon intensity of their existing facilities and operations, as well as our new energies business.

Of course, our approach also extends to mitigating the risk of environmental incidents, as well as the environmental performance of our own operations.

We are committed to reaching Net Zero[1] in Scope 1 & 2[2] emissions by 2030

We phased out single-use plastics across our permanent offices

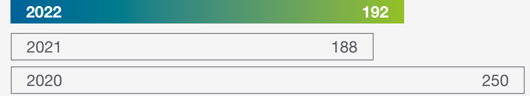
Our UK offices switched more than 90% of supplied energy contracts to renewable energy

Gas abatement plans implemented on PM304 reduce gas flaring by a third

Our performance

Scope 1 emissions

(direct from owned or controlled sources)
Tonnes of carbon emissions (000 tCO_2e)



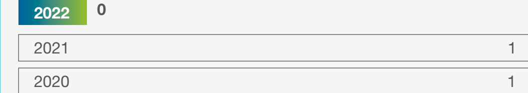
Greenhouse gas (GHG) intensity IES

000 tCO_2e per million boe production

Year	Value
2022	131
2021	256
2020	116

Number of spills above one barrel

(0 from vandalism)



Scope 2 emissions

(indirect from purchased energy) 000 tCO_2e

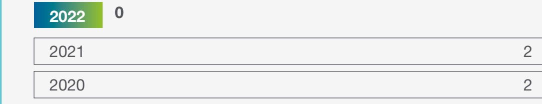
GHG intensity E&C/AS

000 tCO_2e per million work-hours worked

Year	Value
2022	0.30
2021	0.30
2020	0.27

Hydrocarbon spilled volume in barrels

(0 from vandalism)



1. Greenhouse Gas Protocol Standard Corporate Accounting and Reporting (equity share approach) followed for Scope 1 and 2 emissions (market based), utilising SANGEA Energy and Emissions Estimating System and UK Government greenhouse gas (GHG) conversion factors.
2. To calculate GHGi: for IES-total scope (1+2) emissions of IES/net production in boe and for E&C/Asset Solutions – total scope (1+2) emissions of (E&C+Asset Solutions)/ million of man-hours worked are used.

Moving towards our Net Zero goals

In 2020, we committed to transition to a lower carbon business. We aim to reach Net Zero in our scope 1 and 2 emissions by 2030 and are promoting and supporting decarbonisation across our supply chain. Our targets support the principles of the Paris Climate Agreement and, as the wider sector moves towards decarbonisation, they are aligned with our clients' ambitions.

Our Net Zero roadmap outlines the approach being taken by each area of the business. Broadly, the path to Net Zero emissions involves two steps:

- First, to decarbonise to organically lower emissions
- Then, to offset residual emissions with carbon credits

Our main decarbonisation levers are:

- Switching our energy supply to renewable power
- Improving our energy efficiencies
- Reducing flaring, venting and fugitive emissions
- Electrifying our transport

In 2022, we continued our efforts to understand and quantify the true source and scale of our scope 3 emissions (see page 35). By building on this work, we should be in a position in 2023 to define related reduction targets.

Supply chain

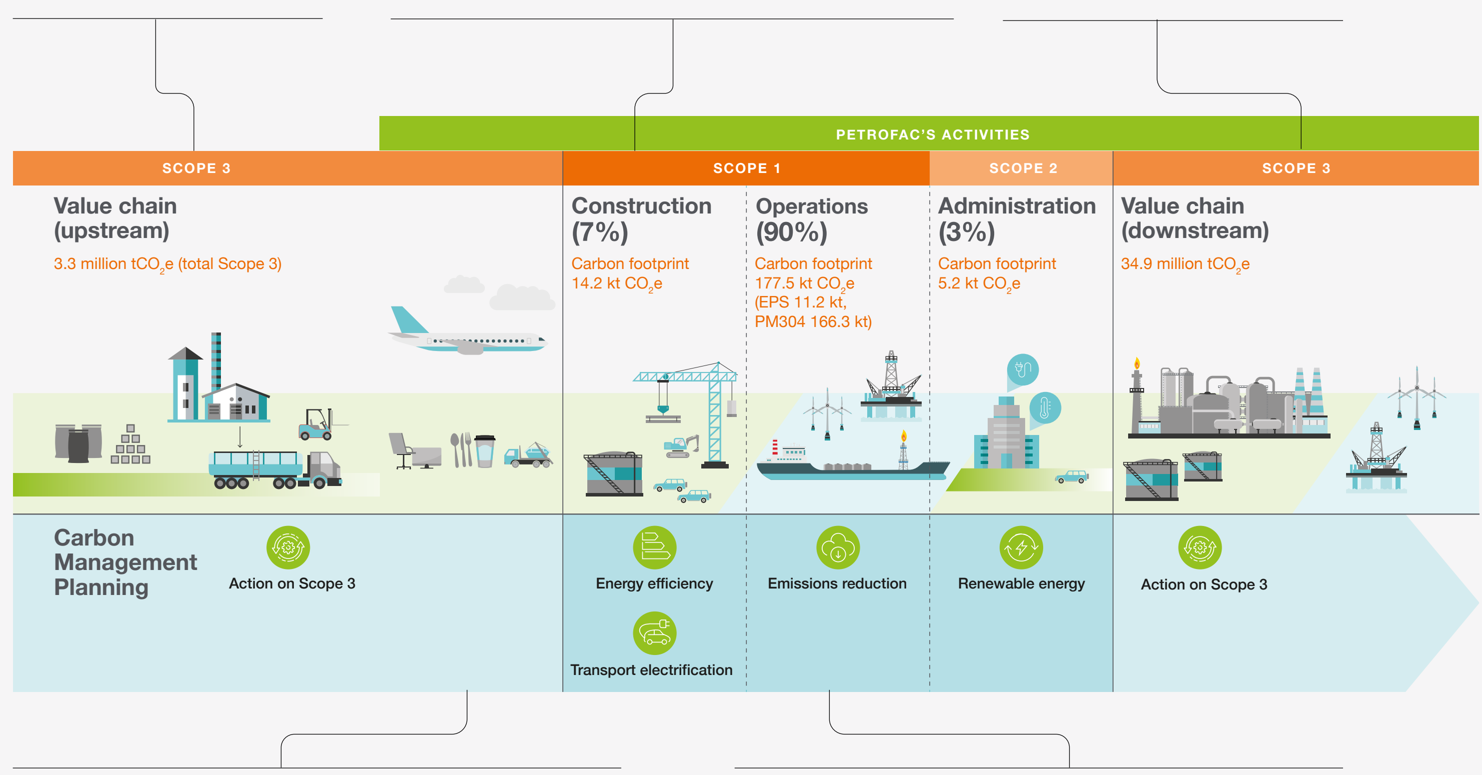
Low-carbon supply chain elements were codified into our vendor management systems to facilitate low-carbon procurement and project delivery.

Production operations

The Flare Reduction Taskforce was established to identify decarbonisation opportunities related to gas re-injection (sequestration and storage), condensate recovery, gas shut-off, electrification, and gas export. The Taskforce worked in partnership with the Block PM304 team in Malaysia to deliver a 49% reduction in emissions intensity.

Digitalisation

We matured our Scope 3 programme, extending our assessment across all applicable categories of the GHG protocol including the energy footprint of the facilities we design, build and operate and use this to identify low-carbon solutions for our clients.



Decarbonisation guidance rolled out

The Net Zero Steering Group developed detailed 'How to' guidance for the business which was rolled out across each Business Unit.

Emissions management tool

Net Zero action plans were put in place for all our main offices, focusing on switching energy supply to renewable energy (where available), advancing initiatives to promote more efficient use of energy and water, and introducing electric vehicle charging points. Our UK offices switched more than 90% of supplied energy contracts to renewable energy.

Environmental, Social and Governance continued

We implemented a cloud-based Emissions Dashboard, which captures and displays all of our scope 1, scope 2 and scope 3 emissions data at the corporate, business unit, and project level. Available to all employees via any online or mobile device, this helps us to increase awareness of our performance and adds to the urgency of our Net Zero journey.

Meanwhile we made reasonable progress in identifying and implementing the many local initiatives that will enable us to achieve our overall decarbonisation targets. Accountability for delivering on these initiatives is delegated to each business unit and the work is coordinated by their respective Carbon Management Teams. To assist them, a programme of Decarbonisation Guidance was launched in 2022 via a series of webcasts.

Strengthening our environmental management team

As a demonstration of our environmental commitment, and our determination to achieve our Net Zero goals, we appointed a new Head of Environment & Sustainability. A key leader in our strengthened HSE team, she has a background in environmental science, and previously held senior environmental roles at a global provider of engineering, project and construction services to the mining and metallurgical sectors – so she brings a valuable external perspective to our environmental programmes.

How we manage our environmental performance

Our goal is to manage the environmental risks of our projects and operations effectively, optimise our use of resources, and minimise our environmental impacts.

In terms of emissions, to support our 2030 Net Zero target, we are committed to an interim target of a 3% year-on-year reduction in GHG emission intensity from 2021 to 2023.

Each year, we participate in the Carbon Disclosure Project (CDP), and in 2022 we continued to enhance our climate change programme and again achieved a CDP rating of B. This is within the upper band of CDP rating for managing and taking coordinated action on climate-related issues, and demonstrates that our carbon management system has become more mature, and is above the average rating of C for our sector.

We calculate our carbon footprint and energy consumption in accordance with the UK Streamlined Energy and Carbon Reporting (SECR) regulations, and our data is assured and verified by an independent AA1000 licensed assurance provider.

Our Waste Management Standard governs our waste practices, with duty of care as a basic principle. We aim to reduce the amount of waste we generate and promote a circular economy by maximising reuse and recycling of materials. Achievements from 2022 include the phasing out of those single-use plastics that are within our direct control at all our offices and progressing phase-out programmes at several of our project sites.

Reflecting on our 2022 performance

In 2022 our absolute emissions remained broadly the same.

While we made significant progress in reducing emissions intensity, this was offset by increases in production to meet the energy needs of our customers, resulting in little change to our overall absolute emissions.

In IES, a programme of work on our offshore asset in Malaysia brought a step-change in emissions performance. Our Flare Reduction Taskforce in partnership with the Block PM304 Asset's Reservoir Management and Operations Teams in Malaysia successfully reduced emissions intensity by 49% to 131 (166k tCO_2e against net production of 1.2Mboe). This was achieved through a successful ongoing gas shut-off programme, switching diesel for fuel gas that would otherwise be flared, and operational optimisations focused on logistics enhancements.

In E&C, a reduction of 23% to 30k tCO_2e in direct emissions was achieved (against activity of 101 million work hours). This was in part due to lower levels of activity combined with progress delivering our Net Zero plan. It included the roll out and implementation of decarbonisation guidance, further energy efficiency measures in our offices, and the progressive switchover to renewable electricity sources. In addition, we have rationalised our vehicle fleet, reducing the number of vehicles by 17%, though progress with the transition to electric vehicles remains challenging in many geographies due to limitations in charging infrastructure.

In terms of spill performance, we experienced zero reportable spills. However, during commissioning activity on the Seagreen Windfarm Offshore Substation Platform in June 2022,11kg of an electrical insulating gas (Sulphur Hexafluoride, SF6) was accidentally lost to the environment. Standard systems and procedures were immediately activated and site access restricted as a precautionary measure. Although the volume of CO_2 equivalent did not meet the threshold for reporting, SF6 is a potent GHG and Petrofac documented and shared all lessons learnt with relevant stakeholders including the UK Health and Safety Executive and Marine Scotland.

Extending the range of decarbonisation services we offer to our clients

As well as managing our own environmental performance, we help our clients to meet the world's evolving energy needs. This means that, as part of our everyday activity, we work with them to reduce the carbon intensity of existing oil and gas facilities, design and build lower-intensity facilities, and deliver on the potential of new energies.

Developments from 2022 include:

- In E&C, our bids are increasingly accompanied by fully-costed low-carbon options. These show clients how we can minimise the environmental impact of the construction process, as well as reducing the carbon intensity of a facility's future operations – including electrification, minimised flaring, prevented fugitive emissions, CCUS deployment, and optimised operating approaches.
- In Asset Solutions, we enhanced Petrolytics, our AI-powered analytics platform, to monitor the real-time emissions performance of any operating asset. Through a web-based dashboard, this enables us to keep track of a facility's true environmental impact, and to recommend and model performance enhancements – either through planned maintenance cycles, or by intervening with new modifications.
- Meanwhile, our new energies business continues to gather momentum, as set out on pages 71 and 74.

Addressing our scope 3 emissions

We recognise that the emissions from our value chain are a material part of our carbon footprint and, in 2022, we progressed a scope 3 programme to better understand the related decarbonisation challenges and opportunities.

To quantify these emissions, we use the Quantis Scope 3 evaluator tool developed by the GHG Protocol, customised for in-house carbon accounting. To improve its accuracy, the tool's proxy carbon emissions data is augmented with data from our key vendors, plus direct measurement of some emissions data. For 2022, we extended our scope 3 emissions evaluation across all relevant categories. The total emissions footprint of our value chain was assessed to be 38.2 million tCO_2e, with the majority (35 million tCO_2e) falling within the category of 'Use of Sold Products', reflecting the operating lifetime of the energy intensive facilities we build. These scope 3 emissions have been verified through an external third party.

A key part of our Net Zero commitment is to support the low-carbon ambitions of our value chain and reduce our scope 3 emissions. To these ends, our programme was also advanced with the Supply Chain team to identify the most carbon-intensive goods and services, engage with key suppliers, and incorporate their carbon data into our vendor management system. However, the challenge we face is that, in several of our geographies, key players in carbon-intensive commodities such as steel production are yet to declare the carbon footprint of their products. As expectations for this type of data increase across the wider market, we anticipate this situation will improve, and we will support key suppliers in establishing their respective carbon assessment and reduction programmes.

We also benchmarked our scope 3 programme against the progress being made by our peers. This exercise demonstrated that, in relative terms, we are among the sector leaders.

In 2023, we will continue to enhance our scope 3 assessments. As our confidence in the integrity of the data and our understanding of our value chain's decarbonisation plans grow, we intend to publicly report on our related emissions and to set credible time-bound targets for their reduction.

Supporting community-based environmental initiatives

As an energy services company operating across many geographies, we are often faced with environmental challenges, and work with clients, community groups, and other stakeholders to develop effective solutions to protect the natural environment.

Examples include:

- **In Malaysia**, 20 of our team members took part in a public tree planting programme at the Kuala Langat North Forest Reserve in Selangor state, supporting Malaysian Environment Day. The initiative supported the Malaysian government's campaign to plant 100 million new trees, and was organised by the Selangor State Forestry Department and several NGOs. On the day, our volunteers planted 90 trees out of a total of 450.
- **In Oman**, which is one of the Arab world's most engaged countries in the protection of natural habitats, we became corporate members of the Environmental Society of Oman (ESO). The country's wadis and beaches are home to many rare species of wildlife, but are under threat from persistent plastic waste. To mark Arab Environment Day, we supported ESO with an awareness campaign and several of our people took part in clean-up activities that helped prevent plastic waste from entering the marine ecosystem.

Environmental, Social and Governance continued

- **In Thailand**, we invited the local community to commemorate both World Environment Day and Father's Day (in June and July respectively) by joining tree planting activities held at Banthung Community Park located nearby to the site of our Thai Oil Clean Fuels Project. We also supported Big Cleaning Days three-times every week in the nearby community to ensure that any dust, debris or waste inadvertently left by project vehicles and workers is cleaned up. Involving our subcontractors as well as our own employees, these regular sessions involve the thorough spraying and washing of roads, refuse collection, and beach clean-ups. In addition, we worked with the local fishing community to install almost 100 fish aggregating devices – used to attract fish and provide food for them.

Reducing our use of water

At various project sites, such as Ain Tsila in Algeria and Qusahwira in the UAE, we introduced wastewater re use initiatives, using treated water for dust control and tree watering.

We also found new ways to reduce the amount of water we use in our projects. At our GC32 project in Kuwait, for instance, we optimised water use during the hydrotesting phase, which saved more than 50,000m^3 of fresh water – equivalent to the daily water consumption of 135,000 people in Kuwait.

Phasing out single-use plastics

During 2022, we were successful in phasing out those single-use plastics that are within our direct control at all our offices and many project sites. Often, these have been home-grown solutions proposed by the onsite project team: on the Ain Tsila project in Algeria, we provided water flasks in the office and installed a compaction facility onsite; at the BAGSF-2 site in Malaysia, we distributed reusable water bottles and food containers; and, on our project sites in India we replaced plastic safety cones with metal barricades, introduced stainless steel utensils and thermo-steel bottles, and provided additional water dispensers.

Introducing more circular economy solutions

We are progressing our target of adopting a circular economy across our sites, with each site required to have a plan in place that focuses on:

- Designing out – engaging our project teams, from our engineers to our supply chain, to 'design out' waste
- Optimising use – exploring ways to use resources for longer, stretching the lifespan of materials and products
- Recycling more – creating opportunities to improve what we recycle, reduce our landfill waste and put more of our 'waste to work'

At the GC32 project site in Kuwait, for example, we encouraged our suppliers to collect and reuse around 5,000 electrical wire and cable drums which, together, weighed around 500 tonnes. At the Visakh project in India, we repurposed around a tonne of waste metal into barricades, signboards, and storage racks. At Qusahwira Phase II project in the UAE we reused old tyres as road barriers and as soil retainers for tree planting.

Progressively reducing our energy use

We continue to find new ways to reduce our energy use and avoid the associated emissions. On the FPF-003 vessel in Thailand, for instance, we replaced fluorescent lamps with LED equivalents, and we also introduced site bicycles on several more of our projects around the world.

We also look at new, more energy-efficient ways of working. A good example is the SNOC project in the UAE, where we would ordinarily have used a barge as part of our operations. Instead, we introduced a 750-tonne crane, which was significantly more energy efficient, and reduced the risk of marine pollution.

Task Force on Climate-related Financial Disclosures

We are committed to supporting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This report outlines the progress we have made against the recommendations. We have also built on this programme, integrating it further into our existing risk and governance processes and incorporating the TCFD Good Practice Recommendations from the Financial Reporting Council (FRC)[1].

Governance

Climate change is a material governance and strategic issue that is regularly addressed by our Board and Executive team through strategy and investment discussions, enterprise risk management, and performance review against our commitments.

Our Net Zero Steering Group, which reports to members of the Executive team, and periodically to the Board, provides support, guidance, and oversight of progress on our Net Zero programme. The Steering Group is supported by a TCFD Working Group that monitors and evaluates climate-related risks and opportunities and tracks management actions.

Performance is reported periodically to the Executive team and the Board through bi-monthly key performance indicator (KPI) metrics and regular presentation of related technical and strategic papers.

Informing our strategy

Our strategic risk and opportunity reviews continue to be informed by a range of sector analyses, including the full range of future scenarios developed by the International Energy Agency. The scenarios are used to aid our understanding of how the pace and nature of the energy transition may affect our strategy, and the actions we can take to build resilience and pursue related opportunities.

We actively manage climate-related physical and transition risks, ranging from the increased potential for extreme weather events to disrupt our operations to the evolving policy landscape that may impact the Group, such as carbon taxation or more restrictive emissions legislation.

In 2022 we regularly engaged with policymakers, contributing to their public consultation programmes, offering our expertise, and encouraging all industry stakeholders to support a just transition.

The transition to a lower carbon economy also presents climate-related risks and opportunities to our business. As well as taking action to meet our Net Zero carbon commitments, we are rapidly developing our capabilities to unlock value for our clients by helping them to decarbonise their existing operations, and by helping them to plan, build and manage new assets in the offshore wind, hydrogen, CCUS, and waste-to-value market segments. See pages 16-19 for detail on the short-term and long-term market outlook and how our strategy addresses future risks and opportunities.

Climate risk management

Climate-related risks are classified according to the TCFD's risk management framework. This addresses transition and physical risks, such as the evolving policy landscape, the shift to a low-carbon economy, changing stakeholder perceptions and preferences, and risks that are event-driven, such as the increased severity of extreme weather, as well as longer-term shifts in climate patterns.

Issues such as changing energy usage and the shift to a low-carbon economy are also assessed for the opportunities they create as we look to expand our new energies business.

Assessments are undertaken over three-year and ten-year timeframes to align with business planning and long-term strategic time horizons.

Climate-related risks and opportunities arising out of the energy transition are fed into the enterprise risk management programme and consolidated into our principal and emerging risks, which are reviewed by the Group Risk Committee, endorsed by the Audit Committee, and approved by the Board.

Further detail on the identified climate-related issues and how they affect the business, its strategy and financial planning is set out in our full response to the 11 TCFD recommendations (see pages 38-48).

1. FRC CRR Thematic review of TCFD disclosures and climate in the financial statements, July 2022

Environmental, Social and Governance continued

Metrics and targets

Petrofac is committed to becoming a Net Zero company by 2030, with our Asset Solutions business unit achieving Net Zero by 2025. We have also set decarbonisation targets that support the principles of the Paris Climate Agreement, the UK Government's Net Zero goal, and are aligned with our clients' respective ambitions as the energy sector progressively decarbonises.

We also expect our NES business to grow rapidly and have targeted that, in the medium term, this will account for 20% of our revenues.

In 2022 we continued to develop a carbon intensity ranking for each of our projects and operations. The objective is to benchmark each part of the business, identify examples of good practice, pinpoint areas that require additional work, and hold line managers accountable for meeting local decarbonisation targets. This has proven problematic due to the inherent variability of projects obscuring carbon losses and gains, making it difficult to benchmark the performance of a project located in an area with infrastructure that can facilitate decarbonisation (e.g. EV charging, mature transport links, etc) from one that is remote from enabling infrastructure. As a solution, we opted for targets related to implementing our new decarbonisation guidance, assessing projects' progress undertaking gap analyses, and delivering improvement plans.

Meanwhile, we continue to encourage the adoption of emissions reduction targets among key suppliers. We also continued to assess our Scope 3 emissions, and should be in a position to finalise supply chain engagement targets in 2023 with a focus on the most carbon-intensive goods and services.

Finally, accountability for climate change leadership and decarbonisation continues to be embedded into executive performance measures and remuneration. This means that we are actively incentivising our leadership to accelerate our transition to a low-carbon business.

Task Force on Climate-related Financial Disclosures

In compliance with Listing Rule 9.8.6(8), our climate-related financial disclosures, are summarised here, with the status of our compliance with the TCFD Recommendations and Recommended Disclosures set out in implementing the Recommendations of the Task Force on Climate-related Financial Disclosures published in October 2021.

RECOMMENDATION	RESPONSE
Governance	
a) Describe the Board's oversight of climate-related risks and opportunities	
Process and role of Committees	Climate change is a material governance and strategic issue that is regularly addressed by our Board and Executive team through strategy and investment discussions, enterprise risk management, and performance reviews against our commitments. The Board is responsible for oversight of the overall conduct of the Group's business, which extends to setting our climate response strategy and approach to the energy transition. The Board is assisted by four Board Committees: Audit, Compliance and Ethics, Nominations and Remuneration. These Committees each have risk management oversight relevant to their specific areas of responsibility, and where relevant this includes the management of energy transition and climate risks. For example, the Audit Committee has delegated responsibility for monitoring and reviewing the integrity and effectiveness of the Group's overall risk management framework, which covers the management of energy transition and climate risks. The Board and its Committees typically meet every two to three months. Climate and energy transition issues are discussed at each Board meeting.
DISCLOSURE LOCATION	**Pages 76-77, 103**
Examples of the Board and relevant Board Committees taking climate into account	In 2022 the Board progressed key actions defined by the Chair from the annual effectiveness review, including continued development of the sustainability strategy and the ESG roadmap, clearly defining the Group's direction on energy transition, climate resilience and response. Individual Board members have also made themselves available to consult on elements of the transition plan, for example providing a deep-dive review and feedback on opportunities arising out of our scope 3 decarbonisation strategy. Performance is reported periodically (typically bi-monthly) to the Executive team and the Board through key performance indicator (KPI) metrics that include: • Progress incorporating low-carbon services into bids and tenders • % of purchased electricity switched to renewable sources • Progress on emissions reduction initiatives

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Governance

a) Describe the Board's oversight of climate-related risks and opportunities continued

Examples of the Board and relevant Board Committees taking climate into account continued

- GHG intensity reduction across each business unit, and
- Effective supply chain decarbonisation
- In addition to KPI metrics, in 2022, several technical and strategic papers and progress updates were presented (quarterly to six-monthly) on our Net Zero and new energies strategies, plans, and progress.

The Board also evaluates new business development opportunities (such as late-life asset management and decommissioning) against the potential to impact our Net Zero commitments, balancing market needs for energy security with the importance of enabling the transition to the low-carbon energy sector.

DISCLOSURE LOCATION Pages 2; 4-7; 32-34 Disclosure level: **Full**

b) Describe management's role in assessing climate-related risks and opportunities

Who manages climate-related risks and opportunities

The assessment and management of climate-related risks and opportunities is integrated into the Executive team's area of responsibility as climate-related objectives. Associated targets and KPIs are cascaded down through line management and incorporated into staff scorecards.

DISCLOSURE LOCATION Page 11

How management reports to the Board

The Board and its Committees are updated on climate-related issues by the Company Secretary's office, which works closely with the Executive team to develop materials that assist the Board and its Committees in discharging their responsibilities.

In addition to these Board committees, there are a number of executive management committees in place, which meet more frequently (biweekly or bimonthly), and are involved in assessing the materiality of climate-related and energy transition risks and opportunities and considering matters for recommendation to the Board and its Committees.

The Group Head of Quality, Health, Safety, Security, Sustainability and Environment is the principal point of contact with the Board and Group Executive for ESG-related matters.

DISCLOSURE LOCATION Page 103

b) Describe management's role in assessing climate-related risks and opportunities continued

Processes used to inform management

The Net Zero Steering Group is responsible for providing support, guidance and oversight of progress on our Net Zero programme. This Steering Group is supported by a TCFD Working Group that reviews compliance, monitors and evaluates climate-related issues and tracks actions.

Carbon Management Teams (CMTs) established within each business unit take local ownership for delivering decarbonisation.

In 2022, the following CMTs progressed decarbonisation efforts that were periodically reported to management and up to the Board:

- Low-carbon offices
- Low-carbon sites
- Scope 3/supply chain
- Engineering
- Digital, and
- Carbon/Flare Reduction Task Force

Communication mechanisms are well defined, with climate-related matters and progress on our Net Zero and new energies strategies discussed at each of our global townhall meetings, BU leadership calls, and quarterly HSE webcasts accessible to all staff. In addition, a regular status report (typically quarterly) is provided to the Executive team on decarbonisation progress through the Net Zero Steering Group's meeting minutes.

DISCLOSURE LOCATION Pages 20-23; 29; 57 Disclosure level: **Full**

Environmental, Social and Governance continued

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

Processes used to determine material risks and opportunities

Our strategic risk and opportunity reviews continue to be informed by a range of sector analyses, including the full range of future scenarios developed by the International Energy Agency (IEA). The following scenarios are used to aid our understanding of how the pace and nature of the energy transition may affect our strategy, and the actions we can take to build resilience and pursue related opportunities:

- **Low Carbon Future** (based on IEA Net Zero by 2050 Scenario) – characterised by industry alignment with the Paris Agreement, rapid acceleration to a low-carbon economy, green technology breakthroughs, and global policy coordination on carbon tax and emissions that materially reduces fossil fuel use.
- **Mid-point** (based on IEA Announced Pledges Scenario) – characterised by the announced ambitions and targets (as of September 2022) to achieve net zero emissions by 2050, with countries fully implementing their national targets to 2030 and 2050, an acceleration of the low-carbon economy and the enabling global policy framework, market dynamics and technological progress.
- **High Carbon Future at more than 3°C** (based on IEA Stated Policies Scenario) – characterised by current policy intentions and targets. Energy demand rising by 1% per year to 2040, with low-carbon sources, led by solar PV, supplying more than half of this growth, though the momentum behind clean energy technologies is insufficient to offset the effects of an expanding global economy and growing population. The rise in emissions slows, but with no peak before 2040, and the world falls short of the Paris climate goals.

We actively manage climate-related physical and transition risks, ranging from the increased potential for environmental and safety incidents to disrupt our operations (across all time horizons), to the current evolving policy landscape (short-term horizon) that may impact the Group, such as carbon taxation or more restrictive emissions legislation.

We reviewed the impact of the EU Green Deal and the Carbon Border Adjustment Mechanism (CBAM) over both short and medium-term horizons, with CBAM commencing in 2023 and the accompanying charging regime commencing in 2026 and impacting our EU-based projects.

DISCLOSURE LOCATION **Pages 16-19; 20-23; 76-77**

Relevant time horizons

In reviewing our strategy, we consider a wide range of opportunities and risks across two discrete time horizons:

- Short-term (0-3 years): defined by detailed business and financial plans, which are performance managed in delivery of our business plan targets
- Medium to long-term (4-10 years medium-term, 10+ years long-term): given the rapid pace of external change and the wide range of uncertainties, this time horizon enables us to consider longer-term scenarios and possible energy transition pathways.

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term continued

The transition to a lower carbon economy presents both risks and significant business opportunities for Petrofac. Climate-related physical and transition risks are managed and reported as part of the Group's risk management framework.

Transition or physical climate-related risks identified

Risk Driver	Risk	Time Horizon	Risk Management
Policy – current & merging government climate policies and regulations	Decreased investment in O&G due to higher operational costs (carbon taxes & levies), reduced licences or policy shifts	Medium term	Government consultation and advocacy strategy supporting appropriate climate action and policies that deliver net-zero goals while providing stability for business. Close monitoring of the policy landscape in core geographies to ensure business preparedness, including de-risking asset financial assumptions against potential policy shifts
Market – transition to a low carbon economy	Loss of market share and erosion of backlog	Long term	A New Energy Services NES line created to build capability to advance the company's position within the energy transition and target a greater market share of non-O&G projects
Reputation – deteriorating stakeholder sentiments towards fossil fuels	Increasing ESG- focused investors allocate capital away from O&G sector, increased negative screening and higher cost of capital	Short term	Cogent ESG strategy focused on material issues, supported by proactive stakeholder engagement. Executive remuneration linked

Transition or physical climate-related opportunities identified

Opportunity Driver	Opportunity	Time Horizon	Opportunity Capture Strategy
Markets – new energy markets	Deliver material growth and increased market share through the energy transition.	Medium – long term	Advance New Energies strategy to target renewables and low carbon sectors
Products & services – growth of low carbon economy	Increased demand for low carbon solutions and services.	Short term	Advance Petrofac's net-zero strategy, expand low carbon service offering, emissions reduction consultancy and deployment of digital analytical tools.

Disclosure level: Partial

Disclosures regarding the detail of our climate-related risks and opportunities in each of the warming scenarios will be further enhanced in 2023, including further information on financial impact and likelihood.

DISCLOSURE LOCATION Pages 78-87

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Impact on strategy, business, and financial planning

The potential implications of climate change and the energy transition building momentum are described in the Market outlook and new energies related sections of this Strategic report.

We review the renewables and low-carbon sectors in depth to identify where our technical expertise and delivery experience would be the most valuable to clients. Based on this analysis, we have aligned our experience in high voltage systems, offshore platforms, gas processing, clean fuels and grey hydrogen to where clients need our ability to integrate and manage risk around large complex capital project delivery. As a result, we are focusing our NES strategy on Offshore Wind, CCUS, Hydrogen, Waste-to-Value, and Emissions Reduction. In the medium term, we are targeting that NES will account for at least 20% (~US$1 billion targeted) of our revenues.

In addition to advancing new energies, the Group's ambition is to become a Net Zero company by 2030 (scope 1 & 2 emissions).

The Group's current climate change strategy focuses on reducing GHG emissions, investing in low-emission technologies, supporting emission reductions in the value chain and promoting product stewardship, managing climate-related risks and opportunities, and working with others to enhance the global policy and market response.

Petrofac is also progressing a scope 3 emissions programme, engaging our value chain on decarbonisation strategies to enable their low-carbon ambitions.

In 2022, we continued to consider the impact of climate-related issues on our financial planning, for example analysing the likelihood and impact of increased insurance premiums related to extreme weather events, and de-risking financial assumptions and contract renewal terms against possible carbon taxation for our producing assets in Malaysia. We aim to further enhance our processes and assurance as we develop a more mature understanding of the risks, opportunities and interdependencies of climate-related issues on the business.

DISCLOSURE LOCATION Pages 4-7; 28-36

Environmental, Social and Governance continued
Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION | RESPONSE

Strategy

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning continued

Impact on products and services

To achieve our Net Zero ambition, we recognise that much of our workforce will need to have additional skills and capabilities.

One of the programmes under implementation is a competency mapping exercise, to understand what transferable skills we already have and what skills will be required to support the transition and ensure alignment with government and industry initiatives and client requirements.

DISCLOSURE LOCATION **Pages 10-11**

Impact on our supply chain

A programme was commenced targeting the most carbon intensive parts of our supply chain (e.g. steel, cement, copper, logistics). Our Net Zero supply chain workstream continued to engage with suppliers, encouraging them to establish their own GHG emission reduction targets and decarbonisation plans. Climate-related risks are also built into our supply chain due diligence.

By extending our local delivery model, we are continuing to reduce our reliance on international supply chains, matching local suppliers with project opportunities, and improving our logistics efficiencies, carbon footprint and supply chain resilience.

DISCLOSURE LOCATION **Pages 14-15; 35; 60-63**

Impact on our value chain

A low-carbon plan has been developed through consultation with key functional teams and is being incorporated into bids, outlining Petrofac's low-carbon service offering and decarbonisation strategies. Further development of our low-carbon services is planned for 2023, with the aim to highlight to clients in the pre-tender phase the range of opportunities available to them to decarbonise, and Petrofac's capabilities to support these initiatives.

In addition, we are updating our Net Zero strategy and programme, incorporating all elements into a Net Zero transition plan aligned to the UK Transition Plan Taskforce (TPT) Framework.

DISCLOSURE LOCATION **Page 35**

Impact on our offices

Purchased energy emissions comprise 4% of our total carbon footprint. Our target is to progressively transition to 20% renewable energy by 2030 and we are pursuing opportunities to switch to renewable energy across the Group.

Most of our UK offices and facilities have already switched to renewable power, and we have transition plans in place for our other permanent offices globally.

Meanwhile, our Green Building Standard helps us to select and promote more sustainable premises and, through Energy Savings Opportunity Scheme assessments, our UK offices have improvement plans in place.

DISCLOSURE LOCATION **Pages 32-34**

IMPACT ON OPERATIONS

Our production operations account for 88% of our total carbon footprint, largely due to flaring, venting, fugitive emissions and fuel gas. Our aim is to deliver a 25% reduction in emissions by 2030 through operational improvements, gas shut-off and power generation changes. We are also targeting a 30% reduction in emissions intensity by 2030 from our construction operations through savings from energy efficiency and hybrid power generation initiatives.

DISCLOSURE LOCATION **Pages 32-34**

Impact on financial planning

The financial impact of climate-related risks and opportunities are periodically evaluated, principally over short to medium-term horizons and across different climate scenarios.

Allowances are incorporated into financial plans to mitigate risks and advance opportunities. Examples include:

- Additional financial contingency built into project and operational budgets to account for the increased frequency and severity of climate and its impact on weather-sensitive events.
- Periodic review of voluntary offset carbon markets, projected carbon prices and development of a carbon offset strategy to mitigate pricing and offset quality risks.
- Contractual provisions to mitigate the risk of evolving climate legislation, such as the EU Carbon Border Adjustment Mechanism, which was evaluated against the projected steel imports for a range of EU based projects under tender, and contractual clauses implemented to mitigate potential supply chain cost impacts.

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Strategy

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning continued

Impact on financial performance and liabilities

The acceleration of investment in new energies is expected to have exceeded US$1.4 trillion in 2022, including strong growth in offshore wind, carbon capture usage and storage (CCUS), hydrogen, and waste-to-value projects. In each of these, we have evaluated the addressable market of opportunities (total US$10.9 billion) and carry a positive revenue impact of at least US$1 billion to our mid term financial performance.

We also continually monitor the financial impacts and liabilities of a range of climate-related risks ranging from the policy framework necessary to support our growth in new energies to carbon pricing and fossil fuel policies that could impact the operating costs of our producing assets (PM304). At present, while these risks are evolving, they are not yet at a threshold to be considered material (i.e. US$10 million impact to net income).

DISCLOSURE LOCATION **Pages 17-19; 82** Disclosure level: **Full**

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Embedding climate into scenario analysis

We believe our strategy and targets are resilient to a range of energy transition pathways (based on IEA scenarios) and are aligned to the outcomes of COP27, the climate commitments of respective governments, and the drive for emissions reductions which will continue to be a key priority in all markets.

In 2022 we started to systematically integrate the potential outcomes of different climate scenarios into our strategy and financial planning process to ensure our capital allocation was appropriately aligned with the energy transition and the evolving risks and opportunities. This included a review of climate-related issues undertaken by each business unit CFO as part of the annual financial planning process.

Our analysis and that of others, including the IEA, have shown that across a range of climate scenarios; from a rapidly decarbonising world (our Paris-aligned 1.5°C Net Zero scenario) to one where only current policy targets are realised (our high carbon future), the demand by clients for our services across both traditional O&G and new energies (such as wind, CCUS, hydrogen, etc) remains resilient.

Overall, this analysis reinforced our confidence in the resilience of our strategy to a wide range of transition scenarios and its long-term viability.

DISCLOSURE LOCATION **Pages 16-19**

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario continued

How we factor in evolving government policy

We regularly engage with policymakers, contributing to their public consultation programmes, offering our expertise, and incorporating evolving developments into our strategy and scenario planning. We engage on a regular basis with UK and Scottish government departments, particularly the Department of Business, Energy, and Industrial Strategy (BEIS) and the Department of International Trade (DIT).

In 2022 at COP27, we engaged with the DIT Egypt and Africa teams at various levels exploring opportunities to support the DIT in the MENA region and advance Petrofac's new energies strategy.

DISCLOSURE LOCATION **Page 23**

How we collaborate with industry to build resilience

We believe substantive input from industry and other stakeholder organisations leads to better outcomes on evolving policy, practice, and standards.

In 2022 we undertook and supported a variety of collaborative initiatives as members of various industry trade bodies, such as Offshore Energies UK, Renewable UK and the Energy Industries Council, and organisations specific to the new low-carbon technologies, such as Global CCUS, Wind Europe, NECCUS, the Hydrogen Fuel Cell Association, and the Hydrogen Strategy Now campaign.

We have also created alliances with several technology providers and developers across our new energies strategic priority areas, as well as the Hitachi Energy partnership in offshore wind, to best position the Group to advance opportunities in these sectors.

Examples of our engagement included:

- Our partnership with the Oman Hydrogen Centre (OHC), who we are collaborating with in building capabilities for Oman's renewable energy sector, particularly in green hydrogen.
- Our delegation at COP27, enhancing collaborative partnerships with a range of traditional and new energy stakeholders focused on scaling up decarbonisation and climate resilience.

DISCLOSURE LOCATION **Page 23**

Environmental, Social and Governance continued

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Strategy

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario continued

Ensuring continued relevance of our strategies

As the world adjusts to an unprecedented energy crisis and macro-economic slow-down, and our clients seek to find the best long-term balance between energy security, affordability, and sustainability. Our growth strategy is continually recalibrated to the near-term exigencies of energy security and affordability, maximising current production with the lowest carbon footprint from our producing assets and targeting opportunities within our traditional O&G and offshore wind markets. While in the mid to long-term, accelerating decarbonisation and the transition to a low carbon energy sector through CCUS, hydrogen and waste-to-value growth strategies.

Evolving changes to global climate change strategy or decarbonisation milestones are continuously monitored by the Net Zero Steering Group and the TCFD Working Group.

As part of our governance processes our strategy is validated annually by the Board to ensure it remains relevant and resilient. As our approach matures, we will look to begin incorporating greater financial quantification and internal assurance into our climate risk analysis.

DISCLOSURE LOCATION **Pages 76-77**

How climate resilience builds future viability

Recognising the potential of the transition to occur faster or slower than anticipated and on different pathways, we retain flexibility in our allocation of capital and resources, to ensure these are aligned to the evolving climate risks and opportunities.

In FY2022, we regularly reviewed our strategic focus and right-sized resources to ensure we did not miss investment opportunities due to a lag in our capability development and service offering. While also calibrating the speed and development of our low carbon services to better align to opportunities, client requirements, and the enabling policy frameworks that support the low carbon transition. This resulted in structural changes such as the development of our 1tec delivery model, as well as downsizing to parts of our business.

We have also had to retain flexibility in our net-zero strategy, as lower-than-expected order intake has limited the new opportunities to deploy decarbonisation at scale, curtailing our transition to a lower carbon business. In addition, decarbonisation inertia in critical parts of our supply chain (eg. steel products) has impacted our low carbon delivery strategy.

We are committed to integrating climate risk and opportunity capture into the Company's growth strategy and management processes. Progressing this dual strategy of decarbonising our operations while leveraging low-carbon growth opportunities 'future-proofs' the organisation as the energy sector transitions.

DISCLOSURE LOCATION **Pages 94-96**

Disclosure level: **Partial**

Disclosures regarding the resilience of our strategy in each of the warming scenarios will be further enhanced in 2023.

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Risk management

a) Describe the organization's processes for identifying and assessing climate related risks continued

Process

Our risk management framework provides us with a consistent approach to identify, manage and oversee the risks that may impact our business. The scope and size of issues considered is aligned to TCFD guidance and follows Petrofac's Enterprise Risk Management process. This effective risk analysis and response underpins our ability to achieve our objectives and assess opportunities as our business evolves.

In 2022, in addition to risk and opportunity meetings with key functions, the following climate-related issues were incorporated into our business and financial planning process through briefing sessions on focus areas for consideration:

Function	Focus area
Risk, Finance and Tax	**Markets, Products & Services** – impacts on access to, and cost of capital, potential impacts of carbon taxes, opportunities to access green finance or ESG financial instruments **Physical risks** – impact on availability and cost of insurance
Strategy and Business Development	**Markets, Products & Services** – shifts in supply and demand for energy services **Technology** – risks/opportunities of low-carbon economy
Communications & Investor Relations	**Reputation** – evolving stakeholder perceptions of fossil fuels and changing social norms **Markets** – changing investor sentiments and impact/ opportunities for liquidity, investor confidence, share price
Projects legal	**Current & Emerging Regulations** – transition risks and opportunities of the evolving climate policy landscape
Projects supply chain	**Market** – shifts in the availability, vulnerability and cost of critical commodities and services
Projects HSSEIA operations	**Physical Risk** – acute/chronic risks to people and assets **Current & Emerging Regulations** – transition risks of evolving policy landscape and impact on operating costs, licence access, etc. **Resource Efficiency** – availability, vulnerability and cost of critical commodities and services
Legal	**Legal** – climate-related litigation and enforcement action risks

We continue to integrate climate risk into the supporting policies, processes, and controls for our key climate risks, and intend to update these as our climate risk management capabilities mature over time.

DISCLOSURE LOCATION Pages 76-77

Disclosure level: **Full**

b) Describe the organisation's processes for managing climate-related risks

Process

Our risk management framework provides us with a consistent approach to identify, manage, and oversee climate-related risks that may impact our business and is designed to underpin the Group's longer-term sustainability (for further details see the Risk management section of this Strategic report).

As part of our business planning process, we review the Group's principal risks and uncertainties quarterly. Energy transition risks are captured within the principal risk 'Failure to deliver New Energy Services (NES) strategy' and covers various aspects of how risks associated with the energy transition could manifest.

In addition to our established risk management processes, a climate risk and opportunity programme was progressed, with meetings held with the key functional teams to:

- identify material impacts and opportunities (transition and physical)
- assess financial impacts (qualitative assessment of range, with materiality threshold > USD10m impact on net income)
- recommend actions for risk management and opportunity capture

The scope of risks and opportunities were considered across three parts of our value chain:

- Upstream: activities, products and services that are inputs to our business sourced from third parties, such as the regulations and policies applied by governments and the products and services provided by our supply chain.
- Direct operations: the day to day activities to deliver the projects/ services to our clients.
- Downstream: the third parties benefiting from the outputs, products and services of our business activities.

DISCLOSURE LOCATION Page 82

Environmental, Social and Governance continued

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Risk management

b) Describe the organisation's processes for managing climate-related risks continued

Process continued

Risks were viewed over short, medium and long term time horizons, with likelihood of occurrence assessed as:

Probable: > 50% chance of occurrence

- Possible: 15-50% chance of occurrence
- Unlikely: 5-15% chance of occurrence
- Rare: <5% chance of occurrence

Similarly, physical climate-related risks such as extreme weather are covered in our principal risks related to HSE incidents.

Identified risks are prioritised in terms of their materiality, enabling decisions on the adequacy of our controls and the most appropriate and cost-effective response calibrated to the risk appetite of the Group. Ownership of risks falls within the responsibility of each function, with the TCFD Steering Group supporting the monitoring and close-out of actions.

DISCLOSURE LOCATION **Page 84**

Disclosure level: **Full**

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management framework

Implemented risk management

Transition and physical climate-related risks are identified, assessed, and managed across the Group, addressing issues such as evolving policy, threat of legal action, market changes, reputational issues, and extreme weather.

Risks and opportunities are integrated into the overall risk management framework through their contribution to and /or impact on principal risks and sub risks, for example; how failure to deliver on our Net Zero commitments may impact our NES strategy. Further examples include:

- Policy risks – government consultation and advocacy strategy that supports appropriate climate action while providing stability for business.
- Market risks – the new energies business line was created in 2021 to build capability to advance the Company's position within the energy sector's transition. We have since established a medium-term revenue target at least US$1 billion.
- Disruptive events – such as Russia's invasion of Ukraine are also considered as they are likely to complicate the transition's path. Slowing near-term decarbonisation due to the exigencies of energy supply, though potentially accelerating decarbonisation pathways in the longer term through the need to boost energy-efficiency measures and adopt renewable-energy alternatives to fossil fuels.
- Capability and resourcing risks – Petrofac recognises that, to advance our business as the energy sector transitions, we will need new skills and capabilities. To enable this a Workforce Reskilling Taskforce was set up to bring together colleagues who can help develop solutions to enable the upskilling of our workforce in line with our energy transition strategy and the UK Government's objectives set out in the North Sea Transition Deal.
- Production risks – to reduce our flaring and fugitive emissions, gas management plans have been implemented. Developments in 2022 include a 36% reduction in flaring intensity at our production asset in Malaysia, and the switch from diesel to gas generation, utilising gas which would otherwise have been flared.

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Risk management

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management framework continued

Implemented risk management continued

- Fines or other regulatory penalties – whilst difficult to predict how these might crystalise, the base case cost contingencies and downside adjustments aim to capture any exposure here as well as other legal/regulatory risks on other aspects of the business. We undertake a periodic review of the voluntary carbon offset market to have visibility of future offset costs and on current assessment.
- Extreme weather – in the base case, our business budgets are formulated using industry knowledge of operating in extreme weather conditions (e.g. North Sea storms, Malaysian monsoons, desert climates, etc.) and contingencies are included accordingly, whether by way of cost or scheduling contingencies or both. In the downside scenario, the business has captured the risk of further downside within the scheduling delays and cost overruns in E&C, margin reduction in Asset Solutions and production downside in IES.

DISCLOSURE LOCATION **Pages 20-23; 76-77; 82-84** Disclosure level: **Full**

Metrics and targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

Our business performance

Petrofac sets KPI targets for business performance and delivery of our strategy and assesses progress against these benchmarks on a regular basis.

DISCLOSURE LOCATION **Pages 26-27**

Price assumptions

A range of probable price scenarios are selected for carbon offset calculations and the voluntary offset market is monitored to inform our future offset strategy.

The BloombergNEF Long-Term Carbon Offset Outlook is used as a primary indicator of the evolving prices of offsets input into future offset price assumptions to account for the cost of achieving Net Zero.

ESG metrics

Our ESG strategy is guided by a full set of related KPIs which are included in the ESG strategic sections of this report. The key climate-related metrics are outlined. Performance is reported periodically to the Executive team and the Board through monthly and bi-monthly metrics and regular presentation of related technical and strategic papers:

DISCLOSURE LOCATION **Page 31**

Goal	KPI	Target (by year end 2022)
Low carbon offering to be included in bids/tenders	% of bids including a low carbon offering	75%
Accelerate transition to renewable energy	% of purchased electricity from renewable sources	>18%
Progress site decarbonisation by energy efficiency & emission reduction initiatives	**PROJECTS** GHG intensity reduction ($ktCO_2e$/million hrs) – Scope 1 & 2	3% reduction annually
Process office energy efficiency	**OFFICES** Energy intensity reduction (consumption/million hrs)	3% reduction annually
Effective supply chain decarbonisation	Baseline inventory/decarbonisation plans for top 5 carbon intensive goods/services	Incorporate low carbon into supply chain prequalification process
Eliminate or reduce the use of Single Use Plastics	% reduction vs 2021 Baseline	Eliminate 100% (Offices) Reduce by 10% (Sites)

Task Force on Climate-related Financial Disclosures continued

RECOMMENDATION RESPONSE

Metrics and targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process continued

Board and senior management incentives

Through our incentives programme we continue to embed a net-zero mindset and ownership of our climate response and new energies performance across the Board and Executive leadership.

Targets are set by the Remuneration Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic climate response and new energies objectives for the year (further detail is provided in the Remuneration Committee section of this report).

The reward structure is aligned to our risk management framework and the delivery of critical long-term strategic goals. For FY2022, these goals included:

- Promoting sustainability – greenhouse gas intensity reduction
- Energy transition – revenue from new energies

Line management ownership of our climate response and advance our energy transition strategy is also promoted through a broader range of business and project-specific KPIs in senior management goal plans, that in addition to the above also include: progress with site decarbonisation, Carbon Disclosure Project CDP rating score, new energies business and capability development, and TCFD recommendations compliance.

DISCLOSURE LOCATION **Pages 25-27; 31** Disclosure level: **Partial**

b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks

Our own operations

We report scope 1 and 2 greenhouse gas emissions resulting from our operations and each year submit to the Carbon Disclosure Project (CDP), this data is included in the Environmental section of this report. We also calculate our carbon footprint and energy consumption in accordance with the new UK Streamlined Energy and Carbon Reporting regulations, and our data is assured[1].

DISCLOSURE LOCATION **Pages 32-34**

Our value chain

We recognise that the emissions from our value chain are a material part of our carbon footprint and, in 2022, we extended our Scope 3 programme to better understand the related decarbonisation challenges and opportunities.

The assessment of scope 3 emissions is included in the Environmental section of this report with an explanation of category selection. In 2022 we, for the first time, use sold products, which gives us a more holistic understanding of the true GHG impact of our business and its operations.

DISCLOSURE LOCATION **Page 35** Disclosure level: **Full**

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Sustainability Net Zero targets

In 2020 we committed to transition to a lower carbon business. To this end, we aim to reach Net Zero in our Scope 1 and 2 emissions by 2030 and are promoting decarbonisation across our supply chain. 2020 is our base year against which our Net Zero (and Interim Targets) are measured from.

Targets cover our main decarbonisation levers and include:

- Energy supply changes – progressively transition to 20% renewable energy by 2023, and 50% by 2030.
- Energy efficiencies – 30% energy consumption saving by 2030.
- Emissions reduction – Our aim is to deliver a 25% reduction in emissions by 2030.

DISCLOSURE LOCATION **Pages 32-34** Disclosure level: **Partial**

Further metrics will be developed as our climate response programme and disclosure matures in 2023.

1 The assurance was conducted in line with the requirements of the AA1000 Assurance Standard v3 (2020). The Type 2 moderate level of assurance process was applied. Type 2 Assurance: an engagement in which the assurance provider gives findings and conclusions on the principles of Inclusivity, Materiality, Impact and Responsiveness, and verifies the reliability of specified sustainability performance information. Moderate level of assurance: Implies assurance provided based on the 'limited' evidence which is compiled from internal sources and parties.

Social

Links to the SDGs

Why it is important to our business model and strategy

As a service business, it is our people, their attitude and skills who set us apart from our competitors. We are therefore committed to building a diverse workforce, which is representative of the communities in which we operate, while developing all our people, keeping them safe, and looking out for their wellbeing.

Wherever the Company operates, we are committed to creating shared value, by engaging with local communities, investing in local supply chains, employing local people, and stimulating local economies. As well as being the right thing to do, we see the creation of in-country value (ICV) as a source of competitive advantage, helping us to build strong client relationships and bid on challenging projects, while benefiting from the economies of delivering locally.

We operate in challenging environments, where the rights and welfare of workers can sometimes be at risk. We are committed to protecting human rights throughout our business operations and extended supply chain, ensuring that everyone who works with and for us are treated with respect, fairness, and dignity.

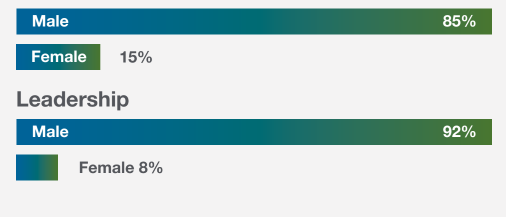
We have set a target of 30% of women in senior management roles by 2025

Zero workplace-related fatalities in 2022

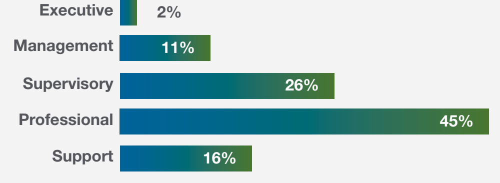
Purchased US$345 million worth of goods and services locally

Our performance

Gender profile of our people (%)



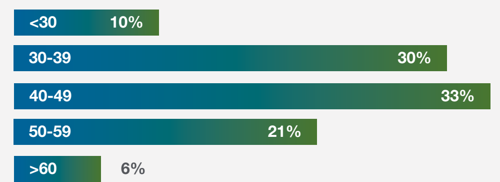
Grade profile of our people (%)



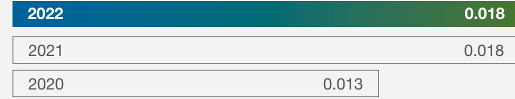
Recordable incident frequency rate (%)

Year	Rate
2022	0.094
2021	0.091
2020	0.065

Age profile of our people (%)



Lost time injury frequency rate (%)



Spend on local goods and services[1] (%)

Year	Spend
2022	32%
2021	54%
2020	53%

1 Non-JV Projects

Environmental, Social and Governance continued

Health, safety and security

Whatever their role and wherever they work, we want everyone involved with Petrofac to feel safe, valued, and cared for. Ultimately, our aim is for zero safety incidents, which we see as an entirely realistic goal.

Our overall safety record is among the strongest in the industry and, having emerged from two challenging years dominated by the Covid-19 pandemic, 2022 brought a sustained safety performance across our global operations. The emphasis for the year was to implement our refreshed health, safety, and environment (HSE) strategy, ensuring that the same uncompromising safety culture exists across the entire Group, and the same impeccable standards are applied on every site. As the Group returns to growth, we expect that this commitment will help us to improve on an already strong safety performance, and attention to the wellbeing of employees will be a characteristic of the Petrofac culture.

HEALTH AND SAFETY

A focus for 2022 was the roll-out of a refreshed HSE strategy, which is based around five pillars:

1. **Leadership**: the shadow you cast
2. **Employee engagement**: greater engagement, fewer incidents
3. **Contractor management**: consistency and performance driven
4. **Training**: formalise, simplify, and standardise, with a refreshed learner experience
5. **Compliance:** do it right, first time

The major themes of the strategy include:

- Data-2-Decisions – using data and analytics from key leading and lagging indicators to define areas of focus and reduce incidents
- Technology enabled – extensive use of mobile technology to increase situational awareness
- Engagement and communication – engaging, insightful, focused and even fun
- Proactive vs. reactive – observations and interventions before an incident occurs
- Accountability – the joint ownership of HSE performance by line management and the HSE function

This began to deliver an improvement on an already strong performance, along with a re-energised approach towards health and safety.

Reflecting on our 2022 performance

Across our main performance indicators, we were pleased to deliver another strong safety performance across the organisation:

- Zero workplace-related fatalities
- Lost time injury (LTI) frequency rate – remained unchanged at 0.018 per 200,000 work hours, compared to an industry average of 0.044 (International Association of Oil and Gas Producers 2021)
- Recordable incident frequency rate – slightly increased to 0.094 per 200,000 work hours, compared to an industry average of 0.15 (International Association of Oil and Gas Producers 2021)

As well as seeing a reduction in the number and frequency of workplace injuries, there was also a decrease in their severity, with the majority of incidents being classed as minor – typically involving cuts, scrapes, trips and falls.

Preventing serious injuries and ensuring the workplace remains fatality-free remains our number one priority. Driving continues to be an area of exposure. Along with our contractors, our people drive the equivalent of five times around the world each year, often in challenging environments and, in 2022, the total was 59,498,520 km. We therefore stepped up our programme of road safety initiatives, including a total ban on night-time driving for everyone who works for or with our project sites.

Making leadership more visible

With many pandemic-related travel restrictions drawing to a close, it became easier for our leadership teams to demonstrate the Petrofac HSE ethos. With regular site visits from HSE leaders and the Executive team, and daily walkarounds by project leaders, there was a clear and visible commitment to HSE on all of our projects. Our sustained strong set of results in 2022 is testament to us avoiding any lingering effects from the Covid-19 pandemic on our safety performance.

Increasing employee engagement and communication

To deliver on our HSE ambitions, we want the topic to be forever top of mind among the entire workforce. To ensure that our people are proactively and routinely engaged in health and safety, we introduced a number of digital and mobile tools. For example:

- **HSE dashboards** – all employees are given access, via their mobile phones, to real-time safety performance, which is available at the project, country, and business unit level. This helps us to raise awareness of our safety performance, demonstrate that everyone at every level is accountable, and keep the entire organisation focused on improving performance.
- **HSE observation reporting tool** – a mobile app, available to all employees, enabling them to report any safety observations, both good and bad, via their mobile phones. In 2022, we saw a 470% increase in the reporting of safety observations, with over 140,000 observations reported. This new app helps us to keep employees engaged, as well as providing useful insights and leading indicators of potential issues.
- **HSE social networking** – we use the Yammer platform to host an HSE social networking dialogue, which involves everyone in the HSE team and is open to anyone in the Company. With more than 350 active members, this is the second most active such group in Petrofac.
- **Driving improvement app** – we replaced many of our in-vehicle monitoring systems with a mobile app, available to all employees. As well as keeping track of their driving behaviour, allocating a score, and providing personalised road safety advice, it enables everyone to see how their driving performance compares to their colleagues.

Keeping a focus on health and wellbeing

One of the dividends of the pandemic was an increased focus on employee wellbeing, and this was stepped up further in 2022. We delivered several all-employee health webinars and internal campaigns covering both physical and mental health, which generated high levels of engagement across all of our offices and project sites globally. The webinars included sessions on: Eat Healthy Stay Healthy, Positive Mental Health Practices, Ramadan Health, Heart Health, Mental Health Awareness, and Breast Cancer. Meanwhile, the internal campaigns included: Cut the Sugar Challenge, Sharjah Family Health Day, World Happiness Day, Health and Safety Day stretching programme, Heat Stress, a blood donation campaign, and a flu awareness campaign.

In addition, our Company Doctor runs an online Wellness Wednesday programme for all employees. A campaign was launched to ensure that all our onsite employees have a regular medical examination, and everyone is encouraged to participate in exercise and fitness sessions, such as yoga and cycling.

We also extended our mental health awareness initiatives. After successfully piloting our approach in the UK, we rolled the initiative out in Sharjah, where 24 newly trained Mental Health First Aiders helped us to draw attention to mental health issues and reduce the stigma that traditionally surrounded them. By having dedicated and knowledgeable people to talk to, our employees can feel safe discussing their concerns and experiences. The aim is that any emerging issues can be addressed and resolved before they become severe.

Improving situational awareness and increasing employee engagement remain key deliverables of our HSE strategy. We are delighted to have delivered a year free of work-related fatalities in 2022.”

JIM ANDREWS
Group Head HSE & Quality

Environmental, Social and Governance continued

HEALTH AND SAFETY

Awareness

PetrofacGo Observation App

- A new digital tool
- Increases awareness
- 11,957 observations within the first eight months
- Engages more employees

Right across Petrofac, we have been introducing mobile and digital technologies to help us work better, faster, and smarter.

Through our award-winning platforms, like Petrolytics and Connected Worker, we have digitalised our services, saving clients time and money. With our new Emissions Dashboard we have increased the visibility of environmental factors and brought them into the day-to-day decision process of our clients. We have also been using mobile and digital solutions to improve our internal operations and achieve our strategic focus on best-in-class delivery.

Whatever their role and wherever they work, we want everyone involved with Petrofac to feel safe, valued, and cared for – and that means we put a big emphasis on all HSEQ topics.

We already have a strong safety culture, we perform well ahead of industry norms, and we are determined that Petrofac should be among the safest places to work in any industry or region.

We therefore want HSE to always be top-of-mind for everyone. To this end, in 2022, we introduced a new PetrofacGo Observation App, asking every employee to download it to their mobile devices, and share at least two HSE-related observations with the Company every month.

The observations can be good or bad – good hygiene behaviour, for example, or a trip hazard in an office. Either way, they help us to keep employees engaged, celebrate a strong safety culture, and give us early warning of potential issues."

LYNN HOBBALLAH
Global Head of Health and Safety

Evolving our HSE training programmes

We renewed our commitment to HSE training, with an emphasis on engaging and interactive training techniques, as well as continuing professional development. During 2022, 12 of our HSE team members enrolled in the National Examination Board in Occupational Safety and Health (NEBOSH) General Certificate programme, and more than 50 employees became certified mental health trainers.

Setting out our 2023 priorities

For 2023, we will continue to embed our five-pillared HSE strategy and, with a busy bidding pipeline, we will put renewed emphasis on project start-up preparations. We will be implementing Start Strong campaigns on all new E&C projects, which set the tone and ensure that a strong safety culture is established from the outset. Given that the majority of onsite personnel are not directly employed by Petrofac, we will also focus on contractor management, including Contractor Safety Forums at all new projects and Safety Hotspot training for their respective employees.

SECURITY AND CRISIS MANAGEMENT

Remaining responsive to a fast-changing security environment

Petrofac works in challenging environments with fast-changing security issues. Our aim is to protect our employees and assets in a responsible manner, and to prevent any security-related disruption.

Our security and crisis management teams are closely integrated into the wider HSE community. Our Security and Crisis Management Policies set out the responsibilities of our senior management team and our business units.

Refreshing and renewing

In the wake of the Covid-19 pandemic, and in response to the changing geopolitical situation, the Security and Crisis Management function continued to review approaches in our existing projects and incorporate the lessons learnt around digital and remote working technologies.

We also took on board valuable lessons learnt during the pandemic. Our traditional three-tier crisis management system was evolved into a fully digital platform, bringing new efficiencies, and reducing the burden on any teams working in a crisis situation.

Looking ahead to 2023

The focus for 2023 is to support teams working in new and potentially challenging geographies, such as the recent contract awards in Africa and Gulf of Mexico. Given the healthy bidding pipeline, we also expect to support an increase in project delivery in our traditional core markets.

CYBER-SECURITY AND DATA PROTECTION

Remaining vigilant and bringing incremental improvements

Given the rapidly evolving cyber-security risks, and to support Petrofac's wider digitalisation initiatives, cyber-security and data protection continued to be an area of focus.

Increasingly, our cyber-security disciplines and protections are audited by clients and regulatory bodies, and in all cases, we met or exceeded their requirements.

During 2022, in response to the increased complexity and frequency of cyber-attacks across the commercial world, we re-evaluated our controls, particularly those related to our cloud-based platforms and applications, and continued to monitor and address any supply chain risks. Meanwhile, we continued to align our information security management practice with the ISO27001 standard and other best practices.

Related initiatives included:

- Enhancing our internal awareness programmes, with particular attention on the risks posed by phishing and social engineering, drawing attention to the increased sophistication of such attacks, while also running simulation tests and enhancing our related controls
- Continuing to enhance our threat detection and threat-hunting capabilities
- Continuing the assessment of cyber-security risks with regular vulnerability assessments, penetration tests and Red Team exercises

Meanwhile, cyber-security remained a key priority in all our digitalisation initiatives, and we ensure that appropriate security protection is embedded from the initial idea and conceptual phases.

Environmental, Social and Governance continued

QUALITY AND ASSET INTEGRITY

An important part of the ethos at Petrofac is to ensure that we operate predictably and efficiently, and the energy facilities we design, build, and operate are inherently operable and safe and they meet or exceed their operational purpose. A disciplined approach to both quality and asset integrity are therefore embedded into the way we work.

QUALITY

At Petrofac, our quality strategy responds to the rapidly changing operating environment we work in. We apply a disciplined and consistent approach to quality management and aim for continual improvement. In addition to the Petrofac values, our Quality team focuses on three additional values: to be consistent, client-focused, and diligent in the work they perform.

Beyond compliance

Since it was first established in 1995, our robust Quality Management System and ISO9001 certification has helped us to build long-standing client relationships. It also reflects our ability to provide a quality of service that meets customer expectations as well as regulatory requirements.

Looking ahead to 2023

In 2023, we will refresh our quality strategy to focus more on issue prevention, to become even faster on issue resolution at the times we encounter defects, and to drive continuous improvement within our project delivery.

Initiatives planned for the year include: to design a new, best-in-class, Group-wide lessons learnt platform; to establish a Global Management System; to improve our inspections processes; and to further reduce our projects' costs by improving our processes.

ASSET INTEGRITY

We generally work with high-hazard facilities. Maintaining the right mindset, backed up by disciplined processes and controls, is therefore critical to our success – as well as the safety of our people and our clients.

In 2022, the Group was responsible for managing and ensuring the integrity of 14 operating assets as the Installation Operator, as well as seven separate portfolios of wells as the Well Operator.

In 2022, a significant recognition of our capability in managing high-hazard assets was the award by the Australian Government's Department of Industry, Science, Energy and Resources for the contract to take over operatorship of the Northern Endeavour FPSO. This involves the safe and environmentally sound decommissioning and removal of the FPSO and its associated infrastructure.

Meanwhile, in the UK North Sea, we worked to enable the operation of the Anasuria FPSO to be taken over by its new owner, the Anasuria Operating Company. We are providing the necessary people and processes as part of a new five-year Integrated Services Provider contract.

We also embarked on new decommissioning operations in the Gulf of Mexico. Here, our expertise in safely managing assets, especially late-life assets, will enable us to make safe nine offshore platforms and 200 wells as part of their decommissioning.

Our asset integrity work also informs our wider operations, including our approach to designing, building, commissioning, and completing projects. With a renewed demand among clients for integrated service offerings, our asset integrity expertise positions Petrofac to provide more managed integrity services.

Reflecting on our 2022 performance

In evaluating our asset integrity performance, our main area of focus is managing process safety hazards, reducing high-potential incidents (HiPos) and those incidents that involve process safety procedures.

In 2022, as in 2021, we had no HiPos that could have had escalating, process safety-related outcomes. However, we did conduct a small number of serious investigations into possible precursors of a failure to follow asset integrity procedures.

Getting value from our suite of digital tools

As with other areas of the HSE function and the wider business, we extended our use of digital tools during 2022. These help us to maintain our leadership commitment to asset integrity, engage more of our people with the value created, refine and simplify our asset integrity KPIs, and extend the learnings from our regular programme of investigations and audits.

These included:

- **Asset integrity dashboard** – we continued to develop this KPI monitoring tool to enable clearer focus on cumulative asset integrity risks.
- **Remote asset integrity reviews** – while the end of Covid-19 restrictions enabled a return to physical site reviews we adopted a blended approach, continuing to conduct part of the review remotely. This employs remote methodology using digital records, video conferencing and real-time camera tours of sites that have sufficient connectivity.
- **Connected Worker** – digital workflows were developed for key process safety processes using our Connected Worker technologies. This enabled us to streamline the execution of processes as well as the way they are monitored by supervisory teams.

Going forward, and enabled by meaningful real-time data, these tools will enable us to target our assurance activities more efficiently, based on an accurate and up-to-date understanding of the true condition of each asset.

People

From the people perspective, 2022 was a busy year for Petrofac.

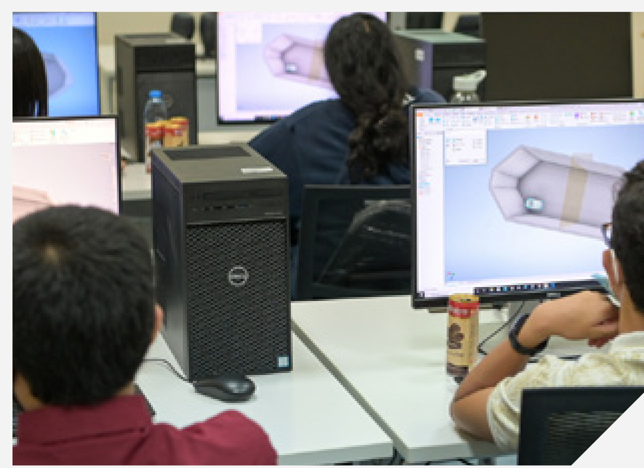
A return to higher oil prices resulted in a much tighter labour market across the global energy industry and, given the quality of our teams, we had to work hard to retain talent, and ensure that our people feel engaged and appreciated. Meanwhile, as we prepare for growth, we introduced several new talent acquisition initiatives and externally hired more than 2,300 people in a very competitive labour market.

- Voluntary attrition levels were higher than we would have liked, at 14.3%. Overall, employment levels fell to 7,950 people, representing a 3% decrease on 2021.

Preparing the Group for sustained growth

One of Petrofac's key strategic themes is to return to growth and, given the increase in bidding activity throughout 2022, we introduced several new talent acquisition initiatives, such as:

- **Appointing a new Head of Global Talent Acquisition**
  We appointed our first Global Head of Talent Acquisition. With overall responsibility for all recruitment at Petrofac, she is charged with improving the candidate experience, enhancing the employee value proposition, improving our recruitment-related social media activity, and building our employer brand.
- **Adding a new careers portal to petrofac.com**
  To support our talent acquisition drive, we introduced a new careers portal to petrofac.com. This helps us demonstrate that, besides offering rewarding work and good career prospects, Petrofac is a people-based business that cares deeply about personal and professional development, has a culture that embraces diversity, and is a leader in safeguarding the safety and wellbeing of our people.
- **Reflecting the communities in which we operate**
  Another Petrofac characteristic is our local delivery model. We want our teams to be representative of the communities in which we operate, and the recruitment of local nationals was an important theme of our 2022 recruitment activity. We hired 39 Omanis, taking us to an all-time high of 259 Omani employees. We also hired 16 Emirati nationals taking us to a total of 68 Emiratis by year end. Several local team members were also hired to support our operations in Algeria, Libya, Lithuania, and Thailand.
- **Welcoming former employees back to Petrofac**
  One of our most successful recruitment initiatives was to proactively contact many of our former employees and encourage them to return to Petrofac – which is something that around 200 people chose to do (see page 57).
- **Helping engineers overcome career break bias**
  We formed a partnership with the UK-based scheme, STEM Returners, to help engineers get back into work after a career break. The aim is to source people with skills across multiple engineering disciplines, offer them fully paid placements in our Aberdeen offices, and help them reintegrate into an inclusive work environment. As well as helping us to identify people with demonstrable skills and life experience, this scheme also helps us to promote diversity and inclusion.
- **Attracting and developing the next generation of engineers**
  Creating a new generation of talent is another priority for the Group. We restarted our UK-based graduate scheme, appointing around 20 newly qualified engineers, half of whom are women.



Environmental, Social and Governance continued

Making more progress on diversity and inclusion

In 2022, we further increased our focus on diversity and inclusion, building on past achievements, introducing new initiatives, and achieving recognition for our progress.

Although we have a long way to go, we are committed to being a more diverse company, which embraces differing perspectives, is representative of the communities in which we operate, and provides equal opportunities to all employees and job applicants.

Key developments and achievements include:

- **Achieving a better gender balance**
  Given the nature of our business and the location of many of our operations, achieving a better gender balance is a challenge.

  One focus is our senior management positions. In 2022, women accounted for 26% of our senior managers, up from 6% in 2018. We have a target to reach 30% of women in senior management by 2025.

  As well as building diversity from within, we mandate that at least one woman is included on the final interview shortlist for all external recruitment into middle and senior management roles. Since 2020, the proportion of women recruited externally into senior management roles has increased from 6% to 21% in 2022. As a result, we were able to appoint several highly qualified women to senior level positions in 2022, such as Group Head of Talent Acquisition, Group Head of Quality, and Group Head of Environment and Sustainability.

  Across the Group as a whole, the proportion of women employees increased from 8% in 2018 to 15% by the close of 2022 – which is a move in the right direction.

- **Giving voice to diverse viewpoints**
  To ensure that the Company hears and engages with a wider spectrum of viewpoints, we added to the number of global Employee Network Groups.

  In 2021, we established a Women's Group, called SHINE, which now has almost 400 members, and an LGBTQ+ Group, called Pride, with 80 members. Both are sponsored by an Executive team member, provide a safe space for under-represented groups to share experiences of working in the energy sector, offer mentoring opportunities, and host sessions to increase confidence and promote development.

  Both groups have been successful, as reflected by the fact that they won the Diversity & Inclusion Initiative of the Year category at the 2022 UK Engineering Construction Industry Training and Development Awards.

  Building on this experience, we introduced two new Employee Network Groups in 2022. One, called Aspire, is for young professionals, to help them build connections within the Group, exchange experiences, understand training and development programmes, and access mentoring opportunities. The second, called Engage, is for older workers, to help them explore how they may want their career to evolve, when and whether they may want to consider a phased move into retirement, how the Company can make better use of their experience, and the type of encouragement and mentoring they can offer to younger employees.

- **Supporting employees affected by menopause**
  In 2022, we signed up to the Menopause Workplace Pledge. This means that we are committed to taking positive action to support employees going through menopause.

- **Putting even more emphasis on Emiratisation**
  Active in the United Arab Emirates (UAE) for 30 years, Petrofac has major centres in Abu Dhabi and Sharjah which, together, are home to around 3,000 people. In line with our local delivery ethos, and the UAE Government's Emiratisation agenda, we are keen to employ more local nationals at every level of the organisation. However, with Emiratis making up just 10% of the total UAE population and occupying 1% of its private sector jobs, this can be a challenge.

  We are already an acknowledged leader – for example, the Ministry of Human Resources and Emiratisation recently ranked Petrofac as the best private sector company in the energy industry for Emiratisation, and third overall, just behind the Abu Dhabi National Oil Company and the Emirates National Oil Company. We also appointed our first ever Emiratisation Manager in 2022.

  This role will work closely with our Talent Acquisition team to source more local Emirati talent, and we now have our highest number of Emirati employees at 68. They will also work with our Emirati staff to provide coaching and mentoring, and discuss career development opportunities.

Embedding our new operating model

As part of the rebalancing and reshaping of Petrofac, a new operating model was established. As part of this, a single technical services and assurance function, called 1tec, was created, which brings together all of Petrofac's engineering knowledge, insights, and experience, and ensures they are applied to every project and assignment anywhere in the world.

A communications programme was launched to help embed the new ways of working, and explain how 1tec is set up to collaborate with colleagues from across the Group, and provide clients with consistent and predictable service.

Investing in training and development

We continued to evolve our training and professional development programmes, including our early career education initiatives, our Leadership Excellence Programme and our Petrofac Academy online distance learning programmes.

Highlights of the year included:

- **Welcoming back our second cohort of Master's graduates**
  In 2020, one of the ways we responded to the Covid-19 pandemic was to work with the American University of Beirut to sponsor a first-of-its-kind Master's programme

in Engineering Management. We offered talented young engineers the opportunity to join the programme, with Petrofac paying tuition fees and covering subsistence costs. The first cohort of 46 students graduated in 2021, with the second cohort graduating in 2022.

- **Participating in Oman's prestigious Etimad programme**
  Five of Petrofac's Omani female employees completed the 2022 Etimad National Leadership Programme. Aligned with Oman's Vision 2040 development programme, this prestigious country-wide initiative is intended to help transform the Sultanate into one of the world's most developed nations.

  In total, around 200 Omanis nationwide were selected to participate from across different sectors, such as technology, communications, transportation, logistics, construction, and energy. The three-month programme sharpens the leadership and supervisory skills of Omani nationals in middle and senior management positions working in the private sector.

Focusing on employee engagement

We have a number of mechanisms and programmes to support and monitor employee engagement, build on strengths and address concerns. For example:

- **Maintaining an open, two-way conversation**
  One of the ways we engage with and hold conversations with our workforce is our Petrofac Workforce Forum. Established in 2019, the Petrofac Workforce Forum (PWF) builds on the framework set out in the UK Corporate Governance Code. Meeting with the Board and the Executive team twice a year, the PWF comprises 12 employee representatives from across the Group.

  The PWF enables the Board and the Executive team to understand the mood of the workforce, better understand their ideas, concerns, and perspective, ascertain what it is about Petrofac that motivates and engages them, plus allows them to ask questions of the Board. 2022 marked the end of the three-year term of the first PWF representatives, and company-wide elections were held early in the year for the second term. It is seen as a successful initiative and has a high profile across the Group.

- **Keeping track of attitudes and opinions**
  Each year we ask our employees to participate in PetroVoices, our confidential employee engagement survey, run by an independent third party (Willis Towers Watson). In 2022, the participation rate increased from 65% to 67%, the Sustainable Engagement score increased from 84% to 86%. In fact, the scores for all ten main categories improved year-on-year.

  We are charging all senior leaders to produce action plans for the top three topics in their respective areas. These plans will be reviewed by the leadership team with a view to implementing improvements throughout 2023.

Recognising and rewarding our people

It is important to Petrofac that all our people are appropriately rewarded. Wherever we operate, we want to be seen as a good employer, offering competitive rates and conditions. Irrespective of their role, location, or seniority, we want all our people to enjoy dignified working conditions and a decent standard of living.

Recent initiatives include the introduction of a new recognition scheme, total reward statements for employees, and reduced working hours in the UAE. In 2022, 578 employees received a monetary recognition reward, and several additional changes came into force – such as enhanced healthcare benefits for employees in the UAE and improved Life Insurance packages for employees in India.

Meanwhile, in the UK, we followed through on a commitment we made in 2021 to pay at least the Real Living Wage to all employees. In 2022, we were therefore accredited by the Real Living Wage Foundation which, each year, calculates the hourly wage that a UK family needs to live on, based on the cost of a basket of household goods and services. This wage is considerably higher than statutory requirements. Importantly, the commitment extends to all UK-based employees and also covers indirect employees, such as temporary or agency staff, as well as any interns or placements.

Returning to the Petrofac fold

Given our plans for a return to growth, combined with the tight labour market and the intense competition for skills and experience across the energy sector, we need to be determined and creative with our talent acquisition approaches.

One initiative that was particularly successful in 2022 was to proactively contact a number of former employees and ask them whether they would consider a return to Petrofac.

Overwhelmed by the positive response, we welcomed more than 200 people back to the Company. We enjoyed particular success in our engineering hubs in India as we ramp-up for expected contract wins.

It's good for them, as they have been able to return to a working environment and a culture which, by definition, they liked and missed.

It's also good for the Company. After all, these are people we already know, and who already know the Company, its ethos, and systems, and can hit the ground running. And, having experienced the reality of leaving us and working for other companies in the sector, they tend to be very strong advocates of Petrofac among their fellow employees.

Environmental, Social and Governance continued

PEOPLE

Diversity

Employee Network Groups

- 4 groups now established
- A voice to under-represented groups
- Won a major award
- Providing a safe space

Petrofac is committed to building a diverse workforce, which is representative of the communities in which we operate. We have made some ambitious commitments to increasing equality, diversity, and inclusion (ED&I). One of the ways we have given a voice to diverse viewpoints is our Employee Network Groups.

We recognise that Petrofac works in an industry where women and members of LGBTQ+ groups are under-represented. So, when we set up our first two Employee Network Groups in 2021, we focused on women and our LGBTQ+ colleagues.

The aim was to provide safe spaces where people can network, problem-solve and mentor each other. The groups grew rapidly, with almost 400 people in SHINE, the women's group, and 80 in PRIDE, the LGBTQ+ group. They also led to tangible changes in the way we operate – like more support for people returning from maternity leave and the introduction of a new menopause policy.

In 2022, we won an Equality, Diversity & Inclusion Initiative of the Year award at the Engineering Construction Industry Training Board Awards. We also set up two additional groups – Engage, for people who are well-established in their career, and Aspire, for those in the early years of their career.

To ensure that Employee Network Groups are a forum for change, each one has a sponsor from the Executive team. They are expected to ensure that initiatives are supported and represented at the highest level. I think most people would agree that we've become a more open and empathetic company as a result."

ANNA DOUGLAS
Global Head of Diversity and Inclusion

Community engagement

Making a positive contribution to our local communities

Our local delivery model is a key differentiator for Petrofac and, wherever we work, our aim is for local communities to benefit from our presence. We therefore engage with local stakeholders to better understand and manage the social impacts of our business, address any concerns they may have about our work, and maximise the benefits we are able to bring to their communities.

Stakeholder engagement is one of the pillars of our Petrofac Social Performance Framework, which consists of our Social Performance Standards and a set of guidelines that enable us to meet the commitments set out in the Petrofac Code of Conduct, Petrofac Environmental Policy and Diversity and Inclusion Policy. The framework begins with social assessment, followed by community engagement, grievance management and social investment.

A disciplined approach to social investment

We have a formal social investment strategy and a set of guidelines to ensure our activities create value for both Petrofac and the recipients, are conducted in compliance with our Code of Conduct, and are subject to rigour and transparency.

These guidelines explain that our social investment initiatives should be aligned with three priorities:

1. Promote STEM education, and improve educational access and employability.
2. Contribute to community improvement, capacity building and disaster relief.
3. Support a just transition, as the energy sector evolves and reduces its carbon intensity.

Any initiatives that we support are subject to a formal due diligence and regular review process overseen by our Compliance teams. Following the launch of the updated guidelines in 2021, we began the process of embedding them across the business, including training for country managers and project managers, and this process will continue in 2023.

In 2022, as part of strengthening our wider HSE and Quality team, we created a new Sustainability Manager role. Having previously served Petrofac as Lead Civil and Structural Engineer, the new Sustainability manager has a good understanding of the inner workings of the Company and its sustainability impacts. One of her focus areas is social investment.

A round-up of our 2022 investments and initiatives

Apart from the dedicated Corporate and Social Responsibility representatives across our global operations, several of our employees – who are passionate about the environment and social issues – generously volunteer their time to help with our social investment activity. Initiatives from around the Petrofac world in 2022 include:

- **Algeria – supporting our local communities**
  Our Tinrhert project teams assisted the nearby village of Ohanet. They donated provisions for around 500 school children, such as school bags, books, and stationery, and sponsored an educational field trip to a local airstrip. Waste wood and other building materials were also donated to the local community to use in their homes and farms, for example as fencing.

  Demonstrating our commitment to inclusion, we also sponsored Algeria's National Wheelchair Basketball Association, which is seen as a leader in the sport and has won multiple national and international awards. The contribution is directed at promoting sports to young people with different abilities and challenges.
- **Australia – supporting community initiatives**
  With the scale of our Australian operations ramping up, we contributed to several community initiatives, including the Movember men's health campaign and the annual Salvation Army Christmas Appeal.
- **India – supporting women's education and employability**
  There is a regulatory requirement for us to spend at least a proportion of our net profit in India on social investments, equating to an investment of approximately US$145,000 in 2022.

Environmental, Social and Governance continued

We continued to work with local charities and contributed to several projects which provide support to schools for blind children, orphaned children, and those from underprivileged families. This included the provision of food, school supplies, bicycles, a new drinking water system, a solar power solution complete with streetlights, new toilet facilities, and other such upgrades.

Continuing our efforts to support STEM education, we provided training to around 2,000 11-to-18-year-olds in Mumbai's government schools, helping them to build skills in problem solving and IT. We also extended our support for the PanIIT Alumni Reach for India Foundation (PARFI), supporting a one-year manufacturing technician training programme for 27 young women from disadvantaged communities to prepare them for employment opportunities. In addition, we provided scholarships to several promising young adults enabling them to attend university.

Other initiatives included support for a range of environmental causes, including a forest plantation project, the refurbishment of a potable water source, conservation of honeybees, and the restoration of the grounds of a TB hospital.

- **Oman – investing in local facilities**
  We partnered with our client, OQ8, on social investment projects nearby to our Duqm project. This included a US$78,000 contribution, along with our JV partner Samsung, to an uplift initiative, which enabled the local community to construct a new venue for its traditional Friday market.

Petrofac hosted a two-day training workshop in December 2022 to upskill and develop 15 Omani young nationals considering a career in new energy industries, as part of our partnership with the Oman Hydrogen Centre. The aim is to support the Sultanate of Oman in building its capabilities in the renewable energy sector.

- **Thailand – being an active member of the local community**
  In the Ban Thung and Ban Ao-Udom communities, adjacent to our Thai Oil refinery project, several community relations and youth development projects were sponsored. PPE was also distributed as part of the area's Covid-19 defences.

  We supported several 'Big Cleaning' events, partnering with the community representatives to clean up neglected areas. Petrofac employees also regularly engaged with the local community by hosting cultural events during festivals and visiting families to donate gift hampers.

- **UAE – supporting STEM education and research**
  We continued to support STEM education at the American University of Sharjah through a formal Institutional Advancement Partnership. This included the support of several key events during the academic year, such as an alumni reunion dinner, an open day at the College of Engineering, and an environmental open day. We also helped the university to deliver a specialist boot camp course for aspiring engineering students – an Explore, Design and Build, Mechanical Engineering Boot Camp.

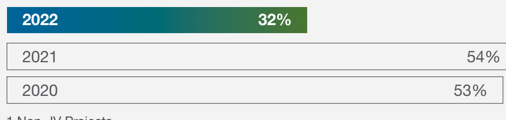
- **UK – demonstrating our commitments to diversity and wellbeing**
  Several of our UK community engagement initiatives demonstrated our commitment to diversity and wellbeing. We sponsored the Grampian Pride event, with members of our Pride Employee Network Group participating in the parade and running a stall. We also sponsored the Alba Development Road Team, Scotland's only elite all-female cycling team based in Aberdeen.

  Meanwhile, our Great Yarmouth office made a donation to the Trust STEM Hub, a project which aims to enhance the delivery of STEM education across the local area, and a donation to the East Anglia Air Ambulance service.

IN-COUNTRY VALUE

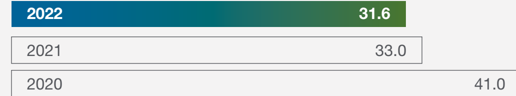
% Spend on local goods and services[1]

32% (US$345m)



1 Non-JV Projects

Key projects ('000)



Generating economic value in-country

Wherever Petrofac operates, we are committed to creating shared value by employing local people, supporting local supply chains, developing local capabilities, and stimulating local economies.

As well as being the right thing to do, we see the creation of in-country value (ICV) as a source of competitive advantage. It enables our local delivery model, helping us to bid on challenging projects, keep costs down, improve the quality and capability of local vendors and supply chains, and build stronger and enduring relationships with local stakeholders.

Alongside shareholder and client value, we regard ICV as one of the most important outcomes of our business model. We therefore aim to make a positive and measurable contribution to the economies in which we operate.

COMMUNITY ENGAGEMENT

Support

Partnership with the American University of Sharjah

- Promoting STEM education
- A focus on renewable energy
- Backing the Renewable Energy Research Center
- Delivering Mechanical Engineering Boot Camps

Given the nature of our business and the skills shortage across our sector, much of our community engagement and social investment activity promotes STEM education, and improves educational access and employability.

In several countries, such as Algeria and Oman, we operate national training centres, working with the energy industry to fill skills gaps and bring world-class education to local populations. We also support charitable skills and training initiatives for underprivileged people, including our projects in India.

In some countries, we also enter into formal partnerships with universities and other educational establishments. A good example is our long-standing partnership with the American University of Sharjah.

We continued to support STEM education at the American University of Sharjah, with a particular emphasis on the energy transition.

The university's Renewable Energy Research Center, established in 2017, is backed by Petrofac, and supports 12 faculty members and research staff assistants working on new energies initiatives, such as the remote monitoring of large solar photovoltaic (PV) installations, and the design and build of a solar-powered quadrotor – a type of drone or unmanned aerial vehicle.

We also sponsor a Research Chair in Renewable Energy and support several university events such as its open day, careers fair, and an environmental day. A highlight from 2022 was helping the Department of Mechanical Engineering to deliver free Mechanical Engineering Boot Camps to 15-to-18-year -olds from across the United Arab Emirates.

When we designed the boot camp, we wanted students to understand that mechanical engineering can be fascinating and fun. Imagine what it would feel like to still be in high school but learn to 3D print a quadcopter or produce renewable energy. By engaging students in these exciting projects, we were able to build their critical thinking and communication skills while teaching them how to work within a team. We offered them an unforgettable campus experience."

DR MAMOUN ABDEL-HAFIZ
Professor and Head of the Department of Mechanical Engineering, American University of Sharjah

Environmental, Social and Governance continued

Formalising our ICV delivery strategy

The creation of ICV has always been a hallmark of our approach. We have enhanced and extended our commitment with a formal ICV strategy based on four levers:

- **Employing and developing a world-class national workforce** – strengthening our local teams, making them more representative of communities they work in, and enhancing our in-country delivery capabilities
- **Building the capacity and technical capability of local suppliers** – understanding the capabilities of local supply chains, supporting skills development, and promoting technology transfers
- **Sourcing goods and services locally** – reducing our reliance on international supply chains, matching local suppliers with project opportunities, and improving our efficiencies
- **Investing in our local presence and host communities** – ensuring that our community engagement initiatives support our local operations, and are closely aligned with our strategic priorities (see pages 24 and 25)

A three-year implementation plan was agreed, along with key performance indicators for each of the pillars. We also agreed targets against each metric that are aligned to the national priorities and position Petrofac as sector-leading in our local delivery.

Supporting local economies

In 2022, just taking into account our major non-joint venture projects (as listed on page 71), where we have direct control over procurement and subcontracting, we purchased almost US$345 million worth of goods and services locally, and supported over 30,000 jobs at our project sites.

The proportion of locally-sourced goods and services decreased to 32% in 2022, down from 54% in 2021. Despite our best efforts, supply chain disruptions and the impact on the availability of goods and services, combined with the limited opportunities to procure certain high-tech equipment in some new geographies, have all impacted our ability to purchase locally. Notwithstanding, we continued to build the capability of our supply chain and invest in our local presence.

Indicative examples from across our operations include:

Algeria

Petrofac's commitment to Algeria is reflected in the scale and nature of our in-country operations. A full-service engineering centre in Algiers is supplemented by a busy operations hub in Hassi Messaoud. In 2022, we prioritised the development of various partnership models with the Sonatrach Group of companies and were the first international company to sign an EPC delivery partnership with a local Sonatrach affiliate (the GCB company). We continued to enhance our Algerian resourcing, meaning that, across all locations, more than 80% of workers were Algerian nationals. We also recruited another 30 full-time Algerian employees, as well as expanding our leadership and career development programmes targeting high-potential Algerian staff.

To further increase the proportion of Algerian nationals working on our projects, we set up a new contracting framework and programme which increases local market participation and opportunities through the project contract, tendering and contract award process, and integrated 15 new companies into our bids.

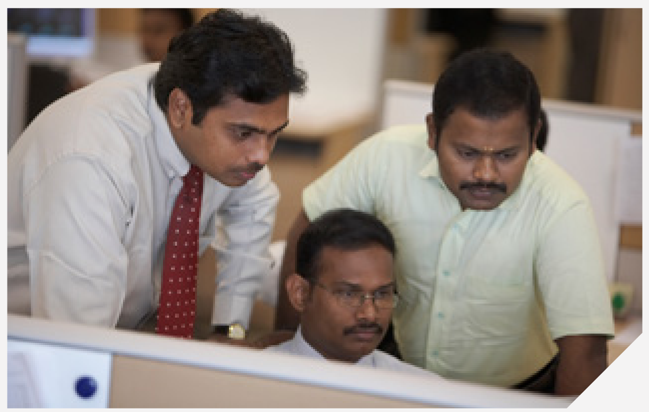
For 2023, we will continue to build on various initiatives with Sonatrach to firm up new contracting models based on framework agreements that further improve local content levels during execution. We will also increase the number of Algerian suppliers in our database and carry out qualifications to ensure local suppliers are promoted for use on future projects.

Australia

In 2022, we built on the ICV implementation programme initiated in 2021, making significant progress in supply chain capability building to support the Northern Endeavour project, our first large integrated decommissioning contract. Supply chain capability gaps were identified, and we worked with local suppliers and subcontractors to meet project requirements and maximise local delivery. We put project-specific supply chain action plans in place and used an online database of indigenous suppliers. This ensured that we were always able to identify and work with suitably qualified indigenous businesses.

In addition, project-specific Indigenous Participation Plans were developed to ensure we exceeded the required levels of Indigenous Participation. We also incorporated these requirements into third-party contracts, encouraging our subcontractors to increase the level of purchasing from indigenous enterprises and maximise the employment of indigenous people.

Looking forward, we plan to invest in further growth, including supporting the training and development of local personnel, developing a graduate intake plan, continuing to partner with indigenous suppliers, and enhancing local development with a targeted social investment programme focused on the communities adjacent to our projects.



India
In 2022, we extended the capability of our local teams, enabling them to operate almost self-sufficiently throughout a project execution cycle. This means that our Indian offices can now act as an operations hub for bids in India and further afield. We also focused on locally driven business development, strong partnerships with key stakeholders, and the sourcing of additional local suppliers and vendors. Once again, we were close to 100% local content on all our Indian projects, except for critical and licensor-mandated imported items.

For 2023, we aim to further build our local capacity against current and future business needs, and to draw on strategic local partnerships when executing projects in India.

Oman
In Oman, where we have a long history of formal ICV programmes, we reviewed the national government's latest ICV priorities and updated our ICV implementation plan accordingly. The revised plan, sponsored by our newly appointed Country Chair, covers the four ICV levers: nationalisation, supply chain capacity building, local purchasing, and investment.

We also moved into 2,000 square metres of newly refurbished offices, located in Muscat, which are intended to facilitate the next stage of Petrofac's in-country growth in Oman. Hosting more than 200 team members from Petrofac and client organisations, the facility includes a range of environmentally friendly technologies, enabling us to reduce local energy consumption by 35%.

Other highlights of the year included:

- A review of the ICV plans from previous projects, to identify any demand/supply gaps and develop a supply chain action plan
- Partnership arrangements with five additional small to medium-sized enterprises (SMEs) to support capacity building and develop project-relevant capabilities
- Strengthening Omani middle management and enhancing gender-equal opportunities, including appointing a talent manager, talent mapping of existing staff to development opportunities, and the delivery of over 2,000 hours of training
- Establishing a Memorandum of Understanding (MOU) with the Oman Hydrogen Centre (OHC) to collaborate on building capabilities in Oman's renewable energy sector, particularly in green hydrogen

UAE
We have been active in the Emirates for more than 30 years, and have major centres in Abu Dhabi and Sharjah which, together, are home to around 1,800 employees. In addition, our Sharjah office serves as an operational hub for many of our projects, and we routinely source goods and execute large-scale fabrication works in the UAE for export to our clients worldwide.

In 2022, we implemented a wide-ranging stakeholder review and ICV improvement programme involving the Executive team and department heads. The aim is to ensure that our ICV strategy is effectively embedded across our entire UAE operations. Priorities that were identified and are being progressed in 2023 include: expanding our presence in Abu Dhabi, stakeholder plans focused on creating differentiated strategic partnerships across our local value chain, resource capacity building and development, and mentorship programmes.

In 2023, we aim to further increase our Emirati headcount, promoting further gender parity and empowerment of local female staff, and to accelerate the development of our middle management teams.

Making a significant contribution to public finances
Through the taxes we pay, Petrofac makes a significant contribution to the public finances of the local economies in which we operate.

The total amount paid to governments in 2022 was US$170 million, comprising corporate income tax, employment taxes, and other forms of tax and social security contributions.

Human Rights

Respecting human rights across our supply chain
We strive to protect and respect human rights throughout our business operations and extended supply chain.

Our commitments are set out in our Code of Conduct, and we work in accordance with our Social Performance Framework, the UN Guiding Principles on Business and Human Rights, and the Fundamental Conventions of the International Labour Organization. We are also proud of our long-term commitment to the United Nations Global Compact and disclose annually our progress against its Ten Principles.

However, we acknowledge that the nature of our global operations and the type of geographies we work in at times present human rights risks. Our main exposure is in the extensive supply chains of our large EPC projects, particularly the labour practices of subcontractors and the recruitment agents and brokers they use.

Environmental, Social and Governance continued

Evaluating our performance

Each year, we assess our operations for human rights issues and take a risk-based approach to addressing any incidents of modern slavery related to forced and bonded labour, worker welfare infringements, and other labour rights abuses. This review is detailed in our annual Modern Slavery Statement, published in accordance with the UK Modern Slavery Act 2015, which outlines the steps taken in respect to human rights. This can be found on our website at petrofac.com.

All third-party suppliers are required to undergo mandatory human rights and labour rights due diligence screening as part of prequalification onto our vendor management system. Furthermore, they are required to read and commit to Petrofac's Labour Rights and Worker Welfare Standard. We promote early engagement and encourage suppliers to undertake screening on registration, ahead of prequalification. In 2022, for example, the number of new and existing suppliers within the E&C business unit, that were positively screened and approved, reached 36% (1,911 out of 5,349), up from 32% (1,475 out of 4,543) in 2021.

We also review compliance with our standards through our audit, review, and inspection programmes. Where issues are identified, we work collaboratively with third parties to support improvement plans.

In 2022, we took the opportunity to conduct a full review and refresh of our Human Rights Standard, to ensure that it reflects evolving regulatory requirements and developments in industry good practice.

During the year, there were no incidents of modern slavery or human rights violations reported through our auditing or internal incident reporting mechanisms. However, we did become aware of some potential labour rights issues among our lower-tier subcontractors, primarily involving delayed salary payments. In all instances, we mediated between our supply chain partners to facilitate solutions, monitoring the situation until it was resolved.

Conducting in-depth audits

We aim to conduct periodic in-depth human rights audits of our EPC project sites to assess worker welfare conditions and identify any labour rights concerns. These comprise:

- **Inspecting accommodation** – we visit accommodation camps to check that all workers (who are typically employed by subcontractors) have safe and dignified living, sleeping, leisure, and sanitation facilities. Where we have concerns, we follow-up with the subcontractors, and raise action-trackers until they are resolved.
- **Interviewing workers** – interviews are conducted on a random basis, covering the entire spectrum of the workforce, to assess and ensure that welfare and human rights are being respected. Any findings or grievances are investigated, and we work collaboratively with our subcontractors to resolve them.
- **Assessing the impact on local communities** – we aim to understand the impact that our operations may have on local communities, including noise and nuisance and the influx of workers. Regular community engagement is established with Community Liaison Officers and community representatives. Any grievances are investigated, and we work with the relevant parties to resolve them. In 2022, for example, we conducted such an audit at our Duqm project in Oman, which involved physical inspections, a dialogue with key stakeholders and subcontractors, discussions with the onsite worker welfare committee, and weekly interviews with a cross-section of workers. Improvement opportunities were identified related to subcontractor grievance management and compliance assurance, and an action plan implemented that subsequently addressed the gaps in our system of control. We also took the opportunity to remind project teams of the importance of remaining vigilant, drawing attention to the findings, especially the importance of effective grievance processes, and maintaining a regular dialogue with the worker welfare committee.

From 2023, we will enhance the audit protocol, which is incorporated into the wider HSEQ audit programme, and provide further training to audit teams. This will ensure that all projects are scrutinised for potential issues on a more routine and regular basis.

Refreshing labour rights awareness training

To remind our subcontractors of the importance of worker welfare, the principles we follow, and the support we make available on each of our project sites, a programme of labour rights refresher training was implemented (aligned to the International Finance Corporation Standard on Environmental & Social Sustainability, Labour Standard 2). This included the provision of information campaigns available in multiple languages, such as posters and discussion topics for toolbox talks with groups of workers.

Maintaining project grievance processes

At each project site, we operate grievance processes, which are designed to be transparent and accessible, and based on engagement and constructive dialogue. Workers can raise complaints and suggestions for improvement either anonymously or in person, and we engage with all parties to support the fair and prompt resolution of any issues raised. We continued to work to raise awareness of these grievance systems and how to access them.

Giving a voice to workers

In 2022, feedback from audits highlighted the issue that workers employed by some lower-tier subcontractors still do not feel comfortable with raising formal grievances. To address this, we continued to elevate the role of project welfare committees, enabling these workforce groups to raise concerns and improvement requests on behalf of their constituencies, without fear of retaliation. The committees represent an important component of our commitment to labour rights and a vital communications channel with the wider workforce. We worked to ensure that regular monthly meetings are held, that workforce groups are fairly represented, and an effective dialogue is maintained between all parties.

Governance

Links to the SDG's

Why this is important to our business model and strategy

Responsible governance and ethical business practice are critical considerations for Petrofac. As a key stakeholder and a significant part of the supply chain in the industries and countries in which we operate, we must uphold the highest standards of integrity and transparency, and consistently earn the trust of clients, governments, partners, and the wider energy industry.

We therefore recognise the responsibility and opportunity we have to enable and embody ethical behaviours. We take this commitment seriously and continue to invest in our people and processes to ensure that we live up to it.

98% of employees completed an annual declaration confirming compliance with the Code of Conduct

Speak Up reports continue to indicate a more transparent Speak Up culture, in line with market practice

Our performance

Alleged breaches of the Code of Conduct reported via Speak Up

Year	Value
2022	118
2021	125
2020	61

Number of substantiated allegations (%)

Year	Value
2022	27
2021	39
2020	21

Number of employees facing discipline or dismissal following substantiated allegations (%)

Year	Value
2022	33
2021	41
2020	39

Proportion of employees who completed an annual declaration confirming their compliance with the Code of Conduct (%)

Year	Value
2022	98.16
2021	99.9
2020	100

Proportion of employees with line management responsibility who completed mandatory Code of Conduct e-learning (%)

Year	Value
2022	98.5
2021	97.2
2020	99.3

Proportion of employees who completed mandatory e-learning (Share Dealing Code, Standard for the Prevention of Bribery & Corruption, Code of Conduct) (%)

Year	Value
2022	95.1
2021	98.5
2020	98.9

Number of employees attending training conducted by the Compliance team (Code of Conduct, trade compliance, investigations) (%)

Year	Value
2022	752
2021	1,449
2020	997

Environmental, Social and Governance continued

Ethical behaviour and compliance

Over recent years, we have put significant effort into reinforcing the importance of ethical behaviour to our people and have invested considerably in our related teams, systems and processes.

We operate a three lines of defence structure – comprising rigorous management, strong governance, and independent assurance. This ensures that ethical behaviour and compliance are topics which receive consistent attention and enhancement. Our approach to compliance is also backed by an unequivocal Code of Conduct and clearly codified behaviours and values, and its importance to Petrofac is demonstrated by the frequent delivery of clear and consistent messages from all tiers of leadership.

To help us monitor our performance and scrutinise our approach, we retained the services of the specialist law firm Freeh, Sporkin & Sullivan to act as a key part of our assurance processes.

Three lines of defence

Each line in our defence system includes a feedback loop that informs improvement

Continuing to embed a compliance ethos across the Group

To ensure that everyone who works with and for Petrofac is aware of our Code of Conduct, we continued with our ongoing training and communications programmes.

Everyone at middle management levels and below is required to complete a Code of Conduct e-learning module annually. We also introduced a quarterly Lessons Learnt bulletin for all employees, drawing on reported breaches of our Code of Conduct, how they have been addressed, and guidelines for how to behave in challenging or ambiguous situations. Meanwhile, to complement the communications and frequent messaging from senior leadership, we continued to focus on fostering more openness among middle managers and their direct reports, especially those working in higher risk roles and locations.

Encouraging more people to Speak Up

It is vital that everyone working with and for Petrofac can raise any concerns they might have, without fearing retaliation, and have the option to do so anonymously.

The ongoing priority is to encourage more open reporting of any suspected breaches of the Code of Conduct. This entailed ongoing training, again targeting middle-level managers, to promote a strong and healthy Speak Up culture, reinforced by a top-down cascade to all employees on the importance of speaking up.

This year the number of Speak Up reports logged reached 118, slightly down on 2021 but remaining ahead of recognised international benchmarks. We also saw a change in the nature of reports, with fewer anonymous reports, and a larger proportion of reports being made in person to managers, rather than through our online Speak Up platform. All of this demonstrates that people are comfortable in reporting and discussing their concerns, which is indicative of an open and transparent culture.

Continuing to enhance our investigations function

In many ways, we see the investigations function as the most important part of our compliance programme. Whenever concerns are reported, we need to demonstrate that we respond to them promptly and investigate them objectively and independently. We therefore ensure that whoever reports a concern is kept abreast of the outcome and that recommended actions are implemented in a timely manner.

We also regard an investigation as an opportunity to engage in a dialogue with everyone involved. In this way, we are able to equip line managers with the tools they need to identify high-risk situations, and ensure that their teams remain forever mindful of the related sections of the Code of Conduct.

Benefiting from the recent redesign of the investigations function, procedures and tools, we were able to monitor our performance against several key metrics – including the time-to-close of each case.

Benefiting from enhanced processes and controls

Following the migration to a new cloud-based due diligence platform, operated by Dow Jones, we were able to enhance the way we review and monitor our suppliers and business partners.

In 2022, we closed the issues related to over 4,000 third parties that had been migrated to the new platform during its implementation, and began to conduct in-depth due diligence reviews of new entities at the rate of around 500 per month. With real-time monitoring, we were also able to respond immediately to any concerns flagged by the platform. As well as mitigating counterparty risks, this helps us to extend our local delivery model, by identifying locally-based suppliers, supporting their onboarding, and ensuring they understand and abide by our compliance requirements.

Adapting to the new geopolitical environment

Given the challenging geopolitical environment, our compliance teams ensured that Petrofac complied with the rapidly evolving sanctions regime and related regulations against Russia. This involved arrangements related to the safe completion and handover of our Sakhalin Energy project, and the operation of the Sakhalin Technical Training Centre.

Since the year end, Petrofac ceased its operations on the Sakhalin Energy project and has divested its control of and economic interest in the Sakhalin Technical Training Centre. The Group no longer has ongoing operations in Russia.

Continuing priorities for 2023

For 2023, the priority is to build on recent achievements and continue to nurture a culture of openness and transparency – so that all our people feel comfortable discussing our Code of Conduct, and all tiers of management understand the right ways to engage in these discussions and, where appropriate, to escalate the outcomes.

As we enter new and potentially challenging geographies, we will continue to apply rigorous due diligence, ensuring that we are effectively insulated from related counterparty risks.

It is vital that everyone working with or for us can raise concerns that they might have, without fear of retaliation, and have the option to do so anonymously.”

TAX TRANSPARENCY

Petrofac is committed to ensuring compliance with the tax laws and regulations of the countries where we operate. We have an open, cooperative and collaborative working relationship with tax authorities.

Our Tax Strategy and Tax Policy explain how we approach the management of our tax affairs (these are available for download at petrofac.com).

The total amount that we pay in taxes is not limited to the corporate income tax disclosed within the financial statements. It also includes employee and employer taxes and social security payments, VAT and sales taxes, and other taxes such as withholding, property and other indirect taxes. The total amount paid by Petrofac to governments worldwide includes those taxes which are borne by Petrofac, as well as taxes collected by Petrofac, but which are recoverable from tax authorities or clients and suppliers.

We report our taxes paid and collected on a cash basis, except for VAT and sales taxes, which are shown on an accrual basis. We believe this is the most meaningful way to demonstrate our annual tax contribution.

Segmental overview

Engineering & Construction

Revenue (US$ million)

Business performance EBIT[1] (US$ million)

2022 (299)
2021 (restated)[2] (62)
2020 79

Business performance EBIT margin

2022 (22.8%)
2021 (restated)[2] (3.2%)
2020 2.6%

Group revenue contribution (2022)

50%

Headcount at 31 December 2022

3,400

Asset Solutions

Revenue (US$ million)

2022 1,158
2021 1,111
2020 933

Business performance EBIT[1] (US$ million)

2022 60
2021 74
2020 50

Business performance EBIT margin

2022 5.2%
2021 6.7%
2020 5.4%

Group revenue contribution (2022)

45%

Headcount at 31 December 2022

4,000

Integrated Energy Services

Revenue (US$ million)

2022 137
2021 50
2020 110

Business performance EBIT[1] (US$ million)

2022 58
2021 (6)
2020 (30)

Business performance EBIT margin

2022 42.3%
2021 12.0%
2020 27.3%

Group revenue contribution (2022)

5%

Headcount at 31 December 2022

250

US$ million For the year ended 31 December	Revenue 2022	Revenue 2021[2]	EBITDA[1] 2022	EBITDA[1] 2021[2]	EBIT[1] 2022	EBIT[1] 2021[2]
Engineering & Construction	**1,311**	1,952	**(287)**	(38)	**(299)**	(62)
Asset Solutions	**1,158**	1,111	**70**	84	**60**	74
Integrated Energy Services	**137**	50	**109**	21	**58**	(6)
Corporate, others, consolidation adjustments and eliminations	**(15)**	(75)	**(18)**	(11)	**(24)**	(18)
Group	**2,591**	3,038	**(126)**	56	**(205)**	(12)

% For the year ended 31 December	Revenue growth 2022	Revenue growth 2021[2]	EBITDA margin 2022	EBITDA margin 2021[2]	EBIT margin 2022	EBIT margin 2021[2]
Engineering & Construction	**(32.8)**	(36.8)	**(21.9)**	(1.9)	**(22.8)**	(3.2)
Asset Solutions	**4.2**	19.1	**6.0**	7.6	**5.2**	6.7
Integrated Energy Services	**174.0**	(54.5)	**79.6**	42.0	**42.3**	(12.0)
Group	**(14.7)**	(25.5)	**(4.9)**	1.8	**(7.9)**	(0.4)

1. Business performance is shown by Petrofac as a means of measuring underlying business performance (see note 4 of the consolidated financial statements).
2. The prior year numbers are restated as detailed in note 2.9 to the consolidated financial statements.

Engineering & Construction

ELIE LAHOUD
E&C Chief Operating Officer

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 more than 40 years' track record in designing and building major oil, gas, refining, petrochemicals and new energies infrastructure projects. In 2022, Petrofac was named as one of the top three EPC companies in Oil & Gas Middle East magazine.

Operational performance

2022 has been a challenging year operationally, as we progressed with the completion of the legacy Covid-19 affected portfolio of projects. Seven of the active lump-sum contracts were completed or substantially completed[1] during the year, with five of the remaining eight scheduled to be completed in 2023. However, due principally to the extended impact of the Covid-19 pandemic on the scheduling and scope of work on these projects throughout the year, additional costs have been incurred, which cannot be fully recovered from our clients.

Similarly, on the Thai Oil Clean Fuels project, where we are jointly liable with our partners for performing the contract, due to the scale and complexity of this project, the scheduling and additional work required to complete the project has been affected even more by the knock-on impacts of the pandemic. As a result, we have recognised an increase in costs, driven by a reassessment, with the partners, of the forecast costs to complete the project. Petrofac will continue to work closely with its partners to pursue the recovery of costs over the course of the contract and, in addition, seek to realise other portfolio upsides.

Despite these challenges, we have continued to execute projects to our high standards and deliver projects to clients that maintain our reputation for execution.

Energy transition

In offshore wind, we entered into a collaboration with Hitachi Energy in June 2022 to work together to provide joint grid integration and associated infrastructure to the rapidly growing offshore wind market. Petrofac brings to the partnership its EPC and installation capabilities, developed from executing major projects in the sector for more than a decade, having successfully delivered the BorWin 3 platform and the HZK Alpha and Beta platforms, with the Seagreen offshore wind project close to completion.

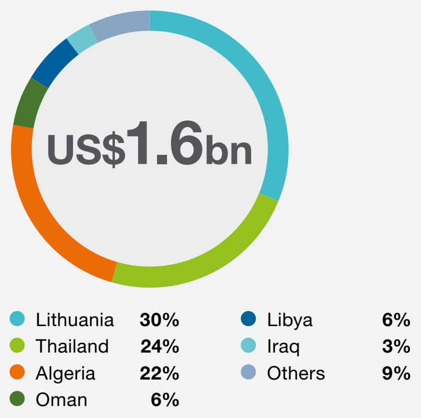
Preparing for the upcycle

In 2022, E&C has successfully positioned itself for growth in anticipation of the expected upcycle. It has restored relationships with key clients in the UAE where there is a strong pipeline of opportunities. Through the reshaping and strengthening of the delivery functions, along with further right-sizing of the business, whilst maintaining capability, E&C has enhanced its operational and functional excellence, and is well-placed to execute new projects as they are awarded at industry-leading margins.

Financial performance

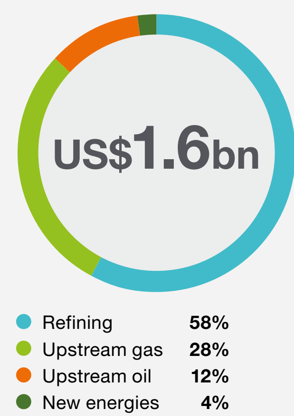
Revenue for the year decreased 33% to US$1.3 billion (2021 restated: US$2.0 billion), reflecting the lower levels of activity compared with the prior year. Full year EBIT was a loss of US$299 million (2021 restated: US$62 million), reflecting the impact of further unrecovered cost overruns in the legacy portfolio, cost increases on the Thai Oil Clean Fuels contract and adverse commercial settlements.

1. Completed and substantially completed contracts: contracts where (i) a Provisional Acceptance Certificate (PAC) has been issued by the client, or (ii) transfer of care and custody (TCC) to the client has taken place, or (iii) PAC or TCC are imminent and no substantive work remains to be performed by Petrofac.



Country	%
Lithuania	30%
Thailand	24%
Algeria	22%
Oman	6%
Libya	6%
Iraq	3%
Others	9%

Backlog at 31 Dec 22 by market



Market	%
Refining	58%
Upstream gas	28%
Upstream oil	12%
New energies	4%

Segmental overview continued

ENGINEERING & CONSTRUCTION

Resilience

Duqm Refinery

- US$2.2 billion total project value
- 50/50 joint venture with Samsung Engineering
- 230,000 barrels a day – doubling Oman's total refining capacity
- 2,000-acre footprint

Global refining capacity looks set to continue to expand in the coming years, and we have built good credentials in the market, with prestigious projects in the Middle East, Southeast Asia, and Central Europe.

We have an established track record in designing, building, and commissioning large, complex refineries. We also have significant experience in supporting clean fuels refining projects as clients transform existing facilities to produce higher quality and more environmentally friendly transportation fuels.

A key milestone for Petrofac was the initial 'coming to life' of the vast Duqm Refinery in Oman. During 2022, all the key milestones were achieved including the introduction of water and natural gas, firing of the auxiliary boilers, inauguration of the main administration building, opening of the Central Control Room and the lighting of the 180m tall flare.

Challenges encountered along the way included the disruption caused by the pandemic. With international travel restricted at a critical time, and vendors and contractors stranded around the world, the vital integration tests had to be conducted remotely – thanks to a combination of secure high-speed data links, a range of remote collaboration tools, and a spirit of collective determination.

As ever, in-country value was a key consideration. Among the components produced locally were nine huge LPG storage vessels, some of the largest ever manufactured in the Sultanate. Through the project, we also provided local and international scholarship programmes to 45 Omani students.

Duqm Refinery is an engineering and construction masterpiece on a massive scale. Once complete, it will be the biggest refinery in Oman, delivering products to customers around the world, diversifying the local economy, and fuelling economic growth for the Sultanate."

IAN DEBATTISTA
Vice President Operations and Project Director

New orders

Industry awards were lower than expected in 2022, and, as a result, E&C's reduced new order intake for the year was US$0.5 billion, comprising an EPC award in Algeria and other net variation orders. However, following a sustained period of under-investment in the sector, the market outlook remains positive for 2023 awards, driven by a renewed focus on energy security, affordability and sustainability.

In 2022, following the reshaping of the organisation and the implementation of best-in-class compliance processes, the response from clients has been very encouraging, evidenced by the reinstatement of Petrofac to the ADNOC bidding list. We are now free to compete in all upcoming tenders in Abu Dhabi where there is a strong pipeline of opportunities.

Tinrhert EPC2 Development Project, Algeria

In September 2022, E&C, in partnership with Genie Civil et Batiment (GCB), secured a US$300 million EPC contract with Sonatrach for the Tinrhert EPC2 Development Project of which Petrofac's share is around US$200 million. This award follows the successful delivery of the 2018 contract awarded by Sonatrach for the Tinrhert EPC1 project.

The project will boost natural gas production and remove CO_2 from the field's gas reserves, within specifications for the global market, enabling further economic growth in Algeria.

This award evidences a recognition of Petrofac's execution capability, our unique mix of skills, and our track record of utilising partnerships, local delivery and the creation of in-country value to deliver exceptional outcomes for our clients and their communities.

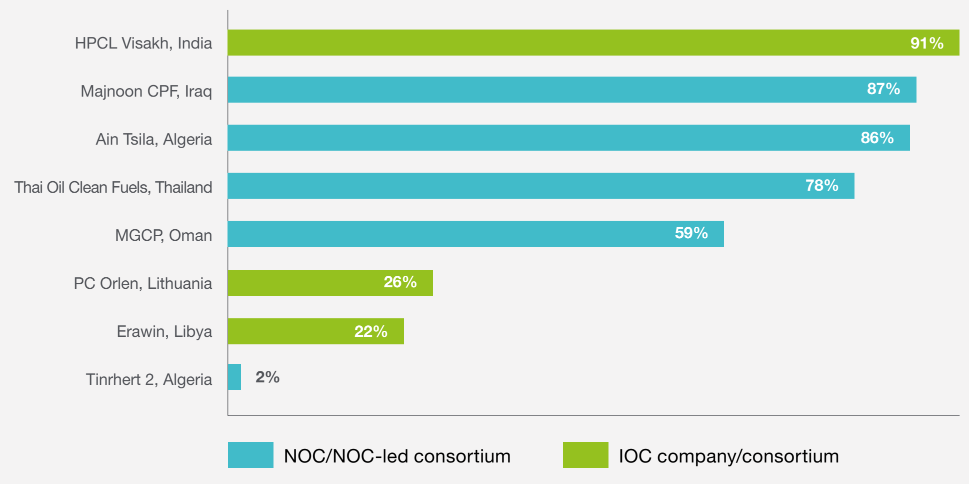
TenneT 2GW Programme, Netherlands

In January 2023, the partnership of Petrofac and Hitachi Energy signed early works agreements with TenneT in support of their 2GW Programme. Under the terms of the agreements, preparatory work and detailed engineering will begin, to ensure timely delivery of the first two Dutch offshore converter stations for TenneT's high voltage direct current (HVDC) offshore wind grid expansion. This award represented the first step in both TenneT's ambitious 40GW programme and Petrofac and Hitachi Energy's partnership to support the offshore wind sector.

At the end of March 2023, the partnership of Petrofac and Hitachi was awarded a multi-year framework agreement by TenneT worth approximately €13 billion. The framework agreement, which represents the largest in Petrofac's history, covers six projects. Each project comprises the EPCI of an offshore HVDC transmission station, onshore converter station and associated infrastructure.

ENGINEERING & CONSTRUCTION – KEY PROJECT PROGRESS

Key project status, % completion, December 2022[1]



1. Excludes projects that are >95% complete.

Segmental overview continued

TRANSITION

Collaboration with TenneT and Hitachi Energy

- Early works agreements from TenneT
- Largest framework agreement in Petrofac's history
- Grid integration and associated infrastructure
- Support for TenneT's 2GW programme
- A key step in Europe's energy transition

While considerable growth is projected across the new energies sector, the most immediate and material opportunity is in offshore wind.

As well as being one of the cleanest and greenest forms of energy available, offshore wind is also one of the most cost-effective. Yet, as the offshore wind sector scales up, technical, resourcing and supply chain challenges need to be addressed.

As in our traditional oil and gas projects, we always seek to take an innovative, problem-solving approach to such challenges, and one of the ways we can do this is by forming innovative, value-creating partnerships.

In June 2022, we entered a collaboration with Hitachi Energy, to provide joint grid integration and associated infrastructure to support clients in the rapidly growing offshore wind market.

The collaboration builds on the complementary core technologies and expertise of both our companies in offshore wind.

The initial aim was to help a key client, TenneT, to accelerate the preparatory works in its current 2GW Programme, and pave the way for an eventual 40GW of offshore wind capacity. The partnership ultimately led to a significant early work agreement between TenneT, Hitachi Energy and Petrofac, which was further enhanced by the award of Petrofac's largest ever framework agreement – a multi-year deal worth approximately €13 billion.

We hope that the collaboration will help other clients to accelerate their respective wind farm developments.

It's a great collaboration. We look forward to bringing our industry-leading experience and deep domain knowledge together, to benefit our customers and power millions more homes using renewable energy."

JOHN PEARSON
Chief Operating Officer, New Energy Services

Asset Solutions

NICK SHORTEN
Asset Solutions Chief Operating Officer

The Asset Solutions division provides services across the full life cycle of energy infrastructure. It manages and maintains client assets, both onshore and offshore, delivers small to medium scale EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering and decommissioning capabilities. The majority of Asset Solutions services are executed on a reimbursable basis, but we are responsive to clients' preferred commercial models to deliver our expertise. Asset Solutions has three service lines: Asset Operations, Asset Development, and Wells and Decommissioning.

Operational performance

Asset Solutions delivered another robust performance in 2022, with a strong book-to-bill of 1.2x for the year with each of the service lines continuing to deliver growth. We maintained our core 40% market share in the UK and a renewal rate of 80% for operations and maintenance contracts. Internationally, we have expanded our operations into new – and within existing – geographies with awards across each of the service lines, including further expansion in the new energy services sector.

In mature basins, clients have increased their focus on late-life and end-of-life asset management strategies, seeking to extend the productive life and maximise the value from their assets. As a result, we saw strong growth in our Wells and Decommissioning business, with significant contract awards in Australia and the Gulf of Mexico. Our ability to provide a one-stop shop has led to multiple integrated decommissioning projects which showcase our Duty Holder services. Pioneered in the UK North Sea, this unique integrated service offering includes our engineering and project management capabilities and the plugging and abandoning of the wells, throughout which we can take full responsibility from a regulatory perspective, as the operator of the infrastructure.

In new energies, we entered into a number of strategic alliances with leading technology providers, as momentum in our four focus areas of offshore wind, CCUS, hydrogen and waste-to-value continues to increase. We executed 39 Pre-FEED and FEED studies in 2022, up from 18 in 2021, and we are well-positioned over the medium term to secure EPC and other execution phase work as projects reach final investment decision.

Financial performance

Revenue for the year was up 4% compared with the previous year at US$1.2 billion (2021: US$1.1 billion), benefiting from strong order intake in the year. Full year EBIT was US$60 million (2021: US$74 million). EBIT margin for the year was 5.2% reflecting the contract portfolio mix with the roll-off of certain historic high-margin contracts.

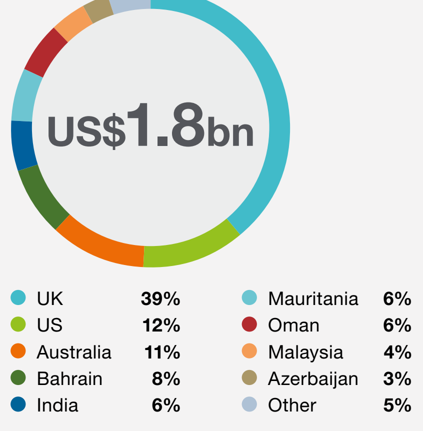
New orders

Asset Solutions had another strong year of order intake, securing US$1.4 billion of awards and extensions in the year (2021: US$1.0 billion), representing a book-to-bill of 1.2x.

Key awards included:

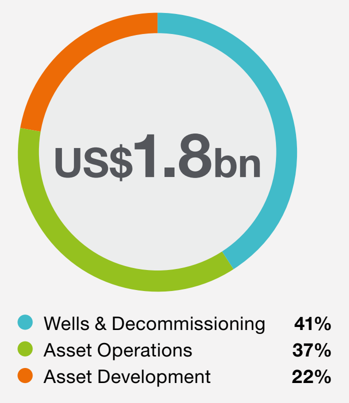
- **United Arab Emirates** – with the restoration of the relationship with ADNOC, we have subsequently won awards for a brownfield EPC project to optimise operations and reduce emissions and a field maintenance services contract extension
- **Australia** – in the first of its kind in Australia, Petrofac was awarded a major decommissioning contract by the Australian Government heralding the start of an era of decommissioning in the nation's offshore oil and gas sector
- **Gulf of Mexico** – we entered into an alliance with Promethean Decommissioning Company, a decommissioning operator for the decommissioning of fields in the offshore Gulf of Mexico. The project uses Petrofac's proprietary project management tool to deliver the decommissioning project with comprehensive dashboards, transparency, and assurance.

Backlog at 31 December 2022 by country



Country	%	Country	%
UK	39%	Mauritania	6%
US	12%	Oman	6%
Australia	11%	Malaysia	4%
Bahrain	8%	Azerbaijan	3%
India	6%	Other	5%

Backlog at 31 December 2022 by market



Market	%
Wells & Decommissioning	41%
Asset Operations	37%
Asset Development	22%

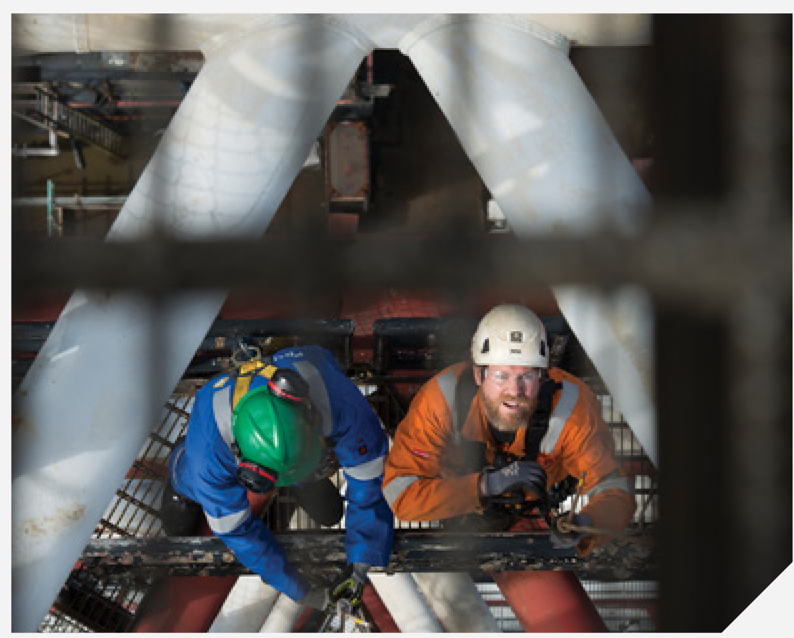
Segmental overview continued

- **Africa** – Petrofac continued to grow its presence in Africa with awards to provide offshore operating services and well decommissioning services in Mauritania, Ghana and Senegal
- **India** – As part of our geographical expansion, Petrofac was chosen to provide integrated Operations and Maintenance (O&M) services by Cairn Oil & Gas and Vedanta Limited, India's largest private oil and gas exploration company, in support of its upstream oil and gas facilities. Following this, we were also awarded a new O&M contract with Cairn, to provide integrated O&M and auxiliary services.
- **UK North Sea**
  We secured a number of extensions throughout the year:
  - With Serica Energy where we secured an extension for maintenance execution, maintenance consultancy and metering services having supported the team for more than four years to extend the field life of assets in the UKCS.
  - As Duty Holder, we secured a contract extension with EnQuest having supported the Kittiwake platform for more than two decades.
  - In our Wells and Decommissioning service line, we secured a contract with i3 to provide well engineering, well operations and well operator services for its UK North Sea licence areas.

New energies within Asset Solutions

In new energies, the strong momentum we have gained over the last two years continued with further developments in 2022. The market remains active, and we have secured a series of early-stage awards and strategic alliances with technology providers. This leaves us well positioned over the medium term to secure EPC and other execution phase project work, as projects reach final investment decision.

- **Carbon capture**: we secured our first carbon capture project within a UK cluster, with the Pre-FEED award for a UK refinery, in addition to work with Stockholm Exergi and Storegga
- **Hydrogen**: with our first new energies project in Egypt, we are assisting Mediterranean Energy Partners assess the feasibility of a new green hydrogen to ammonia facility which could open up other opportunities for the subsequent EPC projects in the country. A first new energies project in Chile, for Transitional Energy Group, sees us advise on and oversee the initial phases of a green ammonia project
- **Waste-to-value**: we supported GreenFuels with the development of their Sewage Sludge to Aviation Fuel project, which was funded by the UK Department for Transport
- **Emissions reduction**: we secured a flare gas capture project for ADNOC, supporting Ceraphi Energy to evaluate closed-loop geothermal technology to decarbonise offshore oil and gas assets using existing wells, in collaboration with EnQuest and Net Zero Technology Centre
- **Offshore wind**: engineering studies for several offshore wind developments



Integrated Energy Services

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business. Our interest in the Production Sharing Contract (PSC) for Block PM304, Malaysia's offshore Cendor field, is the sole asset in the portfolio.

Operational performance

Net production for the year increased by 97% to 1,261 thousand barrels of oil equivalent (kboe) in 2022 (2021: 640 kboe) mainly due to a full year of East Cendor production and the completion of projects and well workovers.

A water injection well was completed in the Irama field in May 2022 to provide pressure support to the field. Following positive pressure response, production from Irama peaked in October 2022 at 2.6 kboe/d from a 2021 average of 1.0 kboe/d.

The shutdown in the main Cendor field in December 2021 was resolved initially by installing a temporary partial gas lift system prior to the full reinstatement of the risers in Q3 2022. The gas lift assisted wells in Cendor and East Cendor are now able to produce at their full technical potential.

As a result of the reinstatement of the gas lift risers, the Irama water injection and a full year of production from the East Cendor field, the 2022 net production exit rate was 3.5 kboe/d (2021: 1.8 kboe/d).

In 2022, our Flare Reduction Taskforce in partnership with the Block PM304 Asset's Reservoir Management and Operations Teams successfully reduced emissions intensity by 49%. This was achieved through an ongoing gas shut-off programme, switching diesel for fuel gas that would otherwise be flared, and operational optimisations focused on logistics and enhancements.

The average realised oil price for Block PM304 increased by 49% to US$112/boe in 2022 (2021: US$75/boe).

Financial performance

Revenue for the year increased 174% to US$137 million (2021: US$50 million), reflecting the increased production and higher oil price realised.

EBITDA increased 419% to US$109 million (2021: US$21 million), principally reflecting the higher revenue from PM304.

IES generated EBIT of US$58 million (2021: loss of US$6 million). IES generated positive free cash flow due to Block PM304 performance as well as receiving US$98 million of divestment proceeds related to the Greater Stella Area and the Mexico operations.

Impairment of Block PM304

The production sharing contract for Block PM304 in Malaysia expires in September 2026, and we are in continued technical and commercial discussions with Petronas and the joint venture partners in respect of an extension. Based on developments in the current year and the associated uncertainty in respect of securing that extension, management continues to assume that it will not be secured when assessing the carrying value of the asset at the year-end. The review of all relevant assumptions resulted in an impairment reversal of US$6 million (2021 restated: charge of US$33 million) recorded in the year. As a result of this impairment, the net book value carrying amount of Block PM304 as of 31 December 2022 is US$86 million (2021 restated: US$84 million).

Net PM304 production (kboe/d)

Year	kboe/d
2022	3.5
2021	1.8
2020	2.6

Risk management

We operate in challenging environments and understand that risks are an inherent part of our business. Identifying and managing risks and opportunities is key to the successful delivery of our strategy.

Our knowledge and insight, coupled with the right set of tools and processes, help us understand the factors that lead to risk, and enable us to manage them effectively.

Risk governance framework |

Board
- Sets risk appetite
- Approves principal risks
- Reviews and approves significant opportunities

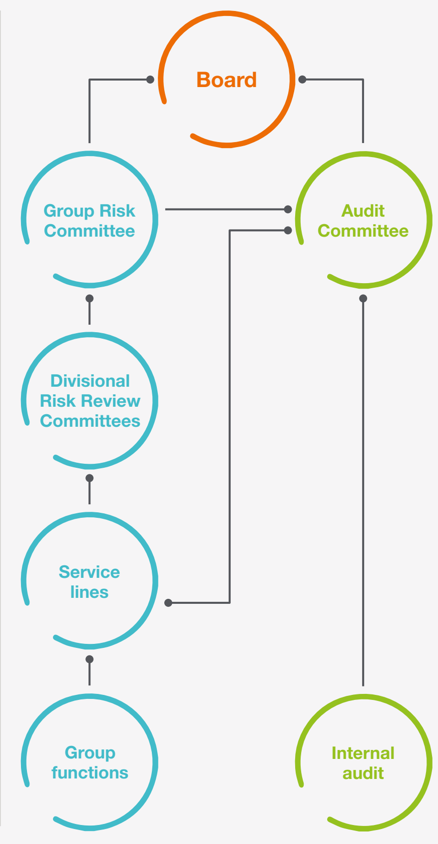
Audit Committee
- Reviews principal risks, emerging risks and risk appetite
- Provides assurance on risk management and internal controls framework

Group Risk Committee
- Oversight of the Enterprise Risk Management Framework, including the principal and emerging risks and risk appetite
- Reviews and recommends significant opportunities

Divisional Risk Review Committees
- Divisional management oversight and review of opportunities

Service lines
- Risk management is embedded within each service line

Group functions
- Assurance to management, the Audit Committee and the Board



Our risk management framework provides us with a consistent approach to identify, manage and oversee the risks that may impact our business and is designed to underpin the Group's longer-term sustainability. Based on the principles and guidelines of BS ISO 31000:2018 Risk Management, our framework encompasses the policies, standards, procedures, culture, behaviours, organisational design, systems and other aspects of the Group that, taken together, enable Petrofac to operate effectively and efficiently.

Governing our risk management framework

Petrofac's system of risk governance comprises several committees and management processes that bring together reports on the management of risk at various levels.

The Board has overall responsibility for risk management, which includes establishing the Group's risk appetite and its enterprise risk arrangements, and ensuring we have an effective risk management framework in place.

The Audit Committee has been delegated the responsibility of monitoring and reviewing the integrity and effectiveness of the Group's overall risk management and internal control systems. The Audit Committee primarily, but not solely, uses the processes and reports outlined below for evaluating the Group's risk management and internal control activities:

- **Principal Risk Report** identifies and assesses the principal risks and emerging risks facing the Group, outlines how these are managed, reviews the effectiveness of relevant controls and monitors exposures with respect to our risk appetite. Coupled with updates from the Group Chief Executive, Chief Financial Officer and the Group Risk Team, this report is submitted quarterly and is considered at both Committee and Board level throughout the year. A summary of this Report is provided on pages 78 to 87.
- **Management Reports** for various principal risks are submitted, either to the Board or to one of its Committees whose area of expertise best aligns with the risk area under consideration. The goal is to enhance the level of oversight for each principal risk. The relevant Committee is responsible for reviewing the status of each principal risks, seeking information on controls and processes, and considering mitigation and management strategies. Following its review, each Committee provides feedback to the Audit Committee and to the Board for discussion and recommendations.
- **Control Self-Assessment** certificates are a way for management to review and maintain adequate internal controls. These certificates are completed by each function and business unit to check and assure the adequacy of controls and disclose any reportable weaknesses in the control environment. They are then cascaded and consolidated to confirm the extent to which the internal controls have operated effectively throughout the year. Further reviews are performed by the Internal Audit team, and the Audit Committee receives regular updates from the Head of Internal Audit on the effectiveness of the internal controls.

In addition to these activities, reports are submitted to the Audit Committee by our internal and external auditors, as well as from our newly established Assurance function. In reviewing each of the submitted reports, the Committee considers:

- How effectively risks have been identified
- How they have been mitigated and managed
- Whether appropriate and prompt action is being taken to remedy any failings or weaknesses
- Whether the cause of the failing or weakness was the consequence of poor decision making, a need for more extensive monitoring, or a reassessment of process effectiveness

These considerations are intended to provide the Audit Committee with a balanced assessment of the Group's principal risks and the effectiveness of the systems of internal controls.

The Group Risk Committee is responsible for the oversight of the risk management framework, as agreed by the Board, including the review of Group policies and the management of the Group's Delegated Authorities.

In addition to the Group's regular risk review meetings, the Group Executive Committee meets regularly to discuss safety, compliance, operational, commercial and finance matters, with changes in risks and opportunities being identified and addressed as appropriate.

The diagram on page 76 sets out the risk governance framework, showing the interaction between the various risk review and management committees.

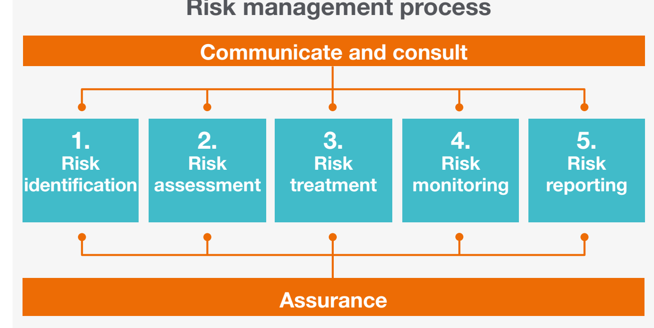
Identifying and managing our risks

The Group's divisions and functions conduct regular risk assessments and the risk information from these is consolidated into our principal risks. Emerging risks are identified as part of the business planning cycle, with a view to considering those risks that may have a material impact beyond the planning horizon.

The list of principal and emerging risks is reviewed by the Group Risk Committee, endorsed by the Audit Committee and approved by the Board. Once approved, each principal risk is categorised and assigned to an executive owner, who is accountable for coordinating the risk assessment, reviewing the adequacy of relevant internal controls, establishing a response plan, and reporting.

Integration with key business processes

- Delegated authorities
- Strategic planning/budgeting
- Treasury/financial planning
- Stage-gate reviews
- Project controls and management
- Procurement and vendor management
- Business continuity and crisis management



Alignment with assurance functions via principal risks

- Compliance
- Value assurance
- Financial control
- HSE
- Cyber security

Company values and culture

Enterprise Risk Management system (and other tools)

Leadership, communications and engagement

Depending on the category of the risk, the Assurance teams may be engaged to devise and support an effective assurance programme. The Board may also appoint a relevant Committee to enhance the level of oversight.

We assess the materiality of each principal risk and aim to contain them within the context of our risk appetite framework. Our risk appetite statements are established in three layers:

- The first layer aligns with Petrofac's vision, purpose, business model, and strategy
- The second layer ties into the business plan through overall risk indicators
- The third layer operationalises the previous layers through specific statements and indicators relevant to each of our principal risks

The Board and the Group Risk Committee jointly govern all material new business opportunities and projects (including bid submissions, new country entries, joint ventures, investments, acquisitions and disposals) and provide direction as to the management and mitigation of any related risk exposures. Proposals are only presented to the Group Risk Committee after being reviewed and supported at divisional level. Based on the recommendations of the Group Risk Committee, the Board then has responsibility for approving or declining any high-risk opportunities.

Enhancing our risk management framework

During 2022, we conducted internal and external reviews of the effectiveness of our enterprise risk management (ERM) programme. Key areas for improvement identified during these reviews included:

- Further integration and better alignment between project- and portfolio-level risk assessment procedures within the ERM programme
- Enhancing the second line of defence controls when evaluating the effectiveness of risk management inputs

We will continue to address and enhance these areas during 2023.

Principal risks and uncertainties

The Group's principal risks were reviewed and revised at the end of 2022, drawing on feedback from the business, Executive team, and the Audit Committee.

During the year no new emerging risks were identified and the impact of the Covid-19 pandemic was contained, with no material influence on our principal risks.

As of the start of 2023, the Group's current principal and emerging risks are outlined below:

Risk Category	Principal/Emerging Risk
Strategic Risks	Adverse geopolitical and macro-economic changes in key geographies
	Low order intake
	Failure to deliver strategic initiatives
	Failure to deliver new energies strategy
Operational Risks	Operational and project performance
	Insufficient IT resilience
	HSE incidents
Financial Risks	Loss of financial capacity
	Misstatement of financial information
Legal & Compliance Risks	Breach of laws, regulations, and ethical standards
People Risks	Inadequate leadership and talent management

Adverse geopolitical and macro-economic changes in key geographies

The impact of adverse geopolitical changes in our key geographies includes risks to the successful delivery of our strategy, our operations and associated impact on margins, the safety of our people, security issues, material logistics, and travel restrictions. The Group's backlog is concentrated in emerging markets, which may increase our vulnerability to adverse geopolitical events.

Risk appetite

- We actively assess risks associated with geopolitical changes in our key geographies, and we have appetite for more risk in this area where we have the experience of managing it.
- Where we operate in countries that have high or very high geopolitical risks, we actively monitor risks associated with geopolitical events and have plans in place to support the ongoing delivery, or suspension, of our business in each country.

Risk appetite measures

- Cash flow exposed to geopolitical risk

Sub-risks

Sub-risks are specific to each country where we operate based on scenarios triggered by various threats such as:

- Political conflicts between countries
- Civil unrest
- Recession and fiscal stress
- Increased controls over trade and payments

FOR MORE INFORMATION SEE / **Pages 8-13; 16-19; 24-25; 60-63**

Assessment: No change

The risk remained unchanged during 2022. While there was an increase in our risk profile, this was driven by the conflict between Russia and Ukraine. Although our exposure in these countries is very low, new sanctions enforced created new compliance requirements for the Group. This increase was, however, offset by reduced economic and geopolitical risks in our major markets due to the increase in commodity prices and the reduced impact of Covid-19.

Risk category | **Strategic**
Link to our strategy | **Return to growth**

Mitigation and management

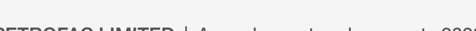
The Group Risk Committee and the Board actively monitor geopolitical developments and seek to avoid or minimise our exposure to jurisdictions with risk levels beyond our appetite. A detailed risk analysis is conducted before entering any new country and while pursuing and executing projects in new geographies.

We have good experience in project execution and maintain positive relationships with key stakeholders. Careful consideration is given to contractual terms and security conditions through our detailed risk review process, and we seek external advice on specialist issues as required.

The delivery model is modified to suit each project and we limit exposure to single sources of supply and service. We limit our fixed asset commitment within each contract and closely monitor and manage our cash flow and commitments.

Our Business Continuity Management System considers response to and recovery from geopolitical incidents. There is also continued focus on evacuation and emergency response. Our operations are assessed and executed in accordance with our Security Policy and Security Standards.

In 2022, we performed detailed assessments and continuously evaluated the impact of the evolving situation relating to Ukraine. This involved keeping our people and operations safe, ensuring we remained compliant with new sanctions, and making sure our contractual commitments in Russia were met.



Principal risks and uncertainties continued

Low order intake

The risk is that our clients exercise capital discipline, which impacts the demand for our services through the cancellation or delay of planned investments. The potential impact is that the Group could fail to deliver its anticipated backlog and growth targets.

The Group wins most of its work through a competitive bidding process, and as competition increases, there is a risk that we could fail to maintain differentiated margins.

Risk appetite

- We pursue opportunities consistent with our strategic focus and core competencies, and expect to secure a diversified portfolio in order to de-risk adverse events in our core markets
- We have appetite for more risk provided we review each opportunity, taking account of its respective risk profile and putting in place relevant controls to adequately mitigate risks to the planned execution strategy. We do not enter, or will exit, an opportunity, if we cannot ensure compliance with laws and regulations, execution quality or the safety and security of our people or reputation.

Risk appetite measures

– Book-to-bill ratio

Sub-risks

– Oil and gas industry downturn
– Loss of key markets due to geopolitical/litigation/budgetary concerns
– Increased competition in our core geographies/sectors
– Reduced bidding competitiveness
– Global events and subsequent impact on investments

FOR MORE INFORMATION SEE / **Pages 8-13; 16-19; 24-25**

Assessment: No change

The increase in the principal risk due to the Russia-Ukraine conflict and lower than expected order intake, especially in E&C, was offset by a positive outlook, mainly driven by stable oil and gas prices, and good visibility of the pipeline for 2023. We were able to return to bidding in key markets from which we had been temporarily excluded during the SFO investigation.

Risk category | **Strategic**
Link to our strategy | **Return to growth**

Mitigation and management

Our order intake is driven by our strategy, the development of which is overseen by the Board. Our service lines work together to identify, review, and win opportunities. We regularly analyse our business development activities, bid-to-win ratios, and our competition.

In 2022, we focused on addressing evolving client needs in areas such as increased in-country value and improved sustainability performance. We further enhanced our competencies in new energies and improved our bidding competitiveness by becoming a leaner organisation.

We continued to secure new orders during 2022, including projects in Algeria, Australia, and the United States, albeit the overall level of new orders secured in E&C was lower than expected. We see a diverse pipeline of bidding opportunities in the coming years across markets and geographies.

Failure to deliver strategic initiatives

Each of our strategic priorities is supported by various strategic initiatives that are overseen by senior management and the Board. To build enterprise value, we ensure each initiative is de-risked and respective success targets are met, assuring all stakeholders that we are pursuing an appropriate strategy capable of delivering shareholder value. The impact is reflected in the appetite from new investors and, consequently, the market valuation of the Group.

Risk appetite

- We have limited appetite for risks affecting our strategic initiatives, although we recognise that the delivery of these is also a function of market dynamics. We identify and adequately mitigate the risks to each initiative, having some appetite to be flexible over the timing of their delivery

Risk appetite measures

- Initiative impact (cost and value) and schedule targets
- Initiative-specific success goals

Sub-risks

- Rebalance: failure to maintain cost competitiveness
- Reshape: failure to deliver 1tec: functional excellence
- Rebuild: failure to rebuild backlog
- Rebuild: failure to deliver client-centricity strategy

FOR MORE INFORMATION SEE / **Pages 6-7; 8-19; 21**

Assessment: No change

We made progress across all our strategic initiatives, and the risk remained stable during 2022.

Risk category | Strategic

Link to our strategy | **Best-in-class delivery and Return to growth**

Mitigation and management

Each strategic initiative is governed by a stage-gate process and overseen by the Group Executive Committee. The Board regularly assesses our strategic initiatives and overall strategic plan to satisfy itself that the right balance of risk, capability, and reward is maintained. We conduct detailed sensitivity analysis to assess the robustness of our plans.

The Group Risk Committee reviews all material new business opportunities and projects, new country entries, joint ventures, investments, acquisitions, and disposals.

In a challenging environment, we continued to deliver our strategic initiatives in 2022. Key achievements for the year included:

- Embedded our new technical services organisation (1tec)
- Continued execution of our formal in-country value programme to help us drive growth and support delivery in our core and new geographies
- Continued establishing new partnerships
- Continued push into new markets including progress with a one-stop shop solution for integrated decommissioning

Principal risks and uncertainties continued

Failure to deliver new energies strategy

Due to climate change and the energy transition, our markets are changing, and the portfolios of our clients are going through a major transformation. Our new energies services line was established to respond to this change, and the Group has outlined a medium-term ambition for 20% of revenue to come from this over the medium-term. An inability to meet changing market needs will limit our future growth, and would hinder our commitments with regards to our response to climate change.

Risk appetite

- We are willing to be exposed to more risk in the new energies sector, and recognise that lower margins are to be expected as we seek growth.

Risk appetite measures

- Short and medium-term growth forecasts

Sub-risks

- Inability to secure partnerships
- Adverse/delayed change in government policies
- Changes in client requirements (terms and conditions and funding)
- Failures in our supply chain
- Failures in delivery and execution of new energies projects

FOR MORE INFORMATION SEE / **Pages 6-7; 10-11; 16-19; 72**

Assessment: Increased

The risk increased in 2022 due to delays in awards. These were largely driven by reduced funding and government support for energy transition initiatives in our targeted markets.

Risk category | **Strategic – Emerging Risk**

Link to our strategy | **Best-in-class delivery and Return to growth**

Mitigation and management

New energies focuses on four clearly defined segments of the market, namely offshore wind, CCUS, hydrogen, and waste-to-value, where we have a strong track record and relevant experience. The growth will be facilitated by: partnering in relevant technologies and with established developers; monitoring relevant government policies; and supporting the new energies organisation with 1tec expertise to successfully execute and deliver new energies projects.

In 2022, we:

- Established a significant new partnership with Hitachi Energy in offshore wind
- Continued to embed our technical services organisation (1tec) fully into our new energies offerings and organisation
- Continued improvements in our ESG performance, as demonstrated by positive ESG ratings (e.g. AA rating from MSCI)

Operational and project performance

Our portfolio typically includes a relatively small number of high-value contracts, a larger number of lower-value contracts, and some sizeable oil and gas assets. Cost or schedule overruns on any of the high-value contracts, or operational issues affecting production within our key assets could negatively impact the Group's profitability, cash flow and relationships with key stakeholders.

Risk appetite

- We have limited appetite for risks affecting execution of our portfolio. Portfolio margins will be maintained to support the delivery of our target total shareholder return relative to our global peers over the cycle.

Risk appetite measures

- Division-level cash flow and net income

Sub-risks

- Project execution
- Operation of assets

FOR MORE INFORMATION SEE / **Pages 6-7; 8-15; 22; 68-75**

Assessment: No change

Despite various project and operational challenges faced during the year, the financial impact of the project risks that had previously been identified were recognised during the year. The risk profile of our operational assets was reduced, the impacts of the pandemic were reflected and therefore the overall risk level remained the same as last year but with a reduced portfolio of projects.

Risk category | Operational
Link to our strategy | **Best-in-class delivery, and Superior returns**

Mitigation and management

Key risks to project delivery are initially identified at the tender stage, through the risk review process by relevant risk review committees and escalated to the Group Risk Committee or the Board, as required. On award, detailed execution strategies are further developed. During the execution phase, emerging risks and opportunities are managed through assurance, operational and project reviews. Lessons learnt are cascaded through leadership lines and our quality initiatives are focused on a right-first-time approach.

In 2022, we continued to embed 1tec, ensuring the value assurance framework was integrated to govern all aspects of project delivery across our operations. Project recovery plans were maintained, and project delivery remained a significant area of focus for the Executive team and the Board throughout the year.

Insufficient IT resilience

The Group's performance is increasingly dependent on the ongoing capability and reliability of our IT platforms. We (as with all companies) continue to be exposed to external cyber-security threats.

Risk appetite

We will manage our IT infrastructure to ensure the security of confidential information and the availability of our critical systems is not compromised

We have some appetite for risks to our IT infrastructure and cyber-security that do not impact services provided to our clients or deteriorate the effectiveness of key controls

Risk appetite measures

- Number of significant cyber incidents
- System resilience and access
- Removal of legacy systems

Sub-risks

- System breach due to malware attack
- Unavailability/loss of data due to inadequate response/recovery
- Cyber attacks
- Network unavailability due to end-of-life devices
- Compromise of user accounts through phishing and social engineering attacks
- System unavailability due to legacy and unsupported applications and server infrastructure
- Operational technology breach leading to operational disruption

FOR MORE INFORMATION SEE / **Pages 53**

Assessment: No change

The risk remained stable during 2022.

Risk category | Operational
Link to our strategy | **Best-in-class delivery**

Mitigation and management

We operate a Group-wide information security/cyber-security programme and have a cloud strategy to maintain a resilient IT platform.

In 2022, we continued to improve our information security controls through:

- A review of our information security practices with regards to global standards and best practices
- The migration of our enterprise storage solution to meet the needs of our organisation

In 2023 we will proceed with the opportunities identified during the review of our information security practices.

Principal risks and uncertainties continued

HSE incidents |

There are several factors that could impact our ability to operate safely. These include safety and asset integrity risks and they extend to a range of environmental risks. The risk is the potential harm to our people, and the commercial and/or reputational damage that could be caused.

Risk appetite

- We have no appetite for activities that do not meet our Horizon Zero vision

Risk appetite measures

– Number of projects/assets at risk
– Total recordable incident rate

Sub-risks

– Oil spills/gas leaks
– Integrity failure
– Loss of well control
– Driving accidents
– Fall from heights/lifting accidents/accidents during commissioning
– Contractor/JV partner/client with inadequate HSE standards/controls
– Threats to security of our staff
– Threats to employee health and wellbeing

FOR MORE INFORMATION SEE / **Pages 28-31; 50-54**

Assessment: No change

Despite some recent high-potential incidents, the risk remained stable in 2022 and was mitigated by the implementation of our new HSE strategy.

Risk category | **Operational**
Link to our strategy | **Best-in-class delivery**

Mitigation and management

Safety is fundamentally important and intrinsic to Petrofac's behavioural DNA. It is governed largely by our operating framework, Group policies, and systems that cover all elements of occupational health and safety, security, environmental, and asset integrity programmes.

In 2022 we improved on an already strong HSE performance with a new HSE strategy. Key achievements for the year include:

- Enhanced leadership visibility and oversight on site performance through site visits and safety scorecards
- New campaign and use of driving improvement applications to enhance our Driver Safety Programme
- Collaboration with contractors through annual performance reviews and rollout of Safety Hotspots at worksites to improve their respective safety performance
- Improved communication and engagement with worksites through the use of digital technology

Details of our HSE strategy, 2022 initiatives and 2023 priorities are outlined on pages 50 and 53.

Loss of financial capacity |

Failure to maintain adequate liquidity or provide guarantees to our customers could adversely affect our ability to deliver our strategy and may ultimately result in financial loss and/or ability to comply with our financial covenants.

Costs of debt may rise as a result of rating agency downgrades or reduced access to funding.

Access to funding is critical to our sustainability and future growth. Reduced access to funding could hamper the Group's growth and/or adversely affect the Group's financial performance.

Risk appetite

We have no appetite for a loss of financial capacity that results in a failure to meet our financial obligations as they fall due and remain solvent, or that impairs our ability to meet client requirements for guarantees.

Risk appetite measures

- Liquidity
- Credit rating
- Unfunded facilities

Sub-risks

- Failure to maintain adequate liquidity
- Failure to provide guarantees

FOR MORE INFORMATION SEE / **Pages 88-93**

Assessment: No change

Despite the challenges we experienced during the year in respect of financial performance resulting in the renegotiation of our debt facilities financial covenants, we have maintained our credit rating, secured an extension for our bank debt facilities, and observed a marginal improvement on the availability of guarantees.

Risk category | **Financial**
Link to our strategy | **Superior returns**

Mitigation and management

We maintain an adequate level of liquidity in the form of readily available cash, short-term investments, or committed credit facilities, and ensure a minimum level of liquidity (as defined by the Audit Committee) is maintained.

Debt, cash, and liquidity balances are monitored on a daily basis. We prepare cash flow forecasts on a quarterly basis, aligned to our reforecast cycle, and rolling cash forecasts on a monthly basis to help manage liquidity and short-term forecasting. Our financial policy targets BBB investment grade credit metrics over the long term.

We maintained our credit rating, retained an appropriate capital structure, secured an extension for our bank debt facilities, and reduced cash held in joint ventures and in highly regulated jurisdictions. However, the Group's liquidity position in the mitigated severe but plausible downside scenario considered in the Group's going concern assessment is reliant on a small number of collections from clients, which are not entirely within the direct control of the Group. Accordingly, there is a material uncertainty applicable to the going concern assessment as explained in note 2.5 to the Group consolidated financial statements.

In 2023, we will continue to focus on cash collection and will maintain financial discipline.

Principal risks and uncertainties continued

Misstatement of financial information |

We execute complex projects in a dynamic environment across various jurisdictions with numerous clients. Our business performance and financial results reflect our current assessment of assumptions and financial estimates, however actual outcome may vary. These may negatively impact investor confidence.

Risk appetite

- We have no appetite for reporting materially incorrect financial information

Risk appetite measures

- Assessment of effectiveness of financial controls
- Reporting errors/restatements

Sub-risks

- Inaccurate revenue recognition/cost forecasting
- Breakdown in transactional accounting controls
- Asset carrying amounts exceeding recoverable amounts
- Inaccurate corporate income tax reporting
- Breakdown in system access controls
- Inaccurate financial consolidation and reporting

FOR MORE INFORMATION SEE / **Pages 94; 116-121; 125**

Assessment: No change

In 2022, control deficiencies were identified with respect to the timely identification of increases in contract costs for the Thai Oil Clean Fuels contract and prior year adjustments were identified. With respect to the Thai Oil Clean Fuels contract, management performed additional assurance activities to satisfy itself that there were no other similar occurrences within the broader E&C portfolio. Following the implementation of these additional assurance procedures in response (see Audit Committee report on page 114), the overall risk remained stable.

Risk category | **Financial**
Link to our strategy | **Best-in-class delivery**

Mitigation and management

Our Financial Control Framework ensures that adequate controls are identified, implemented, and monitored throughout all our key financial activities. Adequacy of these controls are certified and reviewed by various assurance activities and overseen by the Audit Committee.

In 2022, we continued to improve our controls in this area with the ongoing implementation of a new Enterprise Resource Planning platform, which will continue in 2023. Furthermore, in response to the identified deficiencies in internal control and prior year adjustment in respect of the Thai Oil Clean Fuels contract, we implemented additional assurance activities. These included specific verifications that any updated bills of quantities information had been reflected in the contract cost forecasts, and if necessary, the financial statements.

Also, we included additional disclosures and corrections in the Group's consolidated 2022 financial statements following both a review of the 2021 financial statements by the Financial Reporting Council's Corporate Reporting Review Team and the identification of other prior year adjustments (note 2.9 of the consolidated financial statements).

Breach of laws, regulations and ethical standards |

Non-compliance with laws, regulations and ethical standards due to failures in our compliance controls or unethical behaviour, including but not limited to bribery, corruption, money laundering, trade sanctions, and labour rights, may result in fines and/or adverse impact on our reputation.

Risk appetite

- We have no appetite for non-compliance with laws and regulations
- We expect our direct and indirect staff and third parties to act according to the highest ethical standards and in line with our Code of Conduct

Risk appetite measures

- Third-party due diligence
- Employee completion of mandatory compliance training and annual declaration of compliance
- Investigations of Speak Up cases

Sub-risks

- Violation of laws and regulations, including: Foreign Corrupt Practices Act, UK Bribery Act, whistleblower protection, trade compliance, Modern Slavery Act, anti-money laundering, and antitrust and competition

FOR MORE INFORMATION SEE / **Pages 23; 28-31; 63-67; 123-124**

Assessment: No change

- The overall risk level remained unchanged in 2022, this was due to the changes and improvements implemented following the SFO investigation, which concluded in 2021.

Risk category | Legal and compliance
Link to our strategy | **Best-in-class delivery**

Mitigation and management

We operate a Group-level Compliance Programme overseen by the Compliance and Ethics Committee. We continued to enhance this programme during 2022, including:

- Reviewed and revised our controls using new online tools relating to gifts and entertainment and conflict of interest processes
- Revised our due-diligence controls, including new documentation and enhanced oversight of the Third-Party Review Committee

Priorities for 2023 will be determined upon the completion of independent external reviews. Further information on our compliance programme is provided on pages 65 to 67.

Inadequate leadership and talent management |

Our operations are heavily dependent on our ability to attract, retain and lead the right level of skilled and experienced personnel. Failure to do so could negatively impact our distinctive, delivery-focused culture, and prevent us from maintaining our operational capability and positive relationships with clients.

Risk appetite

- We take a balanced approach towards risks to establishing and maintaining a talented workforce within the context of prevailing job market economics
- Our leaders live our values and behaviours and operate as one team at all times.

Risk appetite measures

- Results of employee surveys
- Staff turnover
- Diversity and inclusion targets
- Succession plans

Sub-risks

- Inability to attract and retain the capability necessary to deliver the business plan
- Fragility in our succession planning for key roles
- Leadership fails to live our values and behaviours
- Reduced performance of staff due to insufficient levels of diversity and inclusion

FOR MORE INFORMATION SEE / **Pages 21; 28-31; 55-58; 63-64; 112-113**

Assessment: Increased

The risk increased since our last update due to a higher attrition rate in a tight job market. However, this continues to have limited impact on our operations.

Risk category | People
Link to our strategy | **Best-in-class delivery**

Mitigation and management

We remain confident that our policies to attract, retain, train, promote, and reward our people are appropriate for the Group, and will enable us to meet our strategic goals.

In 2022, we established a new resourcing plan and initiated a recruitment drive to meet our future human capital requirements. These efforts were coupled with improvements in our overall benefit structure and reward and remuneration initiatives. Diversity and inclusion initiatives were also implemented successfully, including the launch of two additional Employee Networking Groups (see pages 56 and 58 for more detail).

Financial review

The Group's financial performance in 2022 reflected continuing challenges in the Engineering & Construction (E&C) portfolio, partly offset by strong performance in Asset Solutions and Integrated Energy Services (IES). The lingering impact of the Covid-19 pandemic continued to affect our E&C operating segment, with additional costs incurred due to extended schedules not being fully recovered from our clients. Overall, revenue was down year-on-year due to lower activity. Despite underperformance in profitability and low levels of new awards in the year, cash flows have been effectively controlled to manage the impact on net debt.

In April 2023, after the year-end, we extended the Revolving Credit Facility (RCF) and both bilateral term loans by 12-months to October 2024 (see note 26 of the consolidated financial statements for further details).

Cash flows have been effectively controlled, despite underperformance in profitability and low levels of awards in the year, to manage the impact on net debt".

AFONSO REIS E SOUSA
Chief Financial Officer

	Year ended 31 December 2022			Year ended 31 December 2021 (restated)[3]		
	Business performance[2] US$m	Separately disclosed items US$m	Reported US$m	Business performance[2] US$m	Separately disclosed items US$m	Reported US$m
Revenue	2,591	–	2,591	3,038	–	3,038
EBITDA	(126)	(12)	(138)	56	(142)	(86)
EBIT	(205)	(7)	(212)	(12)	(177)	(189)
Net (loss)/profit[1]	(284)	(26)	(310)	3	(248)	(245)

Income statement

Revenue

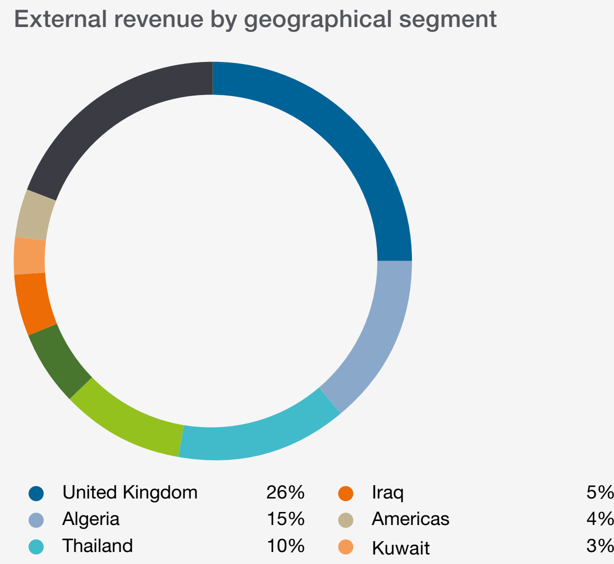
Group revenue decreased 15% to US$2.6 billion (2021 restated[3]: US$3.0 billion). This was principally due to a decline in revenue in the E&C operating segment which decreased 33% reflecting lower levels of activity compared with the prior year. Revenue in Asset Solutions increased by 4% primarily driven by growth in Wells & Decommissioning and Asset Developments, partially offset by lower levels of activity in Asset Operations. Revenue in the IES operating segment increased significantly driven by an increase in production and higher realised oil prices.

The Group generated revenue from a broad range of geographic markets in 2022, with UK, Algeria, Thailand and Oman generating 61% of Group revenue (2021: top four markets – UK, Algeria, Thailand and Oman generated 65% of revenue).

Earnings Before Interest and Tax (EBIT)

The Group reported a business performance[2] EBIT loss of US$205 million (2021 restated[3]: US$12 million), largely driven by a US$299 million EBIT loss in E&C (2021 restated[3]: US$62 million), reflecting the impact of further unrecovered costs in the legacy portfolio, cost increases on the Thai Oil Clean Fuels contract and some adverse commercial settlements. Asset Solutions EBIT margins were below prior year at 5.2% (2021: 6.7%), due to the contract portfolio mix in addition to the roll-off of certain historic high-margin contracts, and a higher contribution from pass-through revenue in Wells & Decommissioning. EBIT in IES increased to US$58 million (2021: loss of US$6 million) due to the increase in revenue without a commensurate increase in costs. Group business performance[2] EBIT margin declined to (8.0)% (2021 restated[3]: (0.4)%), reflecting the reductions in E&C and Asset Solutions described above, partially offset by improvement in IES. The reported EBIT was a loss of US$212 million (2021 restated[3]: US$189 million) due to the business performance described above and lower separately disclosed items incurred in 2022.

External revenue by geographical segment



Financial review continued

Year ended 31 December 2022

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m	Separately disclosed items US$m	Reported US$m
Total revenue	**1,311**	**1,158**	**137**	**6**	**(21)**	**2,591**	**–**	**2,591**
EBIT	**(299)**	**60**	**58**	**(24)**	**–**	**(205)**	**(7)**	**(212)**
EBIT margin	**(22.8)%**	**5.2%**	**42.3%**	**n/a**	**n/a**	**(7.9)%**	**n/a**	**(8.2)%**

Year ended 31 December 2021 (restated)[3]

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance[2] US$m	Separately disclosed Items US$m	Reported US$m
Total revenue	1,952	1,111	50	–	(75)	3,038	–	3,038
EBIT	(62)	74	(6)	(18)	–	(12)	(177)	(189)
EBIT margin	(3.2)%	6.7%	(12.0)%	n/a	n/a	(0.4)%	n/a	(6.2)%

Depreciation and amortisation

Business performance depreciation and amortisation increased to US$79 million (2021: US$68 million), due to increased production in IES.

	2022 US$m	2021 (restated)[3] US$m
Engineering & Construction	**12**	24
Asset Solutions	**10**	10
Integrated Energy Services	**51**	27
Corporate	**6**	7
Total (business performance[2])	**79**	68
Separately disclosed items	**(5)**	35
Total (reported)	**74**	103

Finance income/(expense)

Finance income decreased to US$7 million (2021 restated[3]: US$15 million) due to a reduction in the unwinding of the discount on the receivables, and lease interest from joint operation partners. Business performance finance expense increased to US$98 million (2021 restated[3]: US$53 million), largely reflecting the full year effect of the higher interest rate associated with the high yield bond secured as part of the refinancing completed in November 2021. See note 6 of the consolidated financial statements for details of the SDI finance expense item.

	2022 US$m	2021 (restated)[3] US$m
Finance income		
Bank interest	**1**	1
Lease interest from JO partners	**6**	9
Unwinding of discount on receivables	**–**	5
Total	**7**	15

	2022 US$m	2021 (restated)[3] US$m
Finance expense		
Group borrowings	**(85)**	(36)
Lease liabilities	**(12)**	(16)
Unwinding of discount on provisions	**(1)**	(1)
Total (business performance[2])	**(98)**	(53)
Separately disclosed items	**(18)**	(28)
Total (reported)	**(116)**	(81)

Taxation

The Group had a reported income tax expense was US$16 million (2021 restated[3]: credit of US$13 million).

Business performance[2] income tax expense for the year of US$15 million (2021 restated[3]: credit of US$56 million), reflecting a change in mix of profits in the jurisdictions in which the profits and losses were generated. Tax provision releases in the year were US$20 million (2021 restated[3]: US$73 million) due to favourable tax audit outcomes in certain jurisdictions in relation to prior period assessments.

Net profit/(loss)

Business performance[2] net loss attributable to Petrofac Limited shareholders for the year was US$284 million (2021 restated[3]: profit of US$3 million) primarily due to the lower EBIT and the higher net finance expense incurred in the year, in addition to higher income tax charge. Business performance[2] net margin was (11.0)% (2021 restated[3]: 0.1%).

A reported net loss of US$310 million (2021 restated[3]: US$245 million) resulted from the movements noted above and the lower net separately disclosed items incurred in 2022.

Separately disclosed items

During the year, the Group incurred US$26 million (2021 restated[3]: US$248 million) of net separately disclosed items.

These predominantly related to:

- US$(5) million net non-cash reversal of impairment charge primarily resulting from a review of the carrying amount of the investment in Block PM304 in Malaysia
- US$(10) million of net fair value remeasurements, primarily resulting from the improved final settlement of the contingent consideration receivable from the 2020 disposal of the Group's operations in Mexico
- US$18 million of financing related costs associated with the embedded derivative in respect of the Revolving Credit Facility
- US$10 million of cloud ERP software implementation costs
- Other net separately disclosed items of US$13 million including: restructuring and redundancy costs (US$4 million); a loss on the sale of the deferred consideration receivable due from Ithaca Energy UK Ltd (US$3 million); and professional service fees in the Corporate reporting segment (US$5 million)

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

Cash flow

Operating cash flow

Operating activities generated a net cash outflow of US$146 million (2021: US$161 million), principally reflecting the working capital inflow during the year, partially offset by a decline in EBITDA and the payment of the penalty imposed by the UK courts in relation to the SFO investigation which concluded in 2021. The operating profit cash flow adjustments were US$(12) million (2021 restated[3]: US$(59) million). Net income taxes paid increased to US$52 million (2021: US$42 million) as a number of tax assessments and audits concluded, resulting in the payment of the remaining balance which had been previously provided.

	2022 US$m	2021 (restated)[3] US$m
Business performance EBITDA	**(126)**	56
Operating profit adjustments	**(12)**	(59)
Operating profit before changes in working capital and other items	**(114)**	(3)
Net working capital movement	**135**	(88)
Separately disclosed items paid	**(115)**	(28)
Net income taxes paid	**(52)**	(42)
Net cash flows used in operating activities	**(146)**	(161)

Working capital inflow/(outflow):

	2022 US$m	2021 (restated)[3] US$m
Inventories	**7**	(15)
Trade and other receivables	**(101)**	211
Contract assets	**268**	78
Restricted cash	**26**	(93)
Net derivative contracts	**6**	(13)
Trade and other payables	**(95)**	120
Contract liabilities	**62**	(40)
Accrued contract expenses	**(38)**	(336)
Net working capital movements	**135**	(88)

The net working capital inflow of US$135 million (2021 restated[3]: outflow of US$88 million) was due to cash inflows on contract assets and contract liabilities more than offsetting cash outflows in trade and other receivables, trade and other payables and accrued contract expenses. These cash inflows were largely driven by the progress achieved in the E&C operating segment as the portfolio continued to mature, while the underlying DSO (days sales outstanding) increased due to longer billing cycles as a result of Covid-19 related delays on E&C projects as well as slower cash collections from clients.

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

Free cash flow

The free cash outflow for the year of US$188 million (2021: US$281 million) primarily reflects high net cash outflow used in operating activities, and the higher interest payments, partially offset by higher divestment proceeds received in respect of the sale of the Mexican assets in 2020 and the disposal proceeds in relation to the consideration received from Ithaca Energy UK Limited receivable.

Group capital expenditure decreased to US$46 million (2021: US$53 million), with approximately 57% being incurred in IES for the final stages of the capital development programme in Block PM304.

	2022 US$m	2021 (restated)[3] US$m
Net cash flows generated from operating activities	**(146)**	(161)
Capital expenditure	**(46)**	(53)
Divestments	**98**	9
Receipts from joint operation partners in respect of leases	**28**	59
Other investing activities, including dividends received from associates and JVs	**18**	23
Net cash flows generated from investing activities	**98**	38
Interest paid	**(86)**	(36)
Separately disclosed items – refinancing-related costs paid	**–**	(23)
Repayment of lease liabilities	**(54)**	(99)
Free cash flow	**(188)**	(281)

Financial review continued

Balance sheet

IES carrying amount

The carrying amount of the IES portfolio stood at US$86 million at 31 December 2022 (2021 restated[3]: US$84 million), solely comprising the Group's interests in its operations in Malaysia and reflecting the partial impairment reversal described above.

Leases

Net lease liabilities, calculated as gross lease liabilities minus 64.7% of leases relating to Block PM304 in Malaysia, reflecting the amount receivable from joint operation partners, decreased 6% to US$116 million at 31 December 2022 (2021: US$124 million). Net lease liabilities attributable to PM304 amounted to US$52 million (2021: US$59 million) and largely relate to the bareboat charters for the floating equipment used for block operations.

Total equity

Total equity at 31 December 2022 decreased to US$112 million (2021 restated[3]: US$423 million), reflecting the operational losses in the year. No dividends were paid in the period (2021: nil).

Of the US$112 million of total equity at 31 December 2022, US$129 million (2021 restated[3]: US$413 million) was attributable to Petrofac Limited shareholders and US$(17) million (2021: US$10 million) was attributable to non-controlling interests.

Net debt and liquidity

Net debt

Net debt, excluding net finance leases, increased to US$349 million at 31 December 2022 (2021: US$144 million). The net debt increase was predominantly due to the payment of the SFO penalty and interest payments in 2022.

Total gross borrowings less associated debt acquisition costs were US$799 million at 31 December 2022 (2021: US$764 million). This consisted of US$583 million senior secured notes, US$117 million drawn on the revolving credit facility and US$99 million of term loans (net of US$7 million and US$1 million respectively of debt acquisition costs).

	2022 US$m	2021 US$m
Cash and short-term deposits	**450**	620
Interest-bearing loans and borrowings	**(799)**	(764)
Net debt	**(349)**	(144)

Extension of debt facilities

Following the capital raise (note 22) and the refinancing completed in 2021, the Group successfully completed an amendment and extension to its existing bank facilities in April 2023 (note 26).

The Group therefore now has facilities consisting of US$600m 9.75% senior secured notes (due 2026) a US$162m revolving credit facility and two bilateral loan facilities totalling US$90m (all of which mature in October 2024). All facilities are for general corporate purposes.

It should be noted that as this amendment and extension (including a waiver of the financial covenant testing date of 31 December 2022) was completed after the year end and the Group did not have an unconditional right to defer repayment of these facilities for greater than 12 months as at the balance sheet date, the borrowings have been disclosed as current in the balance sheet.

Liquidity

The Group's total available borrowing facilities, excluding bank overdrafts, were US$880 million at 31 December 2022 (2021: US$880 million).

Of these facilities, US$56 million was undrawn at 31 December 2022 (2021: US$85 million). Combined with the Group's cash and short-term deposits of US$450 million (2021: US$620 million), the Group had US$506 million of liquidity available at 31 December 2022 (2021: US$705 million).

Following the extension of the debt facilities in April 2023, the total available facilities were:

Borrowing facilities	Amount (US$m)	Maturity date[4]
Senior secured notes	600	Nov-26
Revolving credit facility	162	Oct-24
Term loan 1	45	Oct-24
Term loan 2	45	Oct-24
Total borrowing facilities	852	

The revolving credit facility and term loans have been amended and extended as described above, and are subject to financial covenants relating to liquidity and EBITDA. More detail can be found in note 26 to the consolidated financial statements.

Note that 31 December 2022 covenants were waived by the banks (leverage and interest cover).

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

Going concern

The Directors considered the going concern assessment for the extended period up to 31 December 2024 (the Assessment Period). The Group closely monitors and manages its funding position, liquidity and financial covenant headroom by producing robust cash forecasts and assessing downside sensitivities considered to be severe but plausible based on the Group's principal risks and uncertainties.

These forecasts show that the Group will be able to maintain compliance with its financial covenants and have sufficient liquidity headroom during the Assessment Period under its base case scenario. However, the Group's liquidity position in the mitigated severe but plausible downside scenario is reliant on a small number of collections from clients which are not entirely within the direct control of the Group. Accordingly, there are material uncertainties applicable to the going concern assessments, as defined in auditing and accounting standards, related to the timing of receipt of these collections from clients.

The Directors concluded, after rigorously evaluating relevant, available information, that, they remain confident in the prospects of the Group to maintain compliance with its financial covenants and sufficient liquidity even in a severe but plausible downside scenario.

Backlog

The Group's backlog decreased 15% to US$3.4 billion at 31 December 2022 (2021 restated[3]: US$4.0 billion), reflecting low new order intake in E&C due to industry delays to awards, partially offset by strong order intake in Asset Solutions.

Overall, Group order intake for the year was US$1.9 billion, representing a book-to-bill of 0.7x. Order intake in E&C was US$0.5 billion (2021: US$1.2 billion), comprising an EPC contract in Algeria and other net variation orders. Order intake in Asset Solutions increased to US$1.4 billion (2021: US$1.0 billion), representing a book-to-bill of 1.2x.

Dividends

The Board recognises the importance of dividends to shareholders and expects to reinstate them in due course, once the Company's performance has improved.

Prior year adjustments

A number of prior year adjustments have been identified in the year and reflected in the comparative information in this year's financial statements.

The largest of these adjustments was in respect of the Thai Oil Clean Fuels contract, where indications of a material growth in the bills of quantities volumes resulting from a periodic engineering scope review had not been appropriately identified and considered prior to the approval of the Group's consolidated financial statements for the year ended 31 December 2021. These should have been evaluated and reflected in the 2021 financial statements. This issue was identified by the Group's Internal Audit function and indicated a deficiency in internal controls in respect of this uniquely complex project, executed in a consortium. In order to satisfy itself that there were no other similar occurrences within the broader E&C portfolio, the Group undertook a series of incremental assurance activities (see note 2.9 on page, the principal risks and uncertainties disclosures on page 78 to 87 and the Audit Committee report on page 114 to 122). These assurance activities confirmed that there were no such occurrences.

In September 2022, the Group's 31 December 2021 financial statements were subject to a review by the Financial Reporting Council's (FRC) Corporate Reporting Review Team (CRRT). This review is now closed. As stated in note 2.9 to the consolidated financial statements, the review resulted in some classification and presentational prior year adjustments being recorded in the Group's consolidated income statement and statement of cash flows and the Company's statement of cash flows, but did not have any impact on consolidated net profit or consolidated net change in cash and cash equivalents.

Full details can be found in note 2.9 to the consolidated financial statements, alongside details of other prior year adjustments.

AFONSO REIS E SOUSA
Chief Financial Officer
27 April 2023

Notes:
1. Attributable to Petrofac Limited shareholders
1. This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 4 of the consolidated financial statements
2. The prior year numbers are restated as detailed in note 2.9 to the consolidated financial statements
3. Borrowing facilities at 27 April 2023

Viability statement

In accordance with the requirements of the 2018 UK Corporate Governance Code (the UK Code), the Directors confirm that they have performed a robust assessment of the Group's prospects and its ability to continue in operation and meet its liabilities as they fall due over the period of their assessment. In doing so, they have considered the Group's current position and the principal risks and uncertainties that would threaten the viability of the business.

The Group's financial statements for 2022 are prepared on a going concern basis with a material uncertainty identified with respect to the Group's ability to maintain liquidity covenant compliance and adequate liquidity, linked to the timing of receipt of a small number of relatively high value collections, as described in the going concern assessment in note 2.5 of the consolidated financial statements.

Details of the Group's risk governance and management framework and a description of its principal risks and uncertainties are included in the Strategic report on pages 78 to 87. In addition to the inherent risk of delivering large and complex projects safely, on time and on budget, the key medium-to-long term factors affecting the Group's prospects together with the Group's current position and outlook are set out below:

Factors affecting the Group's prospects	Group's current position and outlook
Energy market outlook: the long term outlook for energy prices affects the investment decisions of our clients and consequently the timing and quantum of new awards, principally in our E&C division. **Oil Price**: in the short term, oil price affects cash generated from oil and gas production in our IES division. **Economic and market environment:** the appetite of clients to award contracts and any restrictions or opportunities on access to certain markets reflects the macro-economic environment, geo-political conditions and other macro events.	**Addressable market:** the Group's addressable market, which excludes Saudi Arabia and Russia, is estimated to grow to more than US$127 billion per annum by 2025, driven by growing energy demand and a lack of investment in the industry in the past decade. Significant growth is expected in the Group's core MENA region, driven by spending from national oil companies, where Petrofac has a differentiated position with its local delivery model. In addition, significant short- to medium-term opportunities are expected in the offshore wind, decommissioning and sub-Saharan Africa markets, where the Group also has differentiated offerings. **Near term visibility:** at 31 December 2022, the Group had backlog of US$3.4 billion, with secured revenue in 2023 of approximately US$2.1 billion (55%). In addition, new order intake for the year to date in 2023 is approximately US$1.7 billion with a further US$1.5 billion at preferred bidder stage and a second TenneT contract expected, worth in excess of US$1 billion. The current tendering pipeline is approximately US$51 billion of opportunities scheduled for award in the period to June 2024. **Medium term ambition:** in the medium term, the Group is targeting revenue of US$4 billion – US$5 billion, sector leading EBIT margins and a net cash position, which is supported by its business plan.
Energy transition: the nature and speed of the transition to new energies, and the Group's ability to address these new market opportunities in the medium to long-term.	Energy transition: the Group is well positioned in the new energy services market, with track record of over a decade in offshore wind and is rapidly expanding credentials in carbon capture, utilisation and storage (CCUS), hydrogen production and waste-to-value. The short-term to medium-term opportunity is expected to materialise principally through further EPC opportunities in the offshore wind market, decommissioning work related to the transition away from fossil fuels, and FEED and pre-FEED studies in the other new energy markets. In addition to the multi-year project framework agreement with TenneT, the Group is strongly positioned to further capitalise on the offshore wind EPC market, through its collaboration with Hitachi Energy, a market-leading equipment manufacturer, to provide joint grid integration and associated infrastructure.

Factors affecting the Group's prospects	Group's current position and outlook
Cost competitiveness: the ability to maintain a sustainable, cost competitive position to win contracts and positive economic returns through operational excellence.	**Cost management:** the Group focuses on continuous innovation, the application of technology and other measures to deliver cost savings and maintain its cost competitiveness. In 2021, the new operating model (1tec) was initiated and further embedded during 2022. 1tec provides the consistency and predictability of delivery required to enable the Group to maintain high standards of execution and deliver sector leading returns.
Availability of funding: the capital markets' and banking appetite to finance the global energy industry and the Group.	**Net debt and liquidity:** at 31 December 2022, the Group had cash and cash equivalents of US$450 million, net debt of US$349 million, liquidity of US$0.5 billion and was in compliance with its financial covenants (taking into account the waiver secured in early 2023 for the covenants as at Q4 2022). US$600 million (68%) of the Group's borrowing facilities mature in November 2026, with the remaining 32% maturing in steps over the period to October 2024. The Group has stated its ambition, supported by its business plan, to transition to a net cash position, reducing its reliance on external borrowings.

The Group's prospects are subject to inherent forecasting risks relating to the Group's principal risks and uncertainties, which include *inter alia* low order intake, loss of financial capacity, macro-economic uncertainty, prevailing oil price environment, impact of energy transition, ability to re-enter core markets, and the ability of the Group to deliver its strategic initiatives.

The Directors have determined that a three-year period to 31 December 2025 (the Period) is the most appropriate duration for its viability assessment period. This Period has been selected as it provides the Board sufficient visibility into the Group's clients' capital and operational expenditure plans, it covers the period over which existing backlog is executed, and it is consistent with the Group's business plan duration. These elements comprise the foundation for modelling the Group's financial performance, including sensitivities and scenarios, which instructs the Directors on whether there is a reasonable expectation of viability over the Period.

The key assumptions within the Group's business plan for the Period include:

- **Oil price:** US$85 per barrel in 2023, reducing to US$80 per barrel in 2024 and US$75 per barrel in 2025
- **Accessible market:** continued access to a diversified pipeline of opportunities throughout the Period, excluding Saudi Arabia and Russia
- **New order intake:** a book-to-bill of 1x or greater in each year of the plan in both E&C and Asset Solutions business units
- **Margins:** EBIT margins in E&C remain at lower levels in the near-term as a result of low order intake in recent periods, an underperforming mature contract portfolio, limited contribution from new awards and a reduced operating leverage. A recovery in the medium-term is expected, driven by the return of awards in the Group's core markets in addition to the TenneT offshore wind framework agreement. Asset Solutions is expected to continue its resilient performance with revenue growth at healthy margins
- **Cash collections:** receipt of a small number of high value collections, as described in the going concern assessment in note 2.5 to the consolidated financial statements
- **Liquidity and net debt:** the Group has a long-term capital structure through its senior secured notes (due in 2026), and RCF and bilateral loans which were recently extended until October 2024. The Group has a significant net working capital balance which is expected to unwind during the Period, reducing net debt and improving liquidity

The impact of cost increases on the legacy mature E&C portfolio of contracts is reflected in the Group's financial performance to 31 December 2022 and in the business plan margin forecasts. With seven contracts completed or substantially completed[1] in 2022 and a further five of the remaining eight active contracts scheduled for completion in 2023, the Directors have concluded that the risk of cost increases during the period is lower than in previous periods.

In order to assess the resilience of the Group to threats to its viability, the Group's business plan forecasts were subjected to robust multi-variable stress test and sensitivity analyses together with an assessment of potential mitigating actions. This analysis included scenarios that considered the crystallisation of principal risks and uncertainties arising from the following:

1. Completed and substantially completed contracts: contracts where (i) a Provisional Acceptance Certificate (PAC) has been issued by the client, or (ii) transfer of care and custody (TCC) to the client has taken place, or (iii) PAC or TCC are imminent and no substantive work remains to be performed by Petrofac

Viability statement continued

Principal risks and uncertainties	Scenarios
• Adverse geo-political and macro-economic changes in key geographies • Low order intake	A material decline in new order intake, notably a c.50% reduction in value of new awards in E&C and c.20% in Asset Solutions, spread across the Period, which could be driven by factors such as, but not limited to a low energy price environment, economic uncertainty, accelerated energy transition and other restrictions such as sanctions.
• Failure to deliver strategic initiatives • Poor project execution	EBIT margin deterioration of c.1% for E&C, which could be driven by cost overruns and adverse commercial or legal settlements. Delays in material cash collections.
• Loss of financial capacity	The Group retains access to financing at current levels and secure guarantees in support of new contract awards.
• Breaches of laws, regulations, and ethical standards	No financial impact that threatens viability would crystalise from contingent liabilities during the Period (refer to note 30)

The scenarios above were modelled in combination to assess the impact on the Group's liquidity headroom and financial covenant metrics. While the Group is expected to retain sufficient liquidity and covenant compliance under this downside scenario, there is a material uncertainty with respect to the Group's ability to maintain liquidity covenant compliance and positive liquidity, linked to the timing of receipt of a small number of relatively high value collections, as described in note 2.5.

The Directors have also evaluated mitigating actions that management could realistically take to avoid or reduce the impact or occurrence of the principal risks and uncertainties materialising. Management has a track record of implementing cost saving measures, such as during 2020 and 2021 in response to the impact of the COVID-19 pandemic and fall in oil prices, and taking actions to maintain sufficient liquidity in the absence of budgeted new awards and working capital unwind. Consequently, the Directors are confident that management could continue to build on such measures in response to the crystallisation of principal risks and uncertainties and have modelled such cost savings accordingly.

The Directors also considered the following key assumptions (the assumptions) in its viability assessment:

- **Oil price:** with the current sustained higher energy price environment, the Group will benefit from improvements in the new order outlook and commercial and operating environment in both the E&C and Asset Solutions divisions
- **Winning work:** the Group expects to continue to win work based on its resources, competencies, experience and track record as a leading contractor to the energy industry and the impact of restricted geographies in the pipeline will not have a material impact on future prospects
- **Access to finance:** the Group will continue to have access to finance at maturity of the existing facilities during the Period, alternatively will repay those facilities as it transitions to a net cash position
- **Other adverse events and conditions:** the Group is exposed to inherent risks, for example, poor operational execution, unfavourable commercial settlements and/or adverse outcomes in disclosed contingent liabilities (refer to note 30), which could – based on the nature, amount and timing of such events and conditions – threaten its viability. Notwithstanding the material uncertainty referenced above, based on available liquidity headroom, the occurrence of such events and conditions are assessed not to fully erode liquidity or covenant headroom, after available mitigations
- **Mitigations available:** the specific mitigations modelled include reducing operating costs and continued suspension of the dividend. Additional actions are in the control of – or realistically available to – management, such as further disposals of non-core assets

The Group actively monitors and responds to the risks identified in the viability assessment scenarios. There is a risk that future conditions will be more adverse than assumed, particularly with respect to the timing of collections that has given rise to a statement of material uncertainty within the going concern assessment. However, the Directors concluded, after conducting a robust assessment taking into account the Group's current position, prospects, principal risks and uncertainties and the assumptions listed above, that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period to 31 December 2025.

Chair's introduction

RENÉ MÉDORI
Chair

Chair's introduction

On behalf of the Board, I am pleased to present the Group's Corporate governance report for 2022.

Like other businesses in this sector, Petrofac has faced numerous macroeconomic headwinds, including labour shortages, cost inflation and supply chain delays during the year.

Despite this challenging backdrop, the business has remained resilient and has made good operational progress in resolving challenges on pandemic-affected legacy projects. The Group has worked to capitalise on progress made in 2021 and signs of recovery are beginning to be seen.

Board changes

May 2022 saw the departure of Andrea Abt and George Pierson as members of our Board. I would like to take this opportunity to thank them both for their contributions to the Company during their six-year tenure on the Board.

At the end of March 2023, Sami Iskander, our Group Chief Executive, stepped down from the Board. During his tenure with Petrofac, Sami oversaw the resolution of the SFO's investigation, and led a comprehensive refinancing programme. He has reshaped the business and put it firmly on a path to growth.

On 1 April 2023 Tareq Kawash joined as our new Group Chief Executive. With 30 years' international EPC leadership experience, and an impressive business development track record, the Board believes he will be well placed to build on the foundations laid by Sami, and we look forward to welcoming him to the Board.

Governance

The Board understands the benefits of annual performance evaluations, both for Directors on an individual basis, as well as for the Board as a whole. So, in accordance with the UK Corporate Governance Code, an externally facilitated effectiveness evaluation was undertaken during the year. This provided an objective view of our performance and proposed areas for focus as we continue to modernise our approach.

Diversity and inclusion

Diversity and inclusion continue to be focal points for the Board as these are considered to be significant factors in the Company's future success. We believe that an inclusive and diverse workforce promotes safety, productivity and wellbeing, and underpins our ability to attract and retain employees.

Looking ahead

Over the year ahead, we will continue to focus on getting Petrofac back to delivering major projects at scale, and to building and developing relationships with our key clients. As Tareq joins the Board, we will endeavour to build on the foundations set by Sami to win new opportunities.

As a Board, we will continue to ensure that we make the right decisions to support the long-term sustainable success of our business to create long-term value for shareholders.

I would like to thank all our stakeholders for their continued support over recent years.

RENÉ MÉDORI
Chair
27 April 2023

Good governance is central to our business and as a Board, a key priority is to continue to do what is best for our Company, our employees, our clients and our shareholders."

The UK Corporate Governance Code

As a Jersey incorporated company listed in the UK, Petrofac is subject to the principles and provisions of the UK Corporate Governance Code (UK Code). The UK Code underpins the corporate governance framework for premium listed companies and sets out principles and provisions of good governance with compliance with the UK Code resting with the Board. A copy of the UK Code is available at www.frc.org.uk. Petrofac is required to explain how the Company has complied with the UK Code and applied the principles and provisions set out therein.

This Governance report details how the Company has applied the principles and complied with the provisions of the UK Code. For the year ended 31 December 2022, the Board has been compliant in all but one aspect of the UK Code.

Provision 19 of the UK Code states that the chair of a company should not remain in post beyond nine years from the date of first appointment, although it does allow for an extension of the chair's tenure for a limited time to support effective succession planning and development of a diverse board. While he has served less than nine years as Chair, René Médori's tenure as a Board member reached nine years in 2021 and, as a result, he is no longer considered to meet the definition of independent in the UK Code. The 2021 Annual Report noted that Mr Médori's tenure would be extended to provide continuity on the Board following the challenges recently faced by the Group as well as changes to the Board. The Nominations Committee has recommended that, in light of the forthcoming change in Group Chief Executive, Mr Médori remain in post through 2024. Further details are set out on page 112.

During 2022, the Company complied with all relevant requirements of the Disclosure and Transparency Rules, the UK Listing Rules and narrative reporting requirements.

The following table sets out where shareholders can find further information on how the Company has applied the principles of the UK Code within this Annual Report.

1. Board leadership and company purpose

The Board sets the tone of the Company with regard to the corporate governance framework and the application of corporate values and behaviours. The Board also maintains oversight to ensure resources are in place for the Company to meet its objectives and that there is an established risk framework for the management of effective controls.

a. Effective Board — **Pages 99-107**
b. Purpose, values and culture — **Pages 2-3, 14, 105**
c. Governance framework and controls — **Pages 103, 118**
d. Stakeholder engagement — **Pages 20-23, 106**
e. Workforce engagement — **Pages 21, 55-58**

2. Division of responsibilities

There is a clear definition of Board responsibilities, with Directors collectively responsible for the development of strategy and the long-term success of the Company. We believe all Directors work together in an atmosphere of openness, trust, and mutual respect. To ensure there is a clear division of responsibilities, while retaining control of key decisions, the Board has in place a Schedule of Matters Reserved that sets out items for its consideration and approval.

f. Board roles and responsibilities — **Pages 99-105, 108**
g. Independence — **Pages 99-100**
h. External appointments and Board attendance — **Pages 104-106**
i. Key activities of the Board, information and support — **Pages 102-104**

3. Composition, succession and evaluation

The Company has a formal, rigorous, and transparent selection procedure for the appointment of Directors. The Nominations Committee has the responsibility of identifying and nominating all candidates, with emphasis given to ensuring Board composition remains balanced with the multi-disciplinary skills and experience needed to support Petrofac's future plans.

j. Appointments to the Board — **Page 111**
k. Board skills, experience and knowledge — **Page 108**
l. Annual Board evaluation — **Pages 109-110**

4. Audit, risk and internal control

The Board maintains a sound risk management and internal controls framework to ensure the Group's long-term strategic objectives can be achieved. Transparent policies and procedures have been established to ensure the independence and effectiveness of the Group audit function, with well-established committees in place to assist it in the undertaking of its delegated duties.

m. Internal and external audit functions, financial reporting and narrative statements — **Pages 116-118**
n. Fair, balanced and understandable assessment — **Page 120**
o. Internal control framework and risk management — **Pages 76-87, 118**

5. Remuneration

The Remuneration Committee ensures that there is a formal and transparent process for determining and reporting on Executive Director and senior management remuneration. Remuneration policies have been designed to support the Group's strategy, in alignment with the Company's purpose, values and behaviours and to promote the long-term success of the organisation.

p. Alignment of remuneration with purpose, strategy and values — **Pages 126-127**
q. Remuneration policy — **Pages 129-137**
r. Performance outcomes and strategic targets — **Pages 139-141**

Board of Directors

as at 25 April 2023

René Médori

Chair

Committees N N
Appointed: January 2012
Chair: May 2018
Independent: On appointment

Key strengths and experience
Extensive international financial experience, with knowledge of balance sheet strengthening opportunities and financing arrangements. Well-established knowledge of governance and regulatory matters and a good understanding of operational and strategic management. Stepped down as Finance Director of Anglo American plc in April 2017 and retired from the company in January 2018, after 12 years. Was a non-executive director of De Beers, Anglo American Platinum Limited and SSE plc until December 2017 and of Cobham plc until January 2020.

External appointments
Non-executive chair of Puma Energy and Non-executive director of Vinci SA and Newmont Corp.

Tareq Kawash

Group Chief Executive

Appointed: April 2023
Independent: Not applicable

Key strengths and experience
Over 30 years' experience in the engineering and construction industry, completing both domestic and international assignments for mega onshore and offshore oil and gas projects. Has a wealth of operational and commercial experience, with extensive knowledge of the Middle East, having lived and worked in the region for 18 years. Was most recently Senior Vice President of McDermott's onshore and offshore business lines. Prior to McDermott's combination with CB&I in 2018, he was CB&I's Group Vice President, Engineering and Construction, International. Before joining CB&I in 2000, he worked with KBR for two years and Consolidated Contractors Company for seven years.

External appointments
None

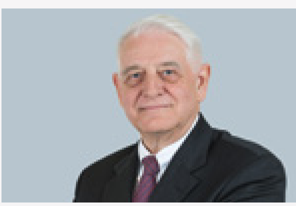
Afonso Reis e Sousa

Chief Financial Officer

Appointed: September 2021
Independent: Not applicable

Key strengths and experience
Extensive experience in corporate and project finance, specialising in energy-related and infrastructure financing. Joined the Company in 2012 as Group Head of Structured Finance and accumulated a portfolio of increasing responsibilities including Group Treasurer, Head of Tax, and Group Head of Enterprise Risk. Has more than 25 years' experience in finance, including a background in investment banking, having begun his career with Deutsche Morgan Grenfell.

External appointments
None



Matthias Bichsel

Senior Independent Director

Committees A C N R R
Appointed: May 2015
Senior Independent Director: May 2018
Independent: Yes

Key strengths and experience
More than 40 years' experience in the oil and gas industry. Extensive commercial and strategic capabilities. Deep understanding of operational, project and technology management. Broad knowledge of sustainable development issues. Until 2014, held several senior managerial roles over his 34-year career with Royal Dutch Shell, latterly as a member of the Group's executive committee and director of Capital Projects and Technology.

External appointments
Non-executive director of Sulzer AG (Switzerland), Canadian Utilities Limited (Canada), South Pole Group (Switzerland) and Voliro (Switzerland). Member of the advisory board of Chrysalix Energy Venture Capital (Canada).

Sara Akbar

Non-executive Director

Committees A N R
Appointed: January 2018
Independent: Yes

Key strengths and experience
More than 40 years' experience in the oil and gas industry with a unique insight into the Middle Eastern region. Wide-ranging international experience and significant operational and project management capabilities. Sara was Chief Executive Officer of Kuwait Energy KSC until 2017, which she founded in 2005. Served in various positions in the oil and gas industry in Kuwait and internationally from 1981 to 1999. Holds a BSc in Chemical Engineering. Former Member of the Kuwait Supreme Council for Planning and Development.

External appointments
Chair and CEO of Oil Serve and Chair of the Advisory Board to the American University of Kuwait, and an active member of the Board of Trustees of Kuwait's Silk Territory project.

Board of Directors continued

as at 25 April 2023

Ayman Asfari

Non-executive Director

Committees N
Appointed: January 2002
Non-executive Director: January 2021
Independent: No

Key strengths and experience
Prominent record with strong operational leadership skills and international focus. Extensive entrepreneurial and business development skills, and an in-depth knowledge of the oil and gas industry. Established Petrofac International in 1991 and, following a corporate reorganisation in 2002, became Group Chief Executive, before leading the successful initial public listing of the Company in 2005. Has more than 40 years' experience in the energy industry. Formerly worked as MD of a major civil and mechanical construction business in Oman. Stepped down as Group Chief Executive on 31 December 2020.

External appointments
Executive Chair of Venterra Group plc. Chair of the Asfari Foundation. Member of the board of trustees of the American University of Beirut and of the Carnegie Endowment for International Peace. Fellow of the Royal Academy of Engineering and member of the Chatham House Panel of Senior Advisors.

David Davies

Non-executive Director

Committees A A C N
Appointed: May 2018
Independent: Yes

Key strengths and experience
Extensive international and financial experience, including capital and debt raising as well as managing companies exposed to substantial and rapid change. Served on the boards of listed companies in seven different countries. More than 36 years' experience as a financial professional with a successful career as Chief Financial Officer and Deputy Chairman of the executive board at OMV Aktiengesellschaft. Served as Group Finance Director for both Morgan Crucible Company plc and London International Group plc and was a non-executive director of Ophir Energy Plc until May 2019 and of Uniper SE until April 2020.

External appointments
Non-executive director of Wienerberger AG.

Francesca Di Carlo

Non-executive Director

Committees C C N R
Appointed: May 2019
Independent: Yes

Key strengths and experience
Extensive background in various senior positions, specialising in corporate finance operations, strategy, audit, human resources, and procurement. She is currently Group Executive Vice President of Procurement of the Enel Group, having previously held the roles of Director of the People and Organization division, Director of Group Audit, and Head of Corporate Strategy. At the Telecom Italia Group she held various roles including Head of Investor Relations, Head of Financial Planning and Head of Corporate Development and M&A. Former Chairperson of Stream and Telespazio, as well as a former director of Sky Italy.

External appointments
Group Executive Vice President of Procurement at ENEL S.p.A.

Alison Broughton

Secretary to the Board

Key strengths and experience
Joined Petrofac in August 2011 and is responsible for the Group's regulatory, governance and listing rule compliance framework. A fellow of the Chartered Governance Institute, with over 25 years' experience in a UK-listed environment. Prior to joining Petrofac, she spent eight years with Wolseley plc (now Ferguson plc) as Deputy Company Secretary. In 2002, she joined the company secretariat function of Shell Exploration & Production Limited, part of the Royal Dutch Shell group, following the takeover of Enterprise Oil plc, where she started her company secretarial career in 1997.

Our Board in numbers

25%
female representation

8
different nationalities represented

50%
of Directors falling within the Parker Review's classification

+150 years
Board experience

Committee membership key

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- C Compliance and Ethics Committee
- C Chair of Committee

Group Executive Committee

Jim Andrews
Group Head of Health, Safety, Environment and Quality

Responsibility
Has overall accountability for quality, health, safety, security, sustainability and environment.

Matthew Barton
Group General Counsel

Responsibility
Is responsible for all Legal, Compliance and Company Secretariat functions. He ensures that the Group's business is conducted in accordance with all applicable laws and regulations.

Jonathan Kennefick
Chief Technical Officer

Responsibility
Heads up the Company's technical functions, assuring technical excellence and service quality across Petrofac's projects and operations, from engineering and supply chain, to execution and commissioning.

Elie Lahoud
Chief Operating Officer, Engineering & Construction

Responsibility
As Chief Operating Officer – E&C, has overall accountability for strategy and delivery against our business plan.

John Pearson
Chief Operating Officer, New Energy Services

Responsibility
As Chief Operating Officer – NES, has overall accountability for growing and delivering our new energies business plan.

Sophie Reid
Group Head of Communications

Responsibility
Has overall responsibility for advising on internal and external communications, including marketing and brand.

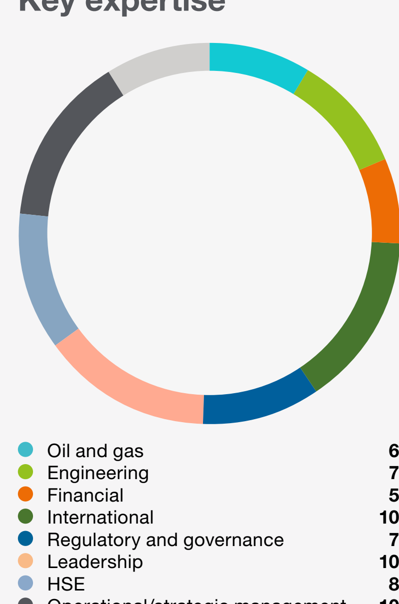
Nick Shorten
Chief Operating Officer, Asset Solutions

Responsibility
As Chief Operating Officer – Asset Solutions, has overall accountability for delivery against our business plan.

Des Thurlby
Group Director of Human Resources

Responsibility
Has overall responsibility for advising on all people aspects of the business. This includes succession planning, talent management, leadership development, compensation, performance, diversity and inclusion, and employee engagement.

Key expertise



Tareq Kawash and Afonso Reis e Sousa are also members of the Group Executive Committee. Their biographies are set out on page 99.

Corporate governance report

BOARD LEADERSHIP AND COMPANY PURPOSE

Board governance structure

As a Jersey-registered entity, Petrofac Limited is bound by requirements set out in the Companies (Jersey) Law 1991. However, although not required to comply with the UK Companies Act 2006, our Directors are also informed by UK practice and wish to act in good faith to promote the long-term success of the Group.

In determining the Group's strategic direction, and the sustainability of the business model, the Board is conscious of its collective responsibilities to all stakeholders. It seeks to ensure that the necessary corporate and management structures are in place for our strategy to be implemented effectively. The Board seeks to ensure there is an effective governance framework in place across the Group. It recognises that the Group's long-term success depends on a commitment to good governance standards, with governance an element that should be ingrained in our behaviours, the way we make decisions and run our business, rather than simply a compliance metric.

Matters reserved

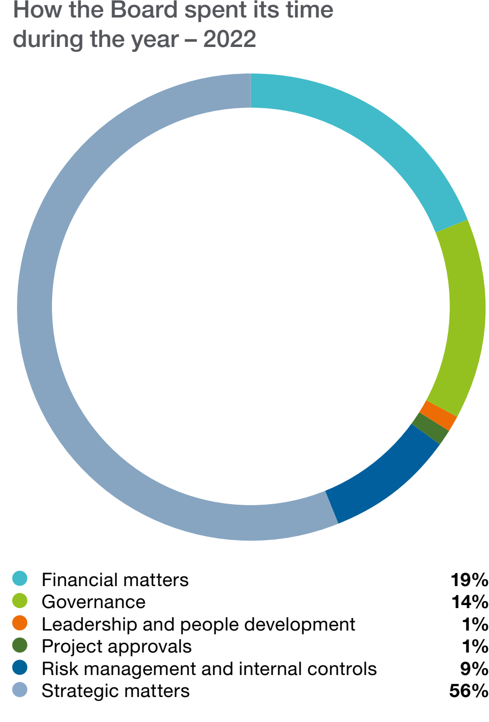
The Board has a formal schedule of matters reserved for its decision making and approval. These matters include responsibility for the overall management and performance of the Group and the approval of its long-term objectives, strategy, budgets, material contracts, capital commitments, risk appetite, the long-term viability statements and key policies. The matters reserved for decision by the Board are regularly reviewed and approved by the Board.

Board activities and key focus areas

The main priorities of the Board are to provide leadership and guidance in support of the Group's strategic priorities, with consideration to the Group's financial performance. The Board also focuses on good governance, compliance, and risk management procedures and processes to ensure they are fully embedded across the Group and to ensure succession plans are in place throughout the organisation. The views and differing perspectives of the Group's stakeholders are also taken into account as part of Board discussions.

The Board spent time considering a number of strategic topics during the year. The key activities of the Board are set out in the following chart.

Company purpose is central to our business and, with values that are embedded within the organisation, we can create a culture that optimises performance and delivers results."



Governance framework

We believe our corporate governance framework underpins good governance practices and enables the Board to provide effective stewardship of the Company.

The Board

Provides leadership and direction to ensure long-term success by setting a sustainable strategy and overseeing its implementation. Provides rigorous challenge to management and ensures appropriate systems and processes are in place to monitor and manage enterprise risk and internal controls. Is responsible for the financial performance and overall corporate governance of the Group, delegating certain matters to its principal committees, which report to the Board at every meeting.

Chair

Leads the Board and ensures effective communication flows between Directors, promoting an inclusive forum to facilitate effective contribution, challenge, and debate. Builds a well-balanced Board, with consideration given to succession planning and composition. Is responsible for ensuring effective board governance, overseeing the board evaluation process. Ensures effective communication with stakeholders, enabling their interests to be represented at Board meetings.

Senior Independent Director

Works closely with the Chair, acting as a sounding board and confidant. Provides support and acts as an intermediary for other independent Directors. Meets annually with other Directors to appraise the Chair's performance, and on such other occasions as is deemed appropriate. Is available to meet stakeholders to answer questions that cannot be addressed by the Chair or Group Chief Executive.

Non-executive Directors

Support executive management, while providing constructive challenge and rigour. Bring sound judgement and objectivity to the Board's decision-making processes, monitor strategy, and review the integrity of the risk management framework and processes, financial information and controls, and share the skills, experience and knowledge from other industries and environments. Have prime roles in the Board composition and succession planning processes.

Group Chief Executive

Is responsible for the day-to-day management of the Group. Implements agreed strategy and objectives, setting goals and priorities. Develops proposals to present to the Board on all areas reserved for its judgement and ensures the Board is fully informed of all key matters. Supported by the leadership team, has responsibility for driving execution of the Group's strategic aims. Maintains relationships with key external stakeholders, including investors, clients, and governments.

Chief Financial Officer

Has primary responsibility for all aspects of the Group's financial affairs. Ensures the Group has an effective and a fully compliant financial control environment in place. Develops and implements the Group's finance strategy and funding. Manages the Group's financial risk, with responsibility for mitigating key elements of the Group's risk profile. Maintains relationships with key external stakeholders, including shareholders, lenders, banks, and credit rating agencies.

Secretary to the Board

Advises the Board on all governance, legislation, and regulatory requirements, as well as best practice corporate governance developments. Has responsibility for implementing the processes designed to ensure compliance with Board procedures. Facilitates the Board evaluation, induction, and development processes. Available to individual Directors in respect of Board procedures to provide general support and advice.

Informs

Reports

Audit Committee
Chaired by: David Davies

Reviews and monitors the integrity of the Group's financial statements; reporting processes; financial and regulatory compliance; the systems of internal control and risk management; and the external and internal audit processes.

COMMITTEE REPORT ON / **Pages 114-122**

Nominations Committee
Chaired by: René Médori

Reviews the structure, size and composition of the Board and its committees. Takes primary responsibility for succession planning and Director succession. Identifies and nominates suitable candidates for Board appointments.

COMMITTEE REPORT ON / **Pages 111-113**

Compliance and Ethics Committee
Chaired by: Francesca Di Carlo

Has oversight responsibilities for all areas relating to compliance and ethics. Provides assurance that the Group's compliance and ethics policies remain adequate and effective. Promotes the importance of compliance and ethics.

COMMITTEE REPORT ON / **Pages 123-124**

Remuneration Committee
Chaired by: Matthias Bichsel

Sets the remuneration policy for Executive Directors and determines individual compensation levels for Executive Directors, the Chair, and members of senior management. Oversees the remuneration framework for the Group.

COMMITTEE REPORT ON / **Pages 125-151**

Informs

Reports

Executive management

Responsible for day-to-day operational management, the communication and implementation of strategic decisions, and administrative matters. Identifies and reviews matters for recommendation to the Board and its Committees. Supported by management committees, including the Group Executive Committee, Third Party Risk Committee, Disclosure Committee, Guarantee Committee and Group Risk Committee.

Corporate governance report continued

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Meeting attendance

2022 returned to a more usual year for Board meetings, with six scheduled meetings held, supplemented with ad hoc meetings to review items of business that needed to be addressed outside of scheduled meetings. Details of Director attendance are set out below.

Directors engage effectively during meetings, with scrutiny and constructive debate encouraged and Non-executive Directors able to seek clarification from management where required. Members of operational and functional management, one and two tiers below Director level, are also routinely invited to present to the Board on matters under consideration. This allows specific matters to be brought to the attention of the Board and allows the Board to deepen their understanding at both local and functional levels, while gaining an awareness of specific nuances that may not always be obvious in written reports. It is felt this enhances the Board's knowledge of the business, while enabling the Directors to consider key individuals who have been identified through the succession planning process.

2022 Board calendar attendance

DIRECTOR	BOARD MEETING (SCHEDULED)	BOARD MEETING (AD HOC)	NOMINATIONS COMMITTEE	AUDIT COMMITTEE	COMPLIANCE & ETHICS COMMITTEE	REMUNERATION COMMITTEE
René Médori	6(6)	3(3)	4(4)	–	–	–
Andrea Abt[1]	2(3)	–	2(2)	–	1(2)	2(3)
Sara Akbar[2]	6(6)	3(3)	4(4)	2(2)	–	6(6)
Ayman Asfari	6(6)	3(3)	4(4)	–	–	–
Matthias Bichsel	6(6)	3(3)	4(4)	4(4)	4(4)	6(6)
David Davies[3]	6(6)	3(3)	4(4)	4(4)	2(2)	–
Francesca Di Carlo[3]	6(6)	3(3)	4(4)	–	2(2)	6(6)
George Pierson[1]	3(3)	–	2(2)	2(2)	2(2)	–
Sami Iskander	6(6)	3(3)	–	–	–	–
Afonso Reis e Sousa	6(6)	3(3)	–	–	–	–

1 Ms Abt and Mr Pierson stepped down from the Board at the conclusion of the AGM held in May 2022. Ms Abt was unable to attend the March 2022 meetings due to a prior engagement.
2 Ms Akbar was appointed as a member of the Audit Committee following the AGM held in May 2022.
3 Ms Di Carlo and Mr Davies were appointed as members of the Compliance and Ethics Committee following the AGM held in May 2022, with Ms Di Carlo succeeding Mr Pierson as Committee Chair.

Site visits

The Board has historically visited at least one operational site each year, with the purpose of meeting with local management, project teams and graduates, while experiencing first-hand the project development, all with the aim of better understanding the scale of our operations.

As a consequence of continuing travel restrictions at many of our sites, the opportunity to arrange a site visit for the whole Board was not feasible. However, individual site visits by Executive Directors were completed during the year.

Following his appointment as Chief Financial Officer on 1 September 2021, Afonso Reis e Sousa visited many of our offices and sites as part of his continuing induction. While on a trip to the Aberdeen office, he visited the Seagreen project site, which once completed, will be Scotland's largest and the world's deepest offshore wind farm. Along with members of the Malaysia management team, he visited our supply base in Kemaman, as well as a contractor's fabrication yard on the east coast of Malaysia. This visit enabled them to present key safety messages to the team and better understand our warehousing and logistics operations.

During 2022, Mr Iskander and Mr Reis e Sousa each spent time in Algeria, visiting our local offices, in addition to the Tinrhert and Ain Tsila project sites. While on site they discussed the progress of each project as well as the Company's ambition to grow the business in Algeria. They both also visited our Thai Oil Clean Fuels Project in Sriracha, Thailand, touring the greenfield operations and complex brownfield work. While in Thailand, Mr Iskander held a townhall with the Petrofac team where he reiterated the importance of the project for the community, the Company, and Thailand in general.

For more Board engagement, visit / **petrofac.com/boardengagement**

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Culture oversight

The Board recognises that having a defined purpose and vision, with values and supporting behaviours embedded within the organisation, helps to create a culture that optimises performance and delivers long-term results. The Board sets the tone regarding the application of our corporate values and behaviours, taking into consideration the views and interests of all stakeholders. The Company's values articulate the qualities we wish all employees to demonstrate, and we aim for these to be embedded within all our operational practices. The Group Executive Committee is delegated with the responsibility for ensuring that the policies and behaviours set at Board level are communicated and implemented effectively across the Group. During the year, the Board was satisfied that the overarching practices and behaviours were aligned with the Company's purpose, values and strategy. The Board monitors the Group's culture by reviewing the following insights throughout the year:

AREA	LINK TO CULTURE
Employee engagement MORE INFORMATION / **Pages 21, 57**	A Workforce Forum was established in 2019 to enable the Board and the Executive team to gauge the mood of the workforce, better understand their ideas, concerns, and perspective, plus ascertain what it is about Petrofac that motivates and engages them. This Forum, which meets biannually, allows the Board to converse directly with employees representing different levels, functions, and geographies, and to provide deeper insights into the everyday realities of employees across the Group.
Townhalls MORE INFORMATION / **Page 21, 57**	Townhalls are held across the Group throughout the year. These allow information to be disseminated quickly and enable local leadership to communicate the right behaviours and cultural expectations. Townhalls were held by Mr Iskander and Mr Reis e Sousa following the announcement of our full-year and half-year results. Subsequent townhalls were held throughout the business to cascade the information provided. A further townhall was held by Mr Iskander and Mr Médori at the end of the year with the Executive team to discuss the challenges facing the organisation.
Globally aligned reward and incentive schemes MORE INFORMATION / **Pages 140, 220**	Our long-term incentive schemes are aligned across the Group and have key targets aimed to drive the right behaviours and values of our business. The alignment of our compensation and benefit plans with our corporate culture enables us to recruit and retain the best talent.
Health & Safety MORE INFORMATION / **Pages 50-53**	Across Petrofac, our aim is for zero safety incidents. We see this as entirely realistic and achievable and are proud to say that much of the time, we live up to this goal. To maintain our performance, we continually enhance our programme of health and safety measures and look to refine the way we measure our performance. Safety moments are held at the start of every meeting, with updates on Health & Safety statistics across the Group presented to every Board meeting. This allows the Board to monitor year-on-year trends and to ensure that the right practices are being followed. The launch of new applications during the year to make reporting easier and simpler, including an HSE observation app and a driving improvement app, are helping to effect a culture change by improving the situation awareness of health and safety matters.
Compliance & Ethics MORE INFORMATION / **Pages 123-124**	Our Compliance & Ethics Committee actively reviews Speak Up reports and considers investigations reports and analysis by issue type at each meeting. This enables Directors to determine any trends or circumstances that may need further analysis or investigation. Code of Ethics training is compulsory for all new joiners.
Training MORE INFORMATION / **Pages 65-67**	All employees are required to complete an annual online training of the Petrofac Code of Ethics to demonstrate their understanding of, and commitment to, the highest standards of business conduct and ensure that we do business the right way.
Reporting MORE INFORMATION / **Pages 103, 117-118**	Reports and updates are provided to every Board meeting on all key contracts, financial matters and all material legal claims. In addition, the Audit Committee reviews the internal audit reports, including areas of non-compliance with our internal controls and actions taken to address any non-compliance, and our key risk reports, at each meeting.

Corporate governance report continued

Stakeholder engagement

Stakeholder engagement enables the Board to better understand what matters to each stakeholder group, and recognising their differing interests is integral to Board discussions and central to the execution of our strategy. The engagement with each stakeholder group is discussed in more detail on pages 20 to 23.

The Board places significant importance on listening to, and establishing and maintaining good relationships with its stakeholders. This engagement allows the Board to better understand the impact of decisions taken on those stakeholders. It also ensures the Directors are kept informed of significant changes in operating environment as well as the broader market, including the identification of emerging risks and trends, which in turn can be factored into strategic discussions.

Engaging with employees is valued highly by the Board. Directors are kept informed on the outcomes of all employee engagement surveys and are active participants in the Petrofac Workforce Forum. This continued engagement and the sharing of views throughout the year provides insight on the realities being faced by employees across the Group.

Open and constructive engagement with major shareholders and other investors is also considered vital. It enables the Board to understand their views on environmental, social and governance issues, while providing the opportunity to discuss the Group's performance against strategy. These discussions not only focus on delivering increased value, but also assess the potential impact of decisions on the Group's wider stakeholder groups. The Board acknowledges that, when making decisions, it is not always possible to provide positive outcomes for all stakeholders, with decisions, on occasion, made based on competing priorities. In such circumstances, relevant factors are carefully assessed, with the best interests of the Group, as a whole, taken into account when a course of action is selected.

This includes the needs of the different stakeholders, as well as the consequences of any decision in the short, medium and long term.

Section 172 arrangements

Under Section 172 of the UK Companies Act 2006, company boards have a duty to promote the success of their company for the benefit of their members as a whole, whilst having regard for the interests of all stakeholders, including employees, shareholders, suppliers and customers, the community and the environment.

As a Jersey-incorporated company, Petrofac is not required to comply with this legislation. Nevertheless, we are informed by UK practice and follow the UK Corporate Governance Code which endorses this rule. In any event, we will always act in good faith to promote the long-term success of the Group for the benefit of all stakeholders. When making any decisions, each Director is encouraged to act in the way they consider to best promote the Company's success for the benefit of its members as a whole, while having due regard to the Section 172 requirements.

An overview of how and why we engage with key stakeholders and how we have considered their requirements relating to principal decisions taken during the year to ensure effective and continued engagement is set out on pages 20 to 23.

Share capital

The Company's ordinary shares are quoted on the London Stock Exchange, and at the date of this report, the issued share capital (and total voting rights) consisted of 522,049,521 ordinary shares. Details relating to the rights and obligations attached to the Company's ordinary shares are set out in the Company's Articles of Association.

The Company may purchase its own shares providing the shareholder resolution authorising the purchase specifies the maximum number of shares, the maximum and minimum prices which may be paid, and a date, not later than 18 months after the passing of the resolution, on which the authority to purchase is to expire. The Company will seek to renew its existing authority for this, which will expires at the conclusion of the 2023 AGM.

Annual General Meeting (AGM)

Full details of this year's AGM are set out in the Notice of Meeting. All resolutions will be conducted on a poll, with the results announced to the market as soon as practicable after the meeting. At last year's AGM, all resolutions were passed, with votes in support ranging from 74.41% to 99.84%. Shareholders unable to attend the AGM are reminded that they can submit questions in advance of the meeting at agmquestions@petrofac.com.

Investor Relations programme

Constructive engagement with major shareholders and other investors throughout the year is considered by the Board to be a critical activity, as this enables the Directors to better understand their views, while establishing and maintaining good relationships. Our Investor Relations team acts as the principal focal point for contact, with an annual programme of meetings and presentations with existing and prospective shareholders and other investors, as well as research analysts. Directors also attend meetings with major shareholders and other investors throughout the year, to facilitate direct lines of communication with management and the Board.

The Investor Relations team also conduct sessions with stakeholders following the publication of our full-year and half-year financial results. During 2022, regular dialogue was maintained with these stakeholders, focusing on key operational matters. Additional meetings were also held with our corporate brokers to better understand investor sentiment. Analyst research notes are regularly circulated to all Directors, with brokers' reports submitted to Board meetings. During 2022, approximately 172 meetings were held, with significant focus given to E&C operational performance, the future projects pipeline and liquidity.

Governance-specific meetings were also arranged for the Chair and Senior Independent Director, allowing them the opportunity to gain insights on governance matters from a shareholder perspective, and to hear directly from key investors on matters including succession planning and remuneration.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Response to shareholder voting less than 80%

Prior to the 2022 AGM, René Médori and Matthias Bichsel consulted with the Company's major shareholders and proxy advisors. While a significant number of shareholders were supportive of all resolutions, including the rationale used by the Committee in determining Executive Directors' remuneration, it was recognised that some shareholders did not hold the same view, with one shareholder concerned with the weighting of the non-financial targets used in remuneration outcomes. Having reflected on these comments, greater transparency and clarity on remuneration outcomes have been provided. The opportunity to consult again with major shareholders was also taken towards the end of 2022, as consideration was given to the triennial review of our Remuneration Policy. The Committee has carefully considered the views of our key stakeholders, as well as overall Group performance, in taking decisions on executive remuneration.

Major shareholders

In accordance with DTR 5, information provided to the Company is published on a Regulatory Information Service at the time of receipt. The Company has received notification of material interests in voting rights over the Company's issued ordinary share capital. This is set out in the table below:

NAME	PERCENTAGE OF ISSUED SHARE CAPITAL AS NOTIFIED AT 31 DECEMBER 2022	PERCENTAGE OF ISSUED SHARE CAPITAL AS NOTIFIED AT 27 APRIL 2023	NATURE OF HOLDING
Ayman Asfari and family	16.30%	16.28%	Direct and indirect
Azvalor	10.04%	14.99%	Direct
Schroders plc	14.68%	14.68%	Indirect
J O Hambro	–	5.31%	Indirect

Deeds of indemnity

In accordance with our Articles of Association, and to the maximum extent permitted by Jersey Law, all Directors and Officers of Petrofac Limited are provided with deeds of indemnity in respect of liabilities that may be incurred as a result of their office. The Group also has appropriate insurance coverage in respect of legal action that may be brought against its Directors and Officers. Neither the Company's indemnities nor insurance policies provide any cover where a Director or Officer was found to have acted fraudulently or dishonestly.

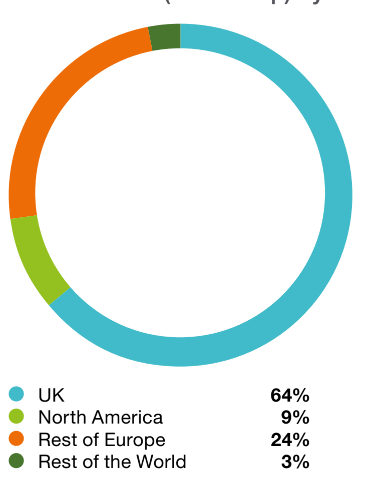
Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located on the following pages of this Annual report and accounts:

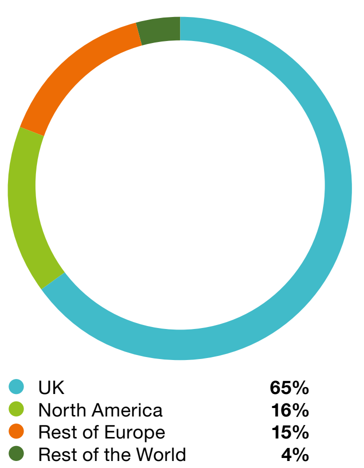
LISTING RULE	DETAIL	PAGE REFERENCE
9.8.4R (1-2) - (5-14)	Not applicable	Not applicable
9.8.4R (4)	Long-term incentive schemes	140-141,149-150

Shareholders' distribution

Shareholders (ownership) by territory



Meetings held with shareholders by country



Corporate governance report continued

DIVISION OF RESPONSIBILITIES

Board roles

The roles and responsibilities of our Directors are set out on page 103. Our Non-executive Directors are encouraged to share their experience, and each is well-positioned to support management, whilst providing constructive challenge. All Directors are encouraged to be open and forthright in their approach as we believe this helps to forge strong working relationships, allowing them to make their best possible contribution.

Regular meetings between the Chair and Group Chief Executive are held throughout the year, allowing general matters to be discussed and enabling them to reach a mutual understanding of each other's views. The Chair and SID also maintain regular contact between scheduled Board meetings, with time also set aside at each meeting for the Chair to meet with the Non-executive Directors without the presence of management. The relationships between these roles are important, as these individuals represent the views of both management and Directors, respectively. The combination of these meetings ensures that the Chair is fully informed of all views, which assists in setting agendas and ensures all Directors can contribute effectively through their individual and collective experiences.

Dealing with potential conflicts of interest

Should a potential conflict of interest arise during a term of appointment, processes and procedures are in place for Directors to identify and declare any such conflict, whether matter-specific or situational. The Company's Articles of Association permit the Board to authorise such conflicts, which can be limited in scope. Notifications are required to be made by the Director concerned prior to or at a Board meeting, and all Directors have a duty to update the whole Board of any changes in personal circumstances. During 2022, all conflict management procedures were adhered to, managed and reported effectively.

COMPOSITION, SUCCESSION, AND EVALUATION

Board composition

At the date of this report, the Board has eight Directors, comprising the Chair (who was independent on appointment), four independent Non-executive Directors, one non-independent Non-executive Director and two Executive Directors. Their full biographies are detailed on pages 99 and 100. All Board appointments are subject to a formal and rigorous procedure led by the Nominations Committee. Details of the work undertaken by this Committee during 2022 are set out on pages 111 to 113.

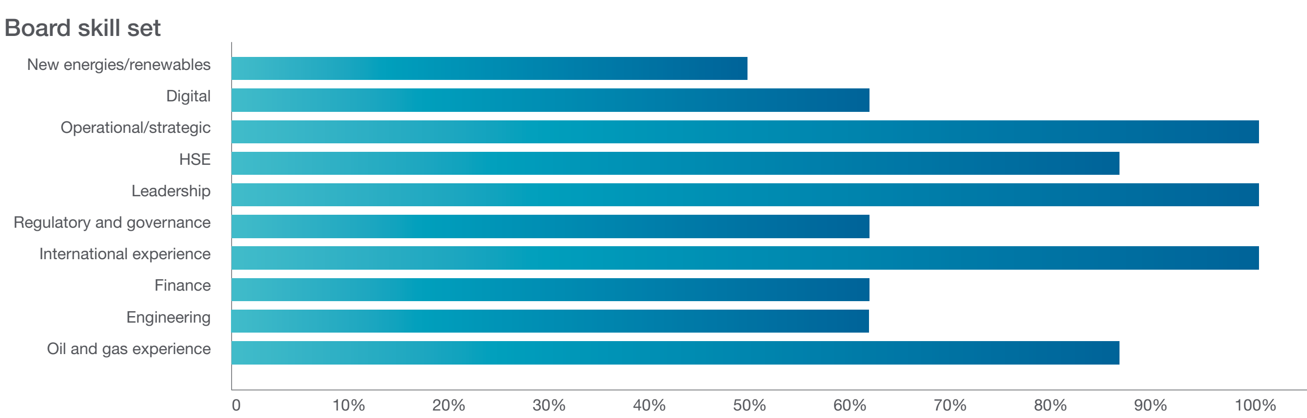
Our two Executive Directors have rolling service contracts, containing a notice period provision of 12 months by either party. Our Non-executive Directors each have letters of appointment that contain a termination provision of three months' notice by either party. The terms and conditions of appointment of all Directors are available for inspection at our registered office in Jersey and at our Corporate Services office in London. In accordance with the UK Code, Directors offer themselves for reappointment by shareholders at each AGM.

The appointment and replacement of directors is governed by the Company's Articles of Association. the UK Code, Companies Jersey (Law) 1991 and related legislation. The Directors may from time to time appoint one or more Directors to the Board and any person may be appointed to be a director. Under the Articles, any such director shall hold office only until the next AGM where they will stand for annual election.

Directors' skills and experience

Each of our Directors has a varied career history, and considerable effort has been taken to ensure that the Board retains the right balance of skills, capabilities, knowledge diversity, and industry expertise to ensure we are able to run the business effectively and deliver sustainable growth. The Board skills matrix below details key skills and experience identified as necessary for oversight of the Group and the effective execution of our strategy.

Board skill set



COMPOSITION, SUCCESSION, AND EVALUATION CONTINUED

Board evaluation

The UK Code requires the Board to undertake a formal and rigorous annual evaluation of its performance and that of its committees, with a provision requiring that this be externally facilitated every three years. The evaluation process provides the Board with an opportunity to consider and reflect on how it operates and the quality and effectiveness of its decision making, the range and level of discussion, and for each Director to consider their own contribution and performance.

At the end of 2021, the Chair led an internal review following completion of an online questionnaire. The results of this review were presented to the Board in early 2022, with the areas of focus identified including strategy, ESG, and succession planning. These areas were discussed and reviewed by the Board throughout the year.

2022 Board evaluation – review process

In accordance with our three-year cycle, towards the end of 2022, the Board engaged the services of Independent Audit Limited, which has no other connection to the Group, to conduct an externally facilitated evaluation.

The robust process involved a review of the year's Board and Committee papers plus one-on-one interviews with each Director, the Secretary to the Board, and members of the Group Executive Committee and management who regularly interact with the Board and attend meetings. In addition, representatives from Independent Audit Limited observed the scheduled Board and Committee meetings held during November 2022. Feedback from the evaluation was contained in a report setting out the observations and recommendations and this is scheduled to be submitted to, and discussed by, the Board in early 2023, with Independent Audit Limited in attendance to answer any questions and facilitate the discussion.

2022 Board evaluation – outcome

The external review recognised the formidable challenges that the Board had faced over the preceding three years, not least the disruptions caused by the SFO investigation, the Covid-19 pandemic and the ongoing market volatility within the sector. The Board was recognised to have displayed a number of key strengths, which had helped steer the Company through these challenges and were also expected to help them withstand the current pressures. The process gave credit to the Directors for facing and dealing with each of these challenges and recognising the high levels of commitment that had been displayed over the period.

The review observed that each Director brought a range of complementary skills to the boardroom, with sectoral and geographical experience, as well as a broad range of industry and functional expertise. The Board was considered to be willing to question management during meetings, while providing constructive challenge. The contributions received from the management team is highly appreciated by the Non-executive Directors.

It was acknowledged that the Board had had a positive impact on the development of the enhanced compliance processes and the more practical, rigorous risk management framework. Given the issues faced in recent years, the Board had shown a no-compromise commitment to compliance and had helped to set in motion a positive change in attitudes and culture throughout the organisation.

The effectiveness of the Chair was also considered as part of the review. His understanding of the business was recognised, and he was seen as encouraging discussions and participation during meetings. Of note was how the Chair was able to handle high-pressure situations. The experience received from the SID was also acknowledged and his input on strategy and risk was greatly valued by management.

The Board Committees were considered to be functioning well, with each having well-established remits and terms of reference.

Following completion of the external evaluation, the Board remains satisfied that it continues to operate effectively and believes the Directors are performing well and as would be expected within their relevant roles.

The Board performance evaluation cycle

Year 1
2020 internal evaluation facilitated by the Chair and Secretary to the Board using confidential self-evaluation questionnaires. Action plan agreed and reviewed throughout 2021.

Year 2
2021 internal evaluation facilitated by the Chair and Secretary to the Board using confidential self-evaluation questionnaires. Results collated and presented to the Board in March 2022. Action plan agreed and reviewed during the year.

Year 3
2022 external evaluation facilitated externally. Conducted at end of 2022, with the final report presented to the Board in early 2023. Action plan to be agreed and reviewed throughout 2023.

Corporate governance report continued

Progress against actions arising from the 2021 effectiveness review

The outcome of last year's internal evaluation identified areas where the Board might improve and develop, with progress made throughout the year:

THEME	AREA FOR RECOMMENDED IMPROVEMENT	PROGRESS
Strategy	Focus to be given to clearly defining the medium and long-term strategy to help stabilise the organisation and restore stakeholder confidence.	Key strategic initiatives were considered during the year, with deep-dive presentations provided by both management and external third parties on potential actions to enable the business to deliver on the strategy.
ESG	To continue to develop the sustainability strategy and ESG roadmap, clearly defining the Group's direction on energy transition. Driving continual corporate reforms to promote the cultural changes throughout the organisation to ensure ESG strategy is fully embedded.	The Board reviewed the Company's strategy and Net Zero roadmap, providing feedback on the plan. Targets have been set to ensure the ESG strategy can be fully embedded within the Group.
Succession planning	Review the Board composition, to ensure succession plans are in place for the immediate and medium term. Give continued focus to leadership and talent development initiatives.	Significant focus was given to succession planning throughout the year, not least as a result of the forthcoming change in Group Chief Executive. Succession and talent management plans are in place for senior management, with the Nominations Committee maintaining strong oversight of this process.

The key recommendations arising from the 2022 effectiveness review

The 2022 external evaluation recognised that in the immediate term, the Board's focus would be on dealing with urgent business challenges. However, areas for focus were identified where improvements could be made over the coming year. These are set out in the following table:

THEME	AREA FOR RECOMMENDED IMPROVEMENT
Board composition	In light of the forthcoming change of Group Chief Executive, planning the timing of the departures of Directors will be important for the Board. Accordingly, a transparent, systematic, and inclusive selection process will be a focus for the Nominations Committee over the coming years, ensuring candidates with the right skills and attributes can be identified, and a suitable timeline agreed.
Management engagement	Further strengthening the relationships between management and the Non-executive Directors to ensure constructive relationships are maintained. Establishing a balance to harness the experience and insights of existing members of the Board, with the goals and ambitions of new members. Continue to focus on management and talent development initiatives and further develop succession plans to progress the diversity agenda.
Meeting formats	Improving the quality and cadence of information flows between management and the Board, with consideration to be given to reworking and refreshing the format and schedule of Board and Committee meetings. Ensuring sufficient time is set aside for key discussion items, while creating sufficient space for reflection. Encouraging Committee feedback on matters that are of most importance to the Group.
Employee engagement	Further development of the workforce engagement arrangements currently in place to ensure the Non-executive Directors gain first-hand insight as to the culture of the business and to ensure that the appropriate behaviours are being displayed throughout the organisation. Non-executive Directors to be encouraged to visit different parts of the business on a more informal basis, including taking part in site safety audits, with a return to the Board's practice of in-person annual site visits.

Nominations Committee report

RENÉ MÉDORI
Chair

Membership:

Chair: René Médori

Committee members:
Sara Akbar, Ayman Asfari, Matthias Bichsel, David Davies, Francesca Di Carlo

Resignations during the year
Andrea Abt – resigned May 2022
George Pierson – resigned May 2022

How the Committee spent its time during the year:

Governance/other	27%
Board composition	31%
Diversity and inclusion	11%
Talent development	31%

Role and responsibilities of the Committee:

- Review the composition, size and structure of the Board and its Committees, taking into consideration the skills, knowledge, experience, diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths of Directors
- Identify and recommend for Board approval suitable candidates to be appointed to the Board, fully evaluating the balance of existing skills, knowledge and experience required to support the strategic objectives of the Group
- Consider the effectiveness and rigour of the succession planning processes for the Group and maintain oversight of the development of a diverse pipeline for succession to both Board and senior management roles

Dear shareholder

This report provides an overview of the work of the Nominations Committee and its activities during the year.

The Committee takes the lead on all Board and Committee appointments, including the process for identifying and nominating suitable candidates, to ensure Petrofac continues to have the right balance of skills, experience, and diversity of thought to help achieve our strategic objectives.

The Committee monitors the external commitments of the Non-executive Directors who, from appointment, commit to allocating sufficient time to discharge their responsibilities effectively. The Committee also considers potential conflicts of interest, external time commitments, and residency status.

Andrea Abt and George Pierson, having each served on the Board for two consecutive three-year terms, stepped down at the 2022 AGM. The Committee recognises the significant contributions they each made to Petrofac during their tenure and, on the Board's behalf, I would like to thank them for their significant support. As a result of their departure, the Committee's membership was reduced during the year. The biographies for all current Committee members are set out on pages 99 and 100.

The Company announced in November 2022 that Sami Iskander would step down as Group Chief Executive at the end of March 2023. The Board acknowledges the invaluable contribution made by Sami since his appointment to the Board in January 2021, having overseen the resolution of the SFO's investigation and the Group's comprehensive refinancing programme in 2021. He has reshaped the business, putting it back on a path to growth. On behalf of the Board, I extend our heartfelt thanks to him for his unwavering energy, decisive leadership, and passionate ownership of Petrofac's strategy.

Following on from the process undertaken in 2020, the search process to identify Sami's successor as Group Chief Executive focused on candidates with the skills and experience necessary

for an organisation of the scale, complexity and global nature of Petrofac and its focus on returning to growth. The profile and requirements necessary to fill the role were determined, taking into consideration the current and future needs of the Group. In addition to operational and commercial expertise, soft skills were included as part of the required criteria, including critical assessment, cultural sensitivity, judgement, and the ability to develop trust and forge new relationships.

Following completion of interviews conducted by the Chair and all other Non-executive Directors, the Committee unanimously agreed to recommend the appointment of Tareq Kawash, with effect from 1 April 2023. His prior experience, knowledge, impressive EPC track record, business development expertise and personal strengths were all taken into consideration during the interview process, and it was agreed by the Committee that he would be a strong addition to the Board as we embark on the next phase of our return to growth.

On appointment to the Board, all Directors undertake a detailed, tailored, comprehensive induction programme, which is intended to account for each individual's differing requirements, concentrating on key focus areas. This ensures Directors are fully prepared for their new role, taking their background and experience into consideration. Tareq Kawash's induction programme will run throughout the year and full details will be provided in our 2023 report.

Each of our Directors has a varied career history, and considerable effort has been taken to ensure that the Board retains the right balance of skills, capabilities, knowledge, diversity and industry expertise to ensure we are able to run the business effectively and deliver sustainable growth. In line with the findings of our Board effectiveness review, and supported by their biographies, the Board believes that the election and re-election at the 2023 AGM of those Directors standing is in the best interests of the Company.

My own succession continued to be a matter of consideration for the Committee during the year. In line with policy, I did not attend those meetings, or parts of meetings, or vote upon matters where I may reasonably have been expected to have had a conflict of interest or lack of impartiality. I joined the Board as a Non-executive Director in January 2012, becoming Chair in May 2018. My tenure on the Board therefore now exceeds the maximum threshold set out in Provision 19 of the UK Corporate Governance Code. However, given the recent change of Group Chief Executive, and following shareholder engagement in early 2023, the Committee has proposed that I continue as Chair to provide continuity on the Board as Tareq settles into his new role. It was felt that it would be inappropriate to consider a change of Chair this year, with the requirements to maintain a stable and experienced board considered paramount while the Company continues to rebuild. The formal process to find a suitable successor will be headed by Matthias Bichsel as Senior Independent Director and this will commence during 2024.

Succession planning for senior management also remains a significant focus area for the Committee, with specific consideration given to those employees who have been identified as high-potential talent from across the Group. In January 2023, the Board was able to meet with a selection of employees to gain a deeper understanding of their experiences and the challenges being faced.

The Board believes that continuous training and development supports Board effectiveness. The Company is committed to offering tailored training to provide each Director with the necessary resources to refresh, update and enhance their skills, knowledge, and capabilities. With the ever-evolving regulatory landscape in which the Group operates, it is critical that the Board remains aware of recent and upcoming developments in the wider legal and regulatory environment. The Secretary to the Board regularly updates the Board on the governance, legislative and regulatory matters that may impact the Group and, where relevant, briefings from external advisors on a variety of strategic and significant topics are provided. This year, our Board evaluation process was externally facilitated and details on the actions arising from this review are set out on page 110.

The progression of emerging talent is reviewed on an annual basis, not only to check that appropriate processes are in place to identify, monitor and develop future potential leaders, but also to allow the Committee to discuss such talent on an individual basis. This review process is integral to the Group's strategic plans, with a principal objective for the Committee to build a strong, resilient and diverse talent pipeline, which is in line with Petrofac's purpose and values. Focus also remains on developing employee skills and capabilities for the future, with the aim of strengthening the talent pipeline and further developing our succession plans.

Diversity and inclusion continue to be focal points for the Committee. It considers them to be significant factors in the Company's success, as we believe that an inclusive and diverse workforce promotes safety, productivity and wellbeing, and underpins our ability to attract and retain employees.

Throughout the year, the Committee continued to provide oversight to ensure effective strategies are in place that will develop and strengthen our talent pipelines and promote a culture that upholds the Group's principles of inclusion, diversity and equality. We believe this will support the delivery of our strategic objectives and allow us to attract a diverse talent base reflective and representative of our core geographies and of the communities in which we work.

Petrofac remains committed to not only helping improve the levels of female representation throughout the Group and addressing the gender imbalance, but to developing a diverse workforce and an inclusive working environment, irrespective of gender, race, colour, religion, sexual orientation or marital status. The aim is to create a workplace that celebrates the diversity of all its employees and stakeholders.

The Board showed its support to the #BreaktheBias pledge in March 2022. Aiming to show solidarity and commitment to forging a gender-equal world that is free of bias, where difference is valued and celebrated.

Nominations Committee report continued

The Committee recognises the numerous initiatives that have been implemented over the year to address diversity and inclusion and to shine a spotlight on the importance of cultivating an inclusive culture across the Group. Our diversity awareness programme continued throughout 2022, with many initiatives introduced to promote and drive the diversity agenda and develop our diversity strategy. We were particularly pleased to see progress in hiring and developing many local nationals in a number of markets around the world. Further details of these successes can be found on pages 56-58.

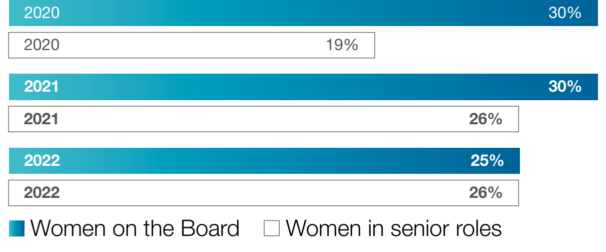
While significant improvements are being seen, the Committee acknowledges that work remains to be done, at Board and senior leadership level, as well as across the organisation. Notwithstanding that engineering and construction continue to be predominately male-dominated professions, we are determined that further progress can be made in this area over the coming years. While we appreciate there are long-term challenges to overcome, we are pleased with the improvements that have been made in respect to gender diversity within the Group's talent pipeline. Further information on our approach to diversity and inclusion and the initiatives taken throughout 2022 are set out on page 56 to 58.

The Committee acknowledges the recent policy statement issued by the FCA regarding changes to the Listing Rules (LR 9.8.6R(9)), which relate to enhanced disclosures in gender and ethnic diversity at board level. The changes recommend that boards and leadership teams have a minimum of 40% women by the end of 2025, and further, that at least one of the roles of Chair, SID, Chief Executive or Chief Financial Officer is held by a woman. These changes take effect for financial years beginning on or after 1 April 2022 and will be on a comply or explain basis.

While these new requirements are not applicable to the Company for this reporting period, the Committee is cognisant of the changing regulatory landscape on gender and ethnic diversity and is mindful that changes will be necessary in the future for the Company to comply fully. The Committee is aware that it is unlikely that the set targets will be met by the Board in the short term. However, as vacancies in the key roles identified become available, additional consideration will be given to these gender and ethnic requirements, while ensuring the right blend of skills, expertise, commitment and experience is maintained when suitable candidates are selected, especially taking into account the challenges and opportunities facing the Group.

Our Diversity and Inclusion policy, the purpose of which is to ensure equality of opportunity and fairness in all areas of employment, has been in place across the Group since August 2016. Our policy allows us to value the diversity of our employees, while promoting an inclusive culture across the Group. In light of the Listing Rule changes, the Committee will consider a new Board Diversity Policy during 2023 to set out our objectives and aspirations in relation to diversity and inclusion.

An overview of our progress against the FTSE Woman Leader Review recommendations over the last three years are set out below:



In terms of ethnicity, Petrofac is a truly diverse organisation, with more than 85 nationalities employed across the Group. Towards the end of 2021, we launched the voluntary collection of Ethnicity Data reporting in the UK. To date, over 41% of our UK workforce has responded, with 9% identifying as BAME[1]. The Board also remains in full compliance with the recommendation of the Parker Review (Review), with four of the eight Directors on the Board falling within the Review's methodology classification[2].

My fellow Non-executive Directors and I were pleased to be able to attend the Petrofac Workforce Forum twice during 2022, and met individual representatives. This Forum continues to develop and remains a beneficial source for Directors to hear directly from employee representatives, particularly concerning the continuing challenges facing the business. The Committee remains committed to engaging with employees to understand their concerns and to ensure the appropriate culture is in place across the organisation. The Committee also receives feedback from employees through the PetroVoices annual survey. Further details on our employee engagement are set out on pages 21, 51 and 57.

During 2023, the Committee's focus will again be on overseeing our talent pipeline and succession initiatives. We will continue to monitor the developments arising from evolving best practice and will oversee the necessary actions that will enable us to meet our diversity targets.

RENÉ MÉDORI
Chair
27 April 2023

1 Those individuals who identify as Black, Asian and minority ethnic.
2 Those individuals with evident heritage from African, Asian, Middle-Eastern and South American regions.

Audit Committee report

DAVID DAVIES
Chair of the Audit Committee

Membership:

Chair: David Davies

Committee members:
Matthias Bichsel
Sara Akbar – appointed May 2022

Resignation during the year
George Pierson – resigned May 2022

How the Committee spent its time during the year:

Financial statements and reporting	32%
External auditor	19%
Risk management, internal control and going concern	32%
Governance matters	13%
Other	4%

Role and responsibilities of the Committee:

- Monitors the Group's financial reporting processes. It reviews and submits recommendations to the Board and challenges, where necessary, the integrity of financial statements, including key accounting judgements and estimates, and narrative disclosures
- Advises the Board on how it has discharged its responsibilities and considers whether the annual report and accounts, taken as a whole, is fair, balanced and understandable
- Considers reports from the external auditor and management's response to any recommendations. It also assesses the effectiveness of the external auditor, considers their appointment, independence, approves the remuneration for audit services and monitors the provision of non-audit services and associated fees, developing and implementing the associated non-audit services policy as necessary
- Reviews the Group's assessments of going concern, longer-term prospects and viability
- Reviews and monitors the Group's internal controls framework, risk management processes and the effectiveness of the Group's internal audit function, including key financial, operational and compliance controls, and the identification and assessment of emerging and principal risks, providing assurance to the Board
- Monitors risk exposures and future risk strategy, including the strategy for capital and liquidity management, IT risks (including data privacy and cyber risks) and climate-related risks

Dear shareholder

I am pleased to present this year's Audit Committee report, which provides an insight into the Committee's discussions and focus during another eventful year.

At the AGM in May 2022, George Pierson stepped down from the Board. As a result, Sara Akbar was appointed to the Committee to replace him. I would like to thank George for his valuable contributions during his time on the Committee and extend a warm welcome to Sara.

The Committee has had a busy agenda throughout 2022 which allowed it to discharge its responsibilities via rolling standing items and also provide sufficient time for discussion of ad hoc matters that have arisen. This report provides understanding into key areas considered by the Committee in relation to financial reporting and associated key judgements and estimates, risk management, internal control, the internal audit function, and interaction with Ernst & Young LLP (the Group's external auditor).

Traditional topics addressed during 2022 included: the going concern and viability statements; key judgements and estimates; continued review of key financial controls and risk management processes; deferred taxes and potential uncertain tax exposures; treatment of separately disclosed items; planning the audit tender process; and the continued monitoring of ongoing audit and governance reforms.

Throughout the year, the assumptions and evidence supporting the going concern and viability statements were reviewed and challenged extensively. Financial models of scenarios prepared by management demonstrating the ongoing operational challenges, including the impact of pandemic-related cost increases in the business over the assessment period, as well as the liquidity position of the Group, the principal risks, the level of headroom against committed facilities and compliance with financial covenants, were all considered by the Committee. The protracted effects of the Covid-19 pandemic continued to impact the business, as additional costs incurred on legacy contracts due

to extended schedules have not been fully recovered from our clients, resulting in net cost overruns. The Committee questioned management and sought assurance on the adequacy of the contract contingencies included in forecast costs to complete any current projects. Taking into consideration the detailed analysis undertaken, the Committee was satisfied that the going concern and viability statements remained appropriate.

Disappointingly, there are a number of prior year adjustments reflected in the financial statements, the most significant of which is in respect of the Thai Oil Clean Fuels contract. The error was identified by the Group's controls and governance framework through the Group's Internal Audit function which indicated a deficiency in the internal controls of this complex project. It was detected that the subcontractor cost evaluation team did not escalate at the appropriate time the indications of cost growth following a bills of quantities review, and therefore appropriate evaluation had not occurred ahead of the issuance of the 2021 financial statements.

Following the Internal Audit findings, the Group's Investigations Team (assisted by Deloitte) concluded that the error occurred as a result of poor judgement within the project team rather than any intention to mislead. The resulting prior year adjustment of US$48 million (represented by a reduction in revenue of US$19 million and an increase in cost of sales of US$29 million) has been reflected in the comparative income statement in this year's consolidated financial statements.

On concluding the investigation, the Group undertook additional assurance activities to satisfy itself that there were no other similar occurrences within the broader E&C portfolio These assurance activities consisted of specific detailed contract reviews to ensure that all material cost increases, or indicators of such, had been reflected in the contract forecasts at the appropriate time; and confirmations from the project directors of each contract and from E&C management that any information identified post year was appropriately included in the contract cost forecasts and, if necessary, reflected in the financial statements (see the principal risks and uncertainties disclosures on page 85, the Financial review on page 93 and note 2.9 to the consolidated financial statements).

In September 2022, the Group's financial statements for the year ended 31 December 2022 were subject to a review by the Financial Reporting Council's (FRC) Corporate Reporting Review Team (CRRT). The response by the Company to the request for information was discussed with me in my capacity as Chair of the Audit Committee, prior to responding to the CRRT. Additionally, details of the enquiry raised by the CRRT and the Company's response thereto were also considered by the Committee. As noted on pages 84 and 189 of this annual report, this review resulted in some classification and presentational prior year adjustments being made to the Group's consolidated income statement, and statement of cash flows, and the Company's statement of cash flows for the year ended 31 December 2021. Full details (including other prior year adjustments identified) are included in note 2.9 to the consolidated financial statements on page 189. The CRRT has closed its enquiries.

Additionally, the Company agreed to enhance disclosures in a small number of areas in response to the review. The Committee is satisfied that the proposed enhancements have been appropriately incorporated in this annual report.

As part of its oversight of compliance with applicable legal and regulatory requirements, the Committee discussed with the Chair of the Compliance and Ethics Committee and the Chief Compliance Officer the effectiveness of the risk management framework and system of internal controls as well as consideration of ethics and compliance matters.

A key role of the Committee is to provide positive assurance to the Board that it is satisfied that the Annual report and accounts, when taken as a whole, are fair, balanced and understandable and provide shareholders with the sufficient and appropriate information to enable them to assess the Group's position, performance, business model, and strategy. Our review process, which confirms the Committee is content to provide this assurance, is set out on page 120.

Looking ahead, in addition to fulfilling its normal programme of activities during the year, the Committee will be closely monitoring the macroeconomic and other conditions affecting the Group's strategy and pipeline. The Committee will continue to maintain its focus on significant judgements and estimates impacting financial reporting whilst work will also continue to ensure the Group is fully compliant with any new regulations as and when they come into force.

I would like to thank my fellow Committee members, other Directors and the management team, and the internal and external auditors for their continued support, for the open discussions held, and for the contributions provided in the support of the Committee's work throughout the year.

DAVID DAVIES
Chair of the Audit Committee
27 April 2023

Audit Committee report continued

Role of the Committee

The Committee supports the Board in fulfilling its responsibilities regarding the financial statements, effectiveness of risk management and internal controls, and compliance matters. The Group has an internal control and risk management framework in place, which includes policies, standards and procedures, to ensure that adequate accounting records are maintained, and transactions are accurately recorded. In addition, the Committee has oversight of financial initiatives that remain under continuous review, which are designed to strengthen our control environment and improve financial reporting. This ensures that the Group's financial reporting process and communications to the market provide a fair, balanced and understandable assessment of the Group's performance, position and prospects.

The Committee keeps the Board informed of its activities and recommendations, with the Audit Chair providing an update to the Board after every meeting. The Committee discusses with the Board where it is not satisfied with, or believes that action or improvement is required concerning any aspect of financial reporting, risk management and internal control, compliance or audit-related activities. The Committee's Terms of Reference are available on the Petrofac website, petrofac.com.

At the date of this report, and throughout 2022, the Committee comprised independent Non-executive Directors who are all considered appropriately qualified and experienced to fulfil their duties having held senior roles across several sectors. David Davies has significant, recent and relevant financial experience, whilst Matthias Bichsel and Sara Akbar have competence relevant to the Group's sector. Members have also gained further knowledge and experience of the sector as a result of their Board membership and through various in-person and virtual site visits since their respective appointments. Furthermore, all members of the Committee have extensive general management and commercial expertise. Their full biographies can be found on pages 99 to 100.

Frequency of Audit Committee meetings

The Committee met five times during 2022. For the Directors' attendance, see the table on page 104. Invitations to attend meetings are normally extended to the Group's external auditor, the Chair, the Group Chief Executive, the Chief Financial Officer, other members of the Board, the Group General Counsel, the SVP – Finance, the Director of Group Finance, the Head of Audit and the Chief Compliance Officer. The Committee also meets with the external auditor and the Head of Audit without management present.

Further details on the division of Board responsibilities and the Committee's role in complying with the UK Code are set out on page 98 and 103. The Committee's key areas of responsibility are detailed below, and further discussion of activities in 2022 can be found on page 119.

Group external auditor

Ernst & Young LLP (EY) continued as the Group and Company's global external auditor throughout 2022.

The Committee considers the effectiveness of the external auditor on an ongoing basis, considering its independence, expertise, performance and understanding of the Group, its resourcing capabilities, culture and objectivity. The Committee remains satisfied, through its own observations and enquiries, as well as the interactions with the Executive team and senior management throughout the year, with the independence and objectivity of the external auditor and the effectiveness of the audit process.

In making this assessment, the Committee gave due consideration to: (i) views and recommendations from management and the Head of Audit; (ii) the execution of the audit plan; and (iii) the Committee's own experiences, including interactions with the external auditor, throughout the year. Key criteria of the evaluation included: professionalism in areas including competence, integrity and objectivity; constructive challenge of management and key judgements; efficiency, covering aspects such as service level and innovation in the audit process; thought leadership and value added; and compliance with relevant legislative, regulatory and professional requirements.

The Committee Chair met with the external auditor ahead of each scheduled meeting, without management present, to discuss a range of financial reporting and internal control matters. The Committee Chair also maintained regular contact with the lead audit partner throughout the year outside of the formal meeting schedule, discussing formal agenda items ahead of upcoming meetings and reviewing any other significant matters.

Each year, EY submit their proposed audit strategy and scope, thereby ensuring the audit can be aligned with the Committee's expectations. This work is carried out with due regard to the identification and assessment of business and financial statement risks that could impact the audit as well as continuing developments within the Group.

During 2022, the audit scope included management's judgements and estimates concerning fixed-price engineering, procurement and construction contracts; the identification and rectification of deficiencies in internal controls; robustness of management's going concern and viability statement assessments and disclosures; impairment assessments and fair value remeasurements; HMRC's challenge to the historical application of national insurance contributions; uncertain tax treatments and presentation of the separately disclosed items. Towards the end of the year and into the early part of 2023, significant work was undertaken to review the investigation related to the Thai Oil Clean Fuels contract that resulted in the prior year adjustment, as well as the additional assurance activities introduced thereafter.

Audit tenure

The next competitive audit tender process is required no later than 2024, with EY required to step down, having completed its 20-year audit limit, as permitted under the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order). To provide for

sufficient continuity over the audit process prior to the expiration of their audit tenure, it was agreed that the lead partner responsible for the external Group audit should rotate during the year, with Mr Daniel Trotman duly appointed.

Petrofac last conducted a competitive tender process in 2016 and, following completion of that exercise, the Committee recommended that EY be retained as the Company's external auditor. In making this recommendation, the Committee concluded that the decision was in the best interests of the Company and its shareholders.

EY was first appointed as external auditors in October 2005 and the last year they will be permitted to act as external auditor for the Group and Company will be 2024. This matter was further considered during the year, with the Committee agreeing that the tender for a new auditor should take place during 2023 or 2024. It was recommended that EY be retained until the end of their term in 2024, with new auditors shadowing EY for the 2024 audit.

Non-audit services

To preserve the independence and objectivity of the external auditor, the Group has a non-audit services policy that restricts the nature of non-audit services that can be provided by the external auditor. This policy was last reviewed and amended in 2020 to reflect the FRC's latest Ethical Standards and the more restrictive list of services that are now permitted for an equivalent UK company with a premium listing. The policy provides clear definitions of the services that our external auditor may and may not undertake. A summary of this policy is set out below, while a copy of the full policy can be found at petrofac.com.

To ensure compliance with the policy, the Committee reviews the Group's cumulative non-audit expenditure each year and gives prior approval to the appointment of EY before any work is carried out should the nature or size of the proposed work require it. The Committee is satisfied that EY's objectivity and independence was not impaired during the year by any non-audit service agreements and confirms there were no breaches to the policy during 2022. In addition, EY has confirmed that it was compliant with FRC Revised Standard 2019 in relation to the audit engagement.

Service provided	Fees in 2022 (US$m)	Fees in 2021 (US$m)
Group audit fee	4	3
Audit of subsidiaries' accounts	1	1
Other including non-audit services	–	2
Total	**5**	**6**

In 2022 EY received total fees of US$5 million (2021: US$6 million) consisting of US$5 million of audit fees (2021: US$4 million), and US$0.1 million for non-audit and audit-related services (2021: US$1.5 million). The total of EY's non-audit and audit-related service fees in the year equated to 2% of the audit fees for 2022 and 3% of the average audit fees for the last three years. Fees paid to EY are set out in note 5 to the financial statements. Details of any significant non-audit work undertaken this year are set out in the table above.

All engagements during 2022 were pre-approved by the Chief Financial Officer or by the Chair of the Committee and did not include any activities defined as prohibited services by the Group's non-audit services policy. In addition, and in parallel, EY performed similar safeguarding procedures to ensure that the proposed non-audit engagements could be accepted.

Non-audit services policy summary:

- There is a general prohibition on the provision of non-audit services by the Group external auditor (and its network) which will apply to Petrofac Limited and its subsidiaries. A narrow list of permitted non-audit services will continue to be allowed
- Certain non-audit services are subject to an absolute prohibition
- Permitted non-audit services (other than those required by national legislation) provided to Petrofac Limited and its subsidiaries are subject to a 70% cap (the Cap)
- The Cap is defined as permitted non-audit fees (other than those required by national legislation) expected to be incurred in the current financial year not exceeding 70% of the average Group statutory audit fees for the previous three financial years
- If the Cap is expected to be breached, the Audit Committee must be informed in advance to ensure that enhanced procedures are performed to obtain assurance on the Group external auditor's independence and objectivity (as defined by reference to the FRC's Revised Ethical Standard 2019)
- All permitted non-audit services are subject to the prior approval of the Committee in advance of work commencing, subject to limited exceptions
- The CFO's approval is required prior to engaging the Group auditor on any pre-approved permitted non-audit services
- Committee pre-approval for permitted non-audit services is given where the estimated engagement fee in any one financial year is below US$50,000
- All services with estimated fee levels above the US$50,000 threshold must be sent to the Committee for approval prior to commencement of the engagement even if defined as permitted non-audit services
- The CFO will ensure that a full list of permitted non-audit service engagement, associated fees and continued compliance with the Cap is presented to the Committee every six months unless the Cap is expected to be breached
- The Audit Committee will seek assurance at least once a year from the Group auditor on its policy and safeguards to maintain independence and objectivity

Internal Audit

The Head of Audit reports directly to the Committee and administratively to the CFO, with a remit to provide independent and objective assurance on the Group's prioritised risks, internal control systems and governance processes. The Internal Audit function supports the Group's continuous efforts to improve its overall control framework. It plays an integral role in the governance structure and provides regular reports to the Committee on the effectiveness of governance, systems, processes and controls across the Group. Its activity is primarily driven by an agreed risk-based programme that reflects the key risks the Group faces, the governance frameworks, organisational structures and operations. Following approval by the Committee, the programme remains under review and subject to change throughout the year to ensure any changes to the risk profile or key drivers are appropriately considered. The Committee reviews and approves all changes to the programme and receives updates at each meeting on the outcome of the work performed.

Reports to the Committee and discussions cover any significant matters arising from the internal audit programme and management's response to significant audit findings and notable

Audit Committee report continued

control weaknesses, including planned improvements and agreed actions. The Committee also regularly holds private sessions separately with the Head of Audit without members of management present. The Head of Audit has direct access to the Committee Chair and meets with the Group's external auditor whenever required.

The 2023 risk-based audit programme and additional assurance activities were reviewed and approved in November 2022. The Group's internal audit programme for 2022, approved by the Committee in November 2021, was further developed during the year. These developments considered the Group's principal risks, identifying where they primarily occur in the business; through discussions with the Committee and senior management; recognising changes in the Group and the external environment; and with consideration to prior audit coverage. Furthermore, the Committee also approved the Internal Audit Charter which defines the accountabilities for conducting risk-based audit activities, ensuring transparency and a clear line of separation to preserve the independence of Internal Audit from the business.

One of the Committee's key roles is to challenge this audit programme, and specifically to determine whether the key risk areas identified as part of the risk management processes are being audited with appropriate frequency and depth. Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the findings of the audit, detailing progress, and including any key findings or actions that may be required. Where any significant areas of concern are identified during an audit, an implementation plan is agreed with management for any required corrective actions to be addressed on a timely basis, with follow-up audits arranged. Action closures are reported to, and monitored by, the Committee.

The Committee keeps the Board informed of its activities and recommendations, with the Audit Committee Chair providing an update to the Board after every meeting. The Committee discusses with the Board where it is not satisfied with or believes that action or improvement is required concerning any aspect of financial reporting, risk management and internal control, compliance or audit-related activities.

During 2022, 13 internal audit assignments were carried out, the results of which were included in Internal Audit's annual assessment of the audited elements of the system of internal controls.

To assist Group Compliance, Internal Audit continued to support in the triaging of allegations raised from the confidential Speak Up line, providing support to the relevant investigations based on specific requests from Group Compliance.

Risk management

The Board has overall responsibility for establishing and setting the Group's risk appetite, its enterprise risk arrangements and for ensuring that the Group has in place an effective risk management framework. In accordance with guidance set by the FRC, the Board has delegated responsibility for monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls to the Committee.

The Board has established an organisational structure with clear operating procedures and defined delegated authorities, which forms the framework for determining risk and risk appetite. Regular reporting supports and develops the continuing robust assessments of the principal and emerging risks facing the Group, including their impacts on the enterprise and its future sustainability.

The Group's principal risk report captures and assesses the principal and emerging risks facing the Group, outlines how these risks are managed, and monitors exposures against our risk appetite. This document is updated quarterly and is considered at both Committee and Board level throughout the year.

The Committee receives regular updates on risk management from the Group Risk and Audit teams. Additional reports are also submitted by the external auditor to assist the Committee, and ultimately the Board, in their annual assessment of the effectiveness of the Group's risk management and system of internal controls. In reviewing each of the submitted reports, the Committee considers how effectively risks have been identified; how they have been mitigated and managed; whether actions are being taken promptly to remedy any failings or weaknesses; and whether the causes of any failings or weaknesses have indicated poor decision-making, a need for more extensive monitoring, or a reassessment of process effectiveness.

These help to provide the Committee, and ultimately the Board, with a balanced assessment of the Group's principal risks and the effectiveness of the systems of internal controls. Based on this assessment, our risk management framework and processes operated as expected during the year to identify and assess possible responses to the principal risks and uncertainties faced by the Group.

Throughout the year, the Group's principal risks have been regularly reviewed by management to provide assurance on the robustness, integrity and effectiveness of the systems in place, including those that could threaten its business model, operations, future performance, solvency and liquidity. Further details of the Group's risk management systems and controls, including an overview of the risk governance and management frameworks and key changes to the principal risks during 2022, are presented on pages 76 to 87.

Internal controls

Petrofac seeks to ensure that a sound system of internal controls, based on the Group's policies, standards and procedures, remains in place for all material associate and joint arrangement entities. In the event any failings or weaknesses are identified in the course of a review of internal control systems, management puts in place robust actions to address these on a timely basis, with action closures reported to and monitored by the Committee.

As with all companies, an internal control system can provide only reasonable and not absolute assurance against material financial misstatement or fraud, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. However, the Committee is content that the ongoing reviews have established that management places a strong focus on closing audit actions and ensuring timely completion.

Following identification of an internal control deficiency during the year, as detailed on pages 114 and 115, additional assurance activities were undertaken to ensure there were no other similar instances within the broader contract portfolio (see note 2.9). These assurance activities confirmed that there were no such occurrences.

Principal matters considered during the year by the Audit Committee

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

Financial statements and reporting (including going concern)	• Received reports from the Executive team and senior management on accounting (including the principal accounting matters and details of the prior year adjustment included in the financial statements and the additional assurance activities undertaken in response to the investigation that resulted in those adjustments), commercial, financial, revenue recognition, risk and risk mitigation, strategic and litigation matters (see also 'Other' below) • Reviewed and recommended the Annual report and accounts to be put to the Board for approval that, as a whole, they complied with the Code principle to be 'fair, balanced and understandable' • Reviewed and recommended the press releases to be put to the Board for approval relating to the full-year and half-year results and financial statements • Approved the Group's viability and going concern statements
External auditor	• Reviewed the Group's external auditor's 2022 audit strategy and planning report • Reviewed the external auditor's reports on the Group's full-year financial statements • Discussed, reviewed and approved the external auditor's assessment of its objectivity and independence, including a review of any non-audit services provided plus associated fees • Reviewed management representation letters relating to the full-year audit • Approved the external auditor's statutory audit fee for the year
Risk management and internal controls (including Internal Audit)	• Considered, discussed and challenged the Internal Audit reports presented at each meeting • Reviewed and approved the internal audit plan for the year • Reviewed and approved the Anti-Money Laundering control framework • Reviewed the periodic progress reports regarding due diligence around controls relating to third-party engagement • Reviewed the Group's principal risks and risk appetite • Reviewed the Treasury Risk Management Policy
Governance	• Reviewed the Committee's terms of reference and recommended they be approved by the Board • Received an update from the Group external auditor on the changes to be introduced in the audit and governance landscape
Other	• Received and challenged judgements made by the Executive team and senior management on the adequacy of provisions required on loss-making contracts and the appropriateness of the related disclosures, including any impact resulting from the prior year adjustments • Reviewed and recommended for Board approval the annual tax update • Reviewed and recommended for Board approval the 2022 Group insurance programme renewal • Reviewed and considered the Company's responses to the request for information from the FRC's CRRT

Committee planned activities for 2023

In addition to standing items the Committee will also:

- Continue to challenge and debate the relevance of management's judgements on significant accounting issues, to safeguard the interests of shareholders and other stakeholders
- Review the Group's structure for opportunities to simplify
- Maintain a robust overview of the going concern and viability statements
- Complete the audit tender planning process
- Monitor and implement any audit reform recommendations

Audit Committee report continued

Treasury

As part of its remit, the Committee supports the Board in monitoring performance against the Group's funding plan, as well as reviewing the Group's compliance with the Treasury Risk Management Policy, a copy of which is available at petrofac.com. During the year, the Committee continued to closely monitor the Group's funding and liquidity, particularly in light of the ongoing challenging market conditions facing the Group and the resulting effect on financing.

Assurance

At the year end, and as required by the UK Code, formal assurance is provided to the Board that effective governance, risk management and internal control processes are in place and remain relevant, to ensure that the Group will continue to be viable for at least the next three years. This assurance covers all material controls, including strategic, financial, operational and compliance controls. Further details on the overall control processes are set out on page 118.

Insurance programme

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

Ahead of the 2023 group insurance renewal, a structured and targeted marketing exercise concerning the main Group policies was undertaken. After several years of a highly challenging insurance marketplace in which insurers have grappled with unprofitable loss ratios by applying blanket rate increases, in 2023 insurance markets appear to be settling down for many of the classes of cover. The Group's insurance programme was renewed in April 2023 and the overall premium represents a reduction of 13% when compared to 2022.

Fair, balanced and understandable

Each year, the Committee advises the Board on whether, in its opinion, the Annual report and accounts (Annual Report) when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Throughout 2022, the Committee monitored the integrity of the Group's reporting process and financial management, considered the results of management's assessment of going concern and viability, reviewed in detail the work of the external auditor, and ensured it and any significant financial judgements and estimates made by management provide the information necessary for stakeholders to assess the Group's performance and position.

In reaching its conclusion, the Committee assessed the results of the processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. The processes included a review of all material matters to ensure that the Annual Report correctly reflected the Company's performance during the reporting year. Material issues were fairly reflected, including the identification and rectification of deficiencies in internal controls and the continuing impact of the Covid-19 pandemic on the projects' financial performance, to ensure it presented a consistent message throughout.

This process was led by an internal team, consisting of members of the Group Finance, Company Secretariat, Group Communications and Investor Relations teams, who each collaboratively prepare sections of the Annual Report. This team also performed procedures to provide assurance to the Committee that the Annual Report was balanced, complete and accurate. This ensured that there was a clear and integrated link between the three main sections of the Annual Report – the strategic report; the governance report; and the financial statements.

Each Committee Chair participated in the preparation of their individual committee report, with the Board and management afforded the opportunity to submit their comments during the preparation process. The Committee was then presented with a full and final draft of the Annual Report for comment.

The Committee concluded that following its review, it was content to present the 2022 Annual Report to the Board for final approval with an assurance that when taken as a whole, it was fair, balanced and understandable, representative of the year under review, and provided shareholders with the sufficient and appropriate information to enable them to assess the Group's position, performance, business model, and strategy.

The Board subsequently approved the Committee's recommendation that a fair, balanced and understandable statement reflecting this conclusion could be provided. This statement is set out on page 152. The Group's external auditor's report can be found on pages 154 to 165.

This Annual Report includes the Company's standalone financial statements on pages 241 to 262. In order to simplify the Annual Report and help provide readers with a more succinct document, for the year ended 31 December 2023 and beyond, these Company standalone financial statements will not be presented within the Group's Annual Report.

Significant judgements

The Committee assesses these significant judgements to determine if they are reasonable and appropriate. The Committee has reviewed the following significant issues throughout the year, on which it has challenged and required management to exercise the highest level of judgement or estimation.

FOCUS AREA	WHY THIS AREA IS SIGNIFICANT	ROLE OF THE COMMITTEE	CONCLUSION	MORE INFORMATION
Revenue and margin recognition on fixed-price EPC contracts	Due to the complexity and scale of many of the Group's contracts, revenue recognition continues to be an area of focus. The quantification and timing of revenue and profit recognition from fixed-priced EPC contracts is a material driver of the Group's financial performance and position, which is subject to significant management judgement and estimation. There is an inherent risk of bias or error in judgements and estimates concerning, for instance: variable consideration e.g. variation orders, liquidated damages; contract contingencies; and estimates to complete cost forecasts.	The Committee reviewed and challenged the reasonableness of evidence to support judgements and estimates regarding revenue and profit recognition, including non-recognition in certain instances, through regular discussions with executive management. This included a review of the additional assurance measures undertaken in response to the identified control deficiencies and prior year adjustment. The Committee focused on variable consideration; contract contingencies; and estimates to complete cost forecasts, particularly in light of the ongoing deterioration in market conditions caused by the lasting impact of the pandemic, the change in cost forecasts on the Thai Oil Clean Fuels joint venture contract, the mature contract portfolio, and the low order intake. The Group's external auditor also challenged management on the key drivers of revenue and profit recognition on fixed-price EPC contracts and reported their findings to the Committee.	The Committee concluded after thorough deliberation that the quantification and timing of revenue and profit recognition on fixed-price EPC contracts, as well as associated reporting, was in accordance with the relevant International Financial Reporting Standards and the Group's accounting policies.	Financial Review on page 89 and note 4 to the consolidated financial statements
Provision recognition or contingent liability disclosure of His Majesty's Revenue and Custom's (HMRC) challenge to the historical application of National Insurance contributions to workers in the UKCS	Several key judgements on conditions of significant uncertainty were required in relation to determining whether recognition or disclosure of this matter was required. This included, but was not limited to, assessing the applicability of tax legislation cited by HMRC to the facts of the enquiry; assessing any developments in the enquiry during the year; and critically evaluating advice from independent legal and tax specialists.	The Committee evaluated management's assessment of developments during 2022 in conjunction with the ongoing tribunal process. In particular, the Committee focused on ensuring that management had critically appraised advice provided by independent legal and tax specialists as well as ensuring that there was an awareness and prevention of inherent bias implicit in management's position.	The Committee concluded, after reviewing and challenging management, that it remained appropriate for this matter to continue to be disclosed as a contingent liability note in the consolidated financial statements.	Note 30 to the consolidated financial statements

Audit Committee report continued

FOCUS AREA	WHY THIS AREA IS SIGNIFICANT	ROLE OF THE COMMITTEE	CONCLUSION	MORE INFORMATION
Going concern and viability	Management and the Board are required to assess whether the financial statements should be prepared on a going concern basis.	The Committee spent considerable time throughout the year discussing going concern and viability. At the end of the year a robust assessment of the going concern assessment period to 31 December 2024 (the Assessment Period) and the subsequent viability period was performed. This included reviewing and challenging the Group's forecast cash flows, liquidity and borrowing requirements after assessing the assumptions in respect of new order intake over the assessment period; evaluating downside scenarios based on the Group's principal risks and uncertainties; and appraising the mitigation strategies available to management. The Committee considered the appropriateness of the going concern assessment and related judgements regarding material uncertainty, reviewing the downside scenarios and the potential mitigations as disclosed in note 2.5 of the consolidated financial statements and concluded that the going concern and viability disclosures were fair, balanced and understandable.	The Committee reviewed the Group's going concern assessment based on forecast cash flows, liquidity headroom and covenant compliance over the Assessment Period. These forecasts were based on the Board approved business plan and modelled a range of severe but plausible downside scenarios to reflect uncertainties inherent in forecasting future operational and financial performance, the committed facilities available, and the mitigations within direct control of the Group. The Committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside sensitivities. The Committee recognised that the Group's liquidity position in the mitigated severe but plausible downside scenario is reliant on a small number of collections from clients and as these collections are not entirely within the direct control of the Group, they may give rise to a material uncertainty. The Committee reviewed the disclosures presented in note 2.5 of the consolidated financial statements together with the viability statement, on pages 94 to 96 to ensure that sufficient detail was provided to explain the basis of preparation of the financial statements and the Board's conclusion. The Committee concluded, after rigorously evaluating relevant, available information, that they remain confident in the prospects of the Group to maintain compliance with its financial covenants and sufficient liquidity even in a severe but plausible downside scenario and that the continued use of the going concern basis of preparing the Group's financial statements remained appropriate. The Committee also positively concluded on the viability of the business.	Notes 2.5 and 2.7 to the consolidated financial statements
Taxation	The global nature of the Group's operations and the increasingly complex nature of local tax rules increases the risk of an income tax expense misstatement. Management is required to make several judgements and estimates around: uncertain tax treatments given the commercial structure of individual contracts; and the valuation and recoverability of any deferred tax assets.	The Group's tax judgements and estimates were reviewed by the Committee to ensure that the recognition of income tax expense, uncertain tax treatments, and any deferred tax assets were based on reasonable and appropriate assumptions. Reports outlining principal tax matters were reviewed and discussed with management and the Group's external auditor, which also reported to the Committee on its procedures and findings in relation to the Group's tax affairs.	The Committee was satisfied that taxation-related judgements and estimates were reasonable and appropriate and that the Group's tax affairs were being managed, accounted and reported in accordance with the relevant legislation, International Financial Reporting Standards and the Group's accounting policies.	Financial Review on page 90 and note 8 to the consolidated financial statements

Compliance and Ethics Committee report

FRANCESCA DI CARLO
Chair of the Compliance and Ethics Committee

Membership:

Chair: Francesca Di Carlo – appointed May 2022

Committee members:
Matthias Bichsel
David Davies – appointed May 2022

Resignations during the year
Andrea Abt – resigned May 2022
George Pierson – resigned May 2022

How the Committee spent its time during the year:

Whistleblowing	28%
Compliance strategy	26%
Compliance programme review	31%
Governance/Other	10%
Third Party Risk Committee	5%

Role and responsibilities of the Committee:

- To maintain direct oversight over key compliance and ethical risks and monitor the adequacy and effectiveness of controls in place and any mitigation activities
- To evaluate the compliance and ethical aspects of Group culture and make recommendations to the Board on steps to be taken to ensure a culture of integrity and honesty in the Group's business dealings
- To ensure that ethical policies and practices are subject to an appropriate level of independent internal scrutiny; overseeing the development of, and amendments to, the Group Compliance Charter, its Code of Conduct and other compliance policies, procedures and standards
- To support the Company in any engagement with regulatory bodies, industry groups, advisors and other stakeholders, as necessary and where permitted by law, regarding ethical issues and compliance matters
- To oversee, review and approve the adequacy and security of the Group's whistleblowing line as a tool available for employees and third parties to raise concerns, in confidence, about possible wrongdoing
- To receive reports and review findings of significant internal and external compliance-related investigations and audits and exercise oversight, where possible, over any such investigation impacting the Group

Dear shareholder

I am pleased to introduce my first Committee report following my appointment as Chair of the Committee from May 2022.

George Pierson and Andrea Abt both stepped down from the Board at the 2022 AGM, having each served for six years. As founder members of this Committee, I take this opportunity to thank them both for their significant contribution in helping to embed our compliance and ethics programme throughout the organisation.

David Davies and I succeeded them, joining Matthias Bichsel as Committee members to oversee the compliance improvements being embedded throughout the Group, to continue to provide challenge, thereby ensuring the effectiveness of the Group's compliance activities.

To assist the Committee in its deliberations, the Company Chair, other Board members, the Group General Counsel, Chief Compliance Officer, the Head of Investigations, and the Head of Audit are invited to attend all Committee meetings. In addition, external advisors may attend all or part of any meeting, when considered appropriate or necessary. Regular updates from the Group Compliance function were also received, with direct engagement with management taking place throughout the year.

The Committee is aware of the continuing need to ensure that compliance processes are continuously developed and are proportionate to the identified risks. This ongoing and improved monitoring provides enhanced insight and greater assurance into the effectiveness of the compliance programme. The Committee acknowledges the improvements achieved to automate compliance processes and to close out actions quicker, although we accept that work must continue to drive the compliance agenda forward.

As disclosed in the Audit Committee report, the Group's Internal Audit function identified an issue in the Thai Oil Clean Fuels contract, which represented a deficiency in internal controls.

Compliance and Ethics Committee report continued

Whilst the Audit Committee has the delegated responsibility of monitoring and reviewing the effectiveness of the Group's overall internal control systems, this Committee plays an important role, and received interim findings from the Group Investigations Team on the adequacy of controls in place in this complex contract. This matter began initially as an audit of the cost reporting process of the E&C business, which was passed to the Group Investigations Team for further inquiry. Details of the error identified, the outcome of the investigation, and the review of the Group's internal controls, are set out on page 114 and 115.

In early 2021, a gap analysis on the compliance programme was undertaken in consultation with Freeh Sporkin & Sullivan, LLP (FSS), the external advisors that began working with the Group in 2019. The identified actions were closely monitored and reviewed quarterly, with the aim of providing certainty to the Committee that the Group had a well-functioning compliance programme in place to meet external expectations. The programme maturity was identified by FSS as making good progress.

This gap analysis exercise was revisited at the end of 2022, to consider potential areas which may require further attention. Each analysis considered the control elements of different phases of the compliance programme, evaluating the current and desired state for each item. Where gaps were identified, the analysis set out defined actions, assigned priorities, owners, time horizons, and the desired end-state of each item, to ensure gaps could be narrowed or, ideally, closed.

To this end, a communications initiative to educate the business about the different compliance processes, and the value brought by each in addressing the risks that the Company and employees might face should the process not be followed thoroughly, was rolled out during the year.

A benchmarking exercise was also conducted during the year to ensure the Company was operating in line with peers in managing compliance risk. Overall, the data showed that the Company's compliance programme was, in most areas, compliant with best practice and operating in line with peers. One area requiring further enhancement was training and accordingly, customised training for high-risk employees was introduced, with systems implemented to address any training failures.

During 2022, FSS also conducted effectiveness testing on the due diligence programme and investigations procedures to ensure both programmes were operating as intended and fully aligned with their respective mandates.

FSS determined that the investigation programme was well designed and well-functioning, with strong management support. The 'triage' committee, which considers all high-risk investigations into alleged breaches of the Company's Code of Conduct, and which verifies the severity level assigned and decides on the most appropriate course of action, was thought to be working well. Following receipt of any Speak Up reports, investigation plans were properly scoped and planned, resulting in effective and efficient investigations and fair, accurate and timely reporting. Progress reports on all cases were provided to the Committee, with full granularity of each high-risk case considered in detail and remediation plans monitored.

The external due diligence platform, provided by Dow Jones, was also refined further to enhance the Company's approach and increase the emphasis on compliance evaluation and ongoing monitoring of all third parties. During 2022, an Internal Audit review on the operating effectiveness of the compliance due diligence was undertaken. Enhancement opportunities were identified, and these were implemented during the year to close out backlog issues and to enable further enhancements to the process to be undertaken.

A compliance culture review, last completed in 2019, was also undertaken, with the aim of assessing both the 'tone from the top' as well as the 'tone from the middle', with outputs compared with the original exercise. The Committee was encouraged by the progress made. In light of the continued improvements, Group Compliance intends to ascertain whether ISO-37001 certification can be obtained. This standard sets out the requirements for the establishment, implementation, operation, maintenance, and continual improvement of an anti-bribery management system and provides guidance on the actions and approaches that can be taken by companies to adhere to the requirements. ISO-37001 is intended to improve a company's ability to prevent, detect, and respond to bribery and comply with anti-bribery laws and commitments.

Although continued improvements were seen throughout the year, the Committee recognised that resourcing remained a critical challenge for the Group Compliance function, mainly due to challenging market conditions and a much tighter labour market across the industry. A new Trade Compliance Manager was appointed towards the end of the year, along with a new Compliance Manager, who was appointed to provide support to the contracts review process. Further appointments to the Investigations team will be made during 2023, to enhance the skill set within the team, while internal resources will be made available to assist the Due Diligence team.

In light of the ongoing political situation, the Group Compliance team extensively monitored the rapidly evolving sanctions regime against Russia throughout the year, providing updates to the Committee at each meeting. This involved the arrangements related to the safe completion and handover of our Sakhalin Energy project. The Committee has noted that since the year-end, Petrofac has divested its control of and economic interest in the Sakhalin Technical Training Centre, such that there are no ongoing operations in Russia.

As required by the Committee's terms of reference, minutes of the meetings held by the Third Party Risk Committee (TPRC) were reviewed during the year. A total of 80 new third parties within the TPRC's remit, including logistics and tax, legal and visa services, were engaged by the Group during 2022.

Looking forward, the Committee recognises the need to continue to reinforce the compliance message, and ensure all employees acknowledge that how we do business is just as important as what we do.

I am satisfied with the progress achieved and know that the continued implementation of good principles and behaviours will further embed the highest ethical standards throughout the organisation. The Committee will work with the new Group Chief Executive to make sure that the Company continues to progress and further strengthen our compliance programme.

FRANCESCA DI CARLO
Chair of the Compliance and Ethics Committee
27 April 2023

Directors' remuneration report

MATTHIAS BICHSEL
Chair of the Remuneration Committee

Membership:

Chair: Matthias Bichsel

Committee members:
Sara Akbar, Francesca Di Carlo

Resignations during the year
Andrea Abt – resigned May 2022

How the Committee spent its time during the year:

2022 remuneration arrangement	44%
Governance/Investor consultation and review of external environment	24%
Wider workforce remuneration considerations	11%
Review of employee share plans and performance conditions, including new share plans reviews	21%

Role and responsibilities of the Committee:

- Determine, implement and review, on behalf of the Board, the framework and policy for the remuneration of the Chair, the Executive Directors and other members of the Executive team. Review the ongoing appropriateness and relevance of the remuneration policy
- Ensure that the objectives of the remuneration policies and practices are transparent, support the Company's strategy and promote long-term sustainable success, while addressing the principles set out in the UK Code relating to clarity, simplicity, risk, predictability, proportionality and alignment to culture
- Review and oversee wider workforce remuneration and related policies and ensure that incentive schemes and rewards drive behaviours that are consistent with our purpose, values, and strategy, and take these into account when setting the policy for Executive Director remuneration
- Approve the design of, and determine targets for, any performance-related pay schemes and review the total annual payments made under such schemes
- Ensure that outcomes are only earned for achieving stretching, but fair, performance targets and that remuneration schemes and policies enable the use of Committee discretion and independent judgement to override
- Maintain contact, and promote effective engagement, with principal stakeholders, as required, on matters relating to executive remuneration

Dear shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2022. As a Jersey-incorporated company, Petrofac is not subject to the remuneration reporting regulations that apply to UK–incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance, and we will therefore continue to operate in line with the UK remuneration reporting regulations. Accordingly, we will be asking shareholders at our 2023 AGM, to vote on the following two advisory remuneration resolutions:

– Our Remuneration Policy (Policy), which outlines the remuneration framework that will apply to our Executive Directors, Non-executive Directors and the Chair of the Board

– Our Annual Report on Remuneration, which summarises the remuneration outcomes for 2022 and explains how we intend to apply the Policy during 2023 and beyond

2022 Group performance

The Group has faced a very difficult year with the 2022 results disappointing, as a result of adverse commercial settlements and further cost overruns on our legacy E&C portfolio. This was offset by strong performance in both Asset Solutions and IES, with several important contract extensions and breakthrough activity in decommissioning. The Group reported lower revenue of US$2,591 million and a full-year business performance net loss of US$284 million. Despite these challenges, we continued to deliver on our projects and services, whilst doing everything within our control to protect the health and wellbeing of our people.

We have made progress on our strategy, and work is ongoing to rebalance, reshape and rebuild Petrofac. During 2022 the Group Executive Committee continued the drive to deliver and enhance business performance and in this regard, it is particularly encouraging to note the move into new geographies and the successes in new energies, enabling us to further diversify our portfolio of projects and services.

Directors' remuneration report continued

Against this backdrop, the Committee remains determined to provide a package of pay and benefits that attracts, retains and incentivises our management and staff to grow and transform Petrofac, while also ensuring that all stakeholders, including investors and clients, benefit from a successful delivery.

The remuneration outcomes for 2022

Notwithstanding the challenging market and business environment, the Group made steady progress against key strategic objectives during the year that are critical to growth and our delivery of sustainable future profits, which allowed for a moderate total Company bonus pool of US$11 million (2021: US$19 million). I am pleased to report that 2022 was a fatality-free year for the Group and consequently, the Committee did not need to exercise downward discretion to the bonus award in this regard. Our bonus deferral scheme ensures that Executive Directors remain focused on continued successful realisation of value from these objectives to benefit all stakeholders in the longer term.

The Performance Share Plan (PSP) awarded in 2020 vested at 6% of the maximum. This is based on the successful performance of one key strategic measure (cost challenge) over the period 2020-2022; the performance of all other elements, including the TSR measure, was lower than threshold and therefore did not result in any vesting. Further details are set out on page 140. The Committee considered that this 6% vesting for our long-term incentive plan was commensurate with Petrofac's financial results over that period and was satisfied that no discretionary adjustment was necessary.

Restatement of 2021 financial results

Following the financial restatement in relation to the 2021 financial year, and in line with our Remuneration policy, the bonuses awarded to the Executive Directors for that year have been recalculated to reflect the restated figures, specifically the lower Group Net Profit outcome. This results in a reduction of £106,621 for the former Group Chief Executive and £19,189 for the Chief Financial Officer, which will be claimed back. Further details can be found on page 138.

Executive Director changes

It was announced in November 2022 that Sami Iskander would step down from the Board at the end of March 2023. On his departure, Mr Iskander received the balance of his 12 months' notice pay. The details of Mr Iskander's remuneration can be found on page 149. He will remain subject to the post-employment shareholding guidelines and will retain all vested shares for a period of two years following his departure.

Tareq Kawash was appointed Group Chief Executive with effect from 1 April 2023 on similar terms to Mr Iskander. Details of Mr Kawash's package can be found on page 148.

Our Chief Financial Officer will receive a 5% increase in salary effective April 2023. This is less than the average increase of Petrofac's UK salaries of 6.8%. He will receive a bonus of £200,000 (25% of maximum) and a PSP award at 200% of salary (capped at three times face value at award date). Details of his remuneration can be found on pages 148 and 149.

Remuneration policy

In accordance with best practice, the Company's remuneration policy will be submitted to shareholders at the 2023 AGM. No significant changes are being proposed to the policy that was previously approved by shareholders at the AGM held in 2020. Details of the Remuneration policy can be found on pages 129 to 137.

Changes to be made in 2023

There are no proposed changes to the annual bonus framework in 2023 and the PSP framework will continue to be delivered via a mechanism based on 50% TSR performance and 50% on performance against strategic objectives. Further details can be found on pages 149 and 150.

Pay outcomes for the Chair and Non-executive Directors

The Chair and Non-executive Director fees have not been increased since 2018 and we propose keeping these under review during 2023 to consider the complexity and time commitments required of our Directors in supporting the business and the necessary turnaround activities. It is critical to ensure that our fees enable us to attract and retain directors of sufficient calibre to lead the Group through the challenging years ahead.

Conclusion

Over the last few years, the Committee has had to respond quickly and decisively to the challenges faced. We have had to make some difficult decisions, but at all times, we have sought to act in the best interests of Petrofac and all our stakeholders.

I hope you find the report clear and informative, and that the Committee has your support for the Remuneration Policy and Annual Report on Remuneration at the forthcoming AGM.

MATTHIAS BICHSEL
Chair of the Remuneration Committee
27 April 2023

Remuneration at a glance

	SALARY	BENEFITS	CASH ALLOWANCE IN LIEU OF PENSION AND OTHER BENEFITS	ANNUAL BONUS	PERFORMANCE SHARE PLAN	SHAREHOLDING GUIDELINES
Purpose and link to strategy	Core element of remuneration, paid for doing the expected day-to-day job. To be market competitive and to attract and retain the appropriate talent to deliver Petrofac's strategy.	Provide employees with market competitive benefits. Supports the attraction and retention of appropriate talent.	Provide employees with an allowance for benefits and retirement planning. Supports the attraction and retention of appropriate talent.	Incentivise delivery of the business plan on an annual basis. Rewards performance against key performance indicators which are critical to the delivery of our business strategy.	Incentivise Executive Directors' performance over the longer term. Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term.	Aligns Executive Directors with shareholders' interests.
Key features	Normally reviewed at the beginning of each year, with any change usually being effective from 1 April.	Provision of benefits linked to local market practice. UK-based Executive Directors receive benefits that may include, but are not limited to, private health insurance for the Executive Director and their family and other appropriate life and income protection insurance arrangements.	Provision of a cash allowance in place of benefits including, but not limited to, pension contributions and car allowances. The cash allowance in lieu of pension for UK Executive Directors is at a value aligned with the employer's pension contribution for our wider UK workforce.	The maximum annual bonus opportunity is 200% of salary. Financial element (60%) and Strategic element (40%). Awards are based on performance in the relevant financial year. Performance measures are set annually and pay-out levels are determined by the Committee based on performance against those targets. Executive Directors' bonus will be delivered with an equal split between cash and deferred shares through the Deferred Bonus Plan, which will vest in equal tranches over one, two and three years from award. The Committee has full discretion to adjust bonus outcomes under the annual bonus plan up or down. Malus and clawback provisions apply.	Annual award of performance shares up to 200% of basic salary or in exceptional circumstance, up to 300% of basic salary. Vesting of awards is dependent on achievement of stretching performance targets measured over a period of three years. Any vesting post-tax shares will be subject to an additional two-year holding period. For the TSR element, 'threshold' levels of performance result in 25% of the award vesting, increasing to 100% of the award for maximum performance. Malus and clawback provisions apply.	The CEO is expected to build up a shareholding of 300% of base salary, with other Executive Directors expected to build up a shareholding of 200% of base salary. Until the relevant shareholding guidelines have been met, Executive Directors are required to hold any vested post-tax PSP/DBP shares. Updated post-cessation shareholding guidelines included in the 2022 policy report require Executive Directors to maintain 100% of their within-employment shareholding guideline (or their actual holding if lower) for two years following departure. Previously, Executive Directors were required to maintain 100% of the guideline for the first year following departure, and 50% of the guideline for the second year.

Directors' remuneration report continued

Remuneration at a glance continued

	SALARY	BENEFITS	CASH ALLOWANCE IN LIEU OF PENSION AND OTHER BENEFITS	ANNUAL BONUS	PERFORMANCE SHARE PLAN	SHAREHOLDING GUIDELINES
Planned for year ending 31 December 2023	5% salary increase for CFO to £420,000 per annum with effect from 1 April 2023, lower than the wider UK workforce. CEO appointed 1 April 2023 and awarded salary of £675,000 per annum.	Medical insurance received. In addition, CEO to receive a car allowance of £20,000 and an additional allowance of £40,000 for schooling.	Cash allowances unchanged from prior year. Pension contribution of 6.2% of salary for both CEO and CFO.	The maximum annual bonus opportunity for 2023 will be unchanged at 200% of salary. The Committee will set stretching 2023 targets and will provide disclosure at the end of the performance year.	Performance measures on TSR element (50% of award) and strategic element (50% of award). The maximum performance share plan opportunity will be unchanged from prior year at 200% of salary. Maximum value that can be delivered in year of vesting limited to three times face value of award at grant. The CEO will receive an award of 300% of salary award in 2023.	Employment shareholding guidelines remain unchanged for 2023. Updated post-cessation shareholding guidelines included in the 2022 policy report require Executive Directors to maintain 100% of their within-employment shareholding guideline (or their actual holding if lower) for two years following departure.
Implementation in year ended 31 December 2022	3.5% salary increase for former CEO to £672,750 per annum with effect from 1 April 2022. This increase was at the lower end of the average salary increase of the UK workforce between 3.5% and 6%. CFO salary increased to £400,000 per annum with effect from 1 April 2022, following his appointment to the new role in September 2021.	Benefits unchanged from prior year. Medical insurance of £1,159 per annum received, increased by 0.2% on 2021 figures due to premium increases. CEO received a car allowance of £20,000.	Cash allowances unchanged from prior year. Pension contribution 7% of salary for CEO and 6.2% of salary for CFO.	Pay-out of 0% of maximum for the financial element of the plan and 75% of the maximum for the strategic element of the plan for the CEO. Pay-out of 0% of maximum for the financial element of the plan and 62.5% of the maximum for the strategic element of the plan for the CFO. Total pay-out of 30% of maximum for the CEO and 25% of the maximum for the CFO.	Vesting of 2020 performance share plan at 6% of maximum.	The CEO shareholding is 15% of the shareholder guideline. He was appointed on 1 January 2021 and was yet to fulfil this target prior to his departure from the Company on 31 March 2023. The CFO shareholding is 4% of the shareholder guideline. He was appointed on 1 September 2021 and is yet to fulfil this target.
Implementation in year ended 31 December 2021	CEO appointed 1 January 2021 and awarded salary of £650,000 per annum. CFO appointed 1 September 2021 and awarded salary of £350,000 per annum.	Benefits received upon appointment. CEO received medical insurance of £1,115 per annum and car allowance of £20,000.	Cash allowances upon appointment. Pension contribution 7% of salary for CEO and 6.2% of salary for CFO.	For CEO, pay-out of 35.1% of maximum for the financial element of the plan and 75% of the maximum for the strategic element of the plan. For CFO, pay-out of 35.1% of maximum for the financial element of the plan and 100% of the maximum for the strategic element of the plan. Downward discretion exercised to reduce the bonus award by 5%. Total pay-out of 50.0% of maximum for the CEO and 61.0% of the maximum for the CFO, prior to the restatement of financial results and the reduction in the awarded bonus.	Vesting of 2019 performance share plan at 6% of maximum.	CEO shareholding 13% of the shareholder guideline. Appointed 1 January 2021 and is yet to fulfil this shareholder guideline. CFO shareholding 6% of the shareholder guideline. Appointed 1 September 2021 and is yet to fulfil this shareholder guideline.

Policy report

Looking forward

The following section sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be submitted as an advisory vote to shareholders at the 2023 AGM and will apply to payments made on or after June 2023.

As a Jersey-incorporated company, Petrofac does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the remuneration reporting regime. Accordingly, if there is any inconsistency between the Company's Policy (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that contractual entitlement or right. Formal legal advice affirms that it would be impractical for us to submit our new Policy for a binding shareholder vote in the manner of a UK-incorporated company. Hence our decision, once again, to submit the Policy to an advisory vote at the 2023 AGM. In considering the Remuneration Policy, the Committee followed a robust process, which included discussions on the content of the Policy with consideration and input from management and our independent advisors. The Committee also sought the views of the Company's major shareholders.

Changes to the Policy

There are no significant changes between the Policy presented for approval here and that approved by shareholders at the 2020 AGM.

Executive Directors – Fixed remuneration

ELEMENT/PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Salary *Core element of remuneration, used to attract and retain Executive Directors of the calibre required to develop and deliver our business strategy*	The Committee takes into account a number of factors when setting salaries, including (but not limited to): • Size and scope of the individual's responsibilities • The individual's skills, experience and performance • Typical salary levels for comparable roles within appropriate pay comparators • Pay and conditions elsewhere in the Group Basic salaries are normally reviewed at the beginning of each year, with any change usually being effective from 1 April.	Whilst there is no maximum salary level, any increases will typically not exceed the range of increases awarded to our wider employee population within the relevant geographic area. Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: • Increase in the scope and/or responsibility of the individual's role on either a permanent or temporary basis • Development of the individual within the role In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.	None
Cash allowance in lieu of pension and other benefits *Provide employees with an allowance for benefits and retirement planning*	Executive Directors will receive a cash allowance in lieu of pension contributions and will normally receive an additional cash allowance in respect of car allowance and other benefits.	While there is no maximum level of cash allowance, its value will normally be aligned with the employer's pension contribution for our wider workforce in the relevant region. In determining whether the level of cash allowance remains appropriate, the Committee will typically have regard to the rate of increase in the cost of living in the local market and other appropriate indicators.	None

Directors' remuneration report continued

ELEMENT/PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Benefits *Provide employees with market competitive benefits*	UK-based Executive Directors receive benefits that may include (but are not limited to) private health insurance for the Executive Director and their family and other appropriate life and income protection insurance arrangements. Non-UK-based Executive Directors receive similar benefits to UK-resident Executive Directors. In addition, they may receive other benefits aligned with local market practice in the applicable location, which may include (but are not limited to) children's education, return flights to their permanent home, tax equalisation, and appropriate insurance arrangements. Where Executive Directors are required to relocate, the Committee may offer additional expatriate benefits, if considered appropriate. Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on such payments. UK-based Executive Directors are eligible to participate in any all-employee share plans operated by the Company on the same basis as other eligible employees. Petrofac currently operates a Share Incentive Plan in the UK[1].	While no maximum level of benefits is prescribed, they are set at an appropriate market competitive level, taking into account a number of factors, which may include: • The jurisdiction in which the individual is based • The level of benefits provided for other employees within the Group • Market practice for comparable roles within appropriate pay comparators The Committee keeps the benefit policy and benefit levels under regular review. Where Executive Directors participate in all-employee share plans, their maximum opportunity will be as prescribed in the plan at that time.	None
Pension *Provide appropriate retirement benefits (were Executive Directors to participate)*	The Company operates defined contribution pension arrangements across the Group. In line with legal requirements, the Company offers participation in the UK pension plan to its UK-based Executive Directors.	While both current UK-based Executive Directors have opted to receive a cash allowance in lieu of pension provision, this position is kept under review. If the current Executive Directors were to join the Group pension arrangements, the level of Company contribution would be aligned with that of the wider UK workforce. Any newly appointed Executive Director joining the Group pension arrangements would receive a Company contribution rate in line with that for the wider employee population within their local market.	None

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan.

Executive Directors – Variable remuneration

ELEMENT/PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Annual bonus *Incentivise delivery of the business plan on an annual basis* *Rewards performance against key performance indicators which are critical to the delivery of our business strategy*	Awards are based on performance in the relevant financial year. Performance measures are typically set annually and pay-out levels are determined by the Committee based on performance against those targets. Typically, half of the bonus is paid in cash and half is deferred into shares under the Deferred Bonus Plan, which vest in equal tranches over one, two and three years from award. The Committee has full discretion to adjust bonus outcomes under the annual bonus plan up or down where: • They do not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period • Are not appropriate in the context of circumstances that were unexpected or unforeseen at the award date • There exists any other reason why an adjustment is appropriate. Malus and clawback provisions apply (see notes to the table).	Maximum bonus opportunity of 200% of basic salary.	Targets are set by the Committee each year, taking into account a number of internal and external reference points, including the Company's key strategic objectives for the year. The Committee ensures that targets are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial, strategic, operational and personal goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy. Measures used typically include (but are not limited to): • Financial measures • HSE, compliance, ESG and employee-related measures • Strategic objectives and reaching milestones towards longer-term strategy, Group function and business goals The weighting of the above measures will be determined by the Committee each year to reflect the strategic objectives for the relevant year. However, normally, at least 60% of the bonus will be based on financial measures, with the remainder ordinarily allocated to defined annual strategic objectives. Typically, 30% of the maximum opportunity is paid for 'threshold' performance (i.e. the minimum level of performance which results in a payment) and 50% for 'on-target' performance.

Directors' remuneration report continued

ELEMENT/PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Performance Share Plan[1] *Incentivise Executive performance over the longer term* *Rewards the delivery of targets linked to the long-term strategy of the business, and the creation of shareholder value over the longer term*	Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate, including as nil cost options. Awards may also be satisfied in cash in those jurisdictions where there are restrictions on providing shares. Vesting of awards is dependent on achievement of stretching performance targets measured over a period of at least three years. The Committee has full discretion to adjust outcomes under the PSP up or down where: • They do not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period • They are not appropriate in the context of circumstances that were unexpected or unforeseen at the award date • There exists any other reason why an adjustment is appropriate Additional shares are accrued in lieu of dividends and paid on any shares which vest. Any vested post-tax shares will be subject to an additional two-year holding period. Malus and clawback provisions apply (see notes to the table). The Committee may adjust or amend the terms of the awards in accordance with the PSP rules.	The maximum award that can be granted in respect of a financial year of the Company under the PSP is 200% of basic salary (or in circumstances which the Committee deems to be exceptional, awards up to 300% of base salary can be granted).	Awards vest based on performance against stretching performance targets. The ultimate goal of the Company's strategy is to provide long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation. Measures used typically include (but are not limited to): • Shareholder return measures – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and the shareholder experience • Strategic measures – aligned with the Company's long-term strategy • Financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success The weighting of each measure will be determined by the Committee each year to reflect the strategic objectives over the relevant performance period. For 'threshold' levels of performance, 25% of the award vests, increasing to 100% of the award for maximum performance. The Committee may amend the performance conditions applicable to an award if events occur which cause the Committee to consider that it fails to fulfil its original purpose and would not be materially less difficult to secure.
Shareholding guidelines *Aligns Executive Directors with shareholders*	The CEO is expected to build up a shareholding of 300% of base salary, with other Executive Directors expected to build up a shareholding of 200% of base salary. Until the relevant shareholding guidelines have been met, Executive Directors are required to hold any vested post-tax PSP/DBP shares.	None	None
Post-cessation shareholding guidelines *Provides continued alignment with shareholders post departure from the Company*	Executive Directors will normally be required to maintain their full within-employment shareholding guideline (or their actual holding if lower) for two years following departure. There is a mechanism in place to enforce these post-employment guidelines.	None	None

1 The Committee may, in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan.

Non-executive Directors

ELEMENT/PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE MEASURES
Non-executive Director fees *Core element of remuneration, paid for fulfilling the relevant role*	Non-executive Directors receive a basic annual fee and receive additional fees in respect of other Board duties such as chairmanship of Board Committees and acting as the Senior Independent Director. The Board as a whole is responsible for determining Non-executive Director fees. These fees are the sole element of Non-executive Director remuneration. Non-executive Directors are not eligible for annual bonus, share incentives, pensions or other benefits. The Chair receives an all-inclusive fee for the role, which is set by the Remuneration Committee. Fees are typically reviewed annually. Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the payments. A total of £20,000 of the Chair's quarterly fee and £5,000 of each Non-executive Director's quarterly fee is used to purchase Petrofac Limited shares.	Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company.	None

Notes to the policy tables

Malus and clawback provisions

In specific circumstances, the Committee may:

- Require repayment of amounts received under the annual bonus at any time up to the second anniversary of the payment date
- Reduce or cancel unvested PSP awards or require repayment of amounts already paid out at any time up to the second anniversary of the vesting date

Circumstances in which malus and/or clawback may be considered include, for example:

- Material misstatement of financial results
- Material failure of risk management
- Material breach of any relevant health and safety or environment regulations
- Serious reputational damage to the Company (or any Group member)
- Code of Conduct breach

Legacy matters

The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report came into effect, provided the terms of the payment were consistent with any applicable policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and that, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or such other person). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

The Policy set out above applies equally to any individual who would be required to be treated as a director under the applicable regulations. The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above if such payments are required by law in a relevant country.

Directors' remuneration report continued

Performance measures and targets

The performance measures used under the annual bonus and long-term incentives are intended to drive performance against key financial and non-financial business objectives, ultimately leading to value creation for shareholders. Targets are set to be appropriately stretching in the context of internal and external performance expectations.

Remuneration arrangements throughout the Group

The remuneration policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group.

The objective of the remuneration policy is to provide a compensation package that reflects the size, complexity and scope of the Company's business, promotes long-term success and supports our strategic objectives. It does this through a balance of fixed and variable pay, with the intent of creating a competitive total remuneration package that attracts and retains executives while creating an appropriate alignment between incentivising executive performance and the interests of shareholders.

To this end, base salaries are generally referenced against the median of a relevant benchmarking group. Variable elements, both short and long-term, are structured so that individuals can achieve upper quartile total remuneration, subject to achievement of challenging performance targets that are transparent, stretching and rigorously applied.

All our reward arrangements are built around the common objectives and principles outlined below:

- Performance driven – the Company intentionally places significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration is based on performance. Performance targets are typically aligned with those of the Executive Directors. As a result, individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.
- Employees as shareholders – a substantial number of employees participate in our various share incentive plans. As a result of this participation, as well as those shares owned and purchased by employees prior to and since IPO, Petrofac is proud of the significant levels of employee share ownership within the Company. We consider that this is one of the key drivers of performance throughout the business.

UK Corporate Governance Code

The Committee has been mindful of the UK Corporate Governance Code's six principles in determining remuneration policy. The Committee's view is that the framework is well-aligned with these areas:

- **Clarity and simplicity** – our remuneration framework has been established to support both the financial and strategic priorities of the Company, aligning with shareholder interests. The changes made to the pension allowance and long-term incentives, to align to the wider workforce and focus on key strategic objectives, were designed to improve both simplicity and transparency. We have a simple pay structure, comprised of fixed pay elements, short-term and long-term variable pay. These elements provide a clear line of sight for both executives and shareholders with the variable pay elements providing stretching targets to drive the success of the business.
- **Risk** – our reward structure is aligned to the risk management structure, with all executive variable pay awarded on a discretionary basis and subject to malus and clawback provisions. Our corporate governance structure provides for a joined-up view between emerging and crystallised risks and remuneration outcomes.
- **Predictability** – the Policy sets out the maximum opportunity for each component of executive remuneration to provide transparency around overall opportunities.
- **Proportionality** – there is alignment between the performance of the Company and the rewards available to Executive Directors. All executive performance measures are disclosed where awards are made, providing the link between the performance achieved and the shareholder value created. This transparency, alongside the independent approach taken on executive remuneration decisions, supports proportionate remuneration decisions, set against Company and individual performance.
- **Alignment to culture** – the balance of financial and non-financial measures for both short-term and long-term incentives is designed to support the values and behaviours for long-term sustainable growth.

Consideration of shareholder views

The Company places significant emphasis on our strong relationship with shareholders, and recognises the importance of clear and full consultation on all aspects of remuneration and governance. In reviewing our approach to directors' remuneration reporting this year and our forward-looking remuneration policy, we maintained a dialogue with our major shareholders and took their views into account. The Committee continues to monitor shareholder views when evaluating and setting the remuneration strategy, and we commit to consulting with major shareholders prior to any significant changes to our remuneration policy.

Recruitment policy

In determining remuneration arrangements for new Executive Directors, the overall structure of the package would normally be aligned with that set out in the policy table above:

- Salary positioning would reflect the skills and experience of the individual and may be set at a level to allow future progression to reflect performance in the role
- The Committee may provide additional benefits to expatriate appointments, as and where appropriate
- Maximum variable pay (excluding buy-outs) will be in line with the usual aggregate maximum set out in the policy table of 500% of salary
- Subject to the 500% limit, the Committee retains the discretion in the first year following appointment to flex the balance between annual and long-term incentive and the measures used to assess performance for these elements

The Committee may award compensation for the forfeiture of remuneration arrangements from a previous employer. In doing so, the Committee would aim to structure any replacement awards in a like-for-like manner to the extent possible, taking into account relevant factors, including:

- The form of the forfeited awards (e.g. cash or shares)
- Any performance conditions attached to them and the likelihood of these conditions being satisfied
- The proportion of the vesting and/or performance period remaining

The Committee will continue to have regard to the best interests of both Petrofac and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

In making buy-out awards to new appointments, the Committee may grant awards under the relevant provision in the FCA Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, it will comply with the provisions in force at the date of this report.

The overall approach outlined above would also apply to internal appointments, with the proviso that any commitments entered into before promotion that are inconsistent with the Policy will continue to be honoured. In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with those detailed in the table on page 133.

Executive Director service contracts

The key employment terms and other conditions of the current Executive Directors, as stipulated in their service contracts are set out below:

PROVISION	POLICY
Notice period	12 months' notice by either the Company or the Executive Director (no fixed expiry date).
Termination	The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and benefits in respect of the notice period. The Company would normally expect Executive Directors to mitigate any loss upon their departure.

Non-executive Director letters of appointment

The Non-executive Directors, including the Chair of the Company, have letters of appointment which set out their duties and responsibilities. They do not have service contracts. The key terms of the appointments are set out in the table below:

PROVISION	POLICY
Period	Three months' notice by either the Company or the Non-executive Director.
Termination	Non-executive Directors and the Chair are not entitled to compensation on leaving the Board. If a Non-executive Director or the Chair is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

In line with the UK Code, all Directors will seek annual reappointment by shareholders at the AGM. Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in London on 23 June 2023.

Directors' remuneration report continued

Policy on payment for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for an Executive Director, including the nature and circumstances of the intended departure:

- The Committee must satisfy any contractual obligations agreed with the Executive Director. As a non-UK-incorporated company, without the benefit of the statutory protections afforded by the UK Companies Act 2006, the Company would be obliged to honour any contractual entitlement or other right of an Executive Director, even if it were inconsistent with the Policy
- Individuals may be eligible to receive an annual bonus on a time pro-rated basis, subject to business and individual performance in the same manner as for continuing Executive Directors and paid at the usual time
- Other payments such as legal fees and outplacement fees may be paid if it is considered appropriate

The treatment of outstanding share awards is governed by the relevant share plan rules. The following tables provide a summary of the leaver provisions of each of our existing share plans:

PLAN	PERFORMANCE SHARE PLAN	RESTRICTED SHARE PLAN	DEFERRED BONUS PLAN	SHARE INCENTIVE PLAN
Summary of plan	Long-term incentive plan for Executive Directors and senior management	Below Board only[1]	Deferred bonus plan for Executive Directors and senior management	HMRC-approved, tax efficient plan available for participation to all UK-based employees

Good leaver categories

	PERFORMANCE SHARE PLAN	RESTRICTED SHARE PLAN	DEFERRED BONUS PLAN	SHARE INCENTIVE PLAN
Death	●	●	●	●
Injury, ill-health or disability	●	●	●	●
Transfer of employing company or business outside Group	●	●	●	●
Retirement by agreement with employer	●	●	●	●
Redundancy	●	●	●	●
Any other scenario in which the Committee determines good leaver treatment is justified	●	●	●	●

Treatment for good leavers under normal circumstances

As governed by the share plan rules and in accordance with the Company's share dealing code[2]:

PLAN	PERFORMANCE SHARE PLAN	RESTRICTED SHARE PLAN	DEFERRED BONUS PLAN	SHARE INCENTIVE PLAN
Vesting of award(s)	On a time apportioned basis, subject to the achievement of performance conditions tested at the relevant vesting date, unless in either case the Committee determines it fair and reasonable that a greater proportion should vest	On a time apportioned basis[3]	Vest in full	Leaver provisions under the SIP are in accordance with the standard HMRC leaver provisions
Vesting date	The original vesting date[4]	The date of cessation[5]	The original vesting date[4]	
Death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All unvested awards shall vest in full on the date of death	All shares will be released on the date of death

Treatment for bad leavers (i.e. any other leaving reasons than those provided above)[6]

PLAN	PERFORMANCE SHARE PLAN	RESTRICTED SHARE PLAN	DEFERRED BONUS PLAN	SHARE INCENTIVE PLAN
Bad leaver	Unvested awards lapse in full[3]	Unvested awards lapse in full[3]	Unvested awards lapse in full	All shares are released in accordance with the standard HMRC leaver provisions

1 Executive Directors may hold awards which were granted prior to their appointment to the Board.
2 Other than the SIP, individuals leaving as 'good leavers' will be deemed to cease employment when the relevant notice period ends unless the Committee determines that cessation be on an earlier date on or following the date notice was given.
3 Unless determined otherwise by the Committee.
4 The Committee has the flexibility to determine that awards can vest upon cessation of employment.
5 Awards are generally not subject to performance conditions and will vest on cessation of employment, subject to the terms of the RSP.
6 Other than the SIP, individuals leaving as 'bad leavers' will be deemed to cease employment when notice is given, unless the Committee determines to deem cessation to be on a later date, no later than the end of the relevant notice period.

Holding periods and other events

If an Executive Director leaves the Company holding vested PSP awards which are still subject to a mandatory holding period, the holding period will continue to apply, unless determined otherwise by the Committee.

On a change of control or winding up of the Company, PSP awards will vest on a time pro-rated basis, and where applicable be subject to the achievement of the relevant performance conditions, unless the Committee determines that the circumstances are sufficiently exceptional to justify a higher level of vesting.

Illustration of the Remuneration Policy

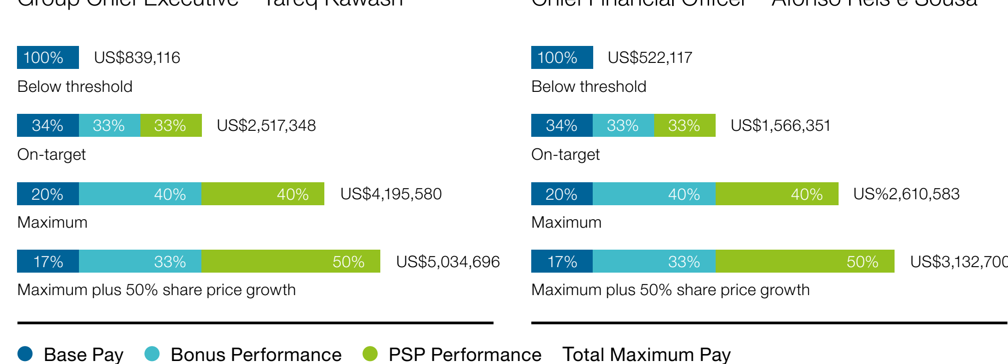
Petrofac's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short and long-term performance targets, that are aligned with the creation of sustainable shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The chart below provides illustrative values of the remuneration package in 2023 for Executive Directors under four assumed performance scenarios:

	ASSUMED PERFORMANCE	ASSUMPTIONS USED
Fixed pay	All performance scenarios	• Consists of total fixed pay, including base salary and cash allowance (as at 1 January 2023) and benefits
Variable pay	Minimum performance	• No pay-out under the annual bonus scheme • No vesting under the PSP
	Performance in line with expectations	• 50% of the maximum pay-out under the annual bonus scheme (i.e. 100% of salary) • 50% vesting under the PSP (i.e. 100% of salary)
	Maximum performance[1] (including 50% share price growth scenario)	• 100% of the maximum pay-out under the annual bonus scheme (i.e. 200% of salary) • 100% vesting under the PSP (i.e. 200% of salary)

1 Showing maximum PSP award opportunity of 200% of base salary, in line with the usual maximum award under the plan rules. Awards of up to 300% of base salary may be made in exceptional circumstances.

These charts provide illustrative values of the remuneration package in 2023. PSP awards have been shown at face value with no discount rate assumptions. Amounts have been translated to US dollars based on the average exchange rate for 2022 of £1 : US$1.243135. Actual outcomes may differ from those shown:



1 Annual salary £675,000 from start date of 16 March 2023. Variable pay reflective of 200% under the regular policy opportunity. However, in accordance with policy, Tareq Kawash was awarded an exceptional 300% of salary on appointment.

Consideration of conditions elsewhere in the Company

When determining remuneration arrangements for Executive Directors, the Committee considers as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Committee pays specific attention to the general level of salary increases and the size of the annual bonus pool within the wider population, with particular reference to the year-on-year change in these figures.

While the Committee does not directly consult with our employees as part of the process of determining executive pay, the Committee does receive feedback from employee surveys and takes this into account when reviewing executive pay. In addition, a significant number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Members of the Committee are invited to meet with the Petrofac Workforce Forum at least twice per year. This is an elected forum constituted of 12 representatives from the global workforce which represents wider employee interests and raises issues to the Board for discussion and resolution. Questions raised can involve remuneration issues, some of which are then taken forward for debate at scheduled Committee meetings.

Minor amendments

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' remuneration report continued

Annual Report on Remuneration

Looking backwards

The information presented from this section, until the relevant note on page 144, represents the audited section of this report.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors for the year ended 31 December 2022, with prior year figures also shown.

	Base salary		Taxable benefits		Cash in lieu of pension and other benefits		Annual bonus		Long-term incentives		Restatement adjustment to bonus		Total remuneration		Total fixed pay		Total variable pay	
	(a)		(b)		(c)		(d)		(e)						(f)		(g)	
	US$000		US$000		US$000		US$000		US$000		US$000		US$000		US$000		US$000	
Executive Directors[1]	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Sami Iskander [3]	**829**	894	**26**	29	**58**	63	**502**	807	**0**	0	**0**	(147)	**1,415**	1,646	**913**	986	**502**	660
Afonso Reis e Sousa[2, 3]	**480**	158	1	0	**30**	10	**249**	176	**1**	0	**0**	(26)	**761**	318	**511**	168	**250**	150

Notes to the table

1 The Executive Directors are paid in sterling. All amounts have been translated to US dollars based on the prevailing rate at the date of payment or award.
2 Afonso Reis e Sousa was appointed as a Director on 1 September 2021. The 2021 figures reflect the period from 1 September to 31 December 2021.
3 Following the financial restatement in relation to the 2021 financial year, and in line with our Remuneration policy, the bonuses awarded to the Executive Directors for 2021 have been recalculated. This resulted in a reduction of the total bonus in respect of 2021 in the amount of £106,621 for Mr Iskander and £19,189 for Mr Reis e Sousa. This reflects a reduction in the 2021 Group Net Profit outcome from US$35 million to US$3m, reducing the pay-out under this element from 43% of maximum to 0%.

Further notes to the table – methodology

a Salary and fees – the cash paid in respect of 2022.
b Benefits – the taxable value of all benefits paid in respect of 2022, including private health insurance and appropriate life assurance. Sami Iskander received a car allowance during the period.
c Cash in lieu of pension and other benefits – our Executive Directors receive a cash allowance in place of pension contributions. This reflects the application of the Company's remuneration policy. Directors do not receive specific pension contributions from the Company.
d Annual bonus. The value in respect of 2021 for Afonso Reis e Sousa has been pro-rated for time, based on the period from his appointment as an Executive Director.
e Long-term incentives – 6% of the 2020 awards under the Performance Share Plan will vest on 27 April 2023. A value of US$943.00 is due to vest for Afonso Reis e Sousa, pro-rated for time, based on the vesting period from his appointment as an Executive Director. This value represents an estimate of the market value of the shares that are due to vest, based on a three-month average share price of 98.05 pence (1 October to 31 December 2022). Of the value due to vest, £(1,516) of the figure is attributed to a share price depreciation of 195.85 pence per share, based on an actual award price of 293.9 pence. The 2021 value for Mr Reis e Sousa (relating to awards which vested in March 2022) has been revised from last year's report from US$377 to US$293, based on the actual share price of 114.50 pence at the date of vesting on 23 March 2022.
f Total fixed remuneration is the total of (a) base salary, (b) taxable benefits and (c) cash in lieu of pension and other benefits.
g Total variable remuneration is the total of (d) annual cash bonus and (e) long-term incentives, less the restatement adjustment amount.

Annual bonus

The financial elements of our annual bonus comprise 60% of the overall weighting, while the remainder of the annual bonus (40%) is subject to metrics typically covering strategic areas such as: health and safety, customer and service quality; growth; people; sustainability (ESG); energy transition; and strategic initiatives. The table below sets out the outcomes for the Executive Directors against our financial targets:

		Performance targets				
Measure	Weighting US$m	Threshold US$m	Target US$m	Maximum US$m	Actual 2022 outcome US$m	Pay-out as %
Group EBIT[1]	20%	95	114	135	(205)	0%
Group order intake	20%	2,900	3,848	4,800	1,927	0%
Group free cash flow[2]	20%	(57)	20	118	(188)	0%
As a % of maximum						0%
As a % of salary earned (out of 120% for financial elements)						0%

1 Measured as Group business performance earnings before interest and tax (see note A4 in Appendix A of the consolidated financial statements).

2 The Group free cash flow measure for the purposes of the annual bonus performance target is a management reporting metric calculated as free cash flow generated from operating activities and investing activities, less interest paid, repayment of finance lease principal and amounts received from non-controlling interests (see note A7 in Appendix A of the consolidated financial statements).

Group-level performance continued to be affected by continued delays in the award of new projects in the E&C division during the year, in addition to additional costs incurred on legacy contracts. This was partially mitigated by strong performance in both Asset Solutions and IES during 2022, and the continued reduction in Group overheads.

Overall though, this resulted in us missing our targets for Group EBIT, new order intake and Group free cash flow. We did however complete a number of projects in our legacy E&C portfolio, with E&C bidding continuing at record levels. We have continued the growth of the Asset Solutions portfolio and in the new energies sector, so that Petrofac is well placed to benefit from the investments to be made in offshore wind.

Sami Iskander

Sami Iskander joined Petrofac in November 2020, initially as Deputy CEO. He was appointed Group Chief Executive in January 2021. On 22 November 2022, the Company announced that Mr Iskander would be stepping down as Group Chief Executive and leaving the business with effect from 31 March 2023. In view of his performance throughout 2022 of progressing against strategic measures and his comprehensive and professional handover to his successor, the Committee felt that it was appropriate to award a bonus for the year. After due review and considering his performance in a year of exceptionally challenging circumstances, the Committee agreed to a performance rating of 4 on our 5-point scale. This has resulted in the bonus outcome as reported on page 138.

Afonso Reis e Sousa

Mr Reis e Sousa was appointed Chief Financial Officer and an Executive Director with effect from 1 September 2021. The Board has been very pleased with Mr Reis e Sousa's performance in his first full year as CFO. Mr Reis e Sousa has shown excellent relationship skills with our investors, banks and bondholders, having been instrumental in extending our existing debt facilities and successfully managing various financing issues. He has also demonstrated sound management of the development of various legacy IT issues and achieving readiness for the roll-out of our cloud-based ERP system across the Group. In view of this performance, the Committee agreed with the assessment of his personal performance as a 3.5 on our 5-point scale, which resulted in the bonus outcome as reported on page 138.

Loss of office

Mr Iskander had a 12-month notice period and, following the decision taken for him to step down from his role as Group Chief Executive and Executive Director, he worked his notice period from November 2022. The balance of this notice period was paid on his termination date of 31 March 2023. In addition, he received certain payments covering loss of benefits during the balance of his notice period. Details of these payments can be found on page 149.

Directors' remuneration report continued

Share plan interests awarded in 2020

Performance Share Plan

The performance conditions for the 2020 PSP award are set out below. As a result of the over-maximum achievement of one out of five of the strategic objectives, 6% of this award is due to vest on 27 April 2023.

TSR element (70% of award):

The comparator group and vesting schedule are set out in the following tables:

Comparator group:

Daelim Industrial Co	KBR, Inc	Technip FMC
Fluor Corporation	Maire Tecnimont	Tecnicas Reunidas
GS Engineering & Construction Corp	McDermott International, Inc	Worley Parsons
Hyundai E&C	Saipem	Wood Group (John)
JGC Corporation	Samsung Engineering Co., Ltd	

Vesting schedule:

Three-year performance against the comparator group	Vesting as a % of maximum
Less than median performance	0%
Median performance[1]	25%
Upper quartile performance[1]	100%
Vesting	**0%** (Below median performance)

1 Straight-line vesting operates between these points.

Strategic element (30% of award):

	Performance measure	Weighting	Threshold	On-target	Maximum	Out-turn	Vesting (as a % of maximum)	Vesting % (actual)
Protecting our core E&C business	E&C net margin	6%	5%	5.75%	6.5%	(20.9)%	0.00%	0.00%
Best-in-class delivery	Global cost challenge savings	6%	US$100m	US$125m	US$150m	US$280m	100.00%	6.00%
Positioning for a return to growth	New orders	6%	US$17,500m	US$19,250m	US$21,000m	US$5,820m	0.00%	0.00%
Improving operational efficiencies	Cash conversion	6%	75%	87.5%	100%	<0%	0.00%	0.00%
Enhancing returns	ROCE[2]	6%	13%	17.5%	22%	<0%	0.00%	0.00%
Strategic element vesting	**20%** of maximum							
Overall award vesting	**6% of maximum**							

2 Given the impact of the capital raise completed in November 2021, the ROCE measure has been normalised.

Share plan interests awarded during the financial year

Deferred Bonus Plan

As reported in the 2021 Annual report and accounts, any bonus is typically paid to Executive Directors half in cash and half in deferred shares under the Deferred Bonus Plan, vesting in equal tranches over one, two and three years from the date of award. Details of the actual number of shares granted are set out on page 144. The following table provides details of the awards made under the DBP during 2022:

	Type of award	Face value
Sami Iskander	Deferred Bonus shares	£293,533
Afonso Reis e Sousa[1]	Deferred Bonus shares	£63,943

1 Afonso Reis e Sousa was appointed as a Director on 1 September 2021. The figures reflect the bonus payment made for the period from 1 September to 31 December 2021.

Awards were made to Sami Iskander and Afonso Reis e Sousa on 4 April 2022, along with other members of senior management, based on a share price of 104.50 pence. The face values shown in the table above have been calculated on this basis. This share price represents the three-day average share price up to the respective date of award.

Share plan interests awarded during the financial year

Performance Share Plan

As detailed in our remuneration policy, PSP awards are granted over ordinary shares, representing an opportunity to receive Petrofac shares if performance conditions are met over the relevant three-year period. The number of shares under award is determined by reference to a percentage of base salary. Details of the actual number of shares granted are set out on page 144. The following table provides details of the awards made under the PSP. Performance for these awards is measured over the three financial years from 1 January 2022 to 31 December 2024.

	Type of award	Face value	Face value (% of salary)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Sami Iskander	Performance shares	£1,345,499	200%	25%	100%	31 Dec 24
Afonso Reis e Sousa		£800,000	200%			

Awards were made to Sami Iskander and Afonso Reis e Sousa on 4 April 2022, along with other members of senior management, based on a share price of 104.50 pence. The face values shown have been calculated on this basis. This share price represents the three-day average share price up to the respective date of award. While the Committee recognises that the share price had fallen over the preceding year, it was satisfied that the level of awards remained appropriate given that they remain subject to a cap, such that the maximum value that can be delivered in the year of vesting is limited to three times the face value of the award at the time of grant. This three times face value cap applied to all PSP awards made to the Company's Executive team in 2022.

TSR element (50% of award):

The comparator group and vesting schedule for 2022 are set out in the following tables:

Comparator group:

Aker Solutions	Maire Tecnimont	Samsung Engineering Co., Ltd
Fluor Corporation	Saipem	Technip FMC
Hunting	SNC Lavalin	Tecnicas Reunidas
KBR, Inc	Subsea7	Worley Parsons
		Wood Group (John)

Vesting schedule:

Three-year performance against the comparator group	Vesting as a % of maximum
Less than median performance	0%
Median performance[1]	25%
Upper quartile performance[1]	100%

1 Straight-line vesting operates between these points.

Strategic element (50% of award):

The remaining 50% of the 2022 award is based on eight key strategic measures, four of which broadly cover business financial and operational performance and four which cover areas promoting sustainability. We believe these measures align our incentives with the delivery of critical long-term strategic goals. Each measure is subject to stretching targets over the three-year period. At this stage, the Committee considers the precise targets for 2022 to be commercially sensitive. However, we intend to provide detailed disclosure of targets and performance against those targets following the end of the performance period. The key strategic priorities and associated measures for the 2022 award are as follows:

Key strategic priorities	Performance measures 2022 to 2024 (each with a weighting of 6.25%)
Conserving cash	Cash conversion
Maintain competitiveness	Overhead ratio
Rebuild backlog	Book-to-bill
Deliver operational excellence	Operational performance (on-schedule, on-budget)
Promote sustainability	Energy transition (revenue from new energies); diversity (FTSE Women Leaders); greenhouse gas emissions; employee engagement

Directors' remuneration report continued

Single total figure of remuneration for the Chair and Non-executive Directors

The following table sets out the total remuneration for the Chair and Non-executive Directors for the year ended 31 December 2022, with prior year figures also shown. All figures are presented in US dollars. At 1 January 2022, the Non-executive Directors received a basic fee of £67,500 per annum, of which £5,000 per quarter was used to purchase Petrofac Limited shares. The basic Non-executive Director fee had been reduced by 10% from £75,000 to £67,500 from 1 April 2020, in line with the reduction received by the wider Petrofac workforce. Additional fees of £15,000 per annum are paid for acting as either the Chair of a Board Committee (excluding the Nominations Committee) or as the Senior Independent Director. The Chair received a fee of £288,000 per annum. This fee had been reduced by 10% from £320,000 per annum with effect from 1 April 2020, in line with the wider Petrofac workforce arrangement. A total of £20,000 per quarter of the Chair fee is used to purchase Petrofac Limited shares.

With effect from 1 April 2022, the fees for the Chair and the Non-executive Directors were reinstated to pre-2020 levels.

	Committee membership and other responsibilities					Fees US$'000	
	Audit Committee	Compliance and Ethics Committee	Nominations Committee	Remuneration Committee	Other	**2022**	2021
Non-executive Directors[1]							
René Médori			Chair		Chair of the Board	**375**	395
Matthias Bichsel	Member	Member	Member	Chair	Senior Independent Director	**124**	134
Sara Akbar	Member		Member	Member		**88**	93
Ayman Asfari[2]			Member			**88**	20
David Davies	Chair	Member	Member			**106**	113
Francesca Di Carlo[4]		Chair	Member	Member		**98**	93
Former Directors							
Andrea Abt[3]		Member	Member	Member		**36**	93
George Pierson[3,4]	Member	Chair	Member			**44**	113

Notes to the table

1 Non-executive Directors are paid in either Sterling, Euros or US dollars. All amounts above have been translated to US dollars based on the prevailing rate at the date of payment.

2 As reported in the 2021 Annual report and accounts, Ayman Asfari agreed to receive no Board fees between 1 January and 11 October 2021. Accordingly, the 2021 fee represents the period from 12 October 2021 to 31 December 2021. The value of the 2019 PSP award, which vested on 23 March 2022, has been revised from last year's report from US$22,305 to US$17,353, based on the actual share price of 114.50 pence achieved on the date of vesting. The value of the 2020 PSP award, which will vest on 27 April 2023 is US$9,351. This value represents an estimate of the market value of the shares that are due to vest, based on a three-month average share price of 98.05 pence (1 October to 31 December 2022).

3 Andrea Abt and George Pierson stepped down from the Board and ceased to be Non-executive Directors from 26 May 2022. The 2022 figures reflect the period from 1 January 2022 to this date.

4 George Pierson was Chair of the Compliance and Ethics Committee and received the fee for this position from 1 January 2022 until he stepped down from the Board on 26 May 2022. Francesca Di Carlo received the fee for this position from 27 May 2022 until the end of the year.

Statement of Directors' shareholdings and share interests

Directors' shareholdings held during the year and as at 31 December 2022 and share ownership guidelines

The number of shares held by Directors during the year and as at 31 December 2022 or as at the date of departure are set out in the table below, along with the progress against their respective shareholding requirements:

Director	% of salary held under shareholding guidelines	**Shares owned outright at 31 December 2022 (or at the date of leaving)**	**Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2022**	Shares owned outright at 31 December 2021
Sami Iskander[1,5]	15%	**437,391**	**3,047,217**	217,391
Afonso Reis e Sousa[2,5]	4%	**43,683**	**1,037,045**	36,813
Matthias Bichsel	–	**68,219**	**–**	50,331
René Médori	–	**416,528**	**–**	194,972
Sara Akbar	–	**68,219**	**–**	50,331
Ayman Asfari[3]	>100%	**84,972,155**	**127,871**	88,947,298
David Davies	–	**89,567**	**–**	71,679
Francesca Di Carlo	–	**60,795**	**–**	42,907
Former Directors				
Andrea Abt[4]	–	**59,017**	**–**	50,331
George Pierson[4]	–	**137,467**	**–**	128,781

1 Sami Iskander was expected to build up a shareholding of three times salary. He was appointed as Group Chief Executive on 1 January 2021. He stepped down from the Board on 31 March 2023.
2 Afonso Reis e Sousa is expected to build up a shareholding of two times salary. He was appointed as an Executive Director on 1 September 2021 and is yet to fulfil this shareholding guideline.
3 Ayman Asfari ceased to be an Executive Director from 31 December 2020. He is, however, expected to retain 100% of the shareholder guideline (three-times salary) for the first year following departure, and 50% of the guideline for the second year following departure. He has substantially exceeded this requirement.
4 Andrea Abt and George Pierson ceased to be Directors on 26 May 2022. The shares owned outright reflect the position on the date they stepped down from the Board.
5 For the purposes of determining Executive Director shareholdings, the individual's salary as at 31 December 2022 or at the date of leaving, and the share price as at 31 December 2022 of 70.25 pence per share have been used.

Directors' remuneration report continued

Share interests – share plan awards at 31 December 2022

Share awards held at the year end, or at the date of leaving, including awards of shares made to Executive Directors during 2022, are shown in the table below:

Director and date of grant	Plan	Number of shares under award at 31 December 2021[1]	Shares granted in year	Shares lapsed in year	Shares vested in year	**Total number of shares under award at 31 December 2022**	Dates from which shares ordinarily vest
Sami Iskander							
23 April 2021	PSP	1,759,658	–	–	–	1,759,658	23 April 2024
4 April 2022	PSP	–	1,287,559	–	–	1,287,559	4 April 2025
4 April 2022[6]	DBP	–	280,893	–	–	280,893	4 April 2023
						3,328,110	
Afonso Reis e Sousa							
6 March 2019[2]	PSP	17,679	–	16,619	1,060	0	23 March 2022
6 March 2019[3]	DBSP	5,636	–	–	5,636	0	23 March 2022
6 March 2020[4]	PSP	25,801	–	–	–	25,801	7 March 2023
6 March 2020[3]	DBSP	12,596	–	–	6,296	6,300	7 March 2023
25 May 2021	PSP	245,694	–	–	–	245,694	25 May 2024
4 April 2022	PSP	–	765,550	–	–	765,550	4 April 2025
4 April 2022[6]	DBP	–	61,189	–	–	61,189	4 April 2023
						1,104,534	
Ayman Asfari							
6 March 2019[2,5]	PSP	203,180	–	190,989	12,191	0	23 March 2022
6 March 2020[4,5]	PSP	127,871	–	–	–	127,871	7 March 2023
						127,871	

1 The award amounts disclosed under the PSP are the maximum number that may vest if all performance conditions attached to the awards are satisfied in full.
2 Following the end of the three-year performance period in respect of the March 2019 PSP award, the performance conditions were partially satisfied, with 6% of the maximum award vesting on 23 March 2022.
3 On 23 March 2022, a third of the 2019 Deferred Bonus Share Plan (DBSP) award and a third of the 2020 DBSP award vested. The share price on the date of vesting was 114.50 pence. Following his appointment to the Board on 1 September 2021, no further awards under the DBSP will be made to Afonso Reis e Sousa.
4 Shares awarded on 6 March 2020 partially satisfied the performance conditions and therefore 6% of the maximum award vested on 27 April 2023. Based on a share price of 63.85 pence, which is the closing share price on 26 April 2023 (being the latest practicable date prior to the adoption of this report by the Committee), the value of the award made to Afonso Reis e Sousa, pro-rated for time based on the vesting period from when he was appointed as an Executive Director, would be £494. The value of the award made to Ayman Asfari would be £4,899.
5 The shares awarded to Ayman Asfari have been pro-rated for time, based on his retirement date of 31 December 2020.
6 Awards were made during the year to the Executive Directors under the new Deferred Bonus Plan. This plan was approved by shareholders at the 2021 AGM.

This represents the end of the audited section of the report.

Historical TSR performance and Group Chief Executive remuneration outcomes

The chart below compares the TSR performance of the Company over the past 10 years with the TSR of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index.

The table below the chart summarises the Group Chief Executive's single figure for total remuneration, annual bonus pay-outs and long-term incentive plan vesting levels as a percentage of maximum opportunity over this period.

TSR chart – one-month average basis

Petrofac FTSE 250

Source: Datastream

Group Chief Executive	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Group Chief Executive single figure of remuneration (US$'000)	2,658	1,245	1,162	1,817	1,946	2,250	1,153	999	1,646[1]	**1,415**
Annual bonus pay-out (as a % of maximum opportunity)	59%	0%	0%	47.5%	60.4%	69.9%	0%	0%	37%[1]	**30%**
PSP vesting out-turn (as a % of maximum opportunity)	13%	0%	0%	0%	0%	0%	15.2%	16.1%	6%	**6%**

1. Following the financial restatement in relation to the 2021 financial year, and in line with our Remuneration policy, the decision was taken by the Committee to recalculate the 2021 bonus awarded to Mr Iskander. This resulted in a reduction of the total bonus of £106,621. The figure shown in the table above reflects this restated amount. Further details are set out on page 138.

Directors' remuneration report continued

Pay ratios of Group Chief Executive to UK employees

The table below illustrates the pay ratio of the Group Chief Executive to the 25th, median and 75th percentile of the total remuneration of the full-time equivalent UK employees.

Financial Year ended	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2022	**Option A**	**1:18**	**1:14**	**1:12**
31 December 2021	Option A	1:21	1:17	1:16

The Group Chief Executive's total remuneration is calculated on the same basis as the single figure of remuneration table set out on page 138. The lower, median and upper quartile employee's remuneration was calculated on full-time equivalent data as at 31 December 2022. Option A was chosen as it is considered to be the most accurate way of identifying the best equivalents of 25th, 50th and 75th percentile figures and is aligned with best practice and investor expectations.

In reviewing the employee pay data, the Committee is satisfied that the individuals identified within each category appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The following table provides further information on the total pay figures used for each quartile employee and the salary component within this:

Financial Year ended	Element of pay	CEO remuneration	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
31 December 2022	**Salary**	**£667,063**	**£52,026**	**£67,585**	**£80,274**
	Total remuneration	£1,138,566	£62,620	£80,125	£91,522

Our Group Chief Executive pay ratio at the median has reduced slightly from 1:17 in 2021 to 1:14 in 2022. Our pay ratio is at the lower end of the range, which is reflective of the highly skilled and technically challenging nature of our roles across the UK, and also due to our long-term incentive plan payments being very low over the last ten years.

Annual percentage change in Directors' remuneration compared with average employee remuneration

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, as applicable to an equivalent UK company, the table below illustrates the percentage change in each Executive and Non-executive Directors' total remuneration, including salary, benefits (excluding cash allowance in lieu of pension) and annual bonus for executives, and annual fees for non-executives, compared with a representative group of the Company's employees. For these purposes, we have used all UK-based employees as the comparator group, as this represents the most appropriate comparator group for reward purposes:

	% change in base salary 2022/2021	% change in base salary 2021/2020	% change in benefits 2022/2021	% change in benefits 2021/2020	% change in annual bonus 2022/2021	% change in annual bonus 2021/2020
René Médori[1]	8.3%	(2.7)%	–	–	–	–
Matthias Bichsel[1]	5.8%	(1.9)%	–	–	–	–
Andrea Abt[1,6]	(57.9)%	(2.7)%	–	–	–	–
Sara Akbar[1]	8.3%	(2.7)%	–	–	–	–
Ayman Asfari[1,5]	392.2%	(97.7)%	–	–	–	–
David Davies[1]	6.8%	(2.2)%	–	–	–	–
Francesca Di Carlo[1,7]	21.6%	(2.7)%	–	–	–	–
George Pierson[1,6]	(58.2)%	(2.2)%	–	–	–	–
Sami Iskander[2,3]	2.6%	–	0.2%	–	(16.0)%	–
Afonso Reis e Sousa[2,4]	–	–	–	–	–	–
All UK-based employees	6.8%	5.3%	0%	0%	(24)%	100%

1 For the Non-executive Directors, fees are paid in US dollars, Sterling or Euros as determined by each Director. The table sets out the change in total fees. Base fees were increased by 10% with effect from 1 April 2022. There were no changes to the additional fees of £15,000 per annum, which are paid for acting as either the Chair of a Board Committee (excluding the Nominations Committee) or as the Senior Independent Director.
2 Base salary is paid in sterling but translated into US dollars based on the prevailing rate at the date of payment (as set out on page 138).
3 Sami Iskander was appointed as an Executive Director on 1 January 2021. Following the financial restatement in relation to the 2021 financial year, and in line with our Remuneration policy, the decision was taken by the Committee to recalculate the 2021 bonus awarded to Mr Iskander. This resulted in a reduction of the total bonus of £106,621. Further details are set out on page 138.
4 Afonso Reis e Sousa was appointed as an Executive Director on 1 September 2021.
5 Ayman Asfari retired from the role of Group Chief Executive on 31 December 2020. He became a Non-executive Director with effect from 1 January 2021 and agreed to receive no Board fees between 1 January and 11 October 2021.
6 Andrea Abt and George Pierson stepped down from the Board and ceased to be Non-executive Directors from 26 May 2022. The 2022 figures reflect the period from 1 January 2022 to this date.
7 Francesca Di Carlo received the fee for the position of Chair of the Compliance and Ethics Committee from 27 May 2022 until the end of the year.

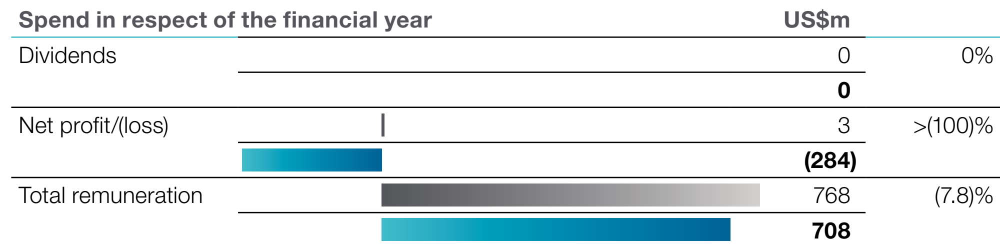
Directors' remuneration report continued

Relative importance of the spend on pay

The chart below illustrates the change in total remuneration, dividends paid and net profit from 2021 to 2022.

The figures presented have been calculated on the following bases:

- Dividends – dividends paid in respect of the financial year
- Net profit – our reported net profit in respect of the financial year. This is a key performance indicator for the Company
- Total remuneration – represents total salaries paid to all Group employees in respect of the financial year (see note 5c for an explanation as to how this value is calculated). Note that this includes social security costs, benefit and pension costs and share-based payment expenses.



2021 **2022**

Looking forward to 2023

Implementation of remuneration policy in 2023

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2023.

Base salary

The table below shows the base salaries for 2023 effective 1 April 2023:

	2023 basic salary from 1 April 2023	2023 basic salary from 1 January 2023	2022 basic salary to 31 December 2022
Tareq Kawash[1]	£675,000	n/a	n/a
Afonso Reis e Sousa	£420,000	£400,000	£400,000

1. Tareq Kawash was appointed as Group Chief Executive on 1 April 2023. Sami Iskander stepped down from the Board with effect from 31 March 2023. His salary at that date was £672,750.

Benefits

The benefit framework will remain unchanged in 2023. However, it was agreed as part of his hiring package to continue the arrangements that Mr Kawash received from his prior employer regarding schooling. Accordingly, Mr Kawash will receive an amount of up to £40,000 per annum to pay for school fees until his child completes secondary education within the next three years.

Cash allowances

The table below shows cash allowances for 2023:

	Cash allowances 2023		Cash allowances 2022	
	Pension	Car	Pension	Car
Tareq Kawash[1]	6.2% of salary	£20,000	n/a	n/a
Afonso Reis e Sousa	6.2% of salary	–	6.2% of salary	–

1. Tareq Kawash was appointed as Group Chief Executive on 1 April 2023. Sami Iskander stepped down from the Board with effect from 31 March 2023. His benefits at that date were 7% of salary for pension and a £20,000 car allowance.

Joining arrangements for Tareq Kawash

On leaving his previous employer, Mr Kawash forfeited a number of incentive awards and, in line with our recruitment policy, the Committee agreed to buy out these forfeited awards. In determining the level of the buyout, the Committee took into account relevant factors including any performance conditions attached to his forfeited awards, the likelihood of those conditions being met, and the proportion of the performance periods remaining. Mr Kawash was accordingly granted an award of £500,000 under the Deferred Bonus Plan. These shares are not subject to performance conditions and will vest, subject inter alia, to continued employment, over the next two years, 25% after six months, 25% after 12 months and the remaining 50% after 24 months from the date of award.

Loss of office for Sami Iskander

Following the decision taken for Mr Iskander to step down from his role as Group Chief Executive, he worked his notice period from November 2022. The balance of this notice period of £433,141 was paid to him on his termination date of 31 March 2023. In addition, he received additional payments covering loss of benefits during the balance of this notice period, specifically: health and life insurance of £20,000; car allowance of £12,877; and cash in lieu of pension contributions of £30,320. Mr Iskander will be treated as a good leaver in respect of his outstanding share awards but will receive no bonus or PSP award in respect of the 2023 financial year. The bonus amount paid in respect of the 2022 financial year is set out on page 138.

Chair and Non-executive Director remuneration

The table below sets out the fee structure payable to the Chair and Non-executive Directors from 1 April 2023:

	2023 fees
Chair of the Board fee	£320,000
Basic Non-executive Director fee	£75,000
Board Committee Chair fee	£15,000
Senior Independent Director fee	£15,000

Annual bonus

The maximum annual bonus opportunity for Executive Directors will remain at 200% of base salary for 2023. The table below sets out the financial elements, which comprise 60% of the total annual bonus:

Financial measures	Weighting in total bonus
Group earnings before interest and tax[1]	20%
Group net order intake	20%
Group free cash flow	20%

1 Measured as Group business performance before separately disclosed items.

The remaining 40% of the annual bonus will comprise robust metrics, which will typically cover strategic areas such as: health and safety, customer and service quality, growth, people, sustainability (ESG), energy transition, and strategic initiatives. This will provide the Committee with the ability to consider not only financial achievements, but also the wider health of the Company and the manner and behaviours by which our performance has been delivered. The Committee will set stretching 2023 targets and will provide disclosure at the end of the performance year.

Any bonus will be paid to Executive Directors half in cash and half in deferred shares under the Deferred Bonus Plan, which will vest in equal tranches over one, two and three years from the date of award.

The annual bonus is subject to malus and clawback provisions as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Performance Share Plan

For 2023, in line with the Remuneration Policy, as set out on page 132, Mr Kawash will receive an award of 300% of base salary following his appointment to the Board and Mr Reis e Sousa will receive an award of 200% of base salary.

As for previous years, and recognising recent share price performance, the Committee has retained the cap of three times face value that can be delivered from the 2023 PSP award. Other than in exceptional circumstances (for which the Committee would provide justification), it is intended that the maximum value that can be delivered in the year of vesting will be limited to three times face value of the award at grant. This three times face value cap will also apply to PSP awards made to the Company's Executive team in 2023.

For 2023, the PSP framework will remain at 50% relative TSR and 50% strategic elements. Using a number of financial strategic measures, as well as those around ESG and our move into energy transition solutions, will demonstrate alignment with the long-term goals of the Company and its stakeholders.

1) TSR element (50% of award)

The tables below set out the TSR comparator group for the purposes of the 2023 awards and the vesting schedule used to determine the performance outcome. The TSR comparator group is unchanged from the prior year:

Aker Solutions	Maire Tecnimont	Subsea7	Tecnicas Reunidas
Fluor Corporation	Saipem	Samsung Engineering Co., Ltd	Worley Parsons
Hunting	SNC Lavalin	Technip FMC	Wood Group (John)
KBR, inc			

Vesting schedule

Three-year performance against the comparator group	Vesting as a % of maximum
Less than median performance	0%
Median performance[1]	25%
Upper quartile performance[1]	100%

1 Straight-line vesting operates between these points.

Directors' remuneration report continued

2) Strategic element (50% of award)

The remaining 50% of the 2023 PSP award will be subject to three-year strategic performance conditions. For the 2023 awards, the Committee will set stretching targets to key strategic priorities. These strategic priorities and the associated measures for the 2023 award will cover longer-term objectives such as: rebuilding our backlog and margin enhancement, cash management, improving the balance sheet, accelerating our delivery in new energy transition, enhanced efforts on sustainability, diversity, and safety. The precise measures and percentage weightings will be proposed by the new Group Chief Executive following consideration by the Group Executive Committee and submitted for approval by the Remuneration Committee no later than 1 August 2023. These measures will be shared in next year's Annual report and accounts.

Under each strategic priority, vesting for threshold performance will be 25% of maximum with straight-line vesting up to 100% of maximum. The Committee considers that the precise financial targets, when set, for the 2023 to 2025 period will be commercially sensitive. However, detailed disclosure of targets and performance against targets will be provided at the end of the performance period.

Any vested post-tax shares will be subject to an additional two-year holding period. In addition, where participants have not reached the shareholding guideline target, they will be required to continue to hold any shares after the holding period until the guideline is reached. PSP awards are subject to malus and clawback provisions as set out in more detail in our remuneration policy. The Committee also retains the option to apply an additional discretion as deemed appropriate, based on the performance of the Company or the relevant Director during the financial year under review.

Post-employment shareholding guideline

Executive Directors are required to maintain a shareholding of 100% of their shareholding guideline (or actual shareholding at the point of departure, if lower) for a period of 24 months following departure.

Awards granted under any Company long-term incentive plan, which have vested but are subject to a holding period, will count towards the guideline (on a net of tax basis). The Company has implemented a mechanism for Executive Directors by which to enforce the application of these post-employment guidelines. As part of this arrangement, a restriction will be placed on shares held that will prevent their sale or transfer without prior authorisation by the Company until the guideline has been satisfied.

External board appointments

Executive Directors are normally entitled to accept one non-executive appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director. As at the date of this report, no Executive Director holds an externally paid non-executive appointment.

Consideration by the Directors of matters relating to Directors' remuneration

Support for the Committee

During the year, the Committee received independent advice on executive remuneration matters from Deloitte LLP (Deloitte), which was formally appointed as advisor by the Committee in October 2005. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK.

The Committee has reviewed the advice provided by Deloitte during the year and is satisfied that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2022 amounted to £52,650 based on the required time commitment. During 2022, Deloitte did not provide any other services to the Company.

The Secretary to the Board acts as Secretary to the Committee. During the year, the Group Chief Executive, Chief Financial Officer and the Group Director of Human Resources attended meetings on an ad hoc basis at the invitation of the Committee and provided information and support as requested. However, no individual was present when their own remuneration was being discussed.

Shareholder voting

The table below outlines the result of the advisory vote of the 2021 Directors' remuneration report received at the AGM held on 26 May 2022.

Annual Report on Remuneration

Number of votes cast excluding abstentions	For	Against	Abstentions
332,490,305	247,418,022	85,072,283	168,054
	74.41%	25.59%	

The Committee recognises that more than 20% of votes were cast against this resolution. As a result, and in accordance with Provision 4 of the UK Code, engagement with key investors and proxy advisors was undertaken to better understand the views expressed. Further information is set out on page 107.

The table below outlines the result of the advisory vote of the 2019 Remuneration Policy received at the AGM held on 15 May 2020. The Remuneration Policy will again be subject to shareholder review at the upcoming AGM to be held on 23 June 2023.

Remuneration Policy report

Number of votes cast excluding abstentions	For	Against	Abstentions
234,052,554	224,428,003	9,624,551	125,143
	95.89%	4.11%	

Governance

The Board and the Committee consider that, throughout 2022 and up to the date of this report, the Company has complied with the provisions set out in the UK Corporate Governance Code relating to Directors' remuneration. In addition, relevant guidelines issued by prominent investor bodies and proxy voting agencies have been presented to and considered by the Committee during its discussions.

The Committee endeavours to consider executive remuneration matters in the context of alignment with risk management and, during the year, had oversight of any related factors to be taken into consideration. The Committee believes that the remuneration arrangements in place do not raise any health and safety, environmental, social or ethical issues, nor inadvertently motivate irresponsible behaviour.

Availability of documentation

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Jersey and at our corporate services office in London. They will also be available for inspection during the 30 minutes prior to the start of our 2023 AGM.

Annual General Meeting

As set out in my statement on pages 125 and 126, our Remuneration Policy and Annual Report on Remuneration will be subject to advisory shareholder votes at the AGM to be held on 23 June 2023.

On behalf of the Board

MATTHIAS BICHSEL
Chair of the Remuneration Committee
27 April 2023

Directors' statements

Directors' responsibilities

The Directors are responsible for preparing the Annual report and accounts and the financial statements in accordance with applicable law and regulations.

The Directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The Directors are also responsible for the preparation of the Directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The Directors are also responsible for the preparation of the corporate governance report under the UK Listing Rules and FRC regulations.

Jersey company law (the 'Law') requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable
- Specify which generally accepted accounting principles have been adopted in their preparation
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records, which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Law. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' approach

The Board's objective is to present a fair, balanced and understandable assessment of the Company's position and prospects, particularly in the Annual report and accounts, half-year results announcement and other published documents and reports to Regulators. The Board has established an Audit Committee to assist with this obligation.

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 Strategic report on pages 6 to 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 88 to 93. In addition, note 2.5 to the financial statements includes the Company'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 and liquidity risk.

The Board monitors closely the Group's cash flow forecasts and liquidity position throughout the year, including monitoring financial covenant headroom, to ensure it has sufficient financial resources. In addition, to support the going concern assessment, the Board robustly reviews the Group's cash flow forecasts over the Assessment Period, considering the committed facilities available to the Group. The Board has considered several risks to these projections under a severe but plausible downside scenario as set out in note 2.5 to the financial statements and noted that the Group's liquidity position in this scenario is reliant on a small number of collections from clients which are not entirely within the direct control of the Group.

Notwithstanding the material uncertainty noted above, the Directors have, as set out in note 2.5 to the consolidated financial statements, that the Group has adequate resources to continue in operational existence for the period of at least 12 months from the date of signing the Group financial statements to 31 December 2024. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Responsibility statement of the Directors in respect of the Annual Report

Each of the Directors listed on pages 99 and 100 confirms that, to the best of their knowledge:

- The Annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

AFONSO REIS E SOUSA
Chief Financial Officer
27 April 2023

FINANCIAL STATEMENTS

Group financial statements

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Independent Auditor's Report to the members of Petrofac Limited

Opinion

We have audited the financial statements of Petrofac Limited (the "parent company") and its subsidiaries (the "Group") for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2022	Company income statement for the year ended 31 December 2022
Consolidated statement of comprehensive income for the year ended 31 December 2022	Company statement of comprehensive income for the year ended 31 December 2022
Consolidated balance sheet at 31 December 2022	Company balance sheet at 31 December 2022
Consolidated statement of cash flows for the year ended 31 December 2022	Company statement of cash flows for the year ended 31 December 2022
Consolidated statement of changes in equity for the year ended 31 December 2022	Company statement of changes in equity for the year ended 31 December 2022
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 24 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion:

- Petrofac Limited's Group financial statements and parent company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's loss and parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or parent company and we remain independent of the Group and parent company in conducting the audit.

Material uncertainty related to going concern

We draw attention to note 2.5 in the financial statements. The Group has short term reliance on a small number of material collections relating to the closing out of historical contracts, settlements and advance payments from new awards which are not wholly within the control of management. As stated in note 2.5, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We draw attention to the viability statement in the Annual Report on page 94, which indicates that an assumption to the statement of viability is the receipt of a small number of material cash collections, as described in the going concern assessment. The Directors consider that the material uncertainty referred to in respect to going concern may cast significant doubt over the future viability of the Group and company should these events not complete. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included the procedures below:

Independent Auditor's Report to the members of Petrofac Limited continued

Going concern modelling	• We gained an understanding of the approach taken by management to assess going concern, to model cash flows and to measure covenants over the forecast period. • We agreed forecasts to the business plan approved by the Board in early 2023, determining the appropriateness of adjustments for subsequent developments, including the trading updates in December 2022 and April 2023. • We agreed the cash position as at 31 March 2023 to management accounts and tested the mathematical integrity of management's modelling.
Financing arrangements and covenants	• We agreed the modelling of financing arrangements to contractual terms, including related covenants. These included the revised financing arrangements agreed in April 2023. • With assistance from an EY Debt Advisory specialist, we critically assessed management's judgment that the banks would continue to be supportive were covenants to be breached over the going concern period. This included discussion with management's external debt advisor.
E&C related cash flow forecasts	• We challenged the quantum and timing of forecast receipts of material contract receivables, reviewing available evidence including correspondence with relevant third parties. • We challenged the quantum and timing of cash flows forecast with respect to material contract awards, focusing on those included in management's downside case. This included assessing management's conclusions as to the likelihood of these awards and the quantum and timing of cash flows associated with the TenneT framework agreement that was signed in April 2023. • We challenged cash inflows relating to the collection of assessed variation orders (AVOs), using our audit work on the quantum concluded to be highly probable and the status of customer discussions in assessing expected timing of receipt.
Other assumptions	• We assessed forecast cashflows from oil production from PM304, including comparing assumptions to our impairment work and forecast oil prices to external benchmarks. • We assessed cashflows for the Asset Solutions operating segment against our understanding of the business obtained from other audit procedures.
Mitigated severe but plausible downside case	• We evaluated the sensitivities modelled by management including forming a view as to their severity. • We assessed mitigating actions reflected in this sensitivity, with a focus on challenging their appropriateness in terms of quantum and timing of impacts on forecast cashflows.
EY downside sensitivity	• EY performed further downside sensitivity analysis to assess the robustness of liquidity under a combination of further downsides that we identified as being individually plausible, including a delay in a significant contract award and delays in the forecast receipt of AVOs.
Other considerations	• We considered the appropriateness of the period of management's going concern assessment, being to 31 December 2024. • We evaluated whether there were any events expected to occur beyond the assessment period that should impact conclusions relating to going concern. • We considered management's historical forecasting accuracy and the consistency of the assessment with information obtained from other areas of the audit, such as accounting estimates. • We considered whether climate related risks could or should impact management's forecasts.
Disclosures	• We assessed the appropriateness and completeness of disclosures in the financial statements and elsewhere in the Annual Report with respect to going concern.

In relation to the Group's and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to:

- The directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- The directors' identification in the financial statements of the material uncertainty related to the Group's and parent company's ability to continue as a going concern to 31 December 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Independent Auditor's Report to the members of Petrofac Limited continued

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of five components and audit procedures on specific balances for a further four components. • The components where we performed full or specific audit procedures accounted for 93% of the Group's revenue, 93% of its business performance profit before tax and 93% of total assets.
Key audit matters	• Going Concern • Revenue and margin recognition on fixed price engineering, procurement and construction contracts • Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment • Significant fair value measurements • Accounting for uncertain tax positions • HMRC National Insurance inquiry
Materiality	• Overall Group materiality of $10m which represents 0.38% of revenue.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected nine components covering entities within the UAE, the UK, Malaysia and the USA, which represent the principal business units within the Group. The primary audit team performs audit procedures directly on those areas of accounting performed centrally, most notably in respect of certain of the key audit matters, namely significant fair value measurements, uncertain tax positions and the HMRC National Insurance enquiry.

Of the nine components selected, we performed an audit of the complete financial information of five components (full scope components) which were selected based on their size or risk characteristics. For the remaining four components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

	Number	% Group revenue	% Group business profit performance before tax	% Group total assets
Full scope components	5	82%	86%	83%
Specific scope components	4	11%	7%	10%
Total	**9**	**93%**	**93%**	**93%**

The primary audit team also performed specific procedures in respect of one further component.

Of the remaining components that together represent 7% of the Group's revenue, none are individually greater than 1% of the Group's revenue. For these components, we performed other procedures, including journal entry testing, analytical review, testing of consolidation entries, intercompany eliminations and foreign currency translation calculations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The key change to our scoping from 2021 was the removal of one specific scope component as a result of the contingent consideration associated with the disposal of the Group's Mexican operations having been settled in 2022 (as detailed in note 17 of the consolidated financial statements).

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the five full scope components, audit procedures were performed on two of these directly by the primary audit team, with the remainder performed by audit teams in the UAE, UK and Malaysia. For the four specific scope components, audit procedures were performed on two of these directly by the primary audit team, with the remainder performed by UAE and UK component teams.

Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Independent Auditor's Report to the members of Petrofac Limited continued

The Group audit team performed a number of visits to component teams/locations designed to ensure that the lead audit partner or his designate visits each of the key locations to exercise oversight during key activities at the planning and execution phases. The nature and extent of these visits were designed relative to the size of the component, and the division of responsibilities between the local and primary team on the significant risk areas applicable to the component.

During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the UAE (several visits), UK and Malaysia. In addition, the lead audit partner visited the Thai Oil Clean Fuels contract in Thailand along with the component team from the UAE. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and/or closing meetings, and reviewing key audit working papers on risk areas. These visits were supplemented by regular interactions with the component teams throughout the audit and review of relevant working papers. Accordingly the primary audit team executed its responsibility for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact Petrofac Limited. The Group has determined that the most significant future impacts from climate change on its operations will be from managing the transition to a lower carbon economy and developing its capabilities to unlock value for its clients as well as achieving its Net Zero targets. These are explained on pages 37 to 48 in the required Task Force for Climate related Financial Disclosures and on pages 78 to 87 in the principal risks and uncertainties. The Group has also explained its climate commitments on page 38. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in note 2.7 of the consolidated financial statements how climate change has been reflected in the financial statements including how this aligns with their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050. Significant judgements and estimates relating to climate change are included in note 2.7.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks and the significant judgements and estimates disclosed in note 2.7 and whether these have been appropriately reflected. As part of this evaluation, we performed our own risk assessment, supported by internal climate change specialists, to determine whether there were risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to significantly impact a key audit matter.

Key audit matters

Key audit matters (KAMs) are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainties related to going concern section, we have determined the matters on the following pages to be the key audit matters to be communicated in our report.

Independent Auditor's Report to the members of Petrofac Limited continued

Risk	Our audit response to the risk	Key observations communicated to the Audit Committee
Revenue and margin recognition on fixed price engineering, procurement and construction (EPC) contracts *Refer to the Audit Committee Report (page 121); Accounting policies (pages 178 to 180); and Note 3 of the Consolidated Financial Statements (page 192).* EPC contracts are entered into by the Engineering & Construction (E&C) operating segment. Total E&C revenue for the year was US$1.3bn (2021: US$2.0bn) which represented 50% of Group revenue (2021: 64%). Accounting for fixed price engineering, procurement and construction contracts requires significant judgement and estimation, which increases the risk of bias or error and subjects the process to the risk of management override of controls. Key areas of judgement and estimation which directly impact revenue and contract margin recognised are: • recognition of variation orders and claims not yet approved by the customer in contract value; • estimation of variable consideration in respect of liquidated damages as a deduction to contract value; and • forecasting of costs to complete including contingencies. We consider that the risk in this area has increased in the current year as a result of challenges experienced across the Group's maturing portfolio of contracts, including declining margin on certain contracts. In addition there was an investigation into cost recognition for the Thai Oil Clean Fuels contract in the year (see the separate KAM on the following pages: *Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment*).	Our audit procedures on EPC contracts were performed mainly by the E&C component team based in the UAE with significant direct oversight and challenge by the Group audit team. Our audit involved detailed testing on contracts that we assessed as being the most significant and judgemental; these 12 contracts represent 87% of the revenue subject to this risk. On the remaining 13%, we performed other procedures including analytical review, management enquiry and cost and accrual testing where material. See the separate KAM below relating to the *Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment.* **Key controls** • Our audit procedures were primarily substantive in nature, however, we identified and assessed key controls over revenue recognition including: – senior audit team members from the component and Primary Teams attended a selection of key quarterly contract review meetings held during the year; and – transactional controls underpinning contract-related cost balances, including the purchase to pay and payroll process. • See the separate KAM below for our response to weaknesses in internal control identified as a result of the investigation in the year into cost recognition for the Thai Oil Clean Fuels contract. **Percentage of completion** • We re-performed percentage of completion calculations, testing the clerical accuracy of revenue recognised in line with IFRS 15 Revenue from Contracts with Customers. • On a sample basis, we traced actual costs incurred in the period to supporting evidence, including purchase invoice and payment. **Variation orders and claims and liquidated damages** • We inspected the contractual terms relevant to recognised variations and claims to ensure their recognition was supported by enforceable rights under the relevant contract. • We challenged management assertions in relation to the recognition of unapproved variation orders and claims, and the non-recognition of potential liquidated damages by inspecting correspondence and minutes of meetings between senior management and the customer and by reviewing the track record of settlements with the customer and/or in the wider region. • We inspected supporting documentation and tested a sample of underlying costs supporting the recognition of variation orders and claims not yet approved in contract value. In assessing such claims, we also considered the extent of the recognised value as compared to the gross claims identified. • Where management had engaged a third-party claims specialist or had obtained legal advice, we obtained and reviewed their reports, met directly with the specialist and assessed their competency and objectivity. • We tested contract cost accruals on a sample basis by agreeing components of accruals to purchase orders, progress reports and payroll data. **Costs to complete including contingencies** • We tested cost to complete estimates by agreeing project material and subcontractor costs to quotations or rate schedules and manpower costs to mobilisation reports. • We assessed changes in cost estimates in the year, including those reflected in trading updates issued by the Group in December 2022 and April 2023, gaining an understanding of the drivers of these and challenging their completeness and appropriateness , in particular for onerous contracts. Also see the separate key audit matter below (Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment) for incremental procedures performed in response to this matter. • We performed analytical procedures comparing budgets and prior period estimates and retrospectively assessed the accuracy of historical forecasts. • We challenged management's assessment and the legal basis for the treatment of subcontractor claims. • We challenged the adequacy of the contract contingencies included in forecast costs to complete with respect to the physical progress on the project and remaining costs to complete based on our understanding of the project status, Petrofac's experience and consideration of any contra-indicators, including external sources. We analysed the movements throughout the life of the contract, compared against similar contracts and challenged management's conclusions in light of remaining contract tenor and the associated risks. **Disclosures** • We assessed the adequacy of the Group's disclosures about the degree of estimation and judgment involved in determining the revenue and margin to be recognised on the Group's fixed price engineering, procurement and construction contracts.	We detail our considerations with respect to issues identified by an investigation in the year with respect to the accounting for contract costs in the separate KAM below (Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment). Other than these matters, and after adjustments reflected by management following audit challenge, we concluded that revenue and margin recognition on fixed price engineering, procurement and construction contracts has been appropriately recognised in accordance with the requirements of IFRS 15. We are also satisfied that the significant judgements and estimates associated with revenue recognition have been appropriately disclosed in note 2 to the Group financial statements.

Independent Auditor's Report to the members of Petrofac Limited continued

Risk	Our audit response to the risk	Key observations communicated to the Audit Committee
Investigation into cost recognition for the Thai Oil Clean Fuels contract and related prior year adjustment *Refer to the Audit Committee Report (page 121) and Note 2.9 of the Consolidated Financial Statements (page 188)* • Following questions raised by the Group's Internal Audit function around the timing of cost recognition on the Thai Oil Clean Fuels contract, an onerous contract for accounting purposes, the Group initiated an investigation into this matter. This was performed by the Petrofac Group Investigations Team (GIT) with assistance in certain areas by an external forensics specialist. • The investigation identified contract cost information available ahead of the completion of the 2021 Annual report and accounts which had not been appropriately considered for financial reporting purposes in the prior year. This was determined to be a significant deficiency in internal controls with respect to this contract. • As a result of analysis of this information, the company has recorded a prior year adjustment in the financial statements, increasing contract losses by US$48m as at 31 December 2021. Details of this adjustment are reflected in note 2.9 to the consolidated financial statements. Management concluded that no adjustment was required as at 31 December 2020 as it is not practicable to determine what, if anything, this should have been. This is a new key audit matter in the current year.	Our response to this matter was led by the Group Team with assistance from EY Forensics specialists (EY FIS) and the E&C component team. **Engagement of EY Forensics specialists (EY FIS)** • The audit team engaged EY FIS to assist the team in assessing the GIT investigation and procedures performed by the specialist engaged by management. This included the sufficiency, appropriateness and completeness of the investigation performed and the competency and objectivity of individuals undertaking it. • EY FIS shadowed the investigation, engaging extensively with GIT and the specialist engaged by management. They performed certain investigation steps and designed and performed additional procedures to gain assurance over the nature and extent of procedures performed. • EY FIS challenged the GIT team on aspects of the investigation scope. Additional procedures were performed by GIT in response. **Completeness of issues identified** • We challenged management and the Board as to how they had satisfied themselves that there were not similar occurrences on other contracts. We reviewed their approach and the resulting findings. • We designed and performed incremental audit procedures on the Group's E&C contracts to identify if there were similar issues arising beyond the Thai Oil Clean Fuels contract. These included assessing the exposure of individual projects to similar issues based on their stage of completion and progression over 2021 and 2022, performing incremental enquiries of management and reconfirming audit evidence around project information used for contract accounting for a number of projects **Prior year adjustment** • We audited the prior year adjustment determined by management. We challenged judgments and/or assumptions used in this calculation, assessing these against the evidence obtained through the investigation, the conclusions of GIT and the specialist engaged by management and our knowledge of the project obtained from other audit procedures. Specifically, this focussed on the cut-off between costs estimated to have been identifiable in periods prior to 31 December 2021 and those relating to 2022. • We challenged management as to whether components of the prior year adjustment could reasonably be attributed to 2020, by assessing information arising from the investigation that was available prior to the 2020 Annual report and accounts, enquiry around this of relevant management, and consideration of audit evidence previously obtained. • We challenged the impact of this prior year adjustment on covenant compliance in 2021. **Disclosures** • We audited the disclosure of the prior year adjustment as reflected in note 2.9 to the financial statements. • We reviewed other disclosures in the Annual report and accounts, assessing whether these accurately and sufficiently disclosed the investigation and its implications as well as management and the Board's response to the control weaknesses identified relating to this project.	We are satisfied that the scope and approach of the investigation was sufficient to appropriately explore the concerns raised by Internal Audit and to identify information and evidence of potential relevance to the cumulative accounting for the Thai Oil Clean Fuels contract as at 31 December 2021 and 2022. We concluded that there is a reasonable basis for the prior year adjustment reflected in the financial statements. Given the passage of time and the nature of these cost estimates, it is impracticable to retrospectively determine what costs were known about at the end of December 2020 and so, in accordance with IAS8, the prior year adjustment has been recorded in 2021. Our procedures, and those of management, have not identified any similar occurrences relating to other contracts. We conclude that related disclosures in the financial statements and in other information included in the Annual Report are appropriate and sufficient.

Independent Auditor's Report to the members of Petrofac Limited continued

Risk	Our audit response to the risk	Key observations communicated to the Audit Committee
Significant fair value measurements *Refer to the Accounting policies (page 178); and Notes 6 and 17 of the Consolidated Financial Statements (pages 200 and 212).* There are a number of significant fair value estimates made by management in the preparation of the financial statements which require significant assumptions and judgments to be made, namely: Recoverable value of PM304: during 2022, the Group reviewed the recoverable amount of its Block PM304 oil and gas assets, recognising a reversal of impairment of $6 million (2021 restated: impairment of US$33 million). In making this assessment there are a number of key assumptions including volumes of reserves and related production profile, future oil prices and the likelihood of securing a PSC license extension beyond 2026. During 2022, the Group identified inconsistencies between the assets and liabilities included in the carrying value of Block PM304's and the cashflow forecasts used to estimate recoverable amount. This resulted in the prior period(s) consolidated income statement and consolidated statement of financial position being restated. JSD6000 deferred consideration: the deferred consideration associated with the disposal of the JSD6000 installation vessel is carried at fair value, which at year-end was determined to be US$56m (2021 US$55m). The fair value of the deferred consideration is dependent on key assumptions around the Group's partner's continued intent and capability to complete the construction and commissioning of the vessel within the due timeframe and the market for such a vessel when it is ready for sale. Embedded derivative in respect of the revolving credit facility: the embedded derivative was entered into as part of the Group's refinancing exercise which took place in October 2021 and is carried at fair value through profit and loss. The fair value is impacted by key assumptions around the Group's credit rating. We consider that the risk has remained consistent with the prior year. In the prior year this area also included the contingent consideration associated with the disposal of the Group's Mexican operations, but the contingent consideration has been received during 2022 and therefore this component of the risk has been resolved.	Our audit procedures on these areas were performed by the Group audit team, with assistance from our component team in Malaysia for our evaluation of the recoverable value of PM304. **Recoverable value of PM304** We obtained management's impairment assessment and challenged the significant underlying assumptions. Our procedures included: • assessing the design and implementation of the key controls over the process to estimate the recoverable value of PM304; • making enquiries around field performance and understanding the basis for estimates of recoverable reserves and resources and the forecast production profile prepared by Petrofac's reserves specialists. We also assessed the competence and objectivity of these specialists; • making enquiries of key management and reviewing external correspondence to validate assumptions around the uncertainty of securing a license extension beyond 2026; • independently validating the future oil price assumptions made in the cashflow forecasts by comparing to external forecasts made by peers, banks, brokers and consultants; • testing the clerical accuracy of the impairment model; • involving EY valuations specialists to assist us in concluding on the appropriateness of the discount factor applied; • challenging management on the consistency of the assets and liabilities included in the carrying value of Block PM304 and the forecast cashflows used to estimate the asset's recoverable value; and • auditing the appropriateness of the prior year adjustment booked by management. **JSD6000 deferred consideration** We obtained management's assessment of the fair value of JSD6000 deferred consideration and challenged the underlying assumptions. Our procedures included: • Assessing the design and implementation of the key controls over the process to fair value the JSD6000 deferred consideration; • Obtaining management's valuation analysis for the deferred consideration receivable, which is underpinned by a vessel valuation report from a third-party specialist engaged by management; • Assessing the competency and objectivity of management's specialist; • Making enquiries of management as to the future plans for the vessel, as it approaches completion, and meeting directly with management's external valuation specialist. We inspected relevant evidence, including the year end vessel progress report; and • Engaging internal EY valuation specialists to assist us in independently evaluating management's external valuer's findings and considering any contra-evidence. **Embedded derivative in respect of RCF** We obtained management's valuation analysis for the embedded derivative and challenged the underlying assumptions. Our procedures included: • Assessing the design and implementation of the key controls over the process to fair value the embedded derivative in respect of the RCF; and • Engaging internal EY valuation specialists to assist us in preparing an independent valuation of the embedded derivative. **Disclosures** We assessed the appropriateness and completeness of the disclosures in the financial statements, including the appropriateness of the related sensitivity disclosures and the classification of these fair value movements as separately disclosed items.	We have concluded that the recoverable value of Block PM304 (and related reversal of impairment in the year) and the fair value of the JSD6000 deferred consideration and embedded derivative in respect of the RCF have been appropriately determined. We concluded that the prior year adjustment relating to Block PM304 was appropriate. We reviewed the disclosures in Note 2 to the Group financial statements regarding the significant estimation uncertainties inherent in accounting for these items and have concluded that the disclosures are appropriate.

Independent Auditor's Report to the members of Petrofac Limited continued

Risk	Our audit response to the risk	Key observations communicated to the Audit Committee
Accounting for uncertain tax positions *Refer to the Audit Committee Report (page 122); Accounting policies (pages 177 to 178); and Note 8 of the Consolidated Financial Statements (page 203).* The Group operates in multiple tax jurisdictions where uncertain tax treatments may be challenged at a later date by the relevant authorities. Liabilities of US$59 million (2021 restated: US$85 million) are held principally in respect of tax deductions previously taken, transfer pricing arrangements and ongoing tax audits. This is an area which requires management to exercise significant judgement as to the likelihood of an adverse outcome for the Group, and estimation as to the likely outflow in the event of such a finding. We consider that the risk associated with this key audit matter has remained consistent with the prior year.	Our primary tax audit team based in the UK coordinated our audit approach to uncertain tax treatments. Local tax experts in relevant jurisdictions were involved as needed to provide input on specific local tax matters. **Completeness of identified exposures and claims** • We assessed the design and implementation of key controls over management's process to identify and evaluate uncertain tax positions. • We considered potential implications for new contracts entered into in existing or new jurisdictions for the Group. **Assessment of exposures and claims** • We evaluated the risks associated with identified exposures and any claims or assessments made by tax authorities to date. We also inspected documentation, considering whether developments in any ongoing tax audits during the year necessitated a change in estimate on any provision. • We also considered whether any interest or penalties should apply based on relevant legislation and historical experience with the authority in question. **Disclosures** • We have also reviewed the disclosures in Note 2 to the Group financial statements regarding the significant estimation uncertainties inherent in accounting for these items and have concluded that the disclosures are appropriate.	We are satisfied that the amounts recognised in respect of uncertain tax treatments have been accounted for in accordance with the requirements of IFRIC 23 *Uncertainty over Income Tax Treatments* and represent management's best estimate based on the Group's experience in the relevant jurisdictions and historical tax assessments concluded with the tax authorities.

Independent Auditor's Report to the members of Petrofac Limited continued

Risk	Our audit response to the risk	Key observations communicated to the Audit Committee
HMRC National Insurance Inquiry *Refer to the Audit Committee Report (page 121); and Note 30 of the Consolidated Financial Statements (page 228).* HMRC are seeking to establish whether a UK subsidiary of the Group, is a host employer for offshore employees and therefore liable for payment of employers National Insurance Contributions between 1999 and 2014. In 2020, HMRC provided a decision notice to the Group, informing it of its conclusion that the Group subsidiary is liable for unpaid contributions plus interest in the amount of £130 million. Including interest accumulated to the 2022 year-end, and the total exposure translates to US$156m as at 31 December 2022. The Group strongly disagrees with the merit of the decision notice and filed an appeal. There have been a number of procedural developments during 2022 and early 2023. Management asserts that under the terms of business with end customers, Petrofac has a contractual right of recovery for a portion of the amounts due. Judgement is required to assess whether the matter satisfies the recognition criteria for a provision, or should continue to be disclosed as a contingent liability. We consider that the risk associated with this key audit matter has remained consistent with the prior year.	Our audit procedures on these areas were performed by the Group audit team, with assistance from EY tax experts with specialised knowledge. **Assessment of the claim** • We obtained an update from management on current year developments in the matter and inspected correspondence between the Group and HMRC. • We engaged an EY taxation specialist familiar with the relevant National Insurance legislation and HMRC dispute resolution to assist us in forming an independent view on the likelihood of an adverse outcome for the Group. • Together with our specialist we inspected advice received by the group from external legal counsel engaged on this matter and confirmed this advice directly with external counsel. **Disclosures** We assessed the adequacy of the Group's updated disclosure of the matter in Note 30 to the Group financial statements.	We have concluded that the facts and circumstances continue to support the position taken by the group at this time, that disclosure as a contingent liability, remains appropriate at 31 December 2022 and that the related disclosure is adequate and appropriate.

Independent Auditor's Report to the members of Petrofac Limited continued

In the prior year, our auditor's report included a key audit matter in relation to the *Conclusion of the SFO investigation*. In the current year, this matter is no longer relevant following the conclusion of this investigation and the related £77 million penalty being settled in 2022.

In the prior year, our auditor's report also included a key audit matter in relation to the *Recoverability of deferred tax assets*. In the current year, this is no longer considered a key audit matter following a reduction in the balance recognised to from US$18m to US$1m in the year. As a result, this matter did not require a high level of involvement from senior members of the engagement team in 2020, leading to the removal of the recoverability of deferred tax assets as a Key Audit Matter this year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$10.0 million (2021: US$8.0 million), which is 0.38% (2021: 0.25%) of Group revenue. We believe that stakeholders and users of the financial statements continue to be focused on revenue and revenue-related metrics, such as new order intake and backlog. Revenue has historically also been a leading indicator for the profitability and cash flow generating ability of the Group. Thus, we determined that revenue continues to represent an appropriate basis on which to set materiality in 2022. Materiality was set at this level in planning the audit following the closure of the SFO investigation. We revisited our determination of materiality in light of actual results and audit findings. Whilst additional audit procedures were undertaken in certain areas in response to audit findings, we did not consider that our overall materiality should be revised.

We determined materiality for the Parent Company to be US$10.0 million (2021: US$9.4 million), based on 0.5% (2021: 0.5%) of total assets

During the course of our audit, we reassessed initial materiality and concluded that no changes were necessary.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely US$5.0m (2021: US$4.0m).

We determined performance materiality for the Parent Company was 50% (2021: 50%) of our planning materiality namely US$5.0 million (2021: US$4.7 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$1.0m to US$5.0m (2021: US$0.8m to US$4.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.5m (2021: $0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also agreed that we would report to the Audit Committee any uncorrected reclassification misstatements above 2% of the any primary financial statement line items to which the misstatement relates.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 152, including the Strategic Report and Governance Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

Independent Auditor's Report to the members of Petrofac Limited continued

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the parent company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Notwithstanding the impact of the matters disclosed in the material uncertainties related to the going concern section, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 152;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 94;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 152;
- Directors' statement on fair, balanced and understandable set out on 120;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 76 to 87;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 118; and;
- The section describing the work of the audit committee set out on pages 114 to 122.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 152, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are International Financial Reporting Standards, the Companies (Jersey) Law 1991, the UK Corporate Governance Code, the UK Bribery Act, employment law, environmental regulations, health and safety, and tax legislation in the jurisdictions where the group operates.

Independent Auditor's Report to the members of Petrofac Limited continued

- We understood how Group is complying with those frameworks by making enquiries of management, those charged with governance, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee, as well as by considering the results of our audit procedures across the group. Out assessment considered the tone set from the top by senior management and the emphasis placed on a culture of honest and ethical behaviour.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with individuals from various parts of the business to gather their views. We considered the programmes and controls that the Group has established to address the risks identified, or that otherwise prevent, deter or detect fraud, and how senior management monitors those programmes and controls. We engaged our forensics specialists to provide input on specific aspects of our audit approach to risk of fraud and non-compliance with laws and regulations;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations that could give risk to a material misstatement in the financial statements. These procedures included:
  - those discussed above with respect to key audit matters, including revenue and margin recognition and responding to the investigation into the Thai Oil Clean Fuels contract,
  - addressing the risk of management override, including around judgments and estimates, through audit work on the identified key audit matters and other procedures including journal entry testing;
  - assessment of the nature and cause of prior year adjustments for wider implications on the financial statements and control environment;
  - the provision of specific instructions to component teams including a specific work programme to address the risks of bribery and corruption;
  - enquiries of Group management, those charged with governance, legal counsel, and internal audit.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were first appointed by the company to audit the financial statements for the year ending 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 18 years, covering the years ending 31 December 2005 to 31 December 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DANIEL TROTMAN
for and on behalf of Ernst & Young LLP
London
27 April 2023

Consolidated income statement

For the year ended 31 December 2022

	Notes	Business performance[1] US$m	Separately disclosed items US$m	Reported 2022 US$m	Business performance[1] (restated)[2] US$m	Separately disclosed items (restated)[2] US$m	Reported (restated)[2] 2021 US$m
Revenue	3	**2,591**	**–**	**2,591**	3,038	–	3,038
Cost of sales	5a	**(2,667)**	**–**	**(2,667)**	(2,908)	–	(2,908)
Gross profit		**(76)**	**–**	**(76)**	130	–	130
Selling, general and administration expenses	5b,6	**(175)**	**(7)**	**(182)**	(175)	(177)	(352)
Expected credit loss reversal	5e	**23**	**–**	**23**	25	–	25
Other operating income	5f	**23**	**–**	**23**	8	–	8
Other operating expenses	5g	**(5)**	**–**	**(5)**	(7)	–	(7)
Operating loss		**(210)**	**(7)**	**(217)**	(19)	(177)	(196)
Finance income	7	**7**	**–**	**7**	15	–	15
Finance expense	6,7	**(98)**	**(18)**	**(116)**	(53)	(28)	(81)
Share of net profit of associates and joint ventures	16	**5**	**–**	**5**	7	–	7
Loss before tax		**(296)**	**(25)**	**(321)**	(50)	(205)	(255)
Income tax (expense)/credit	8a	**(15)**	**(1)**	**(16)**	56	(43)	13
Net (loss)/profit		**(311)**	**(26)**	**(337)**	6	(248)	(242)
Attributable to:							
Petrofac Limited shareholders		**(284)**	**(26)**	**(310)**	3	(248)	(245)
Non-controlling interests	13	**(27)**	**–**	**(27)**	3	–	3
		(311)	**(26)**	**(337)**	6	(248)	(242)
(Loss)/earning per share (US cents)							
Basic	9	**(55.2)**	**(5.0)**	**(60.2)**	0.8	(68.5)	(67.7)
Diluted	9	**(55.2)**	**(5.0)**	**(60.2)**	0.8	(68.5)	(67.7)

(1) This measurement (before separately disclosed items) is shown by the Group as a means of measuring underlying business performance (i.e. excluding separately disclosed items); see note 2 and Appendix A.

(2) The prior year numbers are restated; see note 2.9.

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	2022 US$m	2021 (restated)[1] US$m
Reported net loss		**(337)**	(242)
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods (post-tax)			
Net changes in fair value of derivatives designated as cash flow hedges	25	**(1)**	1
Foreign currency translation gains	25	**14**	3
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods		**13**	4
Other comprehensive (loss)/income reclassified to consolidated income statement (post-tax)			
Hedging losses reclassified to consolidated income statement		**7**	–
Foreign currency translation losses reclassified to the consolidated income statement	25	**–**	8
Other comprehensive income reclassified to consolidated income statement		**7**	8
Total comprehensive loss for the year		**(317)**	(230)
Attributable to:			
Petrofac Limited shareholders		**(290)**	(233)
Non-controlling interests	13	**(27)**	3
		(317)	(230)

(1) The prior year numbers are restated; see note 2.9.

Consolidated balance sheet

At 31 December 2022

	Notes	2022 US$m	2021 (restated)[1] US$m	1 Jan 2021 (restated)[1] US$m
Assets				
Non-current assets				
Property, plant and equipment	12	**244**	269	293
Goodwill	14	**96**	101	101
Intangible assets	15	**25**	27	34
Investments in associates and joint ventures	16	**30**	34	35
Other financial assets	17	**151**	209	202
Deferred consideration	11	**56**	55	55
Deferred tax assets	8c	**1**	18	61
		603	713	781
Current assets				
Inventories	18	**17**	23	8
Trade and other receivables	19	**739**	668	877
Contract assets	20	**1,329**	1,580	1,652
Other financial assets	17	**103**	183	148
Income tax receivable		**26**	20	9
Cash and short-term deposits	21	**450**	620	684
		2,664	3,094	3,378
Total assets		**3,267**	3,807	4,159

	Notes	2022 US$m	2021 (restated)[1] US$m	1 Jan 2021 (restated)[1] US$m
Equity and liabilities				
Equity				
Share capital	22	**10**	10	7
Share premium	22	**251**	251	4
Capital redemption reserve	22	**11**	11	11
Employee Benefit Trust shares	23	**(56)**	(69)	(88)
Other reserves	25	**56**	42	43
Retained earnings		**(143)**	168	414
Equity attributable to Petrofac Limited shareholders		**129**	413	391
Non-controlling interests	13	**(17)**	10	7
Total equity		**112**	423	398
Non-current liabilities				
Interest-bearing loans and borrowings	26	**–**	–	50
Provisions	27	**135**	143	171
Other financial liabilities	17	**146**	195	166
Deferred tax liabilities	8c	**28**	29	38
		309	367	425
Current liabilities				
Trade and other payables	28	**865**	1,090	887
Contract liabilities	20	**136**	77	120
Interest-bearing loans and borrowings	26	**799**	764	750
Other financial liabilities	17	**114**	81	179
Income tax payable		**79**	126	191
Accrued contract expenses	32	**759**	798	1,134
Provisions	27	**94**	81	75
		2,846	3,017	3,336
Total liabilities		**3,155**	3,384	3,761
Total equity and liabilities		**3,267**	3,807	4,159

The consolidated financial statements on pages 166 to 234 were approved by the Board of Directors on 27 April 2023 and signed on its behalf by Afonso Reis e Sousa – Chief Financial Officer.

(1) The prior year numbers are restated see note 2.9.

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	2022 US$m	2021 (restated)[1] US$m
Operating activities			
Loss before tax		**(321)**	(255)
Separately disclosed items	6	**25**	205
Loss before tax and separately disclosed items		**(296)**	(50)
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:			
Depreciation, amortisation and business performance impairment	5a, 5b	**79**	68
Expected credit loss reversal recognised	5e	**(23)**	(25)
Share-based payments	24	**6**	7
Difference between other long-term employment benefits paid and amounts recognised in the consolidated income statement	27	**(10)**	(29)
Net finance expense before separately disclosed finance expense	7	**91**	38
Net movement in other provisions	27	**12**	(2)
Share of net profit of associates and joint ventures	16	**(5)**	(7)
Net foreign exchange gains and losses	16	**35**	–
Net other non-cash items		**(3)**	(3)
		(114)	(3)
Working capital movements:			
Inventories		**7**	(15)
Trade and other receivables		**(101)**	211
Contract assets	20	**268**	78
Restricted cash[2]	17	**26**	(93)
Net derivative contracts – designated and undesignated[2]	17	**6**	(13)
Trade and other payables		**(95)**	120
Contract liabilities	20	**62**	(40)
Accrued contract expenses		**(38)**	(336)
Net working capital movements		**135**	(88)
Cash generated from operations		**21**	(91)
Separately disclosed items paid – operating costs		**(115)**	(28)
Net income taxes paid		**(52)**	(42)
Net cash flows used in operating activities		**(146)**	(161)

	Notes	2022 US$m	2021 (restated)[1] US$m
Investing activities			
Purchase of property, plant and equipment		**(38)**	(43)
Payments for intangible assets	15	**(8)**	(10)
Contingent consideration paid	17	**(2)**	–
Dividends received from associates and joint ventures	16	**8**	8
Receipts from Shanghai Zhenhua Heavy Industries Co Ltd in respect of JSD6000 vessel	17	**5**	–
Receipts from joint operation partners in respect of leases	17	**28**	59
Net proceeds from disposal of subsidiaries, including receipt against deferred and contingent consideration	17	**98**	9
Proceeds from disposal of property, plant and equipment		**1**	5
Interest received		**6**	10
Net cash flows generated from investing activities		**98**	38
Financing activities			
Issue of shares net of associated transaction costs	22	**–**	250
Proceeds from interest-bearing loans and borrowings, net of debt acquisition cost	17	**62**	1,484
Repayment of interest-bearing loans and borrowings	17	**(36)**	(1,470)
Repayment of lease liabilities	29	**(54)**	(99)
Separately disclosed items – refinancing-related costs paid		**–**	(23)
Interest paid		**(86)**	(36)
Purchase of Company's shares by Employee Benefit Trust	23	**–**	(2)
Net cash flows (used in)/generated from financing activities		**(114)**	104
Net decrease in cash and cash equivalents		**(162)**	(19)
Net foreign exchange difference		**(8)**	–
Cash and cash equivalents at 1 January		**620**	639
Cash and cash equivalents at 31 December	21	**450**	620

(1) The prior year numbers are restated; see note 2.9.

(2) Working capital movements in respect of restricted cash and net derivative contracts were previously reported cumulatively as movement in other net current financial assets.

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$m (note 23)	Other reserves US$m (note 25)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
At 1 January 2021 (as previously reported)	7	4	11	(88)	43	426	403	7	410
Impact of prior year adjustments (note 2.9)	–	–	–	–	–	(12)	(12)	–	(12)
At 1 January 2021 (restated)[2]	7	4	11	(88)	43	414	391	7	398
Reported net (loss)/profit (restated)[2]	–	–	–	–	–	(245)	(245)	3	(242)
Other comprehensive income	–	–	–	–	12	–	12	–	12
Total comprehensive income/(loss) (restated)[2]	–	–	–	–	12	(245)	(233)	3	(230)
Issue of own shares (note 22)	3	247	–	–	–	–	250	–	250
Purchase of Company's shares by Employee Benefit Trust (note 23)	–	–	–	(2)	–	–	(2)	–	(2)
Issue of Company's shares by Employee Benefit Trust (note 23)	–	–	–	21	(20)	(1)	–	–	–
Credit to equity for share-based payments charge (note 24)	–	–	–	–	7	–	7	–	7
At 31 December 2021 (restated)[2]	10	251	11	(69)	42	168	413	10	423
At 1 January 2022	**10**	**251**	**11**	**(69)**	**42**	**168**	**413**	**10**	**423**
Reported net loss	**–**	**–**	**–**	**–**	**–**	**(310)**	**(310)**	**(27)**	**(337)**
Other comprehensive income	**–**	**–**	**–**	**–**	**20**	**–**	**20**	**–**	**20**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**20**	**(310)**	**(290)**	**(27)**	**(317)**
Issue of Company's shares by Employee Benefit Trust (note 23)	**–**	**–**	**–**	**13**	**(12)**	**(1)**	**–**	**–**	**–**
Credit to equity for share-based payments charge (note 24)	**–**	**–**	**–**	**–**	**6**	**–**	**6**	**–**	**6**
At 31 December 2022	**10**	**251**	**11**	**(56)**	**56**	**(143)**	**129**	**(17)**	**112**

(1) Shares held by Petrofac Employee Benefit Trust.

(2) The prior year numbers are restated; see note 2.9.

Notes to the consolidated financial statements

For the year ended 31 December 2022

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 31 December 2022 comprised the Petrofac Group (the 'Group'). Information on the Group's subsidiaries, associates and joint arrangements is contained in note 34 to these consolidated financial statements. Information on the Group's related party transactions is provided in note 31. The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries.

The Company's and the Group's financial statements (the 'consolidated financial statements') for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2023. The Company's financial statements for the year ended 31 December 2022 are shown on pages 242 to 262.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets measured at fair value through profit and loss, and deferred consideration receivable that has been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (US$m), unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous year. An additional balance sheet as at 1 January 2021 is presented in these consolidated financial statements due to the retrospective correction of errors (note 2.9).

2.2 Presentation of results

The Group uses Alternative Performance Measures (APMs) when assessing and discussing the Group's financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with useful information on underlying trends and additional useful information by adjusting for separately disclosed items which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows (refer to notes 2.8 and 6 and Appendix A for more details).

2.3 Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting standards

The Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2022. The following amendments apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group:

- The Group has adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 January 2022. When determining whether a contract is onerous, the Group previously included both incremental costs and an allocation of costs related to contract activities to fulfil a contract (such as depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs that do not relate directly to a contract are excluded unless they are explicitly chargeable to the counterparty under the contract. As the Group's policy was consistent with the amendments to IAS 37, it did not result in a change in accounting policy for performing onerous contracts assessments.
- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Annual Improvements to IFRS Standards 2018–2020

2.4 Financial reporting standards, amendments and interpretations issued but not yet effective

Certain new financial reporting standards, amendments and interpretations have been published that are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Group and the impact of these standards is not expected to be material for the Group.

2.5 Going concern

Introduction

The Directors have performed a robust going concern assessment for the period to 31 December 2024, to validate the continued application of the going concern basis in the preparation of the financial statements of the Group. This included reviewing and challenging downside scenarios considered to be severe but plausible based on the principal risks and uncertainties, as set out on pages 76 to 87 of the Group's annual report and accounts for the year ended 31 December 2022.

The Directors evaluated the Group's funding position, liquidity and covenant headroom to assess the Group's ability to meet its obligations as they fall due for a period of at least 12 months from the date of signing the Group's consolidated financial statements on 27 April 2023. The going concern assessment period is the 20-month period from 27 April 2023 to 31 December 2024 (the Assessment Period). The Directors concluded that the disclosures contained herein sufficiently address relevant events and conditions in the Assessment Period.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Approach

In evaluating whether the going concern basis of preparation is appropriate, the Directors performed the following procedures in developing the mitigated severe but plausible downside scenario:

- Extended the Assessment Period to 20 months to take it beyond the maturity of its existing bank loan facilities.
- Reviewed the Group's forecast cash flows, liquidity and covenant compliance over the Assessment Period under the extended facilities. Cash flow and liquidity projections were based on management's best estimates of future commodity prices, new order intake, project and contract schedules and costs, collections, commercial settlements, oil and gas production and capital expenditure.
- Modelled a range of severe but plausible downside scenarios to reflect uncertainties inherent in forecasting future operational and financial performance, including changes in geo-political or macro-economic environments. These included, but were not limited to, lower order intake, cost overruns, adverse commercial settlements, a deterioration in net working capital and adverse outcomes on contingent liabilities.
- Evaluated the mitigating actions deemed to be in the control of management, including, but not limited to, reducing costs through further headcount, salary and third-party cost reductions, and conserving cash through working capital management and reductions in uncommitted capital expenditure. Additional mitigations, such as the disposal of non-core assets, are available, but have not been included as the outcome of such actions are not entirely in the control of management.
- Performed a stress test analysis which extended the mitigated severe but plausible downside scenario analysis by modelling the impact of no new orders being secured in the Assessment Period.

Key risks

The risks to which forecast cash flows are most sensitive over the Assessment Period are: (i) working capital movements, in particular the timing of relatively high value collections, (ii) low new order intake; (iii) contract cost overruns and (iv) adverse commercial settlements. With a low E&C backlog, including some onerous mature contracts, and relatively high working capital balances in the E&C operating segment, these four risks could have a significant impact on the Group's ability to maintain positive liquidity and covenant compliance over the Assessment Period.

The Directors noted that the impact of any identified cost increases on the mature E&C portfolio of contracts was reflected in the Group's financial performance to 31 December 2022 and in future margin forecasts. With seven contracts completed or substantially completed[1] in 2022 and a further five of the remaining eight active contracts scheduled for completion in 2023, the Directors have concluded that the risk of further cost increases during the Assessment Period is lower than in prior years.

Furthermore, the Directors noted that the recent awards, including the framework agreement and the first platform contract with TenneT, as well the remaining tenders where the Group is the preferred bidder, provide the Directors with additional confidence that the downside risk from low order intake is reduced.

(1) contracts where (i) a Provisional Acceptance Certificate (PAC) has been issued by the client, or (ii) transfer of care and custody (TCC) to the client has taken place, or (iii) PAC or TCC are imminent and no substantive work remains to be performed by Petrofac.

Compliance with financial covenants

The Group complied with its financial covenant obligations throughout the period to 30 September 2022, with the support of its lending banks in providing adjustments to certain covenant tests during the period, and secured a waiver for the financial covenant testing date of 31 December 2022 as part of amendment and extension of the Group's bank facilities.

The amendment and extension of the Group's bank facilities, which took place after the balance sheet date, replaced the previous financial covenants with two new financial covenants in respect of minimum liquidity and minimum EBITDA. The Group is projected to comply with its financial covenants in the mitigated severe but plausible downside scenario, throughout the Assessment Period.

If financial performance deteriorates significantly below this case, the Group may have difficulty complying with the financial covenants in their current form and further amendments or waivers may be required. In their assessment of the Group's going concern position, the Directors have made a significant judgement that the Group will remain in compliance with its minimum EBITDA financial covenant or, alternatively, if a covenant breach became likely, that the Group would be able to secure appropriate amendments or waivers to this covenant to ensure compliance. The factors that supported this judgement include:

- The Group's lenders have been supportive over a number of years through extensions and amendments to the Group's borrowing facilities.
- The Group has a positive outlook with the recent framework and first contract awards from TenneT, US$1.5bn of contracts at preferred bidder stage and a strong bidding pipeline of approximately US$51bn in the period to June 2024 in the E&C operating segment. In addition, performance in Asset Solutions remains strong, with further growth forecast, and the outlook for IES remaining robust supported by oil price expectations.
- The Group continues to forecast positive liquidity throughout the Assessment Period.

Given the relatively small number of contracts currently in execution in E&C, and the maturity of that portfolio, in the near-term the Group is reliant on a small number of relatively high value collections in respect of the conclusion of some historical contracts, settlements and new awards which are not wholly within the control of management.

Whilst the liquidity forecasts, on a mitigated severe but plausible scenario, show that the Group maintains positive liquidity and remains in compliance with the minimum liquidity financial covenant throughout the Assessment Period, material delays in these collections could pose a risk to liquidity covenant compliance and to the Group's liquidity.

Until such time as these near-term collections have been secured, therefore, there is a material uncertainty that the Group can maintain covenant compliance and positive liquidity throughout the Assessment Period.

Assessment

Notwithstanding the material uncertainty noted above, the Directors considered the following factors in their going concern assessment:

- The Group retains sufficient liquidity to support operations, and settle debt as it becomes due, throughout the Assessment Period, in the mitigated severe but plausible downside scenario.
- The Group remains compliant with its financial covenants throughout the Assessment Period in the mitigated severe but plausible downside scenario.
- The Group retains positive liquidity in the stress test analysis which modelled the impact of no new orders being secured in the Assessment Period, though in such a scenario it would breach its financial covenants.
- The Group's recent awards and future pipeline underpin the Group's business plan projections.
- The Group has a proven track record of taking timely actions to effectively mitigate downside risks, including cutting costs, conserving cash and divesting assets.
- The collections for which there is timing uncertainty relate primarily to existing contractual entitlements of the Group or to awards for which we are currently at preferred bidder stage.

Conclusion

The Directors concluded, after rigorously evaluating relevant, available information, that, they remain confident in the prospects of the Group to maintain compliance with its financial covenants and sufficient liquidity even in a severe but plausible downside scenario.

However, the Group's liquidity position in the mitigated severe but plausible downside scenario is reliant on a small number of collections from clients which are not entirely within the direct control of the Group. Consequently, in accordance with accounting standards, the Directors have concluded that there is a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern during the Assessment Period for the Group's financial statements for the year ended 31 December 2022 relating to the timing of receipt of these collections from clients.

Basis of preparation

Based on this comprehensive assessment, the Directors concluded that the continued use of the going concern basis of accounting in preparing the Group's financial statements for the year ended 31 December 2022 remains appropriate.

2.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a voting rights majority results in control. Net profit or loss and each component of other comprehensive income (OCI) are attributed to Petrofac Limited shareholders and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group ceases to control a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated income statement. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All transaction costs associated with business combinations are charged to the consolidated income statement in the reporting period of such combination.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date.

Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as a liability that is a financial instrument and within the scope of IFRS 9 'Financial Instruments', is measured at fair value with the changes in fair value recognised in the consolidated income statement in accordance with IFRS 9.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the fair value of the net assets acquired together with the amount recognised for non-controlling interests, and any previous interest held.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates.

Investment in associates and joint arrangements

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those considerations applied to determine control over subsidiaries.

Associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for using the equity method.

The consolidated income statement reflects the Group's share of the net profits of the associate or joint venture.

Any unrealised gains and losses resulting from transactions between the Group and associates and joint ventures are eliminated to the extent of the Group's ownership interest in these associates and joint ventures.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to align the accounting policies with those of the Group.

At the end of each reporting period, the Group determines whether there is objective evidence that its investment in its associates or joint ventures are impaired. If there is such evidence, the Group estimates the amount of any impairment as the difference between the recoverable amount of the associate or joint venture and its carrying amount and recognises this impairment loss in the consolidated income statement.

Joint operations

The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

For joint operations, the Group's share of revenue earned and expenses incurred are recognised in the consolidated income statement. Assets controlled and liabilities incurred by the Group are recognised in the consolidated balance sheet.

Foreign currency translation

The consolidated financial statements are presented in United States dollars (US$).

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to net profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on the settlement or translation of monetary items are recognised in other operating income or other operating expenses line items, as appropriate, of the consolidated income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Group subsidiaries

On consolidation, the assets and liabilities of subsidiaries with non-United States dollars functional currencies are translated into United States dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at monthly average rates. The exchange differences arising on translation for consolidation are recognised in the consolidated statement of other

comprehensive income. On disposal of a subsidiary with non-United States dollars as a functional currency, the component of the consolidated statement of other comprehensive income relating to currency translation is recognised in the consolidated income statement.

On consolidation, unrealised foreign exchange differences on intra-group balances arising from translation of foreign operations are presented in the reconciliation of profit before tax and separately disclosed items to cash generated from operations in the consolidated statement of cash flows.

2.7 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, separate to those involving estimations (see below), which have the most significant effect on the amounts recognised in the consolidated financial statements:

Significant judgements associated with revenue recognition

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the Group measures progress and recognises revenue on fixed-price engineering, procurement and construction contracts using the input method, based on the actual cost of work performed at the end of the reporting period as a percentage of the estimated total contract costs at completion. The Group considers the input method to faithfully depict the Group's performance in transferring control of goods and services to the customer and provides meaningful information in respect of progress towards the satisfaction of performance obligations on its contracts.
- In the early stages of contract completion, the outcome of a contract generally cannot be estimated reliably. The Group has established a threshold where contract revenues are recognised only to the extent of costs incurred to reflect this uncertainty. This threshold has been applied by the Group using a rebuttable presumption that contracts below 15% completion cannot yet be estimated reliably; however, judgement may be applied to deviate from this threshold dependent upon an objective evaluation of operational and contractual risks, e.g. taking into account contract value, duration, geography, complexities involved in the execution of the contract, past experience with the customer, and risk mitigations.
- Management applies certain judgements associated with recognition and non-recognition of variable consideration, such as assessed variation orders and liquidated damages. The factors considered when determining whether to recognise variable consideration, together with the associated estimation uncertainty, are discussed below under section 'Estimation uncertainty'.
- Revenue recognition on joint arrangement contracts: the Group recognises its share of revenue and profit from contracts executed as part of a consortium in accordance with the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main consideration is the determination of whether the joint arrangement is a joint operation or joint venture (though not directly related to revenue recognition, this judgement has a material impact on presentation in the consolidated income statement) in accordance with IFRS 11 'Joint Arrangements'.

Significant judgements associated with contingent liabilities and provisions

Management applies significant judgements in determining whether it has a present or a possible obligation to disclose a contingent liability or a probable obligation to recognise a provision in the consolidated financial statements (note 27). Management, in certain instances, takes into consideration legal advice from its legal counsel and external legal advisors as well as independent specialist advice, to determine the probability of an outflow of resources embodying economic benefits that will be required to settle the obligation, if determined. Typically, the contingent liabilities include pending legal and tax cases with regulatory authorities and/or third parties; see note 30.

Significant judgements associated with cloud-based software and development costs

When the Group incurs customisation and configuration costs, as part of a service agreement, judgement is also required in assessing whether the Group has control over the resources defined in the arrangement. Management has considered the IFRIC agenda decision in April 2021 on the clarification of accounting in relation to these costs and applied the following judgements which have the most significant impact on the amounts recognised in the consolidated financial statements.

(i) Determining whether cloud computing arrangements contain a software licence intangible asset

The Group evaluates a cloud computing arrangement to determine if it provides a resource that the Group can control. The Group considers that a software licence intangible asset exists in a cloud computing arrangement when all of the following criteria are met at the inception of the arrangement:

- The Group has the contractual right to take possession of the software during the hosting period without significant penalty
- The costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits
- It is feasible for the Group to run the software on its own hardware or contract with another party unrelated to the supplier to host the software

(ii) Determining whether configuration and customisation costs provide a distinct service from access to the SaaS

The Group applies judgement in determining whether costs incurred provide a distinct service, aside from access to the SaaS. Where it is determined that no distinct service is identifiable, the related costs are recognised as expenses over the duration of the service contract.

As a result of the above assessment, US$10m was expensed (2021: US$12m) in relation to SaaS arrangements where the configuration and customisation were assessed to provide a distinct service to access the SaaS. See note 6 for further details.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Significant judgements associated with climate change-related risks

In response to the Paris Agreement goals, the Group has set a target to reduce its net GHG emissions (Scope 1 and Scope 2) to zero by 2030. The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low-carbon economy. The Group's current climate change strategy focuses on reducing GHG emissions, investing in low-emission technologies, supporting emission reductions in the value chain and promoting product stewardship, managing climate-related risk and opportunity, and working with clients and sub-contractors as they develop their policies and responses, and diversifying its client base.

The Engineering & Construction and Asset Solutions operating segments are by their nature not asset intensive. Consequently, the Group's activities, with the exception of the PM304 business, are inherently less dependent on its own physical assets or infrastructure, and as a result, at 31 December 2022, only 18% of total assets were non-current assets (2021: 19%) and only 7% were property, plant and equipment (2021: 7%). As the climate-related risks are dynamically changing, the Group regularly assesses the impact of these risks on the significant judgements applied in the preparation of the Group's financial statements.

The Group's assessment indicates that it has limited exposure to climate-related risks. Estimates which are exposed to climate-related risks but are not considered significant judgements are analysed below:

- Revenue and cash flow forecasts in respect of the Group's IES operating segment are directly dependent on commodity prices. As the current forecasts are limited to the period up to 2026 (in line with the contractual end date of the current Production Sharing Contract, note 6), the forecast commodity prices are not aligned to the Paris Agreement goals.
- Property, plant and equipment (note 12): consists primarily of oil and gas assets and facilities relating to Block PM304 and MOPU lease, land and buildings, and other small assets. Block PM304 includes capitalised decommissioning costs of US$54m (2021: US$50m). The oil and gas assets and facilities have an assumed estimated useful life to 2026 and therefore the future impact of climate-related risks on oil prices does not have a material impact on the carrying value of the Group's oil and gas assets and facilities. The building and leasehold assets are expected to have minimal exposure to climate-related risks, including any specific risks associated with their locations. Vehicles and office furniture and equipment also have insignificant climate-related risks and have overall useful economic lives ending before 2030.
- Goodwill is allocated to the Engineering & Construction cash-generating unit (CGU) (US$41m) and the Asset Solutions CGU (US$55m). The underlying businesses are forecast to generate sufficient cash flows over the next five years to support these current carrying values.
- Intangible assets include customer contracts pertaining to W&W Energy Services Inc and Group-wide digital IT systems. Those assets will be fully amortised by 2030 and therefore the risk related to climate change is minimal.

Future changes to the Group's climate change strategy or global decarbonisation milestones may impact the Group's significant judgements and key estimates in future reporting periods. Any future change to the Group's climate change strategy could impact its Net Zero target and the Group's significant judgements and key estimates.

Significant judgements associated with the preparation of the parent and consolidated financial statements on a going concern basis

Management is required to assess the appropriateness of the parent and the Group's consolidated financial statements being prepared on a going concern basis; for details see note 2.5.

Estimation uncertainty, including continued impact of the Covid-19 pandemic

While the adverse impact of Covid-19 on the Group's operations is gradually declining, economic and financial risks still remain which could result in changes to estimates and could have an impact on the Group's financial performance, financial position and cash flows in the next 12 months. The principal assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below:

Fixed-price engineering, procurement and construction contracts

- Recognition of assessed variation orders (AVOs) pending customer approval: an AVO is a management estimate of payment due from the customer resulting from a customer-instructed change in the contractual scope of work or for the reimbursement of costs not included in the contract price. The assessment for contract modification is based on discussions with the customer and a range of factors, including contractual entitlement, prior experience of the customer and of similar contracts with other customers. When such modifications or changes to contract are approved in writing, by oral agreement or implied by customary business practices including where the parties have yet to reach final agreement on changes in scope or pricing (or both) but where the Group believes it has an enforceable right to payment, the Group recognises revenues and profit from AVOs using the expected value approach. It assesses/reassesses AVOs at contract inception and at each reporting date where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the AVO is subsequently resolved. In performing the assessment, management considers the likelihood of any such resolution being made by reference to the contract, independent specialist advice, customer communications, past experience with the customer and other forms of documentary evidence. At 31 December 2022, AVOs of US$378m

were recognised in the consolidated balance sheet (2021: US$338m), of which US$372m (2021: US$337m) was included within the contract assets; and US$6m (2021: US$1m) was included as an offset against contract liabilities; see note 20. Where AVOs pending customer approval are not subsequently resolved in the Group's favour, this could result in reductions to, or reversals of, previously recognised revenue. The AVOs recorded in the financial statements are in respect of a number of contracts, with AVOs relating to two contracts representing approximately half of the total balance recorded. Whilst it is assessed as highly probable that there will not be a significant subsequent reversal of revenue associated with recognised AVOs, subsequent resolution of these may result in settlement in excess of, but occasionally below, the AVO recorded in the financial statements. Settlement of the outstanding AVOs at an increase or decrease of 5% would result in an increase or decrease in revenue of US$19m.

- Liquidated damages (LDs): LDs are contractual penalties applied by the customer, normally relating to failure of the contractor to meet agreed performance and progress outcomes. The Group estimates the application of LDs using the expected value approach and recognises an associated amount as a reduction to contract revenue unless it is highly probable that LDs will not be imposed. The Group reassesses its exposure to LD applications at each reporting date. The estimation of LDs is highly judgemental and requires a deterministic probability assessment of the monetary amount of LDs liable. The estimation involves a number of management judgements and estimates including the contractual position and the relationship with the customer, negotiations with the customer specifically relating to extension of time (EoT) and past experience with the customer. During 2022, liquidated damages amounting to US$9m (2021: US$6m) were reversed as an increase to the estimate at completion revenue resulting in an increase of US$9m to the Group's revenue recognised during the year. No liquidated damages resulting from progress delays associated with the Covid-19 pandemic for the Group's fixed-price EPC contracts were recognised, since management judged these to be excusable delays in accordance with the terms and conditions of the contracts with customers. Historical LDs incurred and paid have not been significantly different to the estimated value of LDs recognised by the Group. Any unfavourable outcome compared with management's current expectation may affect the revenue to be recognised in future periods and consequently would impact the financial performance and cash flows for future periods. This estimate may impact revenues and contract assets or contract liabilities.
- Estimate of contract costs at completion: at the end of the reporting period the Group is required to estimate costs at completion on fixed-price EPC contracts, based on the work to be performed beyond the reporting period. This involves an objective evaluation of contract progress against the delivery schedule, evaluation of work to be performed and the associated risks and costs to fully deliver the contract to the customer. On contracts where it is considered probable that contract costs will exceed revenues at contract completion and the costs of fulfilling the contract are less than the compensation or penalties arising from a failure to fulfil it, the Group recognises an onerous contract provision in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' for future losses. At 31 December 2022, the estimated at-completion contract costs represented management's best estimate of contract costs, including where applicable costs incurred as a result of Covid-19 pandemic-induced delays. In addition, cost reduction measures taken by the Group were also included in the estimated at-completion contract costs. Estimated costs at completion are exposed to a variety of uncertainties as noted above, that depend on the outcome of future events; these individual events make it impracticable to present sensitivity analysis across a larger number of individual contracts. However, the estimates from these contracts, in aggregate, could have a material impact on revenues, cost of sales, contract assets and contract liabilities.

Income tax and deferred tax

- Income tax: Group entities are routinely subject to tax audits and assessments, including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the uncertain tax treatments for jurisdictions where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent specialist advice and consideration of the progress and nature of current discussions with the tax authority concerned. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either management's judgement of the most likely outcome or, when there is a wide range of possible outcomes, a probability weighted average approach. This requires the application of judgement as to the ultimate outcome, which can change over time depending on emerging facts and circumstances. Provisions are reviewed on an ongoing basis; however, the resolution of tax issues can take a considerable period of time to conclude, and it is possible that amounts ultimately paid will be different from the amounts provided. The carrying amount of uncertain tax treatments (UTTs), recognised within the income tax payable line item of the consolidated balance sheet at 31 December 2022, was US$59m (2021 restated: US$85m). The change in the total uncertain tax position during the year reflects the outcomes of tax audits and certain settlements during 2022. Whilst a range of outcomes is reasonably possible for open uncertain tax items, the Group believes that it has made appropriate provision for periods which are not yet agreed with the tax authorities and hence the sensitivity of this range is likely to be between nil and US$59m. The potential impact of the OECD Pillar II framework and the new federal corporate tax regime in UAE is covered in more detail in note 8b.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

- Deferred tax assets: the Group recognises deferred tax assets only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient future taxable profits available to offset the assets when they reverse. This requires management to make estimates regarding future profitability and is therefore inherently uncertain. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. As a result, deferred tax assets with a carrying value of US$17m were derecognised during the year (2021: US$43m).

Recoverable value of oil and gas assets

- Block PM304 oil and gas asset in Malaysia had a recoverable amount of US$86m (2021 restated: US$84m). The recoverable amount, which was based on fair value less cost of disposal, was higher than the asset's carrying amount, resulting in a reversal of impairment charge of US$6m (2021 restated: impairment charge of US$33m) in the period (note 6). The Group's fair value less cost of disposal estimate includes an assessment of future field performance, the likelihood of a licence extension beyond 2026 and future oil price assumptions (note 6). The fair value less cost of disposal is sensitive to the length of the licence period but not materially sensitive to the discount rate applied due to the licence end date in 2026. In addition, the cash outflows in respect of the provision for decommissioning (note 27) were based on the remaining licence period.

Fair value of embedded derivative

- The terms of the Revolving Credit Facility provide for the Group to pay a certain proportion of losses incurred by an original lender to facilitate any transfer of its commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and subsequently remeasured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a separately disclosed fair value loss of US$18m in the Corporate reporting segment (note 6). The fair value of the embedded derivative is sensitive to market yields of other debt instruments issued by the Company. Improvement in the Group's credit risk will reduce the financial liability but an adverse change to the Group's credit rating will not materially impact the fair value of the embedded derivative.

Deferred consideration measured at fair value through profit or loss

- Recoverable amount of deferred consideration relating to disposal of the JSD6000 installation vessel (the 'vessel'): the deferred consideration relating to disposal of the vessel in 2018, represents a contractual right to the Group based on 10% of the value of the vessel, is recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and is subsequently measured at fair value through profit or loss. The fair value of the deferred consideration accounts for management's recent discussions with the Group's partner in relation to the status of construction of the vessel and is based on the assumption that the Group's partner has the continued intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe. The fair value is also subject to change based on changes in the market value of similar specification deep-water vessels. At the end of each reporting period, management reviews its estimate to assess the ability of the Group's partner to complete the construction and commissioning of the vessel and in circumstances that may impair the Group's partner's ability to complete these activities, a fair value loss would be recognised in the consolidated income statement, in the next reporting period or in the longer term. Management reviewed the carrying amount of the deferred consideration associated with the disposal of the vessel and concluded that there was a fair value increase of US$1m (2021: US$nil) to a total value of US$56m. Based on an independent broker's valuation, the fair value of deferred consideration ranges between US$54m and US$58m. Changes in the global demand for oil and gas and reduction in oil prices could have an adverse impact on the fair valuation of the vessel that may result in negative fair value changes recognised in the consolidated income statement in future periods.

2.8 Significant accounting policies

Revenue from contracts with customers

The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

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 concluded that such warranties are assurance-type warranties which will continue to be accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Engineering & Construction

The Group provides fixed-price engineering, procurement and construction services and reimbursable engineering, procurement and construction management services to the onshore and offshore oil and gas industry as well as renewable energy industries. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when or as it transfers control over a good or service to a customer.

The services provided under fixed-price engineering, procurement and construction contracts are satisfied over time rather than at a point in time, since the customer controls the works covered by the contract as the relevant asset is being built; the construction activity creates an asset that does not presuppose an alternative use to what it was designed for and the Group is entitled to collect payment for services while construction is underway and the customer simultaneously receives and consumes the benefits provided by the Group.

For fixed-price engineering, procurement and construction contracts, the Group measures progress and recognises revenue using the input method. This method is based on the actual cost of work performed, as a percentage of the estimate at completion cost at the end of the reporting period, once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Fixed-price engineering, procurement and construction contracts contain distinct goods and services, but these are not distinct in the context of the contract and are therefore combined into a single performance obligation. At contract inception management generally considers the following factors to determine whether the contract contains a single performance obligation or multiple performance obligations:

- Whether it provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted
- Whether one or more of the goods or services significantly modifies or customises, or are significantly modified or customised by, one or more of the other goods or services promised in the contract
- Whether the goods or services are highly interdependent or highly interrelated

Contract modifications are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation, with a cumulative catch-up adjustment to revenue.

Variable consideration, e.g. variation orders (including those pending customer approval), liquidated damages and incentive payments are assessed/reassessed using the following, as appropriate:

- The expected value approach (i.e. the sum of probability-weighted amounts in a range of possible consideration amounts); or
- The most likely amount method (i.e. the single most likely outcome of the contract, which may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes e.g. the Group either achieves a performance bonus or does not)

Variable consideration is recognised as contract revenue at contract inception and at the end of each reporting period where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In performing the assessment, management considers the likelihood of such variable consideration being received by reference to the contract, anticipated performance on the contract, independent specialist opinions, customer communications, past experience with the customer and other forms of documentary evidence.

Revenues from cost-plus-fee contracts and reimbursable contracts are recognised using the input method for measuring progress towards complete satisfaction of the performance obligation.

An onerous contract provision is recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Advance payments received from customers for fixed-price engineering, procurement and construction contracts are structured primarily for reasons other than the provision of finance to the Group (e.g. mobilisation costs), and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer settles the amount to which the Group has an unconditional right to payment and when 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, excluding normal retention payments, the Group does not have any contracts where the payment terms extend significantly once the Group has transferred goods and services to the customer.

Asset Solutions

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 services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group and recognised using the input method for measuring progress towards complete satisfaction of the performance obligation.

Variable consideration, e.g. incentive payments and performance bonuses, are estimated at contract inception and at the end of each reporting period using the most likely amount approach, where the outcome is expected to be binary and where it is considered highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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Revenues from fixed-price contracts are recognised using the input method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

The Group does not generally receive advances from customers for its reimbursable engineering and production services contracts.

Integrated Energy Services equity upstream investments
Revenue from sale of crude oil and gas comprise the Group's share of sales of hydrocarbons from the Group's upstream investments. Revenue is recognised when control has been passed to the buyer, i.e. the last outlet flange of the loading facility from where the goods are transferred to the customer.

Separately disclosed items
Separately disclosed items are individually material or significant irregular items of income and expense which the Directors believe should be separately disclosed in the income statement, to assist in understanding and fairly present the underlying financial performance achieved by the Group, by virtue of their nature or size. These are then summarised in note 6 of the consolidated financial statements, where further explanations and disclosures provide supplementary information to support the understanding of the Group's financial performance. Examples of items which may give rise to disclosure as separately disclosed items include the contribution of impairments of assets, fair value remeasurements, losses on acquisitions and disposals, discontinuation of certain business activities, restructuring and redundancy costs, significant business transformation costs, certain Corporate reporting segment professional services fees, loss on accelerated receipt of deferred consideration, other significant one-off events or transactions and material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country.

The estimation of uncertain tax positions and their resolution are not routinely classified as separately disclosed items because they arise as part of business performance operations. However, in circumstances where the underlying transaction or event driving a tax gain or loss meets the definition of a separately disclosed item then the related tax gains and losses are also assessed to determine whether classification as a separately disclosed item is appropriate.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an associated expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Property, plant and equipment
Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment charges. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than for oil and gas assets. The table below sets out the estimated useful economic life applied to each category of asset:

Oil and gas assets	unit of production on a field-by-field basis (see below)
Oil and gas facilities	8 to 10 years (or lease term if shorter)
Buildings and leasehold improvements	3 to 20 years (or lease term if shorter)
Plant and equipment	3 to 7 years (or lease term if shorter)
Office furniture and equipment	2 to 4 years (or lease term if shorter)
Vehicles	3 to 5 years (or lease term if shorter)

Oil and gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful economic life, residual value and method of depreciation is reviewed and adjusted if appropriate at the end of the reporting period. No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use with any gain or loss included in the other operating income line item in the consolidated income statement when the asset is derecognised.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to note 27 for further information about the decommissioning provision recognised.

In accordance with IFRS 16 'Leases', the Group has elected to present right-of-use assets within the property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The right-of-use assets are presented within the same asset category as that within which the underlying assets would be presented if they were owned. The disaggregated information for right-of-use assets presented within the property, plant and equipment line item of the consolidated balance sheet is disclosed in note 12.

Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease; that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the underlying assets.

Right-of-use assets are subject to the same impairment requirements as those applicable to property, plant and equipment; see accounting policies associated with impairment of non-current assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, if the interest rate implicit in the lease is not readily determinable, the Group uses the incremental borrowing rate, defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, at the lease commencement date.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included in other financial liabilities line items of the consolidated balance sheet; see note 17.

Notes to the consolidated financial statements continued
For the year ended 31 December 2022

The Group makes certain judgements in determining the lease term for any contract that is or contains a lease:

- The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised
- The Group has the option to renew the lease term for some of its leases. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that affects its ability or likelihood to exercise (or not to exercise) the option to renew (e.g. a change in business strategy)
- The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its leases of property, plant and equipment that have a lease term of 12 months or less. It also applies the lease of low-value assets recognition exemption to leases of property, plant and equipment that are considered of low value (i.e. below US$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term in cost of sales or selling, general and administration expenses line items of the consolidated income statement.

If the lease contract is cancellable by both lessee and lessor with no or insignificant penalty then the lease contract is considered to be cancellable and recognised as a short-term lease; refer to note 29 for amounts recognised in the consolidated income statement associated with the short-term and low-value asset leases.

Group as a lessor
When the Group acts as a lessor, at lease inception it determines whether each lease is a finance lease or an operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables equal to the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9 'Financial Instruments', recognising an allowance for expected credit losses on the lease receivables.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivable, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e. after a deduction of the loss allowance).

Goodwill
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Oil and gas intangible assets
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to

be recognised as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, an impairment of the costs capitalised as an intangible is recognised in the consolidated income statement. When such assets are declared part of a commercial development, related costs are transferred to property, plant and equipment. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment charge is recognised in the consolidated income statement.

Non-oil and gas intangible assets

Intangible assets acquired in a business combination are initially measured at cost, being their fair values at the date of acquisition, and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment charges.

Intangible assets with a finite life are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge for intangible assets is included in the cost of sales or selling, general and administration expenses line items of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Software-as-a-Service arrangements

The Group's current SaaS arrangements are arrangements in which the Group does not control the underlying software used in the arrangement.

Software development costs incurred to configure or customise application software provided under a cloud computing arrangement and associated fees are recognised as operating expenses as and when the services are received where the costs represent a distinct service provided to the Group. When such costs incurred do not provide a distinct service, the costs are recognised as expenses over the duration of the SaaS contract.

The Group capitalises other software costs when the requirements of IAS 38 'Intangible Assets' are satisfied, including configuration and customisation costs which are distinct and within the control of the Group. Such software costs are capitalised and carried at cost less any accumulated amortisation and impairment, and amortised on a straight-line basis over the period in which the developed software is expected to be used. Amortisation commences when the development is complete and the asset is available for use and is included in the selling, general and administration expenses line item of the consolidated income statement. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount an impairment charge is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

The CGUs that include goodwill are tested for impairment annually or when impairment triggers have been identified. The Group does not have assets other than goodwill with indefinite useful lives.

Trade receivables

A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to the accounting policies for financial assets.

Contract assets and contract liabilities

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- For each contract, the revenue recognised at the contract's measure of progress using the input method, after deducting progress payments received or amounts receivable from the customers, is presented within the contract assets line item in the consolidated balance sheet as work in progress
- The amounts recognised as work in progress are adjusted for any expected credit loss allowance considering the probability of default of the counter party. The probability of default data for the counter party is estimated with input from a third-party provider

Notes to the consolidated financial statements continued
For the year ended 31 December 2022

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Fixed-price engineering, procurement and construction contracts are presented in the consolidated balance sheet as follows:

- Where the payments received or receivable for any contract exceed revenue recognised, the excess is presented within the contract liabilities line item in the consolidated balance sheet as billings in excess of cost and estimated earnings

Fair value measurement
The Group measures financial instruments, such as derivatives, and contingent consideration receivable at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For assets and liabilities that are remeasured in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets and financial liabilities
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers'.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are generally classified in the following categories:

- Amortised cost
- Financial assets at fair value through profit or loss

Amortised cost

This category is the most relevant to the Group and generally applies to trade and other receivables, receivable from joint operation partners for leases, deferred consideration receivables and advances relating to provision for decommissioning liability. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the consolidated income statement.

Contingent consideration arising from disposal of the Group's operations in Mexico was recognised as a financial asset at fair value through profit or loss within the other financial assets line items of the consolidated balance sheet. Any fair value change is recognised in the consolidated income statement (note 17).

The fair value changes to undesignated forward currency contracts are reported within the other operating income and other operating expenses line item in the consolidated income statement.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For other financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). There was no significant increase in the credit risk for such financial assets since the initial recognition.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs (a lifetime ECL). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis by each operating segment is performed at each reporting date under the Group's established policies and procedures. Engineering & Construction and Integrated Energy Services operating segments that involve small populations of high-value receivables apply the probability of default data relating to each individual counterparty to calculate expected credit loss allowance at each reporting date. The probability of default data for the counterparty is sourced from a third-party provider.

The Asset Solutions operating segment involves a large population of low-value receivables and applies a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The expected credit loss calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and where possible, forecasts of future economic conditions. The amount of ECLs are sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off only when there is no reasonable expectation of recovering the contractual cash flows, based on the contractual position agreed with the customer, contract close-out negotiations or objective evidence of the customer's inability to pay.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, senior secured notes, loans and borrowings including bank overdrafts, derivative financial instruments and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition only if the criteria in IFRS 9 'Financial Instruments' are satisfied. Contingent consideration payable related acquisitions is designated as a financial liability measured at fair value through profit or loss (see note 17).

Financial liabilities at amortised cost (loans and borrowings)

This category generally applies to trade and other payables (note 28), interest-bearing loans and borrowings (note 26) and lease liabilities (note 17). After initial recognition, interest-bearing loans and borrowings and lease liabilities are subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance expense in the consolidated income statement.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts, commodity swaps and interest rate swaps to hedge its risks associated with fluctuations in foreign currency values, commodity prices and interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of commodity swap contracts is based on the forward Brent curve and the fair value of the interest rate swaps is based on the forward three-month LIBOR curve.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the consolidated statement of other comprehensive income in net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Share-based payments

Employees (including Executive Directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised in the cost of sales or selling, general and administration expenses line items in the consolidated income statement, together with a corresponding increase in other reserves line item in the consolidated balance sheet, over the period in which the relevant employees become entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised from the beginning to the end of the reporting period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Equity awards cancelled, such as in the case of good leavers, are treated as vested immediately on the date of cancellation, and any expense not recognised for the award at that date is immediately recognised in the consolidated income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liability

The Group records a provision for decommissioning costs in respect of the Group's obligation for the removal of facilities and restoration of Block PM304 in Malaysia. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Long-term employment benefits

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. The liability is recognised as employee services are received.

Income taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to, respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

2.9 Prior year adjustment

The Group has identified errors in previously reported financial information and therefore, the prior year comparatives have been adjusted for the following restatements:

1. During 2022, the Group undertook a comprehensive review of cumulative capitalised costs associated with the Group's IT digital strategy (previously included within 'other intangible assets' within intangible assets, see note 15) and identified errors associated with these costs, previously capitalised during 2018 to 2020. The nature of these errors included:

   - Operating costs (such as pre-development research costs) incorrectly capitalised as intangible assets
   - Additional costs relating to cloud-based SaaS digital assets which are now treated as operating costs due to the change in Group accounting policy in 2021 following the IFRIC agenda decision
   - Infrastructure-related assets incorrectly classified as intangible assets (and incorrectly depreciated)

   The Group has assessed the impact of these errors as material to the Group financial statements and consequently restated the comparative figures included in the 2022 consolidated financial statements. As a result, US$15m of total costs previously capitalised as intangible assets have now been expensed in the consolidated income statement and a further US$1m (net book value as at 31 December 2021) reclassified as property, plant and equipment. As the errors related to periods up to 31 December 2020, this restatement has affected the balance sheet and brought forward retained earnings (but not the consolidated income statement or consolidated statement of cash flows), as shown on the table of affected financial statement line items.

2. The Group reviewed the uncertain tax positions and identified tax releases in various tax jurisdictions amounting to US$16m that related to developments and events that occurred in 2021 (rather than representing a change in accounting estimate during 2022). As the errors relate to the comparative period, this restatement has affected the consolidated income statement and the consolidated balance sheet (but not the consolidated statement of cash flows), as shown on the table of affected financial statement line items.

3. The Group reassessed its impairment methodology and identified inconsistencies between the carrying value of Block PM304's assets and liabilities and the associated recoverable amount, which resulted in a mismatch in the impairment analysis. The Group has deemed the impact of this error as material to the Group financial statements and restated the comparative figures included in the 2022 financial statements. As a result, an additional cumulative impairment charge of US$15m has been recognised as at 31 December 2021 (US$18m impairment charge in 2021 and a US$3m reversal of impairment for periods up to 31 December 2020). As the errors related to periods up to 31 December 2020, this restatement has affected the balance sheet and brought forward retained earnings, as shown on the table of affected financial statement line items.
4. During the year, a review on the Thai Oil Clean Fuels contract was conducted by the Group's Internal Audit function as part of its 2022 audit programme. This detected that indications of a material growth in the bills of quantities volumes had been identified during a periodic engineering scope review prior to the approval of the Group's consolidated financial statements for the year ended 31 December 2021. These should have been evaluated and reflected in the 2021 financial statements. This data was identified and available to the project management team but was not shared with the E&C divisional senior management team, the Group's Executive team nor the Group's external auditors until after the approval of the Group's consolidated financial statements, in contravention of the Group's established policies and procedures. A thorough investigation concluded this reflected poor judgement rather than any intent to mislead.

   Whilst these volumes were not fully costed and evaluated until after the Group's 2021 consolidated financial statements had been approved, the indications available prior to signing should have resulted in an adjusting post balance sheet event reflecting an additional pre-tax loss of US$48m. This represents the total additional cost in respect of these volume increases, as the contract was onerous at this time, as well as an associated impact on revenue as a result of the change in percentage of completion on the contract. The Group has assessed the impact of this error as material to the Group's consolidated financial statements and consequently restated the comparative figures included in the 2022 financial statements. This restatement affected the consolidated income statement, the consolidated balance sheet and the consolidated statement of cash flows, as shown on the table of affected financial statement line items.

   Given the passage of time and the nature of these cost estimates, it is impracticable to retrospectively determine what costs were known about at the end of December 2020 and so, in accordance with IAS 8, the prior year adjustment has been recorded in 2021.

   As a result of the above restatement, the Group would have required a waiver in respect of its debt facilities' financial covenants as at 31 December 2021 and accordingly, the 2021 balance sheet has been restated to present the external borrowings as current liabilities.
5. Additionally, during the year, the FRC's Corporate Reporting Review Team (CRRT) reviewed the Group's 2021 financial statements. Following this review, the Group reassessed the accounting in respect of certain leases entered into by the Group on behalf of joint operation partners and concluded that the lease payments made to the lessor should be presented separately from the associated sublease payments received from the joint operation partners. As a result, the Group restated the presentation of finance lease income and finance lease expense in the consolidated income statement and the associated cash flows related to lease receivables and lease payments (including interest received and interest paid) in the consolidated statement of cash flows. The change did not have an impact on consolidated net profit, consolidated net change in cash and cash equivalents nor the consolidated balance sheet.

   The FRC has confirmed that the matter is now closed. The Group recognises that the FRC's review was based on the Group's Annual report and accounts for the year ended 31 December 2021 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Therefore, given the scope and inherent limitations of their review, it would not be appropriate for the Company or any third party, including but not limited to investors and shareholders, to infer any assurance from the FRC's review that the Company's 2021 Annual report and accounts was correct in all material respects.

The affected financial statement line items are as follows:

	31 Dec 2021 As reported US$m	Restatement 2 US$m	Restatement 3 US$m	Restatement 4 US$m	Restatement 5 US$m	31 Dec 2021 Restated US$m
Income statement impact						
Revenue (note 3)	3,057	–	–	(19)	–	3,038
Cost of sales	(2,879)	–	–	(29)	–	(2,908)
Gross profit	178	–	–	(48)	–	130
Selling, general and administration expenses	(334)	–	(18)	–	–	(352)
Operating loss	(130)	–	(18)	(48)	–	(196)
Finance income (note 7)	6	–	–	–	9	15
Finance expense (note 7)	(72)	–	–	–	(9)	(81)
Loss before tax	(189)	–	(18)	(48)	–	(255)
Income tax (expense)/credit (note 8)	(3)	16	–	–	–	13
Net loss	(192)	16	(18)	(48)	–	(242)
Net loss attributable to Petrofac Limited shareholders	(195)	16	(18)	(48)	–	(245)
Loss per share (US cents)						
Loss per share – basic and diluted (note 9)	(53.8)	4.4	(5.0)	(13.3)	–	(67.7)

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	31 Dec 2021 As reported US$m	Restatement 2 US$m	Restatement 3 US$m	Restatement 4 US$m	Restatement 5 US$m	31 Dec 2021 Restated US$m
Statement of comprehensive income						
Total comprehensive loss for the year	(180)	16	(18)	(48)	–	(230)
Net loss attributable to Petrofac Limited shareholders	(183)	16	(18)	(48)	–	(233)

	31 Dec 2021 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	Restatement 3 US$m	Restatement 4 US$m	31 Dec 2021 Restated US$m
Balance sheet impact						
Property, plant and equipment (note 12)	283	1	–	(15)	–	269
Intangible assets (note 15)	43	(16)	–	–	–	27
Total non-current assets	743	(15)	–	(15)	–	713
Total assets	3,837	(15)	–	(15)	–	3,807
Retained earnings	230	(15)	16	(15)	(48)	168
Total equity	485	(15)	16	(15)	(48)	423
Non-current interest-bearing loans and borrowings	764	–	–	–	(764)	–
Total non-current liabilities	1,131	–	–	–	(764)	367
Contract liabilities	58	–	–	–	19	77
Current interest-bearing loans and borrowings	–	–	–	–	764	764
Income tax payable	142	–	(16)	–	–	126
Accrued contract expenses	780	–	–	–	18	798
Current provisions	70	–	–	–	11	81
Total current liabilities	2,221	–	(16)	–	812	3,017
Total liabilities	3,352	–	(16)	–	48	3,384
Total equity and liabilities	3,837	(15)	–	(15)	–	3,807

	31 Dec 2021 As reported US$m	Restatement 3 US$m	Restatement 4 US$m	Restatement 5 US$m	31 Dec 2021 Restated US$m
Statement of cash flows impact					
Loss before tax	(189)	(18)	(48)	–	(255)
Separately disclosed items	187	18	–	–	205
Loss before tax and separately disclosed items	(2)	–	(48)	–	(50)
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:					
Net movement in other provisions	(13)	–	11	–	(2)
Working capital adjustments:					
Contract liabilities	(59)	–	19	–	(40)
Accrued contract expenses	(354)	–	18	–	(336)
Net working capital adjustments	(125)	–	37	–	(88)
Cash generated from operations	(91)	–	–	–	(91)
Net cash flows used in operating activities	(161)	–	–	–	(161)
Interest received	1	–	–	9	10
Receipts from joint operation partners in respect of leases	–	–	–	59	59
Net cash flows (used in)/generated from investing activities	(30)	–	–	68	38
Interest paid	(27)	–	–	(9)	(36)
Repayment of lease liabilities	(40)	–	–	(59)	(99)
Net cash flows generated from financing activities	172	–	–	(68)	104

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In accordance with IAS 1 'Presentation of Financial Statements', a balance sheet as at the beginning of the preceding year (i.e. at 1 January 2021) has also been restated and presented. The opening balance sheet as at 1 January 2021 has been restated to correct for these accordingly, as shown below. The affected financial statement line items are as follows:

	1 Jan 2021 As reported US$m	Restatement 1 US$m	Restatement 3 US$m	1 Jan 2021 Restated US$m
Balance sheet impact				
Property, plant and equipment	288	2	3	293
Intangible assets	51	(17)	–	34
Total non-current assets	793	(15)	3	781
Total assets	4,171	(15)	3	4,159
Retained earnings	426	(15)	3	414
Total equity	410	(15)	3	398
Total equity and liabilities	4,171	(15)	3	4,159

3 Revenue from contracts with customers

	2022 US$m	2021 (restated)(1) US$m
Rendering of services	**2,455**	2,990
Sale of crude oil and gas	**136**	48
	2,591	3,038

(1) The prior year numbers are restated; see note 2.9.

Included in revenue are Engineering & Construction and Asset Solutions revenue of a 'pass-through' nature with zero or low margins amounting to US$417m (2021: US$405m).

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

	Engineering & Construction US$m	**Asset Solutions US$m**	**Integrated Energy Services US$m**	**2022 US$m**	Engineering & Construction (restated)[1] US$m	Asset Solutions US$m	Integrated Energy Services US$m	2021 (restated)[1] US$m
Geographical markets								
United Kingdom	**32**	**640**	**–**	**672**	150	592	–	742
Algeria	**374**	**1**	**–**	**375**	442	–	–	442
Thailand	**255**	**25**	**–**	**280**	391	18	–	409
Oman	**233**	**24**	**–**	**257**	373	16	–	389
Malaysia	**1**	**50**	**137**	**188**	2	16	50	68
Lithuania	**159**	**–**	**–**	**159**	–	–	–	–
Iraq	**54**	**75**	**–**	**129**	49	110	–	159
United States of America	**–**	**92**	**–**	**92**	–	49	–	49
Kuwait	**74**	**5**	**–**	**79**	193	3	–	196
United Arab Emirates	**26**	**32**	**–**	**58**	94	39	–	133
Bahrain	**–**	**54**	**–**	**54**	–	76	–	76
Netherlands	**14**	**26**	**–**	**40**	84	29	–	113
India	**32**	**8**	**–**	**40**	22	1	–	23
Australia	**–**	**31**	**–**	**31**	–	–	–	–
Kazakhstan	**3**	**23**	**–**	**26**	–	37	–	37
Libya	**21**	**–**	**–**	**21**	4	1	–	5
Russia	**16**	**1**	**–**	**17**	108	2	–	110
Saudi Arabia	**8**	**–**	**–**	**8**	7	–	–	7
New Zealand	**–**	**7**	**–**	**7**	–	7	–	7
Turkey	**–**	**5**	**–**	**5**	6	6	–	12
Singapore	**–**	**3**	**–**	**3**	–	–	–	–
Germany	**3**	**–**	**–**	**3**	6	–	–	6
Others	**2**	**45**	**–**	**47**	17	38	–	55
Total revenue from contracts with customers	**1,307**	**1,147**	**137**	**2,591**	1,948	1,040	50	3,038
Type of goods or service								
Fixed price	**1,204**	**141**	**–**	**1,345**	1,741	226	–	1,967
Reimbursable	**103**	**1,006**	**1**	**1,110**	207	814	2	1,023
Sale of crude oil and gas	**–**	**–**	**136**	**136**	–	–	48	48
Total revenue from contracts with customers	**1,307**	**1,147**	**137**	**2,591**	1,948	1,040	50	3,038

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For the year ended 31 December 2022

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	2022 US$m	Engineering & Construction (restated)[1] US$m	Asset Solutions US$m	Integrated Energy Services US$m	2021 (restated)[1] US$m
Customer type								
Government	1,053	197	49	1,299	1,351	236	–	1,587
Non-government	254	950	88	1,292	597	804	50	1,451
Total revenue from contracts with customers	1,307	1,147	137	2,591	1,948	1,040	50	3,038
Timing of revenue recognition								
Services transferred over time	1,307	1,147	1	2,455	1,948	1,040	2	2,990
Goods transferred at a point in time	–	–	136	136	–	–	48	48
Total revenue from contracts with customers	1,307	1,147	137	2,591	1,948	1,040	50	3,038

(1) The prior year numbers are restated; see note 2.9.

Revenue disclosed in the tables above is based on where the services or goods are delivered. For 2021, the comparative revenue by country was previously based on where the customer was located and has been amended for consistency in presentation; this only impacts the Integrated Energy Services segment.

Revenue representing greater than 10% of Group revenue arose from one customer amounting to US$372m (2021 restated[1]: US$391m, one customer) in the Engineering & Construction operating segment.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each reporting period is as follows:

	Engineering & Construction US$m	Asset Solutions US$m	2022 US$m	Engineering & Construction (restated)[1] US$m	Asset Solutions US$m	2021 (restated)[1] US$m
Within one year	918	1,169	2,087	1,320	908	2,228
More than one year	638	652	1,290	1,074	746	1,820
	1,556	1,821	3,377	2,394	1,654	4,048

(1) The prior year numbers are restated; see note 2.9.

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction, which provides fixed-price engineering, procurement and construction contract execution services and reimbursable engineering, procurement and construction management services to the onshore and offshore energy industries
- Asset Solutions, which mainly includes reimbursable engineering and production services activities to the oil and gas industry
- Integrated Energy Services, which is focused on delivering value from the existing asset portfolio

The Chief Operating Decision Makers (CODMs) have been identified as the Group's Chief Executive Officer and Chief Financial Officer. The CODMs regularly review the performance of the operating segments to make decisions about resource allocations and to assess financial performance. Finance expense and income arising from borrowings and cash balances, which are not directly attributable to individual operating segments, are allocated to Corporate. The software cost associated with configuration or customisation services are centralised activities not monitored at the segment level, and thus have been allocated to the Corporate segment. 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 separately disclosed items to provide users of the consolidated financial statements with a clear and consistent presentation of the underlying business performance of the Group; refer to notes 2, 6 and appendix A for details. Consequently, the CODMs assess the performance of the operating segments based on a measure of business performance operating profit and profit after tax, excluding the effect of separately identified items.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the years ended 31 December 2022 and restated 31 December 2021.

Year ended 31 December 2022

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items US$m	Reported US$m
Revenue								
External sales	1,307	1,147	137	–	–	2,591	–	2,591
Inter-segment sales	4	11	–	6	(21)	–	–	–
Total revenue	1,311	1,158	137	6	(21)	2,591	–	2,591
Operating (loss)/profit	(299)	55	58	(24)	–	(210)	(7)	(217)
Finance income	–	–	6	1	–	7	–	7
Finance expense	(2)	(1)	(10)	(85)	–	(98)	(18)	(116)
Share of net profit of associates and joint ventures	–	5	–	–	–	5	–	5
(Loss)/profit before tax	(301)	59	54	(108)	–	(296)	(25)	(321)
Income tax expense	–	(9)	(1)	(5)	–	(15)	(1)	(16)
Net (loss)/profit	(301)	50	53	(113)	–	(311)	(26)	(337)
Attributable to:								
Petrofac Limited shareholders	(274)	50	53	(113)	–	(284)	(26)	(310)
Non-controlling interests	(27)	–	–	–	–	(27)	–	(27)
Net (loss)/profit	(301)	50	53	(113)	–	(311)	(26)	(337)
EBIT	(299)	60	58	(24)	–	(205)	(7)	(212)
EBITDA	(287)	70	109	(18)	–	(126)	(12)	(138)

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For the year ended 31 December 2022

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	**10**	**11**	**26**	**–**	**–**	**47**
Intangible assets (note 15)	**–**	**1**	**–**	**6**	**–**	**7**
Charges:						
Depreciation (note 12)	**12**	**9**	**51**	**2**	**–**	**74**
Amortisation, business performance impairment and write off (note 5a, note 5b and note 5g)	**–**	**1**	**–**	**4**	**–**	**5**
Separately disclosed items, pre-tax (note 6)	**1**	**3**	**(13)**	**34**	**–**	**25**
Expected credit loss credit (note 5e)	**(19)**	**(2)**	**–**	**(2)**	**–**	**(23)**
Other long-term employment benefits (note 27)	**4**	**(1)**	**–**	**–**	**–**	**3**
Share-based payments (note 24)	**2**	**2**	**–**	**2**	**–**	**6**

Year ended 31 December 2021	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Separately disclosed items US$m	Reported US$m
Revenue								
External sales (restated)[1]	1,948	1,040	50	–	–	3,038	–	3,038
Inter-segment sales	4	71	–	–	(75)	–	–	–
Total revenue (restated)[1]	1,952	1,111	50	–	(75)	3,038	–	3,038
Operating (loss)/profit (restated)[1]	(62)	67	(6)	(18)	–	(19)	(177)	(196)
Finance income (restated)[1]	–	–	14	1	–	15	–	15
Finance expense (restated)[1]	(1)	(2)	(14)	(36)	–	(53)	(28)	(81)
Share of net profit of associates and joint ventures	–	7	–	–	–	7	–	7
(Loss)/profit before tax (restated)[1]	(63)	72	(6)	(53)	–	(50)	(205)	(255)
Income tax credit/(expense) (restated)[1]	40	16	1	(1)	–	56	(43)	13
Net (loss)/profit (restated)[1]	(23)	88	(5)	(54)	–	6	(248)	(242)
Attributable to:								
Petrofac Limited shareholders (restated)[1]	(24)	86	(5)	(54)	–	3	(248)	(245)
Non-controlling interests	1	2	–	–	–	3	–	3
Net (loss)/profit (restated)[1]	(23)	88	(5)	(54)	–	6	(248)	(242)
EBIT (restated)[1]	(62)	74	(6)	(18)	–	(12)	(177)	(189)
EBITDA (restated)[1]	(38)	84	21	(11)	–	56	(142)	(86)

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Capital expenditures:						
Property, plant and equipment (note 12)	2	6	51	18	–	77
Intangible assets (note 15)	–	–	–	7	–	7
Charges:						
Depreciation (note 12) (restated)[1]	24	9	27	3	–	63
Amortisation, business performance impairment and write off (note 5a, note 5b and note 5g) (restated)[1]	–	1	–	4	–	5
Separately disclosed items, pre-tax (note 6) (restated)[1]	5	11	37	152	–	205
Expected credit loss credit (note 5e)	(25)	–	–	–	–	(25)
Other long-term employment benefits (note 27)	6	2	–	1	–	9
Share-based payments (note 24)	3	2	–	2	–	7

(1) The prior year numbers are restated; see note 2.9.

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Geographical segments

The following tables present selected non-current assets by geographical segments for the years ended 31 December 2022 and restated 31 December 2021.

As at 31 December 2022

	Malaysia US$m	United Arab Emirates US$m	United Kingdom US$m	India US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Property, plant and equipment (note 12)	**173**	**30**	**17**	**12**	**–**	**1**	**11**	**244**
Goodwill (note 14)	**3**	**29**	**38**	**–**	**–**	**–**	**26**	**96**
Other intangible assets (note 15)	**–**	**–**	**21**	**–**	**–**	**–**	**4**	**25**

As at 31 December 2021 (restated)[1]

	Malaysia US$m	United Arab Emirates US$m	United Kingdom US$m	India US$m	Kuwait US$m	Oman US$m	Other countries US$m	Total US$m
Property, plant and equipment (restated)[1] (note 12)	188	34	25	8	1	2	11	269
Goodwill (note 14)	3	29	44	–	–	–	25	101
Intangible oil and gas assets (note 15)	4	–	–	–	–	–	–	4
Other intangible assets (restated)[1] (note 15)	–	–	18	–	–	–	5	23

(1) The prior year numbers are restated; see note 2.9.

5 Expenses and income

a. Cost of sales

Included in cost of sales are staff costs of US$608m (2021: US$669m), depreciation charged on property, plant and equipment of US$67m (2021: US$56m), amortisation charge on intangible assets of US$1m (2021: US$1m) and gain associated with ineffective portions on derivatives designated as cash flow hedges of US$nil (2021: US$3m).

b. Selling, general and administration expenses

	2022 US$m	2021 (restated)[1] US$m
Staff costs	**100**	99
Depreciation and amortisation (notes 12 and 15)	**11**	11
Other general and administration expenses	**64**	65
Business performance selling, general and administration expenses (before separately disclosed items)	**175**	175
Separately disclosed items (note 6)	**7**	177
	182	352

(1) The prior year numbers are restated; see note 2.9.

Other general and administration expenses consist mainly of office-related costs, travel, professional services fees and contracting staff costs.

Selling, general and administration expenses (before separately disclosed items) has remained at a similar level to that of the prior year.

c. Staff costs

	2022 US$m	2021 US$m
Total staff costs:		
Wages and salaries	**644**	692
Social security costs	**31**	35
Defined contribution pension costs	**24**	25
Other long-term employee benefit costs (note 27)	**3**	9
Share-based payments costs (note 24)	**6**	7
	708	768

Of the US$708m (2021: US$768m) of staff costs shown above, US$608m (2021: US$669m) is included in cost of sales and US$100m (2021: US$99m) in selling, general and administration expenses. The average number of staff employed by the Group during the year was 7,817 (2021: 8,752).

d. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other non-prohibited services provided to the Group:

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

	2022 US$m	2021 US$m
Group audit fee	**4**	3
Audit of subsidiaries' accounts	**1**	1
Other	**–**	2
	5	6

Other includes audit-related assurance services of US$0.1m (2021: US$0.1m) and other non-audit services of US$nil (2021: US$1.5m). The non-audit services in the prior year included the completion of an interim review for the period to 30 June 2021 and work completed as the reporting accountant in respect of the refinancing and capital raise completed in 2021.

e. Expected credit loss allowance

The movement in ECL allowance recognised by the Group during 2022 and 2021 was as follows:

	2022 US$m	2021 US$m
ECL reversal on trade receivables (note 19)	**–**	(1)
ECL reversal on contract assets (note 20)	**(21)**	(24)
ECL reversal on other financial assets (note 17)	**(1)**	(1)
ECL charge on receivables from joint operations partners (note 19)	**–**	1
ECL reversal on other receivables (note 19)	**(1)**	–
	(23)	(25)

f. Other operating income

	2022 US$m	2021 US$m
Foreign exchange gains	**3**	3
Other income	**20**	5
	23	8

The Group received government grants of US$11m (2021: US$nil) in respect of services exported from India that generated net foreign remittances. Other income also included US$4m in respect of insurance claims recoveries and a gain on disposal of property and equipment of $1m in the Engineering & Construction operating segment (2021: US$1m in the Engineering & Construction operating segment). Other operating income in the prior year included US$1m reversal of aged trade payable relating to the Engineering & Construction operating segment.

g. Other operating expenses

	2022 US$m	2021 US$m
Foreign exchange losses	**–**	3
Other expenses	**5**	4
	5	7

Other operating expenses mainly comprised of the insurance excess payable by the Group through its captive insurer.

6 Separately disclosed items

	2022 US$m	2021 (restated)[1] US$m
Reversal of impairment of assets	**(6)**	–
Impairment of assets	**1**	35
Fair value remeasurements	**(10)**	8
Cloud ERP software implementation costs	**10**	12
Restructuring and redundancy costs	**4**	2
UK Serious Fraud Office proceedings	**–**	106
Other separately disclosed items	**8**	14
Total separately disclosed items as reported within selling, general and administrative expenses (note 5b)	**7**	177
Separately disclosed items as reported within finance expense (note 7)	**18**	28
Income tax charge on separately disclosed items	**1**	–
Deferred tax impairment	–	43
Total separately disclosed items as reported within income tax charge (note 8)	**1**	43
Consolidated income statement charge	**26**	248

(1) The prior year numbers are restated; see note 2.9.

Reversal of impairment of assets

At 31 December 2022, internal and external indicators of impairment reversal existed, predominantly due to the volatility in global oil prices. Consequently, the Group performed an impairment review of the carrying value amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') using a post-tax discount rate of 10.0% (2021: 9.5%). This review involved assessing the field operational performance, oil price and licence extension assumptions. This assessment resulted in an impairment reversal of US$6m (2021 restated: impairment charge of US$33m) allocated to property, plant and equipment in the Integrated Energy Services operating segment. Additionally, during the prior year, an associated impairment of US$43m was recognised against the carrying amount of the deferred tax asset.

The average oil price assumptions used by management were US$85 per barrel for 2023, US$80 per barrel for 2024 and US$75 per barrel for the remaining period of the assessment (2021: US$70 per barrel for 2022 and 2023, US$65 per barrel for 2024 and US$60 per barrel for the remaining period of the assessment). The oil price assumption and the likelihood of a licence extension beyond 2026 were the most sensitive inputs in determining the fair value less cost of disposal and an increase in the assessed likelihood of an extension beyond 2026 would increase the recoverable value; a 10% decrease in oil prices would result in an additional impairment charge of US$31m and a 10% increase in oil prices would result in a decrease in impairment charge of US$31m.

Fair value less costs of disposal is determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of disposal costs considering assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from the projected production profiles for each asset considering forward market commodity prices over the relevant period which informs the Group's Board-approved business planning assumptions. As each field has different reservoir characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models, which include assumptions around the amount of recoverable reserves, production costs, life of the field/licence period and the selling price of the commodities produced.

Impairment of assets

In the current year, management identified impairment indicators for one of the Group's operations in the United Kingdom and as a result reviewed the carrying amount of property, plant and equipment including right-of-use assets relating to that subsidiary using the value-in-use basis. The value-in-use was calculated using the latest approved cash flow forecasts for the years to 2024 and no increase in cash flows for the period 2025 and beyond. This review resulted in an impairment charge of US$1m in the Asset Solutions operating segment (2021: US$2m) relating to the right-of-use asset associated with a facility in the UK.

Fair value remeasurements

During 2022, the Group reached an agreement in respect of the contingent consideration receivable arising from the 2020 disposal of the Group's operations in Mexico and received a final settlement amounting to US$47m, of which US$46m was allocated to the contingent consideration receivable (with the remaining US$1m allocated to other receivables). As a result, the Group recognised a fair value gain of US$10m in the Integrated Energy Services operating segment (2021: US$5m downward fair value adjustment following management's reassessment of the fair value of the contingent consideration receivable).

Additionally, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc (W&W) using the latest approved business plan. This resulted in a negative fair value adjustment of US$1m (2021: US$3m) being recognised in the Asset Solutions operating segment, after using an expected value pay-out approach applying a discount rate of 16.0% (2021: 15.2%) (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement').

Also, management reviewed the carrying amount of the deferred consideration associated with the disposal of JSD6000 installation vessel (the 'vessel') that was recognised as a non-current asset in the consolidated balance sheet. 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'). An upward fair value adjustment of US$1m (2021: US$nil) was recognised as a separately disclosed item in the Engineering & Construction operating segment which increased the deferred consideration to US$56m at the end of the reporting period (2021: US$55m). Based on an independent broker's valuation, the fair value of deferred consideration ranges between US$54m and US$58m.

Software implementation costs

Following IFRIC's agenda decision published in April 2021, the Group has revised its accounting policy regarding the customisation and configuration costs incurred when implementing a SaaS arrangement. The Group is currently undertaking a major systems implementation for a new cloud computing software, resulting in costs of US$10m being recognised as an expense in the current year (2021: US$12m). The first two phases of the implementation have been successfully completed.

Due to the size, nature and incidence of these costs, they are presented as a separately disclosed item, as they are not reflective of underlying performance. Additionally, as this is a large and complex implementation, it is expected that it will be completed over the next couple of years.

Restructuring and redundancy costs

In response to the reduced level of new orders recorded in the year, further cost reduction measures were taken by management which resulted in redundancy costs of US$2m recognised in the Engineering & Construction operating segment, US$1m in the Asset Solutions operating segment and US$1m in the Corporate reporting segment (2021: US$1m in each of the Engineering & Construction and Corporate reporting segments).

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UK Serious Fraud Office proceedings

Following the UK Serious Fraud Office (SFO) investigation launched in 2017, the Company reached a plea agreement with the SFO in September 2021. As a result, on 4 October 2021 the Southwark Crown Court ordered the Company to pay a penalty and costs of £77m and these amounts were paid during 2022.

Other separately disclosed items

During 2022, the Group collected US$12m of the deferred consideration due from Ithaca Energy UK Ltd and also sold the remaining receivable with a carrying value of US$43m, for US$40m, resulting in a loss of US$3m in the Integrated Energy Services operating segment (note 17).

Additionally, the Group incurred a further US$5m of professional services fees relating to the Corporate reporting segment (2021: US$10m).

In the prior year, other separately disclosed items included a loss on disposal of US$4m in the Asset Solutions operating segment that related to the disposal of the Group's survival and marine, health and safety, fire and major emergency management capability, and facilities in Scotland.

Separately disclosed finance expense

The terms of the Revolving Credit Facility provides for the Group to pay a certain proportion of losses incurred by an original lender to facilitate any transfer of its commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and re-measured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a fair value loss of US$18m in the Corporate reporting segment. The fair value of the embedded derivative is based on the market yields of other debt instruments issued by the Group. Improvement in the Group's credit risk will reduce the financial liability but an adverse change to the Group's credit rating will not materially impact the fair value of the embedded derivative.

During the prior year, a capital raise (note 22) and comprehensive refinancing were completed to extend Petrofac's debt maturities and to create a long-term capital structure. Costs of US$28m were incurred in the prior period which were integral to the execution of the refinancing but were not directly attributable to the secured facilities.

7 Finance income/(expense)

	2022 US$m	2021 restated[1] US$m
Finance income		
Bank interest	**1**	1
Interest income from joint operation partners in respect of leases	**6**	9
Unwinding of discount on deferred consideration receivable (note 17)	**–**	5
Total finance income	**7**	15
Finance expense		
Group borrowings	**(85)**	(36)
Lease liabilities	**(12)**	(16)
Unwinding of discount on provisions (note 27)	**(1)**	(1)
Business performance finance expense (before separately disclosed items)	**(98)**	(53)
Separately disclosed items – finance expense (note 6)	**(18)**	(28)
Total finance expense	**(116)**	(81)

(1) The prior year numbers are restated in relation to the correction of presentation errors with respect to the netting of finance income and finance expense associated with leases; see note 2.9.

Group borrowing costs have increased during 2022 following the debt refinancing exercise completed in October 2021. The increase in borrowing costs is attributable to a full year of borrowing costs in relation to the senior secured notes compared to only two months in the prior year in addition to the increase in market interest rates during the year, impacting the interest cost in respect of floating rate term loans and the RCF facility.

8 Income tax

a. Tax on ordinary activities

The major components of income tax expense/(credit) are as follows:

	Business performance[1] US$m	**Separately disclosed items US$m**	**Reported 2022 US$m**	Business performance[1] (restated)[2] US$m	Separately disclosed items US$m	Reported 2021 (restated)[2] US$m
Current income tax						
Current income tax charge/(credit)	**20**	**1**	**21**	26	(1)	25
Adjustments in respect of previous years	**(20)**	**–**	**(20)**	(72)	–	(72)
Deferred tax						
Relating to origination and reversal of temporary differences	**(1)**	**–**	**(1)**	(5)	–	(5)
Changes in tax rates and legislation	**–**	**–**	**–**	(4)	–	(4)
Derecognition of deferred tax assets previously recognised	**16**	**–**	**16**	–	44	44
Adjustments in respect of previous years	**–**	**–**	**–**	(1)	–	(1)
Income tax expense/(credit) reported in the consolidated income statement	**15**	**1**	**16**	(56)	43	(13)
Income tax reported in equity						
Foreign exchange movements on translation	**2**	**–**	**2**	1	–	1
Income tax expense reported in equity	**2**	**–**	**2**	1	–	1

(1) This measurement (before separately disclosed items) is shown by the Group as a means of measuring underlying business performance (ie excluding separately disclosed items); see note 2 and Appendix A.

(2) The prior year numbers are restated; see note 2.9.

The split of the Group's income tax expense between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of contracts compared to that paid on accrued income for fixed-price engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Production Sharing Contracts ("PSCs") which are partially offset by the creation of losses

See note 8c below for the impact on the movements in the year.

b. Reconciliation of income tax expense

A reconciliation between income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	Business performance[1] US$m	**Separately disclosed items US$m**	**Reported 2022 US$m**	Business performance[1] (restated)[4] US$m	Separately disclosed items (restated)[4] US$m	Reported 2021 (restated)[4] US$m
Loss before tax	**(296)**	**(25)**	**(321)**	(50)	(205)	(255)
Applicable tax charge/(credit) at standard statutory rates[2]	**(6)**	**2**	**(4)**	(49)	(20)	(69)
Expenditure not allowable for income tax purposes	**8**	**2**	**10**	25	12	37
Income not subject to tax	**–**	**(2)**	**(2)**	(4)	–	(4)
Adjustments in respect of previous years	**(20)**	**–**	**(20)**	(73)	–	(73)
Adjustments in respect of deferred tax assets previously recognised	**16**	**–**	**16**	–	44	44
Utilisation of tax assets not previously recognised	**(26)**	**–**	**(26)**	–	–	–
Current year deferred tax assets not recognised	**43**	**(1)**	**42**	45	7	52
Other permanent differences	**–**	**–**	**–**	4	–	4
Effect of change in tax rates[3]	**–**	**–**	**–**	(4)	–	(4)
At the effective income tax rate of negative 5.0% on reported profit before tax (2021 restated: positive 5.1%)	**15**	**1**	**16**	(56)	43	(13)

(1) This measurement (before separately disclosed items) is shown by the Group as a means of measuring underlying business performance (i.e. excluding separately disclosed items); see note 2 and Appendix A.

(2) The weighted average statutory tax rate was positive 1.2% (2021 restated: 27.1%). Compared with 2021, the rate in 2022 was lower due to losses incurred in jurisdictions subject to lower tax rates such as the UAE, resulting in a lower weighted average statutory tax rate compared with 2021. The weighted average tax rate applicable to business performance and separately disclosed items are different as they are impacted by the tax rate associated with the jurisdictions in which the profits were earned.

(3) The prior year balance relates to the substantive enactment of the increase in the UK corporation tax rate from 19% to 25%, effective 1 April 2023.

(4) The prior year numbers are restated; see note 2.9.

Notes to the consolidated financial statements continued

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The Group's effective tax rate for the year ended 31 December 2022 was negative 5.0% (2021 restated: positive 5.1%). The Group's effective tax rate excluding the impact of impairments, remeasurements and other separately disclosed items for the year ended 31 December 2022 was negative 5.1% (2021 restated: >100%).

The adjustments in respect of previous years of $20m largely relates to the release of uncertain tax treatment items as the final outcome on certain issues was agreed with the tax authorities during the year or the statute of limitations for audit by the tax authorities expired without challenge.

The Group's future tax charge will be sensitive to the levels and mix of profitability in different jurisdictions, tax rates imposed and any future tax regime reforms. The UK Government has enacted legislation to increase the main rate of corporation tax to 25% with effect from 1 April 2023. In addition, the future tax charge is likely to be affected by the OECD Pillar II framework and subsequent domestic legislation changes to introduce a global minimum tax rate for large multinationals which will, as currently proposed, apply to the Group for the year ending 31 December 2024. The Group has reviewed the published OECD model rules and guidance along with the new federal corporate tax regime in the UAE, effective for financial years beginning on or after 1 June 2023, which sets out the framework for how corporate taxation will operate in UAE. The proposals are complex and there remains uncertainty about the final form of the rules in all countries. Accordingly, the potential impact cannot yet be reliably estimated. The Group is continuing to monitor legislative developments and will determine their potential impact on the Group's effective tax rate and tax compliance obligations when the relevant legislation is finalised.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Movement	
	2022 US$m	2021 US$m	**2022 US$m**	2021[1] US$m
Deferred tax liabilities				
Accelerated depreciation for tax purposes	**–**	–	**–**	(22)
Profit recognition[1]	**25**	28	**(3)**	(4)
Overseas earnings	**4**	3	**1**	(3)
Other temporary differences	**1**	–	**1**	(2)
Gross deferred tax liabilities	**30**	31	**(1)**	(31)
Deferred tax assets				
Losses available for offset	**–**	15	**15**	47
Decelerated depreciation for tax purposes	**–**	2	**2**	5
Share-based payment plans	**–**	–	**–**	1
Decommissioning	**–**	–	**–**	4
Other temporary differences	**3**	3	**–**	8
Gross deferred tax assets	**3**	20	**17**	65

(1) Relates to differences associated with the allocation of contract revenue and contract costs to accounting periods in which work is performed between IFRS and local GAAP treatments.

The presentation in the balance sheet takes into consideration the offsetting of deferred tax assets and liabilities within the same tax jurisdiction, where this is permitted. The overall deferred tax position in a particular tax jurisdiction determines if a deferred tax balance related to that jurisdiction is presented within deferred tax assets or deferred tax liabilities. The following is an analysis of the deferred tax balances (after their offsetting) for financial reporting purposes:

	Consolidated balance sheet		Movement	
	2022 US$m	2021 US$m	**2022 US$m**	2021[1] US$m
Net deferred tax liability and income tax expense	**(27)**	(11)	**16**	34
Of which:				
UK	**–**	17	**(17)**	(1)
Other (outside of the UK)	**1**	1	**–**	(42)
Deferred tax assets	**1**	18	**(17)**	(43)
Deferred tax liabilities	**28**	29	**(1)**	(9)

The Group recognises deferred tax assets to the extent that it is probable that sufficient future taxable profits will arise, against which the deductible temporary differences, unused tax losses and credits carried forward can be utilised. In evaluating whether it is probable that taxable profits will be earned in future accounting periods all available evidence was considered, including Board approved business plans and, in some cases, analysis of past operating results. These forecasts are consistent with those used for both the going concern and viability assessment and impairment testing purposes. Following this evaluation in 2022, it was determined that there had been a change in the geographical split of profits across the Group and therefore there would be insufficient taxable income generated in the UK to realise the benefit of deferred tax assets previously recognised. The write-off of previously recognised deferred tax assets in note 8b therefore relates to the UK.

Assessing the availability of future taxable profits to support the recognition of deferred tax assets is considered a key judgement and changes in Group forecasts will impact the recoverability of deferred tax assets. To the extent that there are insufficient taxable profits, no deferred tax asset is recognised, and details of unrecognised deferred tax assets are included below.

Deferred tax liabilities of US$0.2m (2021: US$0.3m) were not recognised on temporary differences that related to unremitted earnings of the overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Unrecognised taxable temporary differences associated with undistributed retained earnings of investments in subsidiaries, associates and joint ventures amounted to US$5m (2021: US$5m).

d. Unrecognised tax losses and tax credits

Deferred tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise deferred income tax assets on tax losses and tax credits of US$1,670m (2021: US$1,458m).

	2022 US$m	2021 US$m
Expiration dates for tax losses		
Expiring within 5 years	**144**	3
Expiring within 6-10 years	**72**	–
No expiration date	**1,445**	1,444
	1,661	1,447
Tax credits (no expiration date)	**9**	11
	1,670	1,458

During 2022, previously unrecognised losses of US$4m were utilised by the Group (2021: US$nil).

9 Earnings per share

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

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

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

	2022 US$m	2021 (restated)[3] US$m
Business performance net (loss)/gain attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(284)**	3
Separately disclosed items attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(26)**	(248)
Reported net loss attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(310)**	(245)

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For the year ended 31 December 2022

	2022 Shares million	2021 Shares million
Weighted average number of ordinary shares for basic earnings per share[1]	**515**	362
Effect of dilutive potential ordinary shares granted under share-based payment plans[2]	**–**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**515**	362

	2022 US cents	2021 (restated)[3] US cents
Basic (loss)/earnings per share		
Business performance	**(55.2)**	0.8
Separately disclosed items	**(5.0)**	(68.5)
Reported	**(60.2)**	(67.7)
Diluted (loss)/earnings per share[2]		
Business performance	**(55.2)**	0.8
Separately disclosed items	**(5.0)**	(68.5)
Reported	**(60.2)**	(67.7)

(1) The weighted number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust. The increase in the number of shares in 2021 reflects the capital raise completed on 15 November 2021, which resulted in 173,906,085 new shares being issued.

(2) For the years ended 31 December 2021 and 2022, 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.

(3) The prior year numbers are restated; see note 2.9.

10 Dividends paid and proposed

No dividends were paid or proposed during the year (2021: nil).

11 Deferred consideration

The deferred consideration associated with the disposal of the JSD6000 installation vessel (the ‘vessel’) was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration is measured at fair value, with any fair value gain and loss recognised in the consolidated income statement. The fair value of the deferred consideration took into account, 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’). The fair value of deferred consideration was US$56m at 31 December 2022 (2021: US$55m) (note 6).

12 Property, plant and equipment

	Oil and gas assets US$m	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Office furniture and equipment (restated)[1] US$m	Assets under construction US$m	Total (restated)[1] US$m
Cost								
At 1 January 2021 (restated)[1]	538	180	438	37	34	166	1	1,394
Additions	41	25	3	1	2	4	1	77
Disposals	–	–	(12)	(7)	(1)	(3)	(1)	(24)
Transfer to intangible assets (note 15)	8	–	–	–	–	–	–	8
Translation difference	–	–	(1)	–	–	(1)	–	(2)
At 1 January 2022	**587**	**205**	**428**	**31**	**35**	**166**	**1**	**1,453**
Additions	**23**	**3**	**12**	**1**	**7**	**1**	**–**	**47**
Disposals	**–**	**–**	**(227)**	**(16)**	**(20)**	**(87)**	**–**	**(350)**
Transfers	**4**	**–**	**(2)**	**(1)**	**–**	**3**	**(1)**	**3**
Translation difference	**–**	**–**	**(8)**	**–**	**–**	**(7)**	**–**	**(15)**
At 31 December 2022	**614**	**208**	**203**	**15**	**22**	**76**	**–**	**1,138**

	Oil and gas assets (restated)[1] US$m	Oil and gas facilities (restated)[1] US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Office furniture and equipment (restated)[1] US$m	Assets under construction US$m	Total (restated)[1] US$m
Depreciation and impairment								
At 1 January 2021 (restated)[1]	(424)	(119)	(339)	(30)	(30)	(159)	–	(1,101)
Depreciation charge (notes 5a and 5b)	(15)	(11)	(24)	(1)	(3)	(9)	–	(63)
Impairment charge (restated)[1] (note 6)	(23)	(9)	(2)	–	–	–	–	(34)
Disposals	–	–	5	5	1	2	–	13
Translation difference	–	–	–	–	–	1	–	1
At 1 January 2022	**(462)**	**(139)**	**(360)**	**(26)**	**(32)**	**(165)**	**–**	**(1,184)**
Depreciation charge (notes 5a and 5b)	**(39)**	**(11)**	**(15)**	**(1)**	**(3)**	**(5)**	**–**	**(74)**
Reversal of impairment/(impairment charge) (note 6)	**5**	**1**	**(1)**	**–**	**–**	**–**	**–**	**5**
Transfers	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Disposals	**–**	**–**	**227**	**16**	**20**	**87**	**–**	**350**
Translation difference	**–**	**–**	**3**	**–**	**–**	**7**	**–**	**10**
At 31 December 2022	**(496)**	**(149)**	**(146)**	**(12)**	**(15)**	**(76)**	**–**	**(894)**
Net carrying amount								
At 31 December 2022	**118**	**59**	**57**	**3**	**7**	**–**	–	**244**
At 31 December 2021	125	66	68	5	3	1	1	269

(1) The prior year numbers are restated; see note 2.9.

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Additions

Additions to oil and gas assets and facilities in the Integrated Energy Services operating segment comprised US$26m relating to Block PM304 in Malaysia (2021: US$66m) including a US$7m increase in the Group's share of the joint operation's oil and gas assets following the exit of one of the joint operation partners. Additions to land, buildings and leasehold improvements of US$12m (2021: US$3m) mainly comprised right-of-use asset additions of US$8m in the Engineering & Construction operating segment.

Depreciation and impairment

The depreciation charge in the consolidated income statement is split between US$67m (2021: US$56m) in cost of sales and US$7m (2021 restated: US$7m) in selling, general and administration expenses.

During 2022, the Group reassessed its estimate of recoverable value and reversed US$6m of the initially recognised impairment in relation to its Block PM304 oil and gas assets and facilities on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The impairment loss has been recorded as separately disclosed items (note 6) and allocated to property, plant and equipment.

Additionally, property, plant and equipment including right-of-use assets relating to the Group's operations in the UK were impaired using the value-in-use basis resulting in an impairment charge of US$1m recorded as separately disclosed items (note 6) in the Asset Solutions operating segment (2021: US$2m) relating to a right-of-use asset.

Disposals

The disposal, predominantly within land, buildings and leasehold improvements and plant and equipment, having a net carrying amount of US$nil (2021: US$11m), related to the write-off of unused fully depreciated assets in the Engineering & Construction operating segment.

Prior year restatement

As detailed in note 2.9, during 2022, the Group undertook a comprehensive review of cumulative capitalised costs associated with the Group's IT digital strategy (previously included within 'other intangible assets' within intangible assets, note 15) and identified errors associated with these costs, previously capitalised during 2018 to 2020.

Therefore, in accordance with IAS 8, costs related to IT infrastructure assets that had been incorrectly classified as intangible assets have been reclassified as 'office furniture and equipment' and reflected in the comparative information for the periods shown above. This totalled US$3m of cumulative additions as at 31 December 2020 with an associated cumulative depreciation charge of US$1m as at 31 December 2020 and US$2m as at 31 December 2021.

In addition, inconsistencies between the carrying value of Block PM304's assets and liabilities and the associated recoverable amount were identified, as stated in note 2.9, which resulted in an additional impairment charge of US$15m being recognised as at 31 December 2021 (US$18m impairment charge in 2021 and a US$3m reversal of impairment for periods up to 31 December 2020).

Right-of-use assets

The table below provides details of right-of-use assets recognised within various categories of property, plant and equipment line item:

	Oil and gas facilities (restated)[1] US$m	Land, buildings and leasehold improvements (restated)[1] US$m	Plant and equipment US$m	Vehicles US$m	Total (restated)[1] US$m
At 1 January 2021 – (restated)[1]	57	39	–	1	97
Additions	25	2	–	1	28
Depreciation charge (note 29)	(11)	(7)	–	(1)	(19)
Disposals	–	(2)	–	–	(2)
Impairment charge (note 6) – (restated)[1]	(9)	(2)	–	–	(11)
At 1 January 2022	**62**	**30**	**–**	**1**	**93**
Additions	**3**	**10**	**1**	**6**	**20**
Depreciation charge (note 29)	**(11)**	**(8)**	**–**	**(2)**	**(21)**
Impairment charge (note 6)	**1**	**(1)**	**–**	**–**	**–**
Translation	**–**	**(3)**	**–**	**–**	**(3)**
At 31 December 2022	**55**	**28**	**1**	**5**	**89**

(1) In addition to the restatement set out in note 2.9, the prior year numbers in respect of right-of-use assets are restated to correct an inadvertent data input error resulting in disposals of US$3m disclosed in 2020 within land, buildings and leasehold improvements and an impairment charge in respect of oil and gas facilities of US$11m in 2021 which impacted the disclosures in the table above. There was no impact on the total balance of property, plant and equipment or total assets.

13 Non-controlling interests

Movement of non-controlling interest in Petrofac Emirates LLC and Petrofac Engineering Services (Malaysia) Sdn. Bhd.	**2022 US$m**	2021 US$m
At 1 January	**10**	7
(Loss)/profit for the year	**(27)**	3
At 31 December	**(17)**	10

The proportion of the nominal value of issued shares controlled by the Group is disclosed in note 34. Summarised financial information for subsidiaries having non-controlling interests that are considered material to the Group is shown below:

	Petrofac Emirates LLC	
Summarised income statement	2022 US$m	2021 US$m
Revenue	37	298
Cost of sales	(137)	(291)
Gross profit	(100)	7
Selling, general and administration expenses	(4)	(3)
Other income	9	10
Net finance expense	(10)	(3)
Net (loss)/profit for the year	(105)	11
Attributable to non-controlling interest	(27)	3
Summarised balance sheet		
Non-current assets	–	–
Current assets	156	350
Total assets	156	350
Non-current liabilities	3	4
Current liabilities	219	303
Total liabilities	222	307
Total equity	(66)	43
Attributable to non-controlling interest	(17)	10
Summarised cash flow statement		
Operating	(3)	(73)
Investing	–	51
Financing	–	11
	(3)	(11)

No dividends were declared by Petrofac Emirates LLC during 2022 (2021: US$nil).

14 Goodwill

A summary of the movements in goodwill is presented below:

	2022 US$m	2021 US$m
At 1 January	101	101
Translation difference	(5)	–
At 31 December	96	101

Goodwill resulting from business combinations has been allocated to two groups of cash-generating units (CGUs) for impairment testing as follows:

- Engineering & Construction
- Asset Solutions

These groups of CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill allocated to each group of cash-generating units

	2022 US$m	2021 US$m
Engineering & Construction	41	41
Asset Solutions	55	60
	96	101

Goodwill is tested for impairment at least annually. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on future financial business plans approved by the Board, based on past performance and its expectation of market developments. The key assumptions within these budgets relate to market share, revenue and the future profit margin achievable, in line with the Group's strategy and targets as set out in the Strategic report. Future budgeted revenue is based on management's knowledge of actual results from prior years and latest forecasts for the current year, along with the existing secured works and management's expectation of the future level of work available within the market sector. In establishing future profit margins, the margins currently being achieved are considered in conjunction with expected inflation rates in each cost category.

Cash flows beyond the business plan three-year period are extrapolated using an estimated growth rate within each segment. The growth rate used is the Group's estimate of the average long-term growth rate for the market sectors in which the CGU operates. Furthermore, sensitivity analysis has been undertaken on each goodwill impairment review, by changing the discount rates, profit margins, growth rates and other variables applicable to each CGU.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

The pre-tax discount rates for each CGU are noted below.

Any continuing impact of Covid-19 has been reflected in the Group's approved business plans for the next three years, with budgeted operating margins updated on a contract-by-contract basis reflecting ongoing standard operating procedures and costs to reflect Government and industry health and safety guidelines.

Engineering & Construction CGU

A pre-tax discount rate of 16.0% (2021: 15.2%) in Engineering & Construction has been applied to the future cash flows, based on an estimate of the weighted average cost of capital (WACC) of that CGU.

The value in use is based on the business plan cash flows of three years (reflecting the Board-approved business plan operating margins and working capital cash flows) and assume no growth in cash flows beyond the three-year period for the subsequent two years and these assumptions result in the recoverable value of this CGU being significantly greater than the carrying value of the CGU asset.

The Engineering & Construction CGU is not sensitive to changes in key assumptions and management does not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill.

Asset Solutions CGU

A pre-tax discount rate of 16.0% (2021: 15.2%) in Asset Solutions has been applied to the future cash flows, based on an estimate of the WACC of that CGU.

The value in use is based on the business plan cash flows of three years (reflecting the Board-approved business plan operating margins and working capital cash flows) and assume a subsequent growth rate of 1.3% in cash flows beyond the three-year period for the subsequent two years, and these assumptions result in the recoverable value of this CGU being significantly greater than the carrying value of the CGU asset.

The Asset Solutions CGU is not sensitive to changes in key assumptions and management does not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill.

15 Intangible assets

	2022 US$m	2021 (restated)[1] US$m
Intangible oil and gas assets		
Carrying value:		
At 1 January	**4**	13
Transferred to property, plant and equipment (note 12)	**(4)**	(8)
Impairment charge (note 6)	**–**	(1)
At 31 December	**–**	4
Other intangible assets		
Cost:		
At 1 January	**50**	43
Additions	**7**	7
Transfer from property, plant and equipment (note 12)	**2**	–
Translation	**(3)**	–
At 31 December	**56**	50
Accumulated amortisation:		
At 1 January	**(27)**	(22)
Amortisation (notes 5a and 5b)	**(5)**	(5)
Translation difference	**1**	–
At 31 December	**(31)**	(27)
Carrying amount of other intangible assets at 31 December	**25**	23
Total intangible assets	**25**	27

(1) The prior year numbers are restated in relation to the correction of errors with respect to IT digital assets recorded as property, plant & equipment and intangible assets; see note 2.9.

Intangible oil and gas assets

Intangible oil and gas assets represent expenditure directly associated with evaluation or appraisal activities related to Block PM304 in Malaysia.

Other intangible assets

Other intangible assets mainly comprised customer contracts and digital systems. Such intangible assets are amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in cost of sales and selling, general and administration expense line items of the consolidated income statement (notes 5a and 5b). The additions of US$7m (2021: US$7m) primarily related to investment in the development and implementation of Group-wide digital systems.

Prior year restatement

As detailed in note 2.9, during 2022, the Group undertook a comprehensive review of cumulative capitalised costs associated with the Group's IT digital strategy (previously included within 'other intangible assets') and identified errors associated with these costs, previously capitalised during 2018 to 2020.

Therefore, in accordance with IAS 8, costs related to IT digital assets that do not meet the criteria for recognition as an intangible asset in accordance with the Group accounting policy have now been expensed in the relevant accounting period and reflected in the comparative information for the periods shown above. This totalled US$17m of cumulative additions as at 31 December 2020 with an associated cumulative amortisation charge of US$1m as at 31 December 2021.

16 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2021	21	14	35
Share of net profit/(loss)	8	(1)	7
Dividends received	(8)	–	(8)
As at 1 January 2022	**21**	**13**	**34**
Share of net profit/(loss)	**6**	**–**	**6**
Dividends received	**(10)**	**–**	**(10)**
As at 31 December 2022	**17**	**13**	**30**

Dividends received during the year include US$9m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited (2021: US$7m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited).

Investment in associates

	2022 US$m	2021 US$m
PetroFirst Infrastructure Limited	**17**	20
PetroFirst Infrastructure 2 Limited	**–**	1
	17	21

Interest in associates

Summarised financial information on associates, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in associates in the consolidated balance sheet, are set out below:

	2022 US$m	2021 US$m
Revenue	**58**	77
Cost of sales	**(26)**	(33)
Gross profit	**32**	44
Net finance expense	**(2)**	(2)
Profit before tax	**30**	42
Income tax	**–**	(1)
Net profit	**30**	41
Group's share of net profit for the year	**6**	8
Non-current assets	**98**	137
Current assets	**26**	22
Total assets	**124**	159
Non-current liabilities	**20**	26
Current liabilities	**18**	19
Total liabilities	**38**	45
Net assets	**86**	114
Group's share of net assets	**17**	21
Carrying amount of the investment in associates	**17**	21

A list of all associates is disclosed in note 34.

No associates had contingent liabilities or capital commitments as at 31 December 2022 and 2021.

Investment in joint ventures

	2022 US$m	2021 US$m
Takatuf Petrofac Oman LLC	**13**	12
Socar – Petrofac LLC	**–**	1
Petrofac (Ghana) IJV Limited Company	**–**	n/a
	13	13

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Interest in joint ventures

Summarised financial information on the joint ventures, based on their IFRS financial statements, and a reconciliation with the carrying amount of the investment in joint ventures in the consolidated balance sheet, are set out below:

	2022 US$m	2021 US$m
Revenue	**62**	37
Cost of sales	**(61)**	(35)
Gross profit	**1**	2
Selling, general and administration expenses	**(3)**	(4)
Loss before tax and net loss	**(2)**	(2)
Group's share of net loss	**–**	(1)
Non-current assets	**26**	27
Current assets	**22**	19
Total assets	**48**	46
Non-current liabilities	**(3)**	(3)
Current liabilities	**(20)**	(12)
Total liabilities	**(23)**	(15)
Net assets	**25**	31
Group's share of net assets	**13**	13
Carrying amount of the investment in joint ventures	**13**	13

A list of all joint ventures is disclosed in note 34.

No joint ventures had contingent liabilities or capital commitments at 31 December 2022 and 2021. The joint ventures cannot distribute their distributable reserves until they obtain consent from the joint venture partners.

17 Financial assets and financial liabilities

	2022 US$m	2021 US$m
Other financial assets		
Non-current		
Receivable from joint operation partners for leases	**60**	93
Deferred consideration receivable from Ithaca Energy UK Ltd	**–**	5
Advances relating to decommissioning provision	**40**	32
Restricted cash	**51**	79
	151	209
Current		
Receivable from joint operation partners for leases	**34**	34
Deferred consideration receivable from Ithaca Energy UK Ltd	**–**	49
Contingent consideration arising from the disposal of the Group's operations in Mexico	**–**	36
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	**–**	5
Restricted cash	**60**	58
Derivative contracts not designated as hedges (note 33)	**4**	1
Derivative contracts designated as cash flow hedges (note 33)	**5**	–
	103	183
Other financial liabilities		
Non-current		
Lease liabilities (note 29)	**144**	190
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**2**	5
	146	195
Current		
Lease liabilities (note 29)	**66**	61
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**4**	2
Interest payable	**9**	9
Derivative contracts not designated as hedges (note 33)	**12**	5
Derivative contracts designated as cash flow hedges (note 33)	**1**	–
Embedded derivative in respect of the revolving credit facility (note 6)	**22**	4
	114	81

Receivable from joint operation partners for leases

The current and non-current receivable from the Block PM304 joint operation partners represented 64.7% of the lease liability (2021: 70% except for the MOPU vessel, for which it represented 64.7% of the lease liability). These lease liabilities are recognised at 100% in the consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases. The Group's 35.3% share of this liability at 31 December 2022, based on the Group's interest in the joint operation, was US$52m (2021: US$59m). At 31 December 2022, management concluded that no expected credit loss allowance against the receivable from joint operation partners for leases was necessary, since under the joint operating agreement any default by the joint arrangement partners is fully recoverable through a recourse available to the non-defaulting partner through a transfer or an assignment of the defaulting partner's equity interest.

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration receivable from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited in 2018, was measured at amortised cost using a discount rate of 8.4%. During 2022, the Group received US$12m of the deferred consideration from Ithaca Energy UK Ltd and also sold the remaining receivable, with a carrying value of US$43m. Upon sale of the receivable, the Group recognised a loss of US$3m in the Integrated Energy Services operating segment for the year. The fair value of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is estimated at US$nil (2021: US$nil).

	2022 US$m	2021 US$m
Opening balance (non-current and current)	**54**	48
Unwinding of discount (note 7)	**–**	5
Expected credit loss reversal (note 5e)	**1**	1
Loss on sale of receivable (note 6)	**(3)**	–
Receipts	**(52)**	–
As at the end of the reporting period	**–**	54

Advances relating to decommissioning provision

Advances relating to decommissioning provision represents advance payments to a regulator for future decommissioning liabilities, relating to the Group's share of joint operation assets in Malaysia. An advance of US$4m (2021: US$4m) made during the year was presented in the consolidated statement of cash flows as a cash outflow from investing activities. In addition, the Group's share of these advances increased by US$6m during 2022 due to the increase in the Group's share of the joint operation following the exit of one of the joint operation partners. The carrying value was adjusted by US$2m (2021: US$nil) for foreign currency translation losses.

Contingent consideration arising from the disposal of the Group's operations in Mexico

On 30 July 2018, the Group signed an SPA with Perenco to dispose of a 49% non-controlling interest in PNHBV. The disposal was completed on 18 October 2018 and represented a transaction between the equity holders under IFRS 10 'Consolidated Financial Statements'.

On 3 November 2020, the Group completed the sale of its remaining 51% ownership interest in PNHBV to Perenco which included contingent consideration of US$41m recorded at the time of the disposal, which was subsequently remeasured at US$36m as at 31 December 2021. In April 2022, the Group reached full and final settlement in respect of the contingent consideration receivable arising from the 2020 disposal of the Group's operations in Mexico and received US$47m, of which US$46m was allocated to the contingent consideration receivable. As a result, the Group recognised a fair value gain of US$10m (note 6).

A reconciliation of the fair value movement of contingent consideration arising from the disposal of the Group's operations in Mexico is presented below:

	2022 US$m	2021 US$m
Opening balance	**36**	41
Fair value gain/(loss) (note 6)	**10**	(5)
Receipts	**(46)**	–
As at the end of the reporting period	**–**	36

Restricted cash

The Group had outstanding letters of guarantee, including performance, advance payments and bid bonds against which the Group had pledged or restricted cash balances. These guarantees and bonds are all in relation to various customer contracts which generate revenue for the Group and once the related conditions under these guarantees are satisfied, any related cash collateral is released into cash balances. Therefore, as the Group actively uses these advance payment bonds and retention bonds to help manage the working capital of the Group and performance bonds are an essential component of enabling the Group to secure and therefore execute revenue-generating contracts for customers, any movement in the restricted cash balances is recorded within 'operating activities' in the Group's consolidated statement of cash flows.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

Contingent consideration payable arising from acquisition of W&W Energy Services Inc

A reconciliation of the fair value movement of contingent consideration payable arising from acquisition of W&W Energy Services Inc is presented below:

	2022 US$m	2021 US$m
Opening balance	7	4
Fair value loss (note 6)	1	3
Payments	(2)	–
As at the end of the reporting period	6	7

At 31 December 2022, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc in 2019, in accordance with the pay-out terms. This resulted in a negative fair value adjustment of US$1m (2021: US$3m), which was recognised as a separately disclosed item (note 6) in the Asset Solutions operating segment. At the end of the year, the fair value of contingent consideration payable was calculated using the expected value pay-out approach using a discount rate of 16.0% (2021: 15.2%) (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance that will be achieved by W&W, over the remaining evaluation period i.e. 2023. A 10% reduction in financial performance would result in a fair value gain of US$0.6m.

Changes in liabilities arising from financing activities

Year ended 31 December 2022

	1 January 2022 US$m	Cash inflows US$m	Cash outflows US$m	Additions US$m	Others[1] US$m	31 December 2022 US$m
Senior secured notes	580	–	–	–	3	583
Other interest-bearing loans and borrowings	184	62	(36)	–	6	216
Interest-bearing loans and borrowings	764	62	(36)	–	9	799
Lease liabilities	251	–	(67)	19	7	210
At 31 December 2022	1,015	62	(103)	19	16	1,009

Year ended 31 December 2021

	1 January 2021 US$m	Cash inflows US$m	Cash outflows US$m	Additions US$m	Others[1] US$m	31 December 2021 US$m
Senior secured notes	–	580	–	–	–	580
Other interest-bearing loans and borrowings	755	904	(1,470)	–	(5)	184
Interest-bearing loans and borrowings	755	1,484	(1,470)	–	(5)	764
Lease liabilities (restated)[2]	313	–	(99)	35	2	251
At 31 December 2021	1,068	1,484	(1,569)	35	(3)	1,015

(1) Represents the movement in debt acquisition costs for senior notes and other interest-bearing loans and borrowings and represents interest expense and effect of translation gains and losses of foreign operations for lease liabilities.

(2) The prior year numbers are restated to show the gross lease payments as cash outflows; see note 2.9.

Fair value measurement of financial assets and liabilities

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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 31 December:

	Level	Carrying amount 2022 US$m	Carrying amount 2021 US$m	Fair value 2022 US$m	Fair value 2021 US$m
Financial assets					
Measured at amortised cost					
Restricted cash	Level 2	**111**	137	**111**	137
Receivable from joint operation partners for leases	Level 2	**94**	127	**94**	127
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**–**	54	–	54
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Level 2	**–**	5	–	5
Advances relating to provision for decommissioning liability	Level 2	**40**	32	**40**	32
Measured at fair value through profit and loss					
Contingent consideration arising from the disposal of the Group's operations in Mexico	Level 3	**–**	36	–	36
Contingent consideration arising from the disposal of the JSD6000 installation vessel (note 11)	Level 3	**56**	55	**56**	55
Derivative contracts – undesignated	Level 2	**4**	1	**4**	1
Designated as cash flow hedges					
Derivative contracts – designated for hedge accounting	Level 2	**5**	–	**5**	–
Financial liabilities					
Measured at amortised cost					
Senior secured notes (note 26)	Level 1	**583**	580	**334**	595
Term loans (note 26)	Level 2	**99**	99	**99**	99
Revolving credit facility (note 26)	Level 2	**117**	85	**117**	85
Interest payable	Level 2	**9**	9	**9**	9
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**6**	7	**6**	7
Derivative contracts – undesignated	Level 2	**12**	5	**12**	5
Embedded derivative in respect of the revolving credit facility (note 6)	Level 2	**22**	4	**22**	4
Designated as cash flow hedges					
Derivative contracts – designated for hedge accounting	Level 2	**1**	–	**1**	–

When the fair values of financial assets and financial liabilities recognised in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable sources where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments. The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The fair value of long-term interest-bearing loans and borrowings (excluding senior secured notes which are quoted on an active exchange) and receivable from joint operation partners for leases are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.
- The contingent consideration payable of US$6m arising from acquisition of W&W Energy Services Inc, calculated using the expected value pay-out approach using a discount rate of 16.0% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the remaining evaluation period.
- The fair value of the embedded derivative in respect of the Revolving Credit Facility is estimated using option pricing models based on observable market yields on senior notes as the closest comparable debt instruments issued by the Group.
- The fair value of the deferred consideration arising from the disposal of the JSD6000 installation vessel considered an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The key assumption in respect of the valuation is the market value of comparable vessels.

18 Inventories

	2022 US$m	2021 US$m
Project materials	**11**	16
Crude oil	**5**	6
Stores and raw materials	**1**	1
	17	23

Inventories expensed of US$79m (2021: US$46m) were included within cost of sales in the consolidated income statement.

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19 Trade and other receivables

	2022 US$m	2021 US$m
Trade receivables	**499**	405
Advances to vendors and subcontractors	**105**	147
Prepayments and deposits	**29**	21
Receivables from joint operation partners	**18**	47
Related party receivables (note 31)	**1**	1
VAT receivable	**49**	11
Other receivables	**38**	36
	739	668

The increase in trade receivables is mainly due to lower net collections in the Engineering & Construction operating segment compared to the prior year. At 31 December 2022, the Group had an ECL allowance of US$19m (2021: US$23m) against an outstanding trade receivable balance of US$518m (2021: US$428m). The decrease in receivables from joint operation partners is predominantly related to collections from a Block PM304 joint operation partner following their exit from the joint operation.

Trade receivables are non-interest-bearing and credit terms are generally granted to customers on 30-60 days' basis. Trade receivables are reported net of ECL allowance in accordance with IFRS 9 'Financial Instruments'.

The movement in the ECL allowance during 2022 and 2021 against trade receivables was as follows:

	2022 US$m	2021 US$m
At 1 January	**23**	24
Reversal of ECL allowance (note 5e)	**(4)**	(1)
Charge for the year (note 5e)	**4**	–
ECL transfer to contract assets (note 20)	**(3)**	–
Translation difference	**(1)**	–
At 31 December	**19**	23

At 31 December 2022, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31 – 60 days US$m	61 – 90 days US$m	91 – 120 days US$m	121 – 360 days US$m	> 360 days US$m	Total US$m
ECL rate	**0.3%**	**0.1%**	**0.2%**	**2.1%**	**9.2%**	**46.5%**	
Gross trade receivables	**403**	**34**	**11**	**8**	**31**	**31**	**518**
Less: ECL allowance	**(1)**	**–**	**–**	**–**	**(3)**	**(15)**	**(19)**
Net trade receivables at 31 December 2022	**402**	**34**	**11**	**8**	**28**	**16**	**499**

At 31 December 2021, the analysis of trade receivables is as follows:

	Number of days past due						
	< 30 days US$m	31 – 60 days US$m	61 – 90 days US$m	91 – 120 days US$m	121 – 360 days US$m	> 360 days US$m	Total US$m
ECL rate	0.9%	0.7%	0.5%	3.1%	19.5%	74.5%	
Gross trade receivables	297	42	16	26	29	18	428
Less: ECL allowance	(3)	–	–	(1)	(6)	(13)	(23)
Net trade receivables at 31 December 2021	294	42	16	25	23	5	405

Advances provided to vendors and subcontractors represent payments made to certain vendors and subcontractors for contracts in progress, that will be adjusted against the future progress billings by the vendors and subcontractors. The decrease in advances provided to vendors and subcontractors of US$42m was mainly due to utilisation of the advances on two contracts in the Engineering & Construction operating segment.

Receivables from joint operation partners are recoverable amounts from partners on Block PM304 and on consortium contracts in the Engineering & Construction operating segment. An ECL allowance of US$nil (note 5e) was recognised in respect of receivables from joint operations partners (2021: US$1m).

An ECL reversal of US$1m (note 5e) was recorded against other receivables (2021: US$nil).

All trade and other receivables except 'advances provided to vendors and subcontractors' are expected to be settled in cash. Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in sterling, euros and Kuwaiti dinars.

20 Contract assets and contract liabilities

a. Contract assets

	2022 US$m	2021 US$m
Work in progress	**1,153**	1,325
Retention receivables	**133**	211
Accrued income	**43**	44
	1,329	1,580

At 31 December 2022, work in progress included assessed variation orders pending customer approval of US$372m (2021: US$337m). The movement in AVOs recognised in work in progress is mainly due to the resolution of a number of AVOs during the year.

b. Contract liabilities

	2022 US$m	2021 (restated)[1] US$m
Billings in excess of costs and estimated earnings	**72**	59
Advances received from customers	**64**	18
	136	77

(1) The prior year numbers are restated; see note 2.9.

At 31 December 2022, billings in excess of costs and estimated earnings included an offset for assessed variation orders pending customer approval of US$6m (2021: US$1m).

Revenue of US$40m (2021 restated: US$84m) was recognised during the year from amounts included in contract liabilities at the beginning of the year.

c. Expected credit loss allowance on contract assets

The below table provides information on ECL allowance for each contract asset category at the end of reporting periods:

As at 31 December 2022

	Work in progress US$m	**Retention receivables US$m**	**Accrued income US$m**	**Total current contract assets US$m**
ECL rate	**0.4%**	**0.1%**	**0.4%**	**0.3%**
Gross carrying amount	**1,158**	**133**	**43**	**1,334**
Less: ECL allowance	**(5)**	**–**	**–**	**(5)**
Net contract assets at 31 December 2022	**1,153**	**133**	**43**	**1,329**

As at 31 December 2021

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate	0.3%	7.2%	4.3%	n/a
Gross carrying amount	1,330	227	46	1,603
Less: ECL allowance	(5)	(16)	(2)	(23)
Net contract assets at 31 December 2021	1,325	211	44	1,580

The movement in ECL allowance against each contract asset category is as follows:

Year ended 31 December 2022

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
At 1 January 2021	9	35	3	47
Reversal of ECL provision (note 5e)	(4)	(19)	(1)	(24)
At 1 January 2022	**5**	**16**	**2**	**23**
Transfer from ECL trade receivables (note 19)	**–**	**3**	**–**	**3**
Reversal of ECL provision (note 5e)	**–**	**(19)**	**(2)**	**(21)**
At 31 December 2022	**5**	**–**	**–**	**5**

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The reversal of the ECL provision in respect of retention receivables in the year is predominantly attributable to one customer which had been assessed as impaired in prior years. The ECL provision was reversed following the collection of the remaining overdue balances during the year.

d. Contract balances arising from contracts with customers

The Group's contract balances at 31 December are as follows:

	2022 US$m	2021 (restated)[1] US$m
Trade receivables (note 19)	**499**	405
Contract assets	**1,329**	1,580
Contract liabilities	**136**	77

(1) The prior year numbers are restated; see note 2.9.

Trade receivables represent the Group's right to consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

The Group recognised a reversal to ECL allowance on trade receivables and contract assets arising from contracts with customers, included within the expected credit loss allowance line item of the consolidated income statement, amounting to US$21m for the year ended 31 December 2022 (2021: reversal of ECL allowance of US$24m).

Revenue recognised during the year from performance obligations satisfied in previous years, resulting from a change in transaction price, amounted to US$187m (2021: US$168m).

21 Cash and short-term deposits

	2022 US$m	2021 US$m
Cash at bank and in hand	**418**	498
Short-term deposits	**33**	123
ECL allowance	**(1)**	(1)
Cash and short-term deposits	**450**	620

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$450m (2021: US$620m).

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

	2022 US$m	2021 US$m
Cash and short-term deposits	**450**	620

Cash and cash equivalents included amounts totalling US$12m (2021: US$37m) held by the Group undertakings in certain countries whose exchange controls significantly restrict or delay the remittance of these amounts to foreign jurisdictions. Cash and cash equivalents also included US$203m (2021: US$305m) in joint operation bank accounts which are generally available to meet the working capital requirements of those joint operations but which can only be made available to the Group for its general corporate use with the agreement of the joint operation partners.

22 Share capital and related reserves

The share capital of the Company as at 31 December was as follows:

	Number of shares	Share capital US$m	Share premium US$m	Capital redemption reserve US$m
At 1 January 2021	345,912,747	7	4	11
Issue of shares from capital raise	173,906,085	3	247	–
At 31 December 2021	**519,818,832**	**10**	**251**	**11**
Issue of shares to Employee Benefit Trust	**1,338,610**	**–**	**–**	**–**
At 31 December 2022	**521,157,442**	**10**	**251**	**11**

The number of shares refers to US$0.02 ordinary shares, which are issued and fully paid. In total, there are 750,000,000 ordinary shares of US$0.02 authorised.

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

During 2022, the Company issued 1,338,610 shares to the Employee Benefit Trust, with a nominal value of $0.02.

On 26 October 2021, the Company announced a proposed issuance of equity by way of a Firm Placing, Placing and Open Offer (together, the 'capital raise'). On completion of the capital raise on 15 November 2021, the Company issued 173,597,412 ordinary shares, including a Firm Placing of 87,119,226 ordinary shares and a Placing and Open Offer of 86,478,186 ordinary shares. Concurrently with the capital raise, the Directors (other than Mr Asfari) subscribed for 308,673 additional shares. This resulted in a total number of new shares of 173,906,085 that were admitted to the premium listing segment of the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange on 15 November 2021.

All of the above shares were issued at £1.15 per share. All new shares issued by way of the capital raise were each issued, fully paid and rank pari passu in all respects with each other and the ordinary shares of the Company in issue prior to the capital raise, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares adjusted for any associated issuance costs.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

23 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the Trust or EBT) was established to facilitate the Group's discretionary share scheme awards made to the employees of the Group. For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. The Trust issues these shares to the Group employees subject to the satisfaction of any service and performance conditions of each scheme. The Trust is consolidated in the Group's consolidated financial statements in accordance with IFRS 10 'Consolidated Financial Statements'.

These shares have been classified in the consolidated balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares. The movements in total EBT shares are shown below:

	2022		2021	
	Number	**US$m**	Number	US$m
At 1 January	**5,232,105**	**69**	8,703,208	88
Purchase of Company's shares by EBT[1]	**1,338,610**	**–**	1,206,470	2
Issue of Company's shares by EBT	**(2,480,037)**	**(13)**	(4,677,573)	(21)
At 31 December	**4,090,678**	**56**	5,232,105	69

(1) All shares purchased in 2022 were at par value of US$0.02 per share (2021: all shares were purchased via the Open Offer at £1.15 per share).

Shares vested during the year include dividend shares of 91,304 shares (2021: 278,089 shares).

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24 Share-based payment plans

Performance Share Plan (PSP)

Under the PSP, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years, subject to continued employment and the achievement of certain pre-defined and independent market and non-market-based performance conditions. The market performance-based element of PSP awards is 50% (2021: 50%) dependent on the TSR of the Group compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	Executive Directors 2022 awards	**Other participants 2022 awards**[1]	Executive Directors 2021 awards[1]	Other participants 2021 awards	Executive Directors 2020 awards	Other participants 2020 awards	All participants 2019 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	**73.8%**	**73.8%/75.1%**	69.9%/71.2%	71.2%	51.4%	51.4%	36.2%
Share price correlation with comparator group	**30.6%**	**30.6%/30.3%**	31.8%/31.3%	31.3%	13.5%	13.5%	15.8%
Risk-free interest rate	**1.5%**	**1.5%**	0.2%	0.2%	0.2%	0.2%	0.9%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	**31.8p**	**43.4p/65.3p**	46.7p/58.7p	78.5p	145p	168p	264p

(1) There were two separate grants to other participants in 2022 and to Executive Directors in 2021.

The non-market-based condition governing the vesting of the remaining 50% (2021: 50%) of the PSP awards is subject to achieving certain strategic targets, including Engineering & Construction operating segment net margin, new order intake, return on capital employed, and cash conversion over a three-year period. The fair value of the equity-settled award relating to the non-market-based condition is estimated, based on the quoted closing market price of the Company's ordinary shares at the date of grant with an assumed annual vesting rate built into the calculation over the three-year vesting period of the plan and the estimated vesting rate for the achievement of strategic targets.

Deferred Bonus Share Plan (DBSP)

Under the historical DBSP, selected employees were required to defer a proportion of their annual cash bonus into Company shares ('Invested Shares'). Following such an award, the Company generally granted the participant an additional award of shares ('Matching Shares') bearing a specified ratio to the number of Invested Shares, typically a 1:1 ratio. Subject to a participant's continued employment, Invested and Matching Share awards vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary of the grant date.

The DBSP ended in April 2021 and no further awards will be made under this scheme. For historical awards, the costs relating to Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees is based on the quoted closing market price at the date of grant with the charge to the consolidated income statement adjusted to reflect the expected vesting rate of the plan.

Deferred Bonus Plan (DBP)

Under the DBP, selected employees are required to defer a proportion of their annual cash bonus into Company shares (DBP shares). Subject to a participant's continued employment, DBP share awards vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary of the grant date. DBP share awards may be allocated on an ad hoc basis at the discretion of the Remuneration Committee.

At the end of the reporting period, the value of bonuses to be settled by shares cannot be determined until the Remuneration Committee has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the costs relating to DBP Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Shares granted to employees is based on the quoted closing market price at the date of grant with the charge to the consolidated income statement adjusted to reflect the expected vesting rate of the plan.

Share Incentive Plan (SIP)

All UK employees, including UK Executive Directors, are eligible to participate in the SIP. Employees may invest up to £1,800 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Selected employees are allocated grants of shares on an ad hoc basis. The RSP is primarily, but not exclusively, used to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (non-market-based condition)				DBSP		DBP		RSP	
	Executive Directors		Other participants							
	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate	Fair value per share	Assumed vesting rate
2022 awards	**88.9p**	**49.4%**	**103.5p/131.2p**	**49.4%**	**n/a**	**n/a**	**104p**	**95.0%**	**105p**	**95.0%**
2021 awards	101p/116p	45.2%	134p	45.2%	–	–	n/a	n/a	128p	95.0%
2020 awards	250p	31.5%	271p	90.3%	271p	90.3%	n/a	n/a	126p	90.3%
2019 awards	364p	20.0%	455p	20.0%	455p	85.7%	n/a	n/a	394p	85.7%

The following table shows the movements in the number of shares held under the share-based payment plans outstanding but not exercisable:

	PSP		DBSP		DBP		RSP		Total	
	2022 Number	2021 Number	**2022 Number**(1)	2021 Number(1)	**2022 Number**	2021 Number	**2022 Number**	2021 Number	**2022 Number**	2021 Number
Outstanding at 1 January	**7,282,199**	4,640,163	**1,808,624**	4,967,652	**–**	n/a	**2,317,256**	2,479,550	**11,408,079**	12,087,365
Granted during the year	**7,482,644**	5,190,614	**–**	–	**1,163,631**	n/a	**1,618,858**	1,057,472	**10,265,133**	6,248,086
New share issue(2)	**–**	399,569	**–**	101,392	**–**	n/a	**–**	42,027	**–**	542,988
Vested during the year	**(62,647)**	(272,975)	**(1,267,041)**	(2,956,599)	**–**	n/a	**(1,059,045)**	(1,169,910)	**(2,388,733)**	(4,399,484)
Forfeited during the year	**(1,747,116)**	(2,675,172)	**(75,380)**	(303,821)	**(84,355)**	n/a	**(302,068)**	(91,883)	**(2,208,919)**	(3,070,876)
Outstanding at 31 December	**12,955,080**	7,282,199	**466,203**	1,808,624	**1,079,276**	n/a	**2,575,001**	2,317,256	**17,075,560**	11,408,079

(1) Includes Invested and Matching Shares.

(2) Shares issued in the prior year to ensure that participants in the various employee share schemes were not adversely impacted by the capital raise.

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The number of shares still outstanding but not exercisable at 31 December for each award is as follows:

	PSP		DBSP		DBP		RSP		Total	
	2022 Number	2021 Number	**2022 Number[(1)]**	2021 Number[(1)]	**2022 Number**	2021 Number	**2022 Number**	2021 Number	**2022 Number**	2021 Number
2022 awards	**7,114,108**	n/a	**–**	n/a	**1,079,276**	n/a	**1,591,374**	n/a	**9,784,758**	n/a
2021 awards	**4,390,419**	4,686,841	**–**	–	**–**	n/a	**513,927**	966,625	**4,904,346**	5,653,466
2020 awards	**1,450,553**	1,535,864	**466,203**	1,049,737	**–**	n/a	**468,991**	1,061,661	**2,385,747**	3,647,262
2019 awards	**–**	1,059,494	**–**	758,887	**–**	n/a	**709**	288,970	**709**	2,107,351
Total awards	**12,955,080**	7,282,199	**466,203**	1,808,624	**1,079,276**	–	**2,575,001**	2,317,256	**17,075,560**	11,408,079

(1) Includes Invested and Matching Shares.

The average share price of the Company's shares during 2022 was US$1.44, sterling equivalent of £1.16 (2021: US$1.69, sterling equivalent of £1.23).

The number of outstanding shares excludes the dividend shares shown below:

	PSP		DBSP		RSP		Total	
	2022 Number	2021 Number	**2022 Number[(1)]**	2021 Number[(1)]	**2022 Number**	2021 Number	**2022 Number**	2021 Number
Dividend shares outstanding at 31 December[(2)]	**–**	55,103	**–**	50,146	**25,279**	74,007	**25,279**	179,256

(1) Includes Invested and Matching Shares.

(2) There were no outstanding dividend shares in respect of the DBP as at 31 December 2022 (31 December 2021: nil).

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		DBSP		DBP	RSP		Total	
	2022 US$m	2021 US$m	**2022 US$m[(1)]**	2021 US$m[(1)]	**2022 US$m**	**2022 US$m**	2021 US$m	**2022 US$m**	2021 US$m
Share-based payment charge	**3**	2	**–**	2	**1**	**2**	3	**6**	7

(1) Represents the charge on Matching Shares only.

The Group recognised a share-based payment charge of US$6m (2021: US$7m) in the consolidated income statement relating to the employee share-based payment plans (note 5c) which was transferred to the share-based payments reserve.

For further details on the above employee share-based payment plans, refer to pages 140 to 150 of the Directors' remuneration report.

25 Other reserves

	Net unrealised gains/(losses) on derivatives US$m	Foreign currency translation US$m	Share-based payments reserve US$m	Total US$m
At 1 January 2021	(4)	(29)	76	43
Net changes in fair value of derivatives after reclassification of hedging gains/(losses) to consolidated income statement	1	–	–	1
Foreign currency translation	–	3	–	3
Foreign currency translation losses reclassified to the consolidated income statement	–	8	–	8
Issue of Company's shares by Employee Benefit Trust	–	–	(20)	(20)
Credit to equity for share-based payments charge (note 24)	–	–	7	7
At 31 December 2021	(3)	(18)	63	42
Attributable to:				
Petrofac Limited shareholders	(3)	(18)	63	42
Non-controlling interests	–	–	–	–
At 31 December 2021	(3)	(18)	63	42
At 1 January 2022	**(3)**	**(18)**	**63**	**42**
Net changes in fair value of derivatives after reclassification of hedging gains/(losses) to consolidated income statement	**6**	**–**	**–**	**6**
Foreign currency translation	**–**	**14**	**–**	**14**
Issue of Company's shares by Employee Benefit Trust	**–**	**–**	**(12)**	**(12)**
Credit to equity for share-based payments charge (note 24)	**–**	**–**	**6**	**6**
At 31 December 2022	**3**	**(4)**	**57**	**56**
Attributable to:				
Petrofac Limited shareholders	**3**	**(4)**	**57**	**56**
Non-controlling interests	**–**	**–**	**–**	**–**
At 31 December 2022	**3**	**(4)**	**57**	**56**

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. During 2022 a fair value gain of US$6m (2021: loss of US$1m) was recognised within equity. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred from equity to the consolidated income statement. Net losses of US$nil (2021: US$0.7m) relating to foreign currency forward contracts designated as cash flow hedges were recognised in the cost of sales line item in the consolidated income statement. Additionally, a net loss of US$7m relating to commodity swaps was recognised in revenue in the consolidated income statement.

The forward currency margin element and portion of derivative financial instruments relating to forward currency contracts designated as cash flow hedges amounting to US$nil (2021: gain of US$3m) were recognised in the cost of sales line item in the consolidated income statement.

Foreign currency translation reserve

The assets and liabilities of entities which have a non-United States dollar functional currency are translated into the Group's reporting currency, United States dollar, at the exchange rate prevailing at the end of the reporting period. The foreign currency differences arising on the translation are recognised in other reserves in equity.

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Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

26 Interest-bearing loans and borrowings

	2022 US$m	2021 (restated)[1] US$m
Non-current		
Senior secured notes	–	–
Revolving credit facility	–	–
Term loans	–	–
	–	–
Current		
Senior secured notes	583	580
Revolving credit facility	117	85
Term loans	99	99
	799	764
Total interest-bearing loans and borrowings	799	764

(1) The prior year numbers are restated; see note 2.9.

Following the capital raise (note 22) and refinancing completed in 2021, the Group successfully completed an amendment and extension to its existing bank debt facilities in April 2023 with the RCF and term loans now maturing in October 2024.

However, as this amendment and extension (including a waiver of the financial covenant testing date of 31 December 2022) was completed after the year end and therefore the Group did not have an unconditional right to defer repayment of these facilities for greater than 12 months as at the balance sheet date, the borrowings have been disclosed as current in the balance sheet.

The Group therefore now has facilities consisting of US$600m 9.75% senior secured notes (due 2026), a US$162m revolving credit facility (RCF), a US$45m (denominated as AED167m) bilateral loan facility and a US$45m bilateral loan facility. All facilities are for general corporate purposes.

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

Senior secured notes

In November 2021, the Group issued US$600m of 9.75% senior secured notes, due November 2026. These are listed on the International Stock Exchange and were issued at a 0.97% discount to the nominal value, resulting in a total 10.0% yield to maturity for the purchasers of the notes. The notes were issued with a rating of BB- from both S&P and Fitch.

The interest coupon is payable semi-annually in arrears and the Company has a call option to redeem the notes with a first call date of November 2023, with a make-whole premium of 4.88%/2.44% from November 2023 and 2024 respectively.

Revolving credit facility

The Group had a US$180m committed RCF at 31 December 2022 (2021: US$180m) with a syndicate of international banks. On signing the extension, the facility was reduced to US$162m. It will amortise in steps over the remaining tenor and is scheduled to mature in October 2024. At 31 December 2022, US$117m was drawn under this facility, net of $7m of unamortised deferred acquisition costs (2021: US$95m). Interest is payable on the drawn balance of the facility and in addition, utilisation fees are payable depending on the level of utilisation.

The Group has agreed to pay a certain proportion of losses incurred by the original lenders to facilitate any transfer of their commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and remeasured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') as disclosed in note 6.

Term loans

At 31 December 2022, the Group had in place two bilateral term loans with a combined (and drawn) total of US$99m, net of US$1m of unamortised debt acquisition costs (2021: US$99m). On signing the extension, the facilities were reduced to a total of US$90m (US$45m each), with both facilities amortising in steps over the remaining tenor to October 2024.

Bank overdrafts

Bank overdrafts are utilised to meet the Group's working capital requirements. These are repayable on demand.

Compliance with covenants

The financial covenants applicable for the period to 31 December 2022 were:

- Leverage financial covenant: shall not exceed a ratio of 4.5:1 throughout 2022; and
- Interest cover financial covenant: shall not be less than a ratio of 1.75:1 at 31 March 2022, if tested at this date, 1.50:1 at 30 June 2022, 1.0:1 at 30 September 2022, if tested at this date and 1.75:1 thereafter.

The newly amended and extended RCF and term loans (together, the 'Senior Loans') are subject to two financial covenants relating to minimum liquidity and minimum EBITDA. These replace the financial covenants that were previously in place for periods up to and including 31 December 2022.

The financial covenants are as follows:

- Liquidity (excluding cash held in joint operations) shall exceed US$75m at each month end.
- EBITDA shall exceed a balance specified for each testing period, which for 2023 is the period commencing on 1 January 2023 and ending on the relevant calendar quarter end and thereafter is the 12 month period ending on the relevant calendar quarter end.

The Group was compliant with its covenants throughout the period to 30 September 2022 and received a waiver for the financial covenant testing date of 31 December 2022 as part of the facilities amendment and extension noted above. As the waiver for the Senior Loans was received post year end, as part of the amendment and extension in early 2023, the Senior Secured Notes were reclassified as current loans and borrowings in the balance sheet at 31 December 2022.

As explained in note 2.9, the Group restated comparative financial information with respect to the Thai Oil Clean Fuels contract. As a result of this restatement, the Group would have required a waiver in respect of its debt facilities' financial covenants as at 31 December 2021 and accordingly, the 2021 balance sheet has been restated to present these external borrowings as current liabilities.

Both the Senior Loans and the Senior Secured Notes are secured obligations of the Company and rank equally in right of payment with each other.

27 Provisions

Non-current provisions

	Other long-term employment benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
At 1 January 2021	113	41	17	171
Additions during the year	9	8	1	18
Paid during the year	(39)	–	–	(39)
Transfer to current provisions	–	–	(8)	(8)
Unwinding of discount (note 7)	–	1	–	1
At 1 January 2022	**83**	**50**	**10**	**143**
Additions/(reversals) during the year	**3**	**7**	**(1)**	**9**
Paid/utilised during the year	**(13)**	**(4)**	**–**	**(17)**
Unwinding of discount (note 7)	**–**	**1**	**–**	**1**
Exchange difference	**–**	**–**	**(1)**	**(1)**
At 31 December 2022	**73**	**54**	**8**	**135**

Other long-term employment benefits provision

Labour laws in the Middle East require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an independent specialist's valuation model, with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average annual % salary increases	2%	2%
Discount factor	5%	2%

Discount factor used represents the yield on US high-quality corporate bonds, with a duration corresponding to that of the liability at the end of the reporting period. The weighted average duration of the long-term employment benefit obligations is five years (2021: five years).

Provision for decommissioning

The decommissioning provision at the end of the reporting period relates to the Group's obligation for the removal of facilities and restoration of Block PM304 in Malaysia. The liability is discounted at a rate of 3.9% on Block PM304 (2021: 1.3%). The Group had paid US$40m as advances related to the decommissioning liability at 31 December 2022 (31 December 2021: US$32m) as disclosed in note 17.

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The unwinding of the discount is recognised in the finance expense (note 7) line item of the consolidated income statement. The Group estimates that the cash outflows associated with this provision will take place in 2026. In addition, the Group's decommissioning provision increased by US$8m during 2022 due to the increase in the Group's share of the joint operation following the exit of one of the joint operation partners.

Other provisions

The other provisions carrying amount at 31 December 2022 mainly represents technical insurance provisions and IBNR reserves of US$6m (2021: US$9m) in respect of the Group's captive insurance company, Jermyn Insurance Company Limited.

Current provisions

	Onerous contract provisions (restated)[1] US$m	Other provisions US$m	Total (restated)[1] US$m
At 1 January 2021	38	37	75
Amounts provided during the year	110	6	116
Transfer from non-current provisions	–	8	8
Reversed/utilised during the year	(98)	(20)	(118)
At 1 January 2022	**50**	**31**	**81**
Amounts provided during the year	**269**	**1**	**270**
Reversed/utilised during the year	**(239)**	**(18)**	**(257)**
At 31 December 2022	**80**	**14**	**94**

(1) The prior year numbers are restated; see note 2.9.

Onerous contract provisions

Where it is determined that the unavoidable costs under a contract exceed the economic benefits expected to be received under it, the Group recognises a provision to represent the lower of the expected future losses from fulfilling the contract and any compensation or penalties arising from a failure to fulfil it. The amount of US$269m provided during the year related to contracts in the Engineering & Construction operating segment (2021 restated: US$110m).

Other provisions

The other provisions carrying amount as at 31 December 2022 includes provisions for dilapidations costs and litigations against the Group. US$1m provided during the year (2021: US$1m) related to contracts in the Asset Solutions operating segment.

28 Trade and other payables

	2022 US$m	2021 US$m
Trade payables	**458**	561
SFO court penalty (note 6)	**–**	104
Accrued expenses	**229**	267
Retentions held against vendors and sub-contractors	**90**	102
Payable to joint operation partners	**28**	28
Other taxes payable	**21**	18
Other payables	**39**	10
	865	1,090

The decrease in trade and other payables of US$225m is mainly due to the payment of the SFO court penalty during the year and a reduction in trade payables due to higher payments during the year and a reduction in the overall decline in the business leading to lower supplier and sub-contractor costs.

Accrued expenses primarily represent contract cost accruals relating to the Asset Solutions operating segment and non-contract cost accruals for the other operating segments.

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in sterling, euros and Kuwaiti dinars.

29 Leases

Group as lessee

The Group has lease contracts for various items of property, plant and equipment. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases of office buildings with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

a. Right-of-use assets

The Group recognises right-of-use assets, within the property, plant and equipment line item of the consolidated balance sheet, at the commencement date of the lease (i.e. the date at which the underlying asset is available for use). The carrying amounts of right-of-use assets recognised and the movements during the period are disclosed in note 12.

b. Lease liabilities

The table below provides details of lease liabilities recognised within the other financial liabilities line item of the consolidated balance sheet:

	2022 US$m	2021 (restated)[1] US$m
Lease liabilities at 1 January	**251**	313
Additions	**19**	35
Interest	**12**	16
Principal payments	**(54)**	(99)
Interest paid	**(12)**	(14)
Translation difference	**(6)**	–
At 31 December	**210**	251

(1) The prior year numbers are restated in relation to the correction of presentation errors with respect to netting of finance income and finance expense and the related cash flows associated with leases; see note 2.9.

The above lease liabilities included US$146m (2021: US$186m) of lease liabilities relating to Block PM304 in Malaysia that are presented at 100%, which is necessary to reflect the legal position of the Group as the contracting entity for these leases. The leases relating to Block PM304 in Malaysia associated with oil and gas facilities include a renewal option of up to two years and a purchase option at the end of the lease term.

c. Amounts recognised in the consolidated income statement in respect of leases

	2022 US$m	2021 (restated)[1] US$m
Depreciation charge in respect of right-of-use assets (note 12)	**22**	19
Finance expense recognised associated with lease liabilities (note 7)	**12**	16
Lease expense recognised for short-term leases and leases for low-value assets	**7**	4

(1) The prior year numbers are restated in relation to the correction of presentation errors with respect to netting of finance income and finance expense associated with leases; see note 2.9.

d. Future lease payments

Set out below are the future lease payments in respect of leases for property, plant and equipment. These have remaining non-cancellable lease terms of between one and eight years. The discounted and undiscounted future minimum lease commitments as at 31 December 2022 are as follows:

	Present value US$m	Finance expense US$m	Future minimum lease payments US$m
Within one year	**66**	**10**	**76**
After one year but not more than five years	**144**	**12**	**156**
	210	**22**	**232**

In April 2021, a lease in respect of a MOPU vessel that was due to expire on 30 April 2021 relating to Block PM304 in Malaysia was extended to 30 September 2026 (notes 13 and 21 of the Company financial statements).

The discounted and undiscounted future minimum lease commitments as at 31 December 2021 are as follows:

	Present value US$m	Finance expense US$m	Future minimum lease payments US$m
Within one year	61	13	74
After one year but not more than five years	188	19	207
More than five years	2	–	2
	251	32	283

Group as lessor

As the lead joint operator of Block PM304 in Malaysia, the Group has entered into lease agreements in respect of oil and gas facilities, a MOPU vessel, an office building and vehicles on behalf of the joint operation partners. As the Group is the sole obligor in respect of these leases, the lease liability is recognised at 100% in the Group's consolidated balance sheet and a corresponding sub-lease in respect of the right-of-use assets to the other joint operation partners is also recognised. The sub-lease is classified as a finance lease as the lease term is co-terminus with reference to the right-of-use asset.

During 2022, the Group recognised finance income on the lease receivable of US$6m (2021: US$9m). The maturity analysis of the lease receivable, on an undiscounted basis, is presented as follows:

	2022 US$m	2021 US$m
Within one year	**39**	40
One to two years	**29**	34
Two to three years	**21**	30
Three to four years	**15**	22
Four to five years	**–**	16
Total undiscounted lease receivable	**104**	142
Unearned finance income	**(10)**	(15)
Net investment in the lease	**94**	127

The Group estimates the loss allowance on the finance lease receivables at the end of the year at an amount equal to the lifetime ECL. None of the finance lease receivables at the end of the year are past due. Furthermore, under the associated joint operating agreement any default by the joint operation partners is fully recoverable via recourse available to the non-defaulting partners through a transfer or an assignment of the defaulting partner's equity interest. Therefore, management concluded that no ECL in respect of the receivable from joint operation partners was required at 31 December 2022 (2021: US$nil).

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30 Commitments and contingent liabilities

Commitments

In the normal course of business, the Group obtains surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company and its subsidiaries in favour of the issuing banks.

At 31 December 2022, the Group had outstanding letters of credit, letters of guarantee, including performance, advance payments and bid bonds of US$3,009m (2021: US$3,194m) against which the Group had pledged or restricted cash balances of US$111m (2021: US$137m).

At 31 December 2022, the Group had outstanding forward exchange contracts amounting to US$667m (2021: US$849m). These commitments consist of future gross obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 33).

Capital commitments

At 31 December 2022, the Group had capital commitments of US$6m (2021: US$12m) excluding lease commitments (note 29):

	2022 US$m	2021 US$m
Block PM304 in Malaysia	**3**	11
Commitments in respect of development of the Group's digital systems and other information technology equipment	**3**	1
	6	12

Contingent liabilities

A Group subsidiary is subject to challenges by HMRC on the historical application of National Insurance Contributions (NICs) to workers in the UK Continental Shelf. In October 2020, a decision was issued by HMRC against Petrofac Facilities Management Limited (PFML) in respect of the historic application of NICs. PFML has appealed against the decision and no payment has been made to HMRC pending the outcome of the First-tier Tribunal (Tax). Management, taking into consideration advice from independent legal and tax specialists, believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and accordingly, no provision has been recognised. The maximum potential exposure to PFML in relation to NICs and interest, should it be unsuccessful in defending its position, is approximately £130m, equivalent to US$156m.

The Group also has a recourse available, in accordance with the contractual indemnity contained in some customer contracts, where it can possibly recover a portion of NICs and interest from its customers in the event the Group is unsuccessful in its appeal. Customers have been notified about HMRC's decision and a possible indemnity claim.

31 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 34. Petrofac Limited is the ultimate parent entity of the Group.

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

Related party receivables	**2022 US$m**	2021 US$m
Joint ventures	**1**	1
Associates	**–**	–
	1	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.

In May 2017, the Board of Directors approved a donation of up to US$5m over the course of five years to the American University of Beirut (AUB) to establish the Petrofac Fund for Engineers endowment fund.

However, in response to the Covid-19 pandemic and the change in economic circumstances, it has been agreed that the Group will instead pay for up to 100 Group employees to attend an AUB full-time course instead of making future donations for engineering scholarships. As part of its new commitment, the Group will pay the cost of the course to AUB and an educational stipend to all attendees. For the year ended 31 December 2022, US$1m was paid to the AUB (2021: US$0.4m). One of the Group's Non-executive Directors who is also a significant shareholder of the Company is a trustee of the AUB.

Compensation of key management personnel

The following details remuneration of key management personnel of the Group, comprising Executive and Non-executive Directors of the Company and other senior personnel. Further information relating to individual Directors of the Company is provided in the Directors' remuneration report on pages 125 to 151.

	2022 US$m	2021 US$m
Short-term employee benefits	**7**	8
Share-based payments charge	**4**	3
Fees paid to Non-executive Directors	**1**	1
	12	12

32 Accrued contract expenses

Accrued contract expenses represent contract cost accruals associated with the Group's fixed-price engineering, procurement and construction contracts. This is typically in respect of vendors and subcontractors for these contracts, whereas similar costs in respect of the Group's other contracts (such as cost reimbursable contracts, predominantly in Asset Solutions) are classified as accrued expenses within trade and other payables (note 28). The decrease in accrued contract expenses of US$39m was mainly due to lower levels of activity on construction contracts during the year in the Engineering & Construction operating segment and overall lower volumes.

33 Risk management and financial instruments

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise trade and other receivables, other financial assets, cash and short-term deposits, interest-bearing loans and borrowings, trade and other payables, and other financial liabilities.

The Group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, interest-bearing loans and borrowings and foreign currency risk on conducting business in currencies other than the functional currency, as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in accordance with the Group's hedging policies. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee which performs, amongst other roles, reviews on the effectiveness of the risk management and internal control systems to mitigate a range of risks, including financial risks, faced by the Group, which is discussed in detail on page 118.

The other main risks besides interest rate and foreign currency risk arising from the Group's financial instruments are credit risk, liquidity risk and commodity price risk; the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the payments associated with the Group's interest-bearing financial liabilities and assets.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and short-term deposits. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

The Group's variable interest-bearing loans and borrowings are primarily denominated in United States dollars, linked to United States dollar LIBOR (London Interbank Offered Rate). The Group uses derivatives to swap between fixed and floating rates. At 31 December 2022, the proportion of floating rate debt was 27% of the total financial debt outstanding (2021: 24%).

Interest rate sensitivity analysis

The impact on the Group's profit before tax and equity due to a reasonably possible change in interest rates on interest-bearing loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Profit before tax		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2022	**(2)**	**2**	**–**	**–**
31 December 2021	(4)	4	–	–

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the United States dollar reporting currency of the Group.

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

The income statements of subsidiaries with non-USD functional currencies are translated into the Group's reporting currency using a weighted average exchange rate. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to United States dollars:

	2022		2021	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.24**	**1.20**	1.38	1.35
Kuwaiti dinar	**3.27**	**3.27**	3.31	3.31
Euro	**1.06**	**1.07**	1.18	1.14

The following table summarises the impact on the Group's profit before tax and equity (due to a change in the fair value of monetary assets, liabilities and derivative instruments) of changes in United States dollar exchange rates with respect to different currencies:

	Profit before tax		Equity	
	+10% US dollar rate increase US$m[1]	–10% US dollar rate decrease US$m[1]	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2022	**25**	**(25)**	**3**	**(3)**
31 December 2021	15	(15)	14	(14)

(1) Includes impact on pegged currencies.

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For the year ended 31 December 2022

Derivative instruments

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesignated)		Fair value (designated)		Net unrealised gain/(loss)[1]	
	2022 US$m	2021 US$m	**2022 US$m**	2021 US$m	**2022 US$m**	2021 US$m	**2022 US$m**	2021 US$m
Euro (sales)/purchases	**(42)**	(45)	**1**	–	**(1)**	–	**(1)**	(1)
Sterling sales	**275**	(224)	**(9)**	(4)	**–**	–	**–**	–
Kuwaiti dinar sales	**218**	(254)	**–**	–	**(1)**	–	**(1)**	(2)
Arab Emirates dirham purchases	**(50)**	50	**–**	–	**–**	–	**–**	–
Others	**7**	(6)	**–**	–	**1**	–	**1**	–
	408	(479)	**(8)**	(4)	**(1)**	–	**(1)**	(3)

(1) Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect profit before tax between January 2023 and November 2023 (2021: between January 2022 and November 2022).

During 2022, net changes in fair value resulting in a gain of US$2m (2021: loss of US$1m) relating to these derivative instruments were taken to equity and losses of US$nil (2021: US$0.7m) were recycled from equity into cost of sales in the consolidated income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on undesignated derivatives of US$nil (2021: US$3m) were recognised in the consolidated income statement.

Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and net profit generated from sales of crude oil and gas. The Group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

At 31 December 2022, the Group had commodity swap contracts as follows (no crude oil derivatives were entered into by the Group during 2021 to hedge oil production):

	Contract value	**Fair value (designated)**	**Net unrealised gain/(loss)**
	2022 bbl (thousands)	**2022 US$m**	**2022 US$m**
Brent Oil swaps	**693**	**3**	**3**

During 2022, net changes in fair value resulting in a gain of US$3m relating to commodity swap contracts were taken to equity and losses of US$7m were recycled from equity to revenues in the consolidated income statement.

Credit risk

Business Unit Risk Review Committees (BURRC) evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the BURRC above for which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2022, the Group's five largest customers accounted for 48% of outstanding trade receivables and contract assets (2021: 49%). The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are national oil companies and international oil companies.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, current and non-current receivables from joint operation partners for leases and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to ensure sufficient liquidity to support operations and enable future growth. The provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The maturity profiles of the Group's financial liabilities, based on the original contractual maturities, at 31 December are as follows:

Year ended 31 December 2022

	6 months or less US$m	6 – 12 months US$m	1 – 2 years US$m	2 – 5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	**–**	**224**	**–**	**600**	**–**	**824**	**799**
Lease liabilities	**42**	**34**	**57**	**99**	**–**	**232**	**210**
Trade and other payables (excluding other taxes payable and retention payable)	**730**	**24**	**–**	**–**	**–**	**754**	**754**
Derivative instruments	**13**	**–**	**–**	**–**	**–**	**13**	**13**
Embedded derivative in respect of the revolving credit facility	**–**	**22**	**–**	**–**	**–**	**22**	**22**
Interest payments	**43**	**37**	**59**	**117**	**–**	**256**	**n/a**
	828	**341**	**116**	**816**	**–**	**2,101**	**1,798**

Year ended 31 December 2021

	6 months or less US$m	6 – 12 months US$m	1 – 2 years US$m	2 – 5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	–	–	195	600	–	795	764
Lease liabilities	42	32	64	143	2	283	251
Trade and other payables (excluding other taxes payable and retention payable)	890	80	–	–	–	970	970
Derivative instruments	5	–	–	–	–	5	5
Embedded derivative in respect of the revolving credit facility	4	–	–	–	–	4	4
Interest payments	34	34	66	175	–	309	n/a
	975	146	325	918	2	2,366	1,994

The Group uses various committed facilities provided by banks and financial assets including cash at bank and short term deposits, to fund the above-mentioned financial liabilities.

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Capital management

The Group's policy is to maintain a robust capital base to support operations, growth and maximise shareholder value.

The gearing ratio and return on shareholders' equity is as follows:

	2022 US$m	2021 (restated)[1] US$m
Cash and short-term deposits	**450**	620
Interest-bearing loans and borrowings (A)	**(799)**	(764)
Net debt (B)	**(349)**	(144)
Equity attributable to Petrofac Limited shareholders (C)	**129**	413
Reported net loss for the year attributable to Petrofac Limited shareholders (D)	**(310)**	(245)
Gross gearing ratio (A/C)	**619.4%**	185.0%
Net gearing ratio (B/C)	**270.5%**	34.9%
Shareholders' return on investment (D/C)	**(240.3%)**	(59.3%)

1) The prior year numbers are restated; see note 2.9.

34 Subsidiaries, associates and joint arrangements

At 31 December 2022, the Group had investments in the following active subsidiaries, associates and joint arrangements:

Name of entity	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group **2022**	2021
Active subsidiaries			
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac International (Bahrain) W.L.L	Bahrain	**100**	100
SPD Group Limited	British Virgin Islands	**100**	100
Petrofac South East Asia (B) Sdn. Bhd.	Brunei	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	100
Caltec Limited	England	**100**	100
K W Limited	England	**100**	100
Oilennium Limited	England	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Contracting Limited	England	**100**	100
Petrofac Engineering Limited	England	**100**	100
Petrofac Services Limited	England	**100[1]**	100[1]
Petrofac Treasury UK Limited	England	**100[1]**	100[1]
Petrofac UK Holdings Limited	England	**100[1]**	100[1]
PetroHealth Limited	England	**100**	100
Petrofac Deutschland GmbH	Germany	**100**	100
Petrofac International (Ghana) Limited Company	Ghana	**100**	–
Jermyn Insurance Company Limited	Guernsey	**100[1]**	100[1]
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100

Name of entity	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2022	2021
Petrofac Projects and Services Private Limited (formerly Petrofac Information Services Private Limited)	India	**100**	100
Petrofac (JSD6000) Limited	Jersey	**–**	100
Petrofac Energy Developments International Limited	Jersey	**100(1)**	100(1)
Petrofac Facilities Management International Limited	Jersey	**100(1)**	100(1)
Petrofac International Ltd	Jersey	**100(1)**	100(1)
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac Platform Management Services Limited	Jersey	**–**	100
Petrofac Training International Limited	Jersey	**100(1)**	100(1)
Petroleum Facilities E & C Limited	Jersey	**100(1)**	100(1)
Petrofac E&C Sdn. Bhd.	Malaysia	**100**	100
Petrofac Energy Developments Sdn. Bhd.	Malaysia	**100**	100
Petrofac Engineering Services (Malaysia) Sdn. Bhd.	Malaysia	**70**	70
PFMAP Sdn. Bhd.	Malaysia	**100**	100
Petrofac EPS Sdn. Bhd.	Malaysia	**49(2)**	49(2)
Petrofac International (Mozambique), Lda	Mozambique	**100**	100
Petrofac Kazakhstan B.V.	Netherlands	**100**	100
Petrofac Netherlands Coöperatief U.A.	Netherlands	**100**	100
Petrofac Nigeria B.V.	Netherlands	**100**	100
Petrofac Norge B.V.	Netherlands	**100**	100
PTS B.V.	Netherlands	**100**	100

Name of entity	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2022	2021
Petrofac Energy Services Nigeria Limited	Nigeria	**100**	100
Petrofac International (Nigeria) Limited	Nigeria	**100**	100
Petrofac Norge AS	Norway	**100**	100
Petrofac E&C Oman LLC	Oman	**100**	100
PKT Training Services Limited	Russia	**100**	100
Sakhalin Technical Training Centre	Russia	**100**	100
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Atlantic Resourcing Limited	Scotland	**100**	100
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
Scotvalve Services Limited	Scotland	**100**	100
SPD Limited	Scotland	**100**	100
Global Mobility Company Pte Limited	Singapore	**100(1)**	100(1)
Petrofac South East Asia Pte Ltd	Singapore	**100(1)**	100(1)
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Petrofac Emirates LLC (note 13)	United Arab Emirates	**75**	75
Petrofac International (UAE) LLC	United Arab Emirates	**100**	100
Petrofac Inc.	United States	**100**	100
Petrofac Training Inc.	United States	**100**	100
Petrofac US Holdings Inc.	United States	**100**	100
W&W Energy Services Inc.	United States	**100**	100

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For the year ended 31 December 2022

Name of entity	Principal activities	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2022	2021
Associates				
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**20**	20
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**10**	10
Joint arrangements				
Joint ventures				
Socar – Petrofac LLC	Training services	Azerbaijan	**49**	49
Petrofac Kazakhstan Engineering Services LLP	Engineering services	Kazakhstan	**50**	50
Petrofac – ISKER LLP	Engineering and construction services	Kazakhstan	**50**	50
China Petroleum Petrofac Engineering Services Cooperatief U.A.	Consultancy for petroleum and chemical engineering	Netherlands	**49**	49
Petrofac (Ghana) IJV Limited Company	Operations and maintenance for floating production storage and offloading	Ghana	**60**	–
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	49
Joint operations				
Petrofac – CPECC JV	Operations and maintenance contract in Iraq	Iraq	**65[4]**	65[4]
PSS Netherlands B.V.	Engineering, procurement, supply of equipment and materials and related services to execute the Company's scope of work for a contract in Thailand	Netherlands	**36[3]**	36[3]
Bechtel Petrofac JV	Engineering, procurement and construction management of a contract in UAE	Unincorporated	**35[4]**	35[4]
Petrofac/Bonatti JV	EPC for a contract in Algeria	Unincorporated	**70[4]**	70[4]
Petrofac/Daelim JV	EPC for a contract in Oman	Unincorporated	**50[4]**	50[4]
PM304 JV	Oil and gas exploration and production in Malaysia	Unincorporated	**35[4]**	30[4]
Petrofac/Samsung/CB&I CFP	EPC for a contract in Kuwait	Unincorporated	**47[4]**	47[4]
Petrofac/Samsung	EPC for a contract in Oman	Unincorporated	**50[4]**	50[4]
Petrofac/Saipem/Samsung	Onshore works for a contract in Thailand	Unincorporated	**36[4]**	36[4]
Petrofac/Sapura – JV	Engineering and construction in Dalma Gas Development contract	Unincorporated	**79[4]**	79[4]
Petrofac/Saipem JV	Front-end engineering design services for Umm Sharif Gas Project	Unincorporated	**50[4]**	50[4]

Please note that only active entities are shown in the above tables. All dormant entities have been omitted.

1 Directly held by Petrofac Limited.
2 Entities consolidated as subsidiaries on the basis of control.
3 The joint arrangement is classified as a joint operation as, contractually, the joint operation partners have rights to the joint operation's assets and obligation for the joint operation's liabilities.
4 The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers. Unincorporated joint arrangements are recognised in the Group's financial statements as joint operations.

The Group's ownership interest in associates and joint ventures is disclosed in note 16.

Appendices

Appendix A

The Group references Alternative Performance Measures (APMs) when evaluating the Group's reported financial performance, financial position and cash flows that are not defined or specified under International Financial Reporting Standards (IFRS). The Group considers that these APMs, which are not a substitute for or superior to IFRS measures, provide stakeholders with additional useful information by adjusting for certain reported items which impact upon IFRS measures or, by defining new measures, aid the understanding of the Group's financial performance, financial position and cash flows. These are aligned to measures which are used internally to assess business performance in the Group's processes when determining compensation.

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)	Measures net profitability	Group's net profit/(loss)	Petrofac presents business performance APM in the consolidated income statement as a means of measuring underlying business performance. The business performance net profit measure excludes Separately Disclosed Items (SDI) (note 2.8). Business performance diluted earnings per share is calculated only when the reported result is a profit	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance
Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)	Measures net profitability	Basic and diluted earnings per share		
Business performance earnings before interest, tax, depreciation and amortisation (EBITDA) (note A3)	Measures operating profitability	Operating profit/(loss)	Excludes SDI (note 2.8), depreciation, amortisation, business performance impairment and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance earnings before interest and tax (EBIT) (note A4)	Measures operating profitability	Operating profit/(loss)	Excludes SDI (note 2.8) and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance effective tax rate (ETR) (note A5)	Measures tax charge	Income tax expense	Excludes income tax expense or credit related to SDI	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance ETR
Capital expenditure (note A6)	Measures net cash cost of capital investment	Net cash flows generated from/(used in) investing activities	Excludes dividends received from associates and joint ventures, net loans repaid by/(paid to) associates and joint ventures, proceeds from disposal of property, plant and equipment, proceeds from disposal of subsidiaries and interest received	Excludes items not considered relevant to capital investment
Free cash flow (note A7)	Measures net cash generated after operating and investing activities to finance returns to shareholders	Net cash flows generated from/(used in) operating activities plus net cash flows (used in)/generated from investing activities less interest paid and the repayment of finance lease principal plus amounts received from non-controlling interest	n/a	n/a

Appendices continued

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Working capital, balance sheet measure (note A8)	Measures the investment in working capital	No direct equivalent. Calculated as inventories plus trade and other receivables plus contract assets plus restricted cash minus trade and other payables minus contract liabilities minus accrued contract expenses	n/a	n/a
Return on capital employed (ROCE) (note A9)	Measures the efficiency of generating operating profits from capital employed	No direct equivalent. Calculated as business performance earnings before interest, tax and amortisation (EBITA) divided by capital employed (average total assets less average current liabilities after adjusting for certain leases)	n/a	n/a
Cash conversion (note A10)	Measures the conversion of EBITDA into cash	No direct equivalent. Calculated as cash generated from operations divided by business performance EBITDA	n/a	n/a
Net lease liabilities (note A11)	Measures net lease liabilities	No direct equivalent. Calculated as gross lease liabilities less joint operation partners' share of leases in respect of right-of-use assets relating to Block PM304 in Malaysia	n/a	n/a
Net debt/net cash (note A12)	Measures indebtedness	No direct equivalent. Calculated as interest-bearing loans and borrowings less cash and short-term deposits	n/a	n/a
New order intake (note A13)	Provides visibility of future revenue	No direct equivalent. Calculated as net awards and net variation orders	n/a	n/a
Reported earnings before interest, tax, depreciation and amortisation (EBITDA) (note A14)	Measures operating profitability	Operating profit/(loss)	Excludes impairment of non-financial assets, depreciation, amortisation and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of operating performance
Reported earnings before interest and tax (EBIT) (note A15)	Measures operating profitability	Operating profit/(loss)	Includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of operating performance

A1. Business performance net profit attributable to Petrofac Limited shareholders

	2022 US$m	2021 restated[1] US$m
Reported net loss (A)	**(337)**	(242)
Adjustments – separately disclosed items (note 6):		
Impairment of assets (net)	**(5)**	35
Fair value remeasurements	**(10)**	8
Cloud ERP implementation costs	**10**	12
Group reorganisation and redundancy costs	**4**	2
UK Serious Fraud Office proceedings	**–**	106
Other separately disclosed items	**8**	14
Operating loss separately disclosed items (B1)	**7**	177
Finance expense separately disclosed items (B2)	**18**	28
Tax charge on separately disclosed items	**1**	–
Deferred tax impairment	**–**	43
Tax charge on separately disclosed items (B3)	**1**	43
Post-tax separately disclosed items (C = B1 + B2 + B3)	**26**	248
Group's business performance net (loss)/profit (D = (A + C))	**(311)**	6
Loss/(gain) attributable to non-controlling interest	**27**	(3)
Business performance net (loss)/profit attributable to Petrofac Limited shareholders	**(284)**	3

(1) The prior year numbers are restated; see note 2.9.

A2. Business performance basic earnings per share attributable to Petrofac Limited shareholders

	2022 US$m	2021 restated[3] US$m
Reported net loss attributable to Petrofac Limited shareholders (E)	**(310)**	(245)
Add: post-tax separately disclosed items (appendix A, note A1)	**26**	248
Business performance net loss attributable to Petrofac Limited shareholders (E1)	**(284)**	3

	2022 Shares million	2021 Shares million
Weighted average number of ordinary shares for basic earnings per share[1] (F) (note 9)	**515**	362
Weighted average number of ordinary shares for diluted earnings per share[2] (F1) (note 9)	**515**	362

	2022 US cents	2021 restated[3] US cents
Basic (loss)/earnings per share		
Business performance (E1/F x 100)	**(55.2)**	0.8
Reported (E/F x 100)	**(60.2)**	(67.7)
Diluted (loss)/earnings per share		
Business performance (E1/F1 x 100)	**(55.2)**	0.8
Reported (E/F1 x 100)	**(60.2)**	(67.7)

(1) The weighted number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust.

(2) For the year ended 31 December 2022 and 2021, potentially issuable ordinary shares under the share-based payment plans are excluded from both the business performance and reported diluted earnings per ordinary share calculation, as their inclusion would decrease any loss per ordinary share.

(3) The prior year numbers are restated; see note 2.9.

A3. Business performance EBITDA

	2022 US$m	2021 restated[1] US$m
Reported operating loss	**(217)**	(196)
Adjustments:		
Operating loss separately disclosed items (appendix A, note A1)	**7**	177
Share of net profits from associates and joint ventures (note 16)	**5**	7
Depreciation (note 12)	**74**	62
Amortisation, business performance impairment and write-off (notes 5a, 5b and 5g)	**5**	6
Business performance EBITDA	**(126)**	56

(1) The prior year numbers are restated; see note 2.9.

A4. Business performance EBIT

	2022 US$m	2021 restated[1] US$m
Reported operating loss	**(217)**	(196)
Adjustments:		
Operating loss separately disclosed items (appendix A, note A1)	**7**	177
Share of net profits from associates and joint ventures (note 16)	**5**	7
Business performance EBIT	**(205)**	(12)

(1) The prior year numbers are restated; see note 2.9.

Appendices continued

A5. Business performance ETR

	2022 US$m	2021 restated[1] US$m
Reported income tax expense/(credit)	**16**	(13)
Less: Tax charge on separately disclosed items (appendix A, note A1)	**(1)**	(43)
Business performance income tax expense/(credit) (G)	**15**	(56)
Group's business performance net (loss)/profit (appendix A, note A1)	**(311)**	6
Group's business performance loss before tax (H)	**(296)**	(50)
Business performance ETR (G/H x 100)	**(5.1)%**	>100%

(1) The prior year numbers are restated; see note 2.9.

A6. Capital expenditure

	2022 US$m	2021 restated[1] US$m
Net cash flows generated from investing activities	**(98)**	(38)
Adjustments:		
Contingent consideration paid	**(2)**	–
Dividends received from associates and joint ventures	**8**	8
Receipts from Shanghai Zhenhua Heavy Industries Co Ltd in respect of JSD6000 vessel	**5**	–
Receipts from joint operation partners in respect of leases	**28**	59
Net proceeds from disposal of subsidiaries, including receipt against contingent consideration	**98**	9
Proceeds from disposal of property, plant and equipment	**1**	5
Interest received	**6**	10
Capital expenditure	**46**	53

(1) The prior year numbers are restated; see note 2.9.

A7. Free cash flow

	2022 US$m	2021 restated[1] US$m
Net cash flows used in operating activities	**(146)**	(161)
Net cash flows generated from investing activities	**98**	38
Interest paid	**(86)**	(36)
Separately disclosed items – refinancing-related costs	**–**	(23)
Repayment of lease liabilities	**(54)**	(99)
Free cash flow	**(188)**	(281)

(1) The prior year numbers are restated; see note 2.9.

A8. Working capital

	2022 US$m	2021 (restated)[2] US$m
Inventories (note 18)	**17**	23
Trade and other receivables (note 19)	**739**	668
Contract assets (note 20)	**1,329**	1,580
Restricted cash[1] (note 17)	**111**	137
Assets (I)	**2,196**	2,408
Trade and other payables (note 28)	**865**	1,090
Contract liabilities (note 20)	**136**	77
Accrued contract expenses (note 32)	**759**	798
Liabilities (J)	**1,760**	1,965
Working capital (I – J)	**436**	443

(1) In the normal course of business, the Group issues guarantees and bonds (via banks and sureties) in respect of contract performance, advance payments and retentions, and, in certain limited instances, pledges cash collateral ('restricted cash') against such instruments. Therefore, the definition of the Group's APM for working capital has been amended during the year (and the prior year comparative restated) to include 'restricted cash' (a component of 'other financial assets') as this provides useful information to aid the understanding of the Group's working capital position.

(2) The prior year numbers are restated; see note 2.9.

A9. Return on capital employed

	2022 US$m	2021 (restated)[1] US$m
Reported operating loss	**(217)**	(196)
Adjustments:		
Operating loss separately disclosed items (appendix A, note A1)	**7**	177
Share of profits from associates and joint ventures (note 16)	**5**	7
Amortisation (notes 5a and 5b)	**5**	6
Business performance EBITA (K)	**(200)**	(6)
Total assets opening balance	**3,807**	4,159
Less: Joint operation partners share of leases in respect of right-of-use assets relating to Block PM304 in Malaysia	**(127)**	(177)
Adjusted total assets opening balance (L)	**3,680**	3,982
Total assets closing balance	**3,267**	3,807
Less: Joint operation partners share of leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(94)**	(127)
Adjusted total assets closing balance (M)	**3,173**	3,680
Average total assets (N = (L + M)/2)	**3,427**	3,831
Current liabilities opening balance	**3,017**	3,336
Less: Joint operation partners' share of leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(34)**	(97)
Adjusted current liabilities opening balance (O)	**2,983**	3,239
Current liabilities closing balance	**2,846**	3,017
Less: Joint operation partners' share of leases in respect of right-of-use assets relating to Block PM304 in Malaysia (note A11)	**(34)**	(34)
Adjusted current liabilities closing balance (P)	**2,812**	2,983
Average current liabilities (Q = (O + P)/2)	**2,898**	3,111
Capital employed (R = N – Q)	**529**	720
Return on capital employed (K/R x 100)	**(37.8%)**	(0.8)%

(1) The prior year numbers are restated; see note 2.9.

A10. Cash conversion

	2022 US$m	2021 (restated)[1] US$m
Cash generated/(used in) from operations (S)	**21**	(91)
Business performance EBITDA (T)	**(126)**	56
Cash conversion (S/T x 100)	**<0.0%**	<0.0%

(1) The prior year numbers are restated; see note 2.9.

A11. Net lease liabilities

	2022 US$m	2021 US$m
Non-current lease liabilities (note 17)	**144**	190
Current lease liabilities (note 17)	**66**	61
Total lease liabilities	**210**	251
Non-current receivable from joint operation partners for leases relating to Block PM304 in Malaysia (note 17)	**60**	93
Current receivable from joint operation partners for leases relating to Block PM304 in Malaysia (note 17)	**34**	34
Total receivable from joint operation partners for leases relating to Block PM304 in Malaysia	**94**	127
Net non-current lease liabilities	**84**	97
Net current lease liabilities	**32**	27
Net lease liabilities	**116**	124

A12. Net debt

	2022 US$m	2021 US$m
Interest-bearing loans and borrowings (U) (note 26)	**799**	764
Less: Cash and short-term deposits (V) (note 21)	**(450)**	(620)
Net debt (U – V)	**349**	144

Appendices continued

A13. New order intake

	2022 US$m	2021 US$m
Engineering & Construction operating segment		
Net awards	**281**	857
Net variation orders	**269**	350
	550	1,207
Asset Solutions operating segment		
Net awards	**1,312**	993
Net variation orders	**65**	39
	1,377	1,032
New order intake	**1,927**	2,239

A14. Reported EBITDA

	2022 US$m	2021 (restated)[1] US$m
Reported operating loss	**(217)**	(196)
Adjustments:		
Net impairment of non-financial assets classified as separately disclosed items (notes 12 and 15)	**(5)**	35
Share of net profits from associates and joint ventures (note 16)	**5**	7
Depreciation (note 12)	**74**	62
Amortisation, business performance impairment and write-off (notes 5a, 5b and 5g)	**5**	6
Reported EBITDA	**(138)**	(86)

(1) The prior year numbers are restated; see note 2.9.

A15. Reported EBIT

	2022 US$m	2021 (restated)[1] US$m
Reported operating loss	**(217)**	(196)
Adjustments:		
Share of net profits from associates and joint ventures (note 16)	**5**	7
Reported EBIT	**(212)**	(189)

(1) The prior year numbers are restated; see note 2.9.

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Company income statement
For the year ended 31 December 2022

	Notes	2022 US$m	2021 US$m
Income	4	**60**	128
General and administration expenses	5	**(18)**	(16)
Other non-recurring costs	3	**(6)**	(116)
Expected credit loss allowance	6	**(7)**	(13)
Other operating income	7	**49**	8
Other operating expenses	8	**(4)**	(6)
Operating profit/(loss)		**74**	(15)
Finance income	9	**79**	34
Finance expense	9	**(127)**	(65)
Profit/(loss) before tax and net loss		**26**	(46)

Company statement of comprehensive income
For the year ended 31 December 2022

	2022 US$m	2021 US$m
Net profit/(loss)	**26**	(46)
Fair value gain on interest rate derivatives	**1**	–
Total comprehensive profit/(loss)	**27**	(46)

Company balance sheet

At 31 December 2022

	Notes	2022 US$m	2021 (restated)[1] US$m	1 Jan 2021 (restated)[1] US$m
Assets				
Non-current assets				
Investments in subsidiaries	11	**278**	240	240
Investments in associates		**7**	7	7
Property, plant and equipment	12	**16**	16	–
Amounts due from Group entities	13	**1,580**	1,372	1,021
Other financial assets	18	**6**	61	48
		1,887	1,696	1,316
Current assets				
Trade and other receivables		**3**	1	1
Amounts due from Group entities	13	**95**	8	6
Other financial assets	18	**48**	55	7
Cash and short-term deposits	14	**99**	135	87
		245	199	101
Total assets		**2,132**	1,895	1,417
Equity and liabilities				
Equity attributable to Petrofac Limited shareholders				
Share capital	24	**10**	10	7
Share premium	24	**251**	251	4
Capital redemption reserve	24	**11**	11	11
Employee Benefit Trust shares	15	**(56)**	(69)	(88)
Share-based payments reserve	16	**53**	59	72
Unrealised gains on derivatives		**1**	–	–
Retained earnings		**237**	212	259
Total equity		**507**	474	265

	Notes	2022 US$m	2021 (restated)[1] US$m	1 Jan 2021 (restated)[1] US$m
Non-current liabilities				
Interest-bearing loans and borrowings	17	**–**	–	50
Other financial liabilities	18	**17**	17	–
		17	17	50
Current liabilities				
Trade and other payables	19	**11**	116	1
Amounts due to Group entities	13	**753**	507	369
Interest-bearing loans and borrowings	17	**799**	764	705
Other financial liabilities	18	**45**	17	27
		1,608	1,404	1,102
Total liabilities		**1,625**	1,421	1,152
Total equity and liabilities		**2,132**	1,895	1,417

The financial statements on pages 242 to 262 were approved by the Board of Directors on 27 April 2023 and signed on its behalf by Afonso Reis e Sousa – Chief Financial Officer.

(1) The prior year numbers are restated in relation to the correction of investments in subsidiaries and the classification of amounts due from Group entities (see note 2) and the classification of interest-bearing loans and borrowings (see note 17).

Company statement of cash flows

For the year ended 31 December 2022

	Notes	2022 US$m	2021 (restated)[1] US$m
Operating activities			
Profit/(loss) before tax		**26**	(46)
Adjustments to reconcile profit before tax:			
Expected credit loss allowance	6	**7**	13
Net finance expense	9	**48**	31
Gain from waiver of loan from subsidiary	7	**(45)**	–
Other non-recurring expenses	3	**6**	116
Net other non-cash items		**7**	(2)
		49	112
Working capital movements:			
Amounts due from Group entities		**(37)**	(3)
Net derivative contracts – designated and undesignated		**(5)**	(2)
Trade and other receivables		**(1)**	–
Trade and other payables		**(3)**	2
Amounts due to Group entities		**(17)**	(5)
Net working capital movements		**(63)**	(8)
Cash (used in)/generated from operations		**(14)**	104
UK Serious Fraud Office penalty	3	**(104)**	–
Net cash flows (used in)/generated from operating activities		**(118)**	104
Investing activities			
Settlement of deferred consideration receivable from Ithaca Energy UK Ltd	18	**52**	–
Movement in restricted cash	18	**15**	(61)
Loans provided to Group entities	13	**(623)**	(621)
Repayments received on loans provided to Group entities	13	**437**	232
Settlement of derivative contracts in respect of loans provided to Group entities	18	**14**	(2)
Interest received		**75**	29
Net cash flows used in investing activities		**(30)**	(423)
Financing activities			
Issue of shares net of associated transaction costs	24	**–**	250
Loans received from Group entities	13	**614**	419
Repayment of loans received from Group entities	13	**(455)**	(267)
Proceeds from interest-bearing loans and borrowings, net of debt acquisition cost	17	**62**	1,484
Repayment of interest-bearing loans and borrowings	17	**(36)**	(1,470)
Settlement of derivative contracts in respect of loans received from Group entities	18	**28**	(3)
Interest paid	9	**(95)**	(21)
Refinancing-related costs paid	9	**–**	(23)
Purchase of Company's shares by Employee Benefit Trust	15	**–**	(2)
Net cash flows generated from financing activities		**118**	367
Net (decrease)/increase in cash and cash equivalents		**(30)**	48
Net foreign exchange difference		**(6)**	–
Cash and cash equivalents at 1 January		**135**	87
Cash and cash equivalents at 31 December	14	**99**	135

(1) The prior year numbers are restated to reclassify certain cash flows between operating, investing and financing activities; see note 2.

Company statement of changes in equity

For the year ended 31 December 2022

	Issued share capital US$m (note 25)	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares[1] US$m (note 15)	Share-based payments reserve US$m (note 16)	Unrealised gains on derivatives US$m	Retained earnings US$m	Total equity US$m
Balance at 1 January 2021 (as reported)	7	4	11	(88)	72	–	237	243
Impact of restatement (note 2)	–	–	–	–	–	–	22	22
Balance at 1 January 2021 (restated)[2]	7	4	11	(88)	72	–	259	265
Net loss and total comprehensive loss	–	–	–	–	–	–	(46)	(46)
Issue of own shares (note 24)	3	247	–	–	–	–	–	250
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(2)	–	–	–	(2)
Issue of Company's shares by Employee Benefit Trust	–	–	–	21	(20)	–	(1)	–
Credit to equity for share-based payments charge invoiced to Group entities	–	–	–	–	7	–	–	7
Balance at 31 December 2021 and 1 January 2022 (restated)[2]	10	251	11	(69)	59	–	212	474
Net profit	**–**	**–**	**–**	**–**	**–**	**–**	**26**	**26**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**1**	**26**	**27**
Issue of Company's shares by Employee Benefit Trust	**–**	**–**	**–**	**13**	**(12)**	**–**	**(1)**	**–**
Credit to equity for share-based payments	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Balance at 31 December 2022	**10**	**251**	**11**	**(56)**	**53**	**1**	**237**	**507**

(1) Shares held by Petrofac Employee Benefit Trust.

(2) The prior year numbers are restated in relation to the correction of investments in subsidiaries; see note 2.

Notes to the Company financial statements
For the year ended 31 December 2022

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 31 December 2022 comprise the Petrofac Group (the Group). The Group's principal activity is to design, build, manage and maintain infrastructure for the energy industries.

The financial statements of the Company for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2023.

2 Summary of significant accounting policies
Basis of preparation
The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Jersey law.

The separate financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The functional and presentation currency of these separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest million (US$m) unless otherwise stated.

Adoption of new financial reporting standards, amendments and interpretations
Effective new financial reporting amendments
The Company applied for the first time certain amendments, which are effective for annual periods beginning on or after 1 January 2022. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments apply for the first time in 2022, but do not have an impact on the Company financial statements:

- Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Annual Improvements to IFRS Standards 2018–2020

Financial reporting standards, amendments and interpretations issued but not yet effective
Certain new financial reporting standards, amendments and interpretations have been published that are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Company.

Significant accounting policies
Investments in subsidiaries
Investment in subsidiaries are stated at cost less any accumulated impairment.

At each reporting date, the Company reviews the carrying amounts of its investments in subsidiaries to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount an impairment charge is recognised immediately in the Company income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the Company income statement.

Investments in associates
Investments in associates are stated at cost less any accumulated impairment.

At each reporting date, the Company reviews the carrying amounts of its investments in associates to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount an impairment charge is recognised immediately in the Company income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the income statement.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into the following categories:

- Amortised cost
- Fair value through profit or loss

Amortised cost

The Company generally applies this category to trade and other receivables, amounts due from Group entities and deferred consideration receivable. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in the Company's income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the Company's balance sheet at fair value with net changes in fair value recognised in the income statement.

The fair value changes to undesignated derivative contracts are recognised within the other operating income or expenses line item in the Company's income statement.

The fair value of commodity swap contracts is based on the forward Brent curve. All of these derivative contracts have back-to-back contracts with the Group entity on behalf of whom the external derivative contract was entered into by the Company. The Company recognises the derivative asset or liability in relation to a derivative contract with the external counterparty and presents the back-to-back contract with the Group entity within other financial assets or liabilities and amounts due to or from Group entities in the Company balance sheet.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For financial assets measured at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset to be in default when available information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as interest-bearing loans and borrowings, trade and other payables, or derivative financial instruments.

All financial liabilities are recognised initially at fair value and, in the case of interest-bearing loans and borrowings and trade and other payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, derivative financial instruments, and amounts due to Group entities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in the following categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities include derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships.

Gains or losses on liabilities held for trading are recognised in the income statement.

Notes to the Company financial statements continued

For the year ended 31 December 2022

Loans and borrowings

This category generally applies to interest-bearing loans and borrowings (note 18). After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance expense in the Company income statement.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease; that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

At each reporting date, the Company reviews the carrying amounts of its right-of-use assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models. A post-tax discount rate is used in such calculations.

If the recoverable amount of an asset is estimated to be less than its carrying amount an impairment charge is recognised immediately in the Company income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior reporting periods. A reversal of an impairment loss is recognised immediately in the Company income statement.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The Company recognises a lease liability for an obligation to acquire a mobile offshore production unit (MOPU) at the end of the lease term for an amount specified in the lease contract. Accordingly, the Company recognises a lease liability equal to the future payment to acquire the unit, discounted at the incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar environment, at the lease commencement date.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest due and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company's lease liabilities are included within the 'other financial liabilities' line item of the Company balance sheet (note 20).

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its leases of property, plant and equipment that have a lease term of 12 months or less. It also applies the lease of low-value assets recognition exemption to leases of property, plant and equipment that are considered of low value (i.e. below US$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term in cost of sales or selling, general and administration expenses line items of the Company income statement.

If the lease contract is cancellable by both lessee and lessor with no or insignificant penalty then the lease contract is considered to be cancellable and recognised as a short-term lease; refer to note 29 for amounts recognised in the Company income statement associated with the short-term and low-value asset leases.

Employee Benefit Trust (EBT) shares

Where the Company purchases its own equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Company as EBT shares, until the shares are cancelled or reissued. EBT shares are treasury shares administered by the Employee Benefit Trust. The shares are either acquired on market or issued by the Company at the grant date and are held as EBT shares until such time as they vest.

Share-based payments
Certain employees of Group entities receive remuneration in the form of share-based payments, whereby employees render services in exchange for Company shares or rights over shares ('equity-settled transactions'); see note 24 of the Group's consolidated financial statements. The Company has no employees and thus there is no charge in the Company income statement for share-based payments. The charge for share-based payments has been recognised as an increase in amounts due from Group entities in the Company balance sheet.

Taxation
Profits arising in the Company for the 2022 year of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0% (2021: 0%).

Significant accounting judgements and estimates
Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- ECL allowance on amounts due from Group entities: the Company recognises an allowance for ECLs for amounts due from Group entities based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The expected cash flows will include, if any, cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. In estimating contractual cash flows, the Company takes into account the probability of default of counterparties and the loss given default. The carrying value of amounts due from Group entities was US$1,708m (2021: US$1,380m) and an ECL allowance of US$135m was recognised as at 31 December 2022 (2021: US$76m). A 1%-2% increase in the probability of default would result in an additional ECL allowance of US$4m-US$11m.
- The Revolving Credit Facility (RCF) embedded derivative: the terms of the RCF provides for the Company to pay a certain proportion of losses incurred by an original lender to facilitate any transfer of its commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and subsequently remeasured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a fair value loss of US$18m (note 9). The fair value of the embedded derivative is sensitive to market yields of other debt instruments issued by the Company.
- ECL allowance on purchase of originally credit-impaired financial asset: the Company purchased an originally credit-impaired loan receivable of US$432m from Petrofac (Malaysia-PM304) Ltd and recognised the loan receivable at a fair value of US$94m on initial recognition. The loan receivable was considered credit impaired on purchase as the borrower incurred significant losses which restricted its ability for repayment. The fair value of the originally credit-impaired loan was estimated based on future cash flow projections of Petrofac (Malaysia-PM304) Ltd, discounted at the credit impaired effective interest rate determined at the date of purchase. Management has assessed that a discount rate of 4.2% is fair market interest rate for a loan with similar terms.

  Subsequent to initial recognition, changes in the ECL allowance were recognised based on the lifetime expected cash flows discounted at the original effective interest rate resulting in an ECL reversal of US$51m for the year ended 31 December 2022. Future cash flow projections are based on the approved business plan of Petrofac (Malaysia-PM304) Ltd.

  A 10% change in cash flows would result in a US$9m change in the carrying value of the loan receivable at 31 December 2022 and a 1% change in the original effective interest rate would result in a US$2m change in the carrying value of the loan receivable at 31 December 2022.

Other estimates
Recoverable amount of investments in subsidiaries: the Company determines at the end of each reporting period whether there is any evidence of indicators of impairment in the carrying amount of its investments in subsidiaries. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable amount of its assets, which is based on value-in-use. The value-in-use estimation is based on the output of management's business planning process which involves assumptions relating to, but not limited to, future cash flows, discount rate and inflation. The calculations use future cash flow projections based on approved business plans for three years. Cash flows beyond the three year period are extrapolated using an estimated growth rate of 4% (2021: 5%) for investments in subsidiaries whose operations include contracts which are primarily reimbursable engineering and production services contracts, and no growth rate applied for cash flows in other subsidiaries. The Company determined a pre-tax discount rate of 16.0% as at 31 December 2022 (2021: 15.2%) based on the Company's weighted average cost of capital (WACC). The carrying amount of investments in subsidiaries was US$278m (2021: US$240m). The carrying value is not sensitive to changes in key assumptions and management does not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of investment in subsidiaries.

Notes to the Company financial statements continued

For the year ended 31 December 2022

Prior year adjustments

1. During 2022, the Company identified an error within 'investments in subsidiaries' associated with the internal Group disposal of the Company's investment in Petrofac Inc to Petrofac UK Holdings Limited, which took place in late 2020. This transaction was incorrectly omitted from the Company's financial statements in 2020 and 2021.

   On 10 December 2020, 100% of the issued and outstanding share capital of Petrofac Inc was sold to the Company's direct subsidiary, Petrofac UK Holdings Limited, in consideration for 1,000 new ordinary shares of Petrofac UK Holdings Limited. The fair value of the consideration received was determined to be US$22m (based on the fair value of Petrofac Inc and its subsidiaries at the date of disposal). The carrying value of the investment in Petrofac Inc at the date of disposal was US$nil. Management identified that the carrying value was understated at that date, primarily driven by an intercompany receivable recognised amounting to US$20m.

   The Company has assessed the impact of this transaction on the Company's financial statements and recognised a reversal of impairment of investment in Petrofac Inc of US$22m (US$20m in respect of periods prior to 31 December 2019 and US$2m in respect of 2020 before the disposal of the investment in Petrofac Inc). This has been recognised as an increase in investment in subsidiaries with a corresponding increase in opening retained earnings as at 1 January 2021. The Company has restated the comparative figures included in these financial statements in accordance with IAS 8.

   As a result of the disposal of Petrofac Inc to Petrofac UK Holdings Limited, the investment in Petrofac Inc of US$22m was derecognised and an additional investment in Petrofac UK Holdings Limited of the same amount was recognised at the date of sale. As the error related to periods prior to 31 December 2020, this restatement has affected the balance sheet and brought forward retained earnings, as shown below.

2. The Company has reviewed its amounts due from Group entities balances and identified that certain balances relating to loans provided to Group entities are non-current in nature and accordingly, reclassified balances of US$1,372m and US$1,021m into non-current assets as at 31 December 2021 and 31 December 2020, respectively.

The impact of these restatements on the financial statements as at 31 December 2021 is presented below:

	31 Dec 2021 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	31 Dec 2021 Restated US$m
Assets				
Non-current assets				
Investments in subsidiaries	218	22	–	240
Amounts due from Group entities	–	–	1,372	1,372
Total non-current assets	302	22	1,372	1,696
Current assets				
Amounts due from Group entities	1,380	–	(1,372)	8
Total current assets	1,571	–	(1,372)	199
Total assets	1,873	22	–	1,895
Equity and liabilities				
Retained earnings	190	22	–	212
Total equity	452	22	–	474
Total equity and liabilities	1,873	22	–	1,895

In accordance with IAS 1 'Presentation of Financial Statements', a balance sheet as at the beginning of the preceding year (i.e. at 1 January 2021) has also been restated and presented.

The impact of these restatements on the financial statements as at 1 January 2021 is presented below:

	1 Jan 2021 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	1 Jan 2021 Restated US$m
Assets				
Non-current assets				
Investments in subsidiaries	218	22	–	240
Amounts due from Group entities	–	–	1,021	1,021
Total non-current assets	273	22	1,021	1,316
Current assets				
Amounts due from Group entities	1,027	–	(1,021)	6
Total current assets	1,122	–	(1,021)	101
Total assets	1,395	22	–	1,417
Equity and liabilities				
Retained earnings	237	22	–	259
Total equity	243	22	–	265
Total equity and liabilities	1,395	22	–	1,417

Additionally, during the year, the FRC's Corporate Reporting Review Team (CRRT) reviewed the Group's 2021 Annual report and accounts. Following this review, the Company revisited the presentation of certain items in the Company's statement of cash flows and as a result, has reclassified the following balances:

1. Cash flows arising from movements in restricted cash balances of US$61m were presented as working capital adjustments related to 'other financial assets and liabilities' within cash flows generated from operating activities. Upon review, the Company has concluded that in accordance with IAS 7, these balances are 'other investments that are not cash and cash equivalents', and hence they have been reclassified as cash flows generated from investing activities.

2. Cash flows arising from amounts due from Group entities of US$335m and amounts due to Group entities of US$132m were presented as working capital adjustments within cash flows generated from operating activities. Upon review, the Company has concluded that in accordance with IAS 7, these cash flows meet the definition of cash flows generated from investing and financing activities respectively and have therefore been reclassified as follows:

   - US$360m reclassified as investing activities, consisting of cash outflows of US$621m related to loans provided to Group entities less cash inflows of US$232m related to principal repayments received on such loans and US$29m of interest received from such loans.
   - US$151m reclassified as financing activities consisting of cash inflows of US$419m related to loans received from Group entities less cash outflows of US$267m repayment of loans received from Group entities and US$1m payment of interest on such loans.
   - US$6m net other non-cash items consisting of foreign exchange losses of US$2m on loans provided to Group entities and US$4m of loans received from Group entities (and adjusted in the reconciliation of loss before tax to cash generated from operations).

   Cash flows arising from amounts due from Group entities of US$335m includes cash inflows of US$23m with respect to loans received from Group entities.

   Amounts due from and due to Group entities relating to general and administrative expense recharges of US$3m and US$5m respectively continue to be classified as operating activities in the Company's statement of cash flows.

3. Derivative contracts entered into by the Company in order to reduce foreign currency risk exposure on the balance sheet position of the Company in respect of amounts due from and due to Group entities and other payables, denominated in various currencies. These derivatives are not designated as hedging instruments. Movements relating to these balances of US$11m were presented as cash flows generated from operating activities. In accordance with IAS 7, undesignated derivative contracts should be presented in the most appropriate manner for the business. Therefore, upon review, the Company has classified these movements in the same manner as the underlying transaction; derivative contracts placed to reduce foreign currency risk exposure on loans provided to Group entities of US$2m have been reclassified as cash flows generated from investing activities and derivative contracts placed to reduce foreign currency risk exposure on loans and deposits received from Group entities of US$3m have been reclassified as cash flows generated from financing activities. Movements in derivative contracts placed to reduce foreign currency risk exposure on other payables and on contracts entered into on behalf of Group entities of US$2m continue to be classified as operating activities in the Company's statement of cash flows.

Notes to the Company financial statements continued

For the year ended 31 December 2022

The impact of the restatement on the Company's statement of cash flows for 2021 is as follows:

	2021 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	Restatement 3 US$m	2021 Restated US$m
Net other non-cash items	(2)	–	6	(6)	(2)
Working capital adjustments:					
Amounts due from Group entities	(338)	–	335	–	(3)
Other financial assets and liabilities	(74)	61	–	13	–
Net derivative contracts	–	–	–	(2)	(2)
Amounts due to Group entities	127	–	(132)	–	(5)
Net working capital adjustments	(283)	61	203	11	(8)
Cash (used in)/generated from operations	(171)	61	209	5	104
Net cash flows (used in)/generated from operating activities	(171)	61	209	5	104
Movement in restricted cash	–	(61)	–	–	(61)
Loans provided to Group entities	–	–	(621)	–	(621)
Repayments received on loans provided to Group entities	–	–	232	–	232
Settlement of derivative contracts in relation to loans provided to Group entities	–	–	–	(2)	(2)
Interest received	–	–	29	–	29
Net cash flows used in investing activities	–	(61)	(360)	(2)	(423)
Loans received from Group entities	–	–	419	–	419
Repayment of loans received from Group entities	–	–	(267)	–	(267)
Settlement of derivative contracts in relation to loans received from Group entities	–	–	–	(3)	(3)
Interest paid	(20)	–	(1)	–	(21)
Net cash flows generated from financing activities	219	–	151	(3)	367

The FRC has confirmed that the matter is now closed. The Group recognises that the FRC's review was based on the Group's Annual report and accounts for the year ended 31 December 2021 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's role is not to verify the information provided but to consider compliance with reporting requirements. Therefore, given the scope and inherent limitations of their review, it would not be appropriate for the Company or any third party, including but not limited to investors and shareholders, to infer any assurance from the FRC's review that the Company's 2021 Annual report and accounts was correct in all material respects.

3 Other non-recurring costs

	2022 US$m	2021 US$m
Loss on sale of deferred consideration receivable	**3**	–
Legal and professional fees in respect of the SFO proceedings	**3**	10
UK Serious Fraud Office proceedings	**–**	106
Company income statement charge	**6**	116

During 2022, the Company sold the remaining deferred consideration receivable from Ithaca Energy UK Ltd with a carrying value of US$43m, for US$40m, resulting in a loss of US$3m (note 18).

In the prior year, following the UK Serious Fraud Office (SFO) investigation launched in 2017, the Company reached a plea agreement with the SFO in September 2021. As a result, on 4 October 2021 the Southwark Crown Court ordered the Company to pay a penalty and costs of £77m and all amounts were paid during 2022 (US$104m).

Additionally in 2022, the Company incurred a further US$3m of professional services fees related to the SFO proceedings during the year (2021: US$10m).

4 Income

Dividends from subsidiaries and associates are recognised when the right to receive payment is established.

	2022 US$m	2021 US$m
Dividend income from subsidiaries	**50**	120
Dividend income from associates	**10**	8
	60	128

5 General and administration expenses

General and administration expenses relate to costs directly incurred by the Company and also the recharged portion of corporate personnel costs, travelling, entertainment and professional costs incurred by one of its subsidiaries but relating to the Company, of US$17m (2021: US$14m).

Included in general and administration expenses is the auditor's remuneration of US$47,000 (2021: US$41,000) related to the fee for the audit of the Company's financial statements.

6 Expected credit loss allowance

The ECL allowance recognised by the Company during 2022 and 2021 was as follows:

	2022 US$m	2021 US$m
ECL on amounts due from Group entities (note 13)	59	14
ECL reversal on acquired loan receivable from a subsidiary (note 13)	(51)	–
ECL reversal on other financial assets (note 18)	(1)	(1)
	7	13

Note 2 includes further details and methods used in estimating any ECL allowance and the sensitivity of the ECL allowance to a change in the probability of default of its subsidiaries. See note 13 for analysis of ECL allowance on amounts due from Group entities.

7 Other operating income

	2022 US$m	2021 US$m
Gain from waiver of loan from subsidiary	45	–
Net gains on derivative contracts	4	–
Recharges to Group entities	–	6
Net foreign exchange gains	–	2
	49	8

During the year, the Company received a loan of US$45m from one of its subsidiaries. In December 2022, the subsidiary waived the repayment of the loan due from the Company, in full. Accordingly, the Company recognised a gain, resulting from this waiver of the loan.

8 Other operating expenses

	2022 US$m	2021 US$m
Net losses on derivative contracts	4	–
Costs incurred on behalf of Group entities	–	6
	4	6

9 Finance income/(expense)

	2022 US$m	2021 US$m
Finance income		
Unwinding of discount on deferred consideration (note 18)	–	5
On amounts due from Group entities	79	29
Total finance income	79	34
Finance expense		
Borrowings	(85)	(35)
Lease liabilities	–	(1)
On amounts due to Group entities	(24)	(1)
Fair value movement of embedded derivative	(18)	–
Refinancing-related costs	–	(28)
Total finance expense	(127)	(65)

Borrowing costs increased during 2022 following the debt refinancing exercise completed in October 2021, and the issuance of the senior secured notes at this time (note 17), with a full year of borrowing costs incurred compared to only two months in the prior year. Additionally, borrowing costs were adversely impacted by the increase in market interest rates during the year, which impacted the interest costs in respect of the term loans and revolving credit facility.

The terms of the RCF provide for the Company to pay a certain proportion of losses incurred by an original lender to facilitate any transfer of its commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and subsequently re-measured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a fair value loss of US$18m. The fair value of the embedded derivative is sensitive to market yields of other debt instruments issued by the Company.

10 Dividends paid and proposed

No dividends were paid or proposed in the year.

Notes to the Company financial statements continued

For the year ended 31 December 2022

11 Investments in subsidiaries

At 31 December, the Company had investments in the following active subsidiaries:

Name of company	Country of incorporation	Percentage of nominal value of issued shares controlled by the Company 2022	2021
Trading subsidiaries			
Global Mobility Company Pte Limited	Singapore	**100**	100
Jermyn Insurance Company Limited	Guernsey	**100**	100
Petrofac Services Limited	England	**100**	100
Petrofac UK Holdings Limited	England	**100**	100
Petrofac International Limited	Jersey	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100**	100
Petrofac Facilities Management International Limited	Jersey	**100**	100
Petrofac Training International Limited	Jersey	**100**	100
Petroleum Facilities E & C Limited	Jersey	**100**	100
Petrofac South East Asia Pte Limited	Singapore	**99**	99
Petrofac Treasury UK Limited	UK	**100**	100

The movement of investments in subsidiaries during the year was as follows:

	2022 US$m	2021 (restated)[1] US$m
At 1 January	**240**	240
Additional investment	**38**	–
At 31 December	**278**	240

(1) The prior year numbers are restated in respect of the presentation of movements related to investment in subsidiaries (note 2).

The increase in investment in subsidiaries in the year of US$38m was due to the difference between the consideration paid for the acquisition of an intercompany loan from one of the Company's subsidiaries and the fair value of that loan (notes 6 and 13).

12 Property, plant and equipment

The property, plant and equipment of US$16m (2021: US$16m) is related to the West Desaru mobile offshore production unit (MOPU) for which there is a put option on the Company. In 2014, the Company entered into a sale and purchase agreement (SPA) with the buyer to dispose of 80% of the shares in PetroFirst Infrastructure Limited (formerly Petrofac FPSO Holdings Limited) that owned the floating platform assets. In accordance with the terms of the SPA, the buyer has an option to put the West Desaru MOPU to the Company; the put option terminates on 31 December 2030.

The lease in respect of the MOPU expires on 30 September 2026. Management expects that the put option associated with the MOPU (with a value of US$20m) will be payable on the lease expiry (i.e. on 30 September 2026). Accordingly, the Company has recognised a right-of-use asset and a corresponding lease liability associated with the MOPU (note 20). There was no movement in the right-of-use asset during the year.

13 Amounts due from/due to Group entities

Amounts due from/due to Group entities comprise both interest-bearing and non-interest-bearing short-term loans provided to and received from Group entities, listed in note 34 of the Group's consolidated financial statements.

The net increase in current and non-current amounts due from Group entities of US$295m was mainly due to dividends receivable from subsidiaries of the Company of US$50m, declared in December 2022 and additional funding provided to certain Group entities from the Company, offset by an increase in ECL allowance during the year. The increase in amounts due to Group entities of US$246m primarily relates to amounts advanced to the Company from Petrofac Treasury UK Ltd.

At the end of each reporting period, the amounts due from Group entities are reported net of ECL allowance in accordance with IFRS 9 'Financial Instruments'.

As at 31 December 2022, the Company had the following amounts due from and to Group entities:

Amounts due from Group entities	2022 US$m	2021 (restated) US$m
Non-current		
Loans provided to Group entities	**1,697**	1,425
Expected credit loss on amounts due from Group entities	**(117)**	(53)
	1,580	1,372
Current		
Loans provided to Group entities	**49**	9
Trade and other receivables from Group entities	**64**	22
Expected credit loss on amounts due from Group entities	**(18)**	(23)
	95	8
Amounts due to Group entities		
Current		
Borrowings from Group entities	**749**	489
Derivative contract with the Group entity	**3**	–
Trade and other payables to Group entities	**1**	18
	753	507

On 1 January 2022, the Company purchased a loan due from Petrofac (Malaysia-PM304) Ltd from its subsidiary Petrofac International (UAE) LLC, for a consideration of US$132m. The gross amount receivable from Petrofac (Malaysia-PM304) Ltd under this loan at the date of purchase was US$432m. The Company determined that the fair value of the loan at the date of purchase was US$94m. The Company purchased the loan at the book value recognised by its subsidiary at the date purchase. As a result, the Company has recognised the difference between purchase price and fair value of the loan acquired as a capital contribution. The fair value of the loan was determined based on future cash flow projections of Petrofac (Malaysia-PM304) Ltd, discounted at 4.2% which was assessed to be the fair market interest rate for a loan with similar terms. The difference between the consideration paid and the fair value of the loan (of US$38m) was recognised as an investment in subsidiary.

As at 31 December 2022, the carrying value of the loan was US$90m. As a result of improvements in the performance of Petrofac (Malaysia-PM304) Ltd, based on which any ECL is assessed, the Company recorded a reversal of ECL allowance of US$51m (note 6).

The movement in this intercompany receivable during the year ended 31 December 2022 was as follows:

	2022 US$m	2021 US$m
At 1 January	**–**	–
Purchase	**94**	–
Net cash received during the year	**(59)**	–
Interest income	**4**	–
Reversal of ECL allowance (note 6)	**51**	–
At 31 December	**90**	–

The movement in the ECL allowance against amounts due from Group entities was as follows:

	2022 US$m	2021 US$m
At 1 January	**76**	62
ECL allowance (note 6)	**59**	14
At 31 December	**135**	76

The movement in ECL allowance in the income statement in relation to a loan receivable from a subsidiary of US$51m was recognised directly as an adjustment to the carrying amount of the loan.

At 31 December 2022, the analysis of amounts due from Group entities is as follows:

	2022 US$m	2021 US$m
ECL rate	**7.5%**	5.2%
Gross carrying amount	**1,810**	1,456
Less: ECL allowance	**(135)**	(76)
ECL adjusted amounts due from Group entities at 31 December	**1,675**	1,380

14 Cash and short-term deposits

	2022 US$m	2021 US$m
Cash at bank and short-term deposits	**99**	135

The fair value of cash at bank and short-term deposit balances was US$99m (2021: US$135m). This balance represents cash and cash equivalents for the purpose of the Company statement of cash flows.

Notes to the Company financial statements continued

For the year ended 31 December 2022

15 Employee Benefit Trust (EBT) shares

The Petrofac Employee Benefit Trust (the 'Trust') has been established to administer the Group's discretionary share scheme awards made to the employees of the Group. The Trust issues Company shares to the Group's employees on their respective vesting dates subject to satisfying any service and performance conditions of each scheme. The Trust continues to be included in the Company's financial statements.

For the purpose of making awards under the Group's share-based payment plans, shares in the Company are purchased and held by the Trust. These shares have been classified in the balance sheet as EBT shares within equity. Shares vested during the year are satisfied with these shares.

The movements in total EBT shares are shown below:

	2022		2021	
	Number	US$m	Number	US$m
At 1 January	**5,232,105**	**69**	8,703,208	88
Purchase of Company's shares by Employee Benefit Trust[1]	**1,338,610**	**–**	1,206,470	2
Issue of Company's shares by Employee Benefit Trust	**(2,480,037)**	**(13)**	(4,677,573)	(21)
At 31 December	**4,090,678**	**56**	5,232,105	69

(1) All shares purchased via the Open Offer (note 24).

Shares vested during the year include dividend shares of 91,304 shares (2021: 278,089 shares).

16 Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments awarded to employees of the Group entities, and transfers out of this reserve are made upon vesting of the original share awards.

17 Interest-bearing loans and borrowings

The Company had the following interest-bearing loans and borrowings outstanding:

	2022 US$m	2021 (restated)[1] US$m
Non-current		
Senior secured notes	**–**	–
Revolving credit facility	**–**	–
Term loans	**–**	–
	–	–
Current		
Senior secured notes	**583**	580
Revolving credit facility	**117**	85
Term loans	**99**	99
	799	764
Total interest-bearing loans and borrowings	**799**	764

(1) As a result of the prior year adjustments included in note 2.9 of the consolidated financial statements, the Company would have required a waiver in respect of the financial covenants as at 31 December 2021, and therefore has restated the debt facilities as 'current' at that date.

Interest-bearing loans and borrowings as at 31 December 2022 is presented net of debt acquisition costs of US$25m (2021: US$28m).

Following the capital raise (note 22) and refinancing completed in 2021, the Company successfully completed an amendment and extension to its existing bank debt facilities in April 2023, with the RCF and the term loans now maturing in October 2024.

However, as this amendment and extension (including a waiver of the financial covenant testing date of 31 December 2022) was completed after the year end and therefore the Company did not have an unconditional right to defer repayment of these facilities for greater than 12 months as at the balance sheet date, the borrowings have been disclosed as current in the balance sheet.

The Company therefore now has facilities consisting of US$600m of 9.75% senior secured notes (due 2026), a US$162m revolving credit facility (RCF), a US$45m (denominated as AED167m) bilateral facility and a US$45m bilateral loan facility. All facilities are for general corporate purposes.

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

Senior secured notes

In November 2021, the Company issued US$600m of 9.75% senior secured notes, due November 2026. These are listed on the International Stock Exchange and were issued at a 0.97% discount to the nominal value, resulting in a total 10.0% yield to maturity for the purchasers of the notes. The notes were issued with a rating of BB- from both S&P and Fitch.

The interest coupon is payable semi-annually in arrears and the Company has a call option to redeem the notes with a first call date of November 2023, with a make-whole premium of 4.88%/2.44% from November 2023 and 2024 respectively.

Revolving credit facility

The Company had a US$180m committed RCF at 31 December 2022 (2021: US$180m) with a syndicate of international banks. On signing the extension, the facility was reduced to US$162m. It will amortise in steps over the remaining tenor and is scheduled to mature in October 2024. At 31 December 2022, US$117m was drawn under this facility, net of $7m of unamortised deferred acquisition costs (2021: US$95m). Interest is payable on the drawn balance of the facility, and in addition, utilisation fees are payable depending on the level of utilisation.

The Company has agreed to pay a certain proportion of losses incurred by the original lenders to facilitate any transfer of their commitment under the facility to another lender. This has been classified as an embedded derivative on initial recognition and remeasured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2022 was estimated at US$22m (2021: US$4m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement').

Term loans

At 31 December 2022, the Company had in place two bilateral term loans with a combined (and drawn) total of US$99m, net of US$1m of unamortised debt acquisition costs (2021: US$99m). On signing the extension, the facilities were reduced to a total of US$90m (US$45m each), with both facilities amortising in steps over the remaining tenor to October 2024.

Compliance with covenants

The financial covenants applicable for the period to 31 December 2022 were:

- Leverage financial covenant: shall not exceed a ratio of 4.5:1 throughout 2022; and
- Interest cover financial covenant: shall not be less than a ratio of 1.75:1 at 31 March 2022, if tested at this date, 1.50:1 at 30 June 2022, 1.0:1 at 30 September 2022, if tested at this date and 1.75:1 thereafter.

The newly amended and extended RCF and term loans (together, the 'Senior Loans') are subject to two financial covenants relating to minimum liquidity and minimum EBITDA. These replace the financial covenants that were previously in place for periods up to and including 31 December 2022.

The financial covenants are as follows:

- Liquidity (excluding cash held in joint operations) shall exceed US$75m at each month end.
- EBITDA shall exceed a balance specified for each testing period, which for 2023 is the period commencing on 1 January 2023 and ending on the relevant calendar quarter end and thereafter is the 12 month period ending on the relevant calendar quarter end.

The Company was compliant with its covenants throughout the period to 30 September 2022 and received a waiver for the financial covenant testing date of 31 December 2022 as part of the facilities amendment and extension noted above. As this waiver was received post year end, as part of the amendment and extension in early 2023, the Senior Secured Notes were reclassified as current loans and borrowings in the balance sheet at 31 December 2022.

Both the Senior Loans and the Senior Secured Notes are secured obligations of the Company and will rank equally in right of payment with each other.

18 Financial assets and financial liabilities

	2022 US$m	2021 US$m
Other financial assets		
Non-current		
Deferred consideration receivable from Ithaca Energy UK Ltd	**–**	5
Restricted cash	**6**	56
	6	61
Current		
Deferred consideration receivable from Ithaca Energy UK Ltd	**–**	49
Restricted cash	**40**	5
Derivative contracts on behalf of Group entities	**3**	–
Derivative contracts designated as cash flow hedges	**1**	–
Derivative contracts not designated as hedges	**4**	1
	48	55
Other financial liabilities		
Non-current		
Lease liability	**17**	17
Current		
Derivative contracts on behalf of Group entities	**1**	–
Derivative contracts not designated as hedges	**12**	5
Embedded derivative in respect of the revolving credit facility	**22**	4
Interest payable	**10**	8
	45	17

Notes to the Company financial statements continued

For the year ended 31 December 2022

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration receivable from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, was measured at amortised cost using a discount rate of 8.4%. During 2022, the Company received US$12m of the deferred consideration from Ithaca Energy UK Ltd and also sold the remaining receivable with a carrying value of US$43m, for US$40m. Upon sale of the receivable, the Company recognised a loss of US$3m (note 3).

	2022 US$m	2021 US$m
Opening balance (non-current and current)	**54**	48
Unwinding of discount (note 9)	**–**	5
Expected credit loss reversal (note 6)	**1**	1
Loss on sale of receivable (note 3)	**(3)**	–
Receipts	**(52)**	–
As at the end of the reporting period	**–**	54

Restricted cash

The Company had outstanding letters of guarantee, including performance, advance payments and bid bonds on behalf of Group entities against which the Company had pledged or restricted cash balances. These guarantees and bonds are all in relation to various customer contracts which generate revenue for the Group and once the related conditions under these guarantees are satisfied, any related cash collateral is released into cash balances.

Derivative contracts on behalf of Group entities

Included in other financial assets is US$3m (2021: US$nil) in respect of derivative contracts on behalf of Group entities which relates to commodity swap contracts entered into by the Company on behalf of Group entities. The Company has entered into a back-to-back agreement with the Group entity and the liability on this contract of US$3m at 31 December 2022 (2021: US$nil) was recognised as amounts due to Group entities.

Refer to note 9 for details on the embedded derivative in respect of the Revolving Credit Facility.

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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 31 December:

		Carrying amount		Fair value	
	Level	**2022 US$m**	2021 US$m	**2022 US$m**	2021 US$m
Financial assets					
Measured at amortised cost					
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**–**	54	**–**	54
Measured at fair value through profit and loss					
Derivative contracts on behalf of Group entities	Level 2	**3**	–	**3**	–
Derivative contracts designated as cash flow hedges	Level 2	**1**	–	**1**	–
Derivative contracts undesignated	Level 2	**4**	1	**4**	1
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Senior secured notes	Level 1	**583**	580	**334**	595
Term loans	Level 2	**99**	99	**99**	99
Revolving credit facility	Level 2	**117**	85	**117**	85
Interest payable	Level 2	**10**	8	**10**	8
Measured at fair value through profit and loss					
Derivative contracts on behalf of Group entities	Level 2	**1**	–	**1**	–
Derivative contracts undesignated	Level 2	**12**	5	**12**	5
Embedded derivative in respect of the revolving credit facility	Level 2	**22**	4	**22**	4

Management assessed the carrying amounts of trade and other receivables, amounts due from/due to Group entities and trade and other payables to approximate their fair values and are therefore excluded from the above table.

When the fair values of financial assets and financial liabilities recognised in the Company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and commodity contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity.
- The fair value of the embedded derivative in respect of the RCF is estimated using option pricing models based on observable market yields on senior notes as the closest comparable debt instruments issued by the Company.
- The fair values of long-term interest-bearing loans and borrowings (excluding senior secured notes which are quoted on an active exchange) are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

Changes in liabilities arising from financing activities

	1 January US$m	Cash inflows US$m	Cash outflows US$m	Other[1] US$m	31 December US$m
Interest-bearing loans and borrowings	**764**	**62**	**(36)**	**9**	**799**
Amounts due to Group entities	**489**	**614**	**(455)**	**101**	**749**
Lease liabilities	**17**	**–**	**–**	**–**	**17**
At 31 December 2022	**1,270**	**676**	**(491)**	**110**	**1,565**
Interest-bearing loans and borrowings	755	1,484	(1,470)	(5)	764
Amounts due to Group entities[2]	356	419	(267)	(19)	489
Lease liabilities	–	–	–	17	17
At 31 December 2021	1,111	1,903	(1,737)	(7)	1,270

(1) Represents the movement in debt acquisition costs for senior notes and other interest-bearing loans and borrowings. Others of US$101m (2021: US$(19)m) in respect of amounts due to Group entities represents non-cash movements of US$132m in respect of loans payable recognised on the purchase of a loan from a subsidiary (note 13), US$2m unpaid interest and US$22m net foreign exchange losses less US$45m waiver of intercompany loan (note 7) and US$10m non-cash movement in amounts due to Group entities in relation to ECL charge recognised in respect of guarantees provided to Group entities (2021: US$4m net foreign exchange losses less US$23m non-cash movement in amounts due to Group entities in relation to ECL charges recognised on guarantees provided to Group entities).

(2) The prior year numbers are restated in respect of the presentation of movements related to amounts due to Group entities (note 2).

19 Trade and other payables

	2022 US$m	2021 US$m
Other payables and accruals	**11**	116
	11	116

Other payables as at 31 December 2022 consist primarily of accruals for corporate overheads of US$7m (2021: UK Serious Fraud Office penalty of US$104m).

20 Leases

A right-of-use asset and a corresponding lease liability were recognised in the prior year in respect of the West Desaru mobile offshore production unit (MOPU) for which a put option on the Company exists (note 12).

a. Right-of-use asset

The Company recognises right-of-use assets, within the property, plant and equipment line item of the balance sheet, at the commencement date of the lease (the date at which the underlying asset is available for use). The carrying amount of the right-of-use asset recognised and the movement during the year is disclosed in note 12.

b. Lease liability

The table below provides details of a lease liability recognised within the other financial liabilities line item of the balance sheet:

	2022 US$m	2021 US$m
Lease liability at 1 January	**17**	–
Additions	**–**	16
Interest	**–**	1
At 31 December	**17**	17

c. Amounts recognised in the income statement in respect of lease

	2022 US$m	2021 US$m
Finance expense recognised associated with lease liability	**–**	1

Notes to the Company financial statements continued

For the year ended 31 December 2022

d. Future lease payments

The outstanding lease liability of US$20m is due to be repaid in full on 30 September 2026. The discounted minimum lease payments are US$17m as at 31 December 2022 (2021: US$17m).

21 Commitments and contingent liabilities

Commitments

In the normal course of business, Group entities will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees on behalf of Group entities by the Company in favour of the issuing banks.

At 31 December 2022, the Company had outstanding letters of guarantee, including performance and advance payments of US$651m (2021: US$673m) on behalf of Group entities against which the Company had pledged or had restricted cash balances of US$46m (2021: US$61m).

At 31 December 2022, the Company had outstanding forward exchange contracts amounting to US$667m (2021: US$849m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates. The Company also had commodity swap contracts in respect of 693,000 barrels of crude oil as at 31 December 2022 (2021: nil). All of these contracts have back-to-back contracts with the Group entity on behalf of whom the external derivative contract was entered into by the Company.

22 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities are amounts due from and due to Group entities, forward currency contracts, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings. The Company has a policy not to enter speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk; the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets.

The Company's variable interest-bearing loans and borrowings are primarily denominated in United States dollars and the associated interest rate is linked to United States dollar LIBOR (London Interbank Offered Rate). The Company uses derivatives to fix the underlying floating interest rates. At 31 December 2022, the proportion of floating rate debt was 27% of the total financial debt outstanding (2021: 24%).

Interest rate sensitivity analysis

The impact on the Company's before tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below.

The analysis assumes that all other variables remain constant.

	Before tax profit		Equity	
	100 basis point increase US$m	100 basis point decrease US$m	100 basis point increase US$m	100 basis point decrease US$m
31 December 2022	**(9)**	**9**	**–**	**–**
31 December 2021	(11)	11	–	–

Foreign currency risk

The Company is exposed to foreign currency risk on translation of assets and liabilities that are in a currency other than the United States dollar reporting currency of the Company.

The Company uses forward currency contracts to manage the foreign currency exposure on all amounts due from and due to Group entities.

The Company is only exposed to foreign currency exposure relating to cash and bank balances, an amount of £1m (2021: £12m) payable to a subsidiary and the term loan for AED185m (2021: AED185m) at the end of the reporting period.

The following table summarises the impact on the Company's profit before tax and equity (due to change in the fair value of monetary assets and liabilities) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Profit before tax		Equity	
	+10% US dollar rate increase US$m(1)	–10% US dollar rate decrease US$m(1)	+10% US dollar rate increase US$m	–10% US dollar rate decrease US$m
31 December 2022	**(72)**	**72**	**–**	**–**
31 December 2021	(68)	68	–	–

(1) Includes impact on pegged currencies mainly relating to interest-bearing loans and borrowings denominated in Arab Emirates dirham.

At 31 December 2022, the Company had foreign exchange forward contracts as follows:

	Contract value		Fair value	
	2022 US$m	2021 US$m	**2022 US$m**	2021 US$m
Euro (sales)/purchases	**(42)**	(45)	**–**	–
Sterling sales	**275**	(224)	**(9)**	(4)
Kuwaiti dinar sales	**218**	(254)	**–**	–
Arab Emirates dirham purchases	**(50)**	50	**–**	–
Others	**7**	(6)	**–**	–
	n/a	n/a	**(9)**	(4)

The above foreign exchange contracts mature and will affect income between January 2023 and November 2023 (2021: between January 2022 and November 2023).

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from Group entities.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of revolving credit facility and term loans, to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities, based on their original contractual maturities at 31 December 2022 are shown opposite:

Year ended 31 December 2022

	6 months or less US$m	**6 – 12 months US$m**	**1 – 2 years US$m**	**2 – 5 years US$m**	**More than 5 years US$m**	**Contractual undiscounted cash flows US$m**	**Carrying amount US$m**
Financial liabilities							
Interest-bearing loans and borrowings	**–**	**224**	**–**	**600**	**–**	**824**	**799**
Trade and other payables	**11**	**–**	**–**	**–**	**–**	**11**	**11**
Amounts due to Group entities	**753**	**–**	**–**	**–**	**–**	**753**	**753**
Derivative instruments	**13**	**–**	**–**	**–**	**–**	**13**	**13**
Embedded derivative in respect of the revolving credit facility	**–**	**22**	**–**	**–**	**–**	**22**	**22**
Lease liability	**–**	**–**	**–**	**20**	**–**	**20**	**17**
Interest payments	**43**	**37**	**59**	**117**	**–**	**256**	**n/a**
	820	**283**	**59**	**737**	**–**	**1,899**	**1,615**

Year ended 31 December 2021

	6 months or less US$m	6 – 12 months US$m	1 – 2 years US$m	2 – 5 years US$m	More than 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities							
Interest-bearing loans and borrowings	–	–	195	600	–	795	764
Trade and other payables	116	–	–	–	–	116	116
Amounts due to Group entities	507	–	–	–	–	507	507
Derivative instruments	5	–	–	–	–	5	5
Embedded derivative in respect of the revolving credit facility	4	–	–	–	–	4	4
Lease liability	–	–	–	20	–	20	17
Interest payments	34	34	66	175	–	309	n/a
	666	34	261	795	–	1,756	1,413

The Company uses various funded facilities provided by banks and its own financial assets to fund the above-mentioned financial liabilities.

Notes to the Company financial statements continued

For the year ended 31 December 2022

Commodity price risk – oil prices

The Company has placed commodity derivative contracts on behalf of Group entities and entered into back-to-back agreements with the respective Group entities. Therefore, the Company income statement is not exposed to the impact of changes in oil and gas prices. Refer to note 33 in the Group's consolidated financial statements.

Capital management

The Company's policy is to maintain a robust capital base using a combination of external and internal financing to support its activities as the holding company for the Group.

The Company's gearing ratio is as follows:

	2022 US$m	2021 (restated) US$m
Cash and short-term deposits (note 14)	**99**	135
Interest-bearing loans and borrowings (A) (note 17)	**(799)**	(764)
Net debt (B)	**(700)**	(629)
Total equity (C)	**507**	474
Gross gearing ratio (A/C)	**158%**	161%
Net gearing ratio (B/C)	**138%**	133%

23 Related party transactions

The Company's related parties consist of the Group entities, and the transactions and amounts due to/due from them are either of funding or investing nature. The Company recharged share-based payment costs of US$6m (2021: US$7m) to the Group entities in relation to the Group's share-based payment plans for the Group's employees. In addition, the Company also obtained letters of guarantees on behalf of the Group entities and the cost of US$4m (2021: US$6m) incurred on such guarantees was recharged by the Company to the Group entities. The Company also received dividends from its subsidiaries and associates of US$60m (2021: US$128m), see note 4.

The remuneration paid by the Company to its Non-executive Directors was US$1m (2021: US$1m). The Company was also recharged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$17m (2021: US$14m), of which key management personnel cost was US$2m (2021: US$2m). For further details of the full amount of key management personnel costs, refer to note 31 of the Group's consolidated financial statements.

24 Share capital and related reserves

The share capital of the Company as at 31 December was as follows:

	Number of shares	Share capital US$m	Share premium US$m	Capital redemption reserve US$m
At 1 January 2021	345,912,747	7	4	11
Issue of shares from capital raise	173,906,085	3	247	–
At 31 December 2021	519,818,832	10	251	11
Issue of shares to Employee Benefit Trust	1,338,610	–	–	–
At 31 December 2022	**521,157,442**	**10**	**251**	**11**

Number of shares refers to US$0.02 ordinary shares, which are issued and fully paid. In total, there are 750,000,000 ordinary shares of US$0.02 that are authorised.

All the allotted and issued shares, including those held by the Employee Benefit Trust, were fully paid. The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

In the prior year, the Company issued 173,597,412 ordinary shares, including a Firm Placing of 87,119,226 ordinary shares and a Placing and Open Offer of 86,478,186 ordinary shares. All of the above shares were issued at £1.15 per share, generating gross proceeds of approximately £200m (US$268m) before issue and associated costs of US$18m. Concurrently with the capital raise, the Directors (other than Mr Asfari) subscribed for 308,673 additional shares at the issue price of £1.15. This resulted in a total number of new shares of 173,906,085 that were admitted to the premium listing segment of the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange on 15 November 2021.

All shares issued in 2021 by way of the capital raise were each issued, fully paid and rank pari passu in all respects with each other and the ordinary shares of the Company in issue prior to the capital raise, including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

During 2022, the Company issued 1,338,610 shares to the Employee Benefit Trust, with a nominal value of $0.02.

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares adjusted for associated issuance costs.

Capital redemption reserve: The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

Glossary

A

ADNOC The Abu Dhabi National Oil Company is the state-owned oil company of the United Arab Emirates

APM Alternative performance measure

Appraisal well A well drilled into a discovered accumulation to provide data necessary to define a Field Development Plan for the accumulation

AS Asset Solutions

B

Backlog consists of the estimated revenue attributable to the uncompleted portion of fixed-price engineering, procurement and construction contracts and variation orders plus, with regard to engineering, operations, maintenance and IES contracts, 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 earnings. Backlog is not an audited measure.

BAME Black, Asian and minority ethnic

Barrel A unit of volume measurement used for petroleum

bbl One barrel of oil

BEIS The Department for Business, Energy and Industrial Strategy, which is a department of the United Kingdom Government

Bio-CCS Bioenergy Carbon Capture and Storage

Block A subdivision of an underground petroleum reservoir, by a resource owner, for the purposes of licensing and administering exploration, appraisal and production of resources, by oil and gas companies

boe Barrel of oil equivalent

bpd Barrel per day

Brownfield development Further investment in a mature field, to enhance its production capacity, thereby increasing recovery and extending field life

C

CAGR Compound annual growth rate

Capex Capital expenditure

Carbon capture The process of capturing waste carbon dioxide

CCUS Carbon capture, usage and storage

CDP Carbon Disclosure Project

CGU Cash-generating unit

CIS Commonwealth of Independent States

CO_2 Carbon dioxide

Condensate The liquid produced by the condensation of steam or any other gas

COP27 The 2022 United Nations Climate Change Conference. This was the 27th UN Climate Change conference held in Egypt from 6-18 November 2022.

Cost plus KPIs A reimbursable contract which includes an incentive income linked to the successful delivery of key performance indicators.

D

DBP Deferred Bonus Plan

Decommissioning The re-use, recycling and disposal of redundant oil and gas facilities

Downstream The refining of petroleum crude oil and the processing and purifying of raw natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas

Duty Holder A contracting model under which Petrofac provides a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and to extend the life of the facilities

E

EBIT Earnings before interest, taxation and amortisation

EBITDA Calculated as profit before tax and net finance costs and income, but after our share of profits/losses from associates and joint ventures (as per the consolidated income statement), adjusted to add back charges for depreciation and amortisation (as per note 4 to the consolidated financial statements)

EBT Employee Benefit Trust

ECL Expected credit loss

E&C Engineering & Construction

EPC Engineering, Procurement and Construction

EPCC Engineering, Procurement, Construction and Commissioning

EPCI Engineering, Procurement, Construction and Installation

EPCIC Engineering, Procurement, Construction, Installation and Commissioning

EPS Earnings per share

ESG Environmental, Social and Governance

ETR Effective Tax Rate

F

FCA Financial Conduct Authority

FCPA Foreign Corrupt Practices Act

FEED Front-End Engineering and Design

Fixed-price turnkey project An agreement in which a contractor designs, constructs, and manages a project until it is ready to be handed over to the customer and operation can begin immediately

FPF Floating Production Facility

FPSO Floating Production, Storage and Offloading vessel

FRC Financial Reporting Council

G

Gas field A field containing natural gas but no oil

GHG Greenhouse gas

Greenfield development Development of a new field

Glossary continued

H

HSE Health & Safety Executive (UK)

HVAC High-voltage alternating current

HVDC High-voltage direct current

Hydrocarbon A compound containing only the elements hydrogen and carbon – can be solid, liquid or gas

I

IAS International Accounting Standards

IASB International Accounting Standards Board

ICV In-country value

IEA International Energy Agency

IES Integrated Energy Services. The IES division harnesses Petrofac's existing service capabilities and delivers them on an integrated basis to resource holders with the aim of supporting the development of their oil and gas resources.

IFRS International Financial Reporting Standards

IFRIC IFRS Interpretations Committee

IOC International oil company

J

Just transition Moving to a more sustainable economy in a way that is fair to everyone

K

KPI Key performance indicator

L

LNG Liquefied natural gas

LPG Liquefied petroleum gas

LTI Lost time injury

M

mboe Million barrels of oil equivalents

MENA Middle East and North Africa region

MMscfd Million standard cubic feet per day

MOPU Mobile offshore production unit

MOU Memorandum of understanding

N

Net Zero The balance between the amount of greenhouse gas emissions that are produced and the amount that are removed from the atmosphere

New Energies Area focusing on opportunities presented by the energy transition

NGO Non-governmental organisation

NOC National oil company

O

OECD Organisation for Economic Co-operation and Development

Oil field A geographic area under which an oil reservoir lies

OPEC Organisation of Petroleum Exporting Countries

P

Paris Agreement A legal binding international treaty on climate change, which was adopted by 196 parties at COP 21 in Paris in 2015. Its goal is to limit global warming to below 2, preferably to 1.5 degrees celsius, compared with pre-industrial levels.

PEC Production Enhancement Contract is where Petrofac is paid a tariff per barrel for oil and gas production and therefore has no commodity price exposure

PMC Project Management Contractor

PSC Production Sharing Contract

PSP Performance Share Plan

R

RCF Revolving credit facility

Reimbursable services Where the cost of Petrofac's services are reimbursed by the customer plus an agreed margin

RI Recordable injury

ROCE Return on capital employed

RSP Restricted Share Plan

S

SaaS Software as a Service

SDI Separately disclosed items

SFO Serious Fraud Office

SIP Share Incentive Plan

SMEs Small and medium-sized enterprises

SPA Sale and purchase agreement

T

TCFD Task Force on Climate-related Financial Disclosures

TCO_2e Tonnes of carbon emissions

Technology neutral Being able to define the best technological solutions for clients' projects from a wide range of suppliers and partners

TSR Total shareholder return

U

UKCS United Kingdom Continental Shelf

UNGC United Nations Global Compact

Upstream The segment of the petroleum industry relating to exploration, development and production of oil and gas resources

W

W2V Waste-to-value

Shareholder information as at May 2023

Registrar
Equiniti (Jersey) Limited
26 New Street
St Helier
Jersey JE2 3RA

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Corporate brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Legal advisors to the Company
Linklaters LLP
One Silk Street
London EC2Y 8HQ

Carey Olsen Jersey LLP
47 Esplanade
St Helier, Jersey JE1 0BD

Corporate and financial PR
Teneo
85 Fleet Street
London EC4Y 1AE

Company Secretary and Registered Office
Ocorian Secretaries (Jersey) Limited
26 New Street
St Helier
Jersey JE2 3RA

Stock Exchange listing
Petrofac shares are listed on the London Stock Exchange using code 'PFC.L'.

Annual General Meeting
23 June 2023

Announcements
Copies of all announcements are available on the Company's website at petrofac.com following release.

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Shareholders should be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports on the Company. Fraudsters use persuasive and high-pressure tactics to lure investors into scams and they may offer to sell shares that often turn out to be worthless, overpriced or even non-existent. Whilst high returns are promised, those who invest usually end up losing their money.

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- Inform Equiniti (Jersey) Limited, our Registrars. They are not able to investigate such incidents themselves, but will record the details and pass them on to the Company and liaise with the FCA on your behalf
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+44 207 066 1000 (outside UK)

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Petrofac Services Limited
117 Jermyn Street
London SW1Y 6HH
United Kingdom
Tel: +44 20 7811 4900

www.petrofac.com