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. The auditor's report contains reference to the above material uncertainty.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

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.

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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)

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

	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:

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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.

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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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	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.

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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

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

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		Fair value	
		2022 US$m	2021 US$m	**2022 US$m**	2021 US$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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

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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For the year ended 31 December 2022

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.

Notes to the consolidated financial statements continued

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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).

Notes to the consolidated financial statements continued

For the year ended 31 December 2022

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.

Notes to the consolidated financial statements continued

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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For the year ended 31 December 2022

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.

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.

<table>
<tr><th>APM</th><th>Description</th><th>Closest equivalent IFRS measure</th><th>Adjustments to reconcile to primary statements</th><th>Rationale for adjustments</th></tr>
<tr><td>Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)</td><td>Measures net profitability</td><td>Group's net profit/(loss)</td><td rowspan="2">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</td><td rowspan="2">The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance</td></tr>
<tr><td>Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)</td><td>Measures net profitability</td><td>Basic and diluted earnings per share</td></tr>
<tr><td>Business performance earnings before interest, tax, depreciation and amortisation (EBITDA) (note A3)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>Excludes SDI (note 2.8), depreciation, amortisation, business performance impairment and includes share of net profits from associates and joint ventures</td><td>The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance</td></tr>
<tr><td>Business performance earnings before interest and tax (EBIT) (note A4)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>Excludes SDI (note 2.8) and includes share of net profits from associates and joint ventures</td><td>The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying operating performance</td></tr>
<tr><td>Business performance effective tax rate (ETR) (note A5)</td><td>Measures tax charge</td><td>Income tax expense</td><td>Excludes income tax expense or credit related to SDI</td><td>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</td></tr>
<tr><td>Capital expenditure (note A6)</td><td>Measures net cash cost of capital investment</td><td>Net cash flows generated from/(used in) investing activities</td><td>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</td><td>Excludes items not considered relevant to capital investment</td></tr>
<tr><td>Free cash flow (note A7)</td><td>Measures net cash generated after operating and investing activities to finance returns to shareholders</td><td>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</td><td>n/a</td><td>n/a</td></tr>
</table>

Appendices

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.