A review of our segmental performance

SEGMENT OVERVIEW

Engineering & Construction (E&C) → See page 33

Group revenue contribution (%)

70%

US$4,087m
Revenue

US$285m
Business performance net profit

Engineering & Production Services (EPS) → See page 36

Group revenue contribution (%)

25%

US$1,479m
Revenue

US$96m
Business performance net profit

Integrated Energy Services (IES) → See page 38

Group revenue contribution (%)

5%

US$282m
Revenue

US$39m
Business performance net profit

The Group's operating segment results were as follows:

US$ million	Revenue		Business performance net profit[1]		EBITDA	
For the year ended 31 December	**2018**	2017	**2018**	2017 (re-presented)	**2018**	2017 (re-presented)
Engineering & Construction	**4,087**	4,801	**285**	360	**388**	540
Engineering & Production Services	**1,479**	1,392	**96**	90	**138**	123
Integrated Energy Services	**282**	228	**39**	(21)	**160**	97
Corporate, others, consolidation adjustments & eliminations	**(19)**	(26)	**(67)**	(68)	**(15)**	(12)
Group	**5,829**	6,395	**353**	361	**671**	748

%	Revenue growth		Business performance net margin		EBITDA margin	
For the year ended 31 December	**2018**	2017	**2018**	2017 (re-presented)	**2018**	2017 (re-presented)
Engineering & Construction	**(14.9)**	(19.0)	**7.0**	7.5	**9.5**	11.2
Engineering & Production Services	**6.3**	(19.3)	**6.5**	6.5	**9.3**	8.8
Integrated Energy Services	**23.7**	(15.9)	**13.8**	(9.2)	**56.7**	42.5
Group	**(8.9)**	(18.8)	**6.1**	5.6	**11.5**	11.7

1 Attributable to Petrofac Limited shareholders.

ENGINEERING & CONSTRUCTION

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services on a lump-sum basis. We have more than 35 years of expertise in this area and our services encompass both greenfield and brownfield developments.

George Salibi
E&C Chief Operating Officer

Revenue (US$)

↓15%

US$4,087m

16	US$5,928m
17	US$4,801m
18	**US$4,087m**

Business performance net profit (US$)[1]

↓21%

US$285m

16	US$276m
17	US$360m
18	**US$285m**

Business performance net margin (%)[1]

7.0%

16	4.7%
17	7.5%
18	**7.0%**

Group revenue contribution

70%

E&C headcount at 31 December

6,500

(2017: 6,750)

1 2016 and 2017 re-presented due to the reclassification of an item from an exceptional item and certain re-measurements to business performance as set out in note 6 to the consolidated financial statements.

2 New order intake comprises new contract awards and extensions, net variation orders and the rolling increment attributable to EPS contracts which extend beyond five years.

We have made solid progress delivering our portfolio of projects. In Algeria, we successfully commissioned the Alrar and Reggane gas plants in the first half of the year. In Kuwait, the Lower Fars Heavy Oil, Manifold Group Trunkline and KNPC Clean Fuels projects are in pre-commissioning or phased hand-over stages. In Abu Dhabi, we recently achieved a major milestone on the Upper Zakum Field Development with the oil facility ready for start up. Elsewhere, the Jazan North and South tank farms and Fadhili sulphur recovery plant in Saudi Arabia, and RAPID project in Malaysia are all nearing completion. On the Borwin 3 offshore wind grid connection project, the topside platform has been successfully installed in the German North Sea.

New awards

New order intake[2] for the year totalled US$3.8 billion, including US$1.9 billion of awards in growth markets. These included:

Upstream project, Middle East

In March 2018, we were awarded a US$580 million contract for the engineering, procurement and construction (EPC) of an upstream project in the GCC with a National Oil Company.

BPCL Kochi Refinery, India

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

HPCL Sulphur Recovery Unit, India

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

Raageshwari Deep Gas Field Development Project, India

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

Hollandse Kust Zuid (HKZ) offshore grid connection, The Netherlands

In July 2018, we were awarded a contract by TenneT, the Dutch-German transmission grid operator, for the Hollandse Kust Zuid (HKZ) offshore grid connection for the Alpha and Beta high voltage alternating current (HVAC) substation platforms in the North Sea. The scope includes the engineering, procurement, construction and installation (EPCI) of the substations, which have a total contract value of approximately US$200 million. As formal approval of the second substation platform was pending at 31 December 2018, only approximately US$100 million was included within new order intake and backlog in 2018.

Majnoon Central Processing Facility, Iraq

In August 2018, we were awarded a contract worth around US$370 million by Basra Oil Company (BOC) for expansion of the Central Processing Facility (CPF), located in the Majnoon Field, Southern Iraq. Under the terms of the 34-month contract, the lump-sum EPC project scope of work includes two oil processing trains, able to process 200,000 barrels of oil per day.

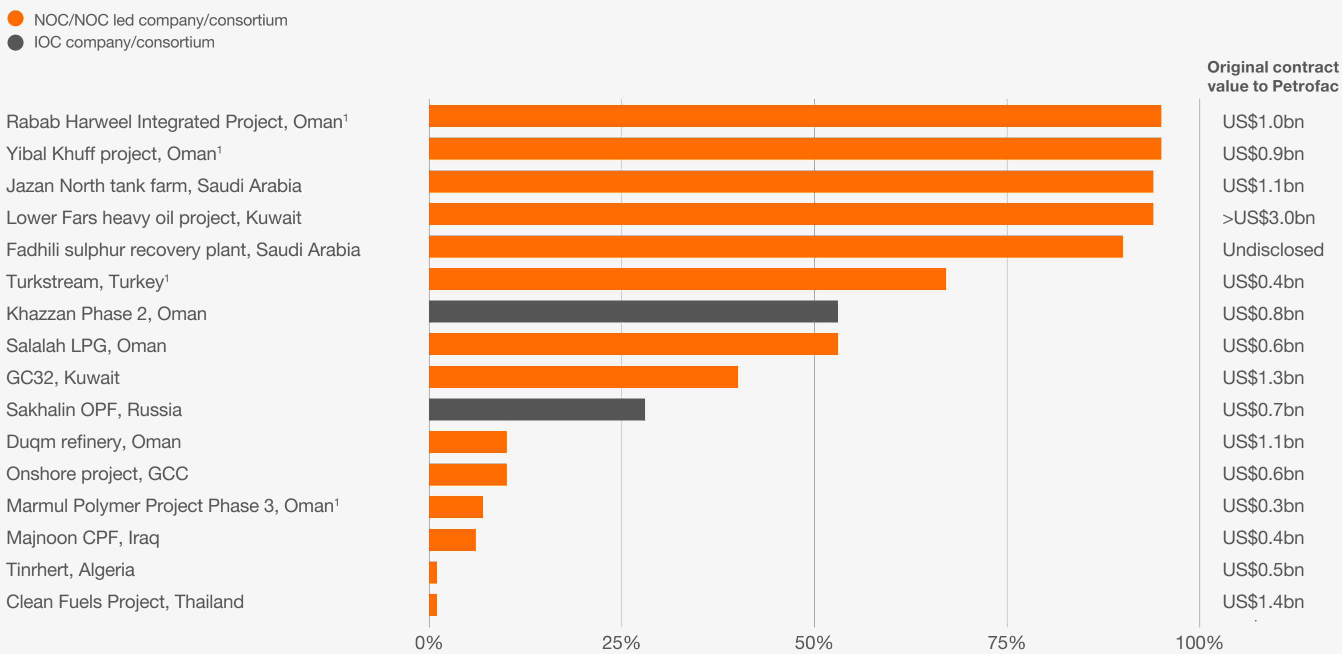
Tinrhert Field Development Project, Algeria

In August 2018, we received a provisional letter of award for an EPC contract with Sonatrach for package "EPC1" of the Tinrhert Field Development Project. Located in Ohanet, around 1,500 kilometres southeast of Algiers, EPC1 will provide a new inlet separation and compression centre. Under the terms of the 36-month contract, the scope of work includes a pipeline network of approximately 400 km to connect 36 wells, along with commissioning, start-up and performance testing of the facilities. The contract, worth around US$500 million, was signed in November 2018.

Clean Fuels Project, Thailand

In October 2018, we were awarded the Thai Oil Public Company Limited's (Thai Oil) Clean Fuels Project in consortium with Saipem and Samsung. The overall project value is around US$4 billion, of which Petrofac's share is around US$1.4 billion. The project, which will be completed over a four-year period, will transform the existing oil refinery in Sriracha, Chonburi, on the East coast of Thailand, into an environmentally-friendly facility that will produce higher quality transportation fuels. The scope of work encompasses engineering, procurement, construction and commissioning services and includes improvements and expansion at the existing facility as well as the addition of new complex processing units, all required utilities and supporting facilities. The project will increase the refinery's production capacity from 275,000 barrels per day to 400,000 barrels per day.

Key E&C/EPS projects
Progress at December 2018[2]



1 EPCm
2 Excludes projects < 5% and > 95% complete and < US$250m.

Results

Revenue for the year decreased 15% to US$4,087 million (2017: US$4,801 million) primarily due to project phasing and mix.

Business performance net margin decreased to 7.0% (2017 re-presented: 7.5%), reflecting project mix, cost over-runs and lower tax. Business performance net profit decreased 21% to US$285 million (2017 re-presented: US$360 million), reflecting lower revenue and net margin.

Backlog in the E&C division stood at US$7.3 billion at 31 December 2018 (2017: US$7.5 billion), reflecting progress delivered on the existing project portfolio and new order intake.

Headcount in the E&C division was 6,500 at 31 December 2018 (2017: 6,750).

RAISING THE ROOF IN OMAN

In December 2018 we reached an important milestone on the Salalah Liquified Petroleum Gas (SLPG) project in Oman, when the huge dome roofs of two LPG storage tanks were successfully installed using nothing but air. Fabrication of the roofs was undertaken at ground-level inside the tanks, limiting the need to work at height, and thus reducing the safety risks. Four large blowers then pumped the air into the tanks, to raise the roofs into place.

The SLPG project is significant in several respects.

Awarded in 2017 and valued at around US$600 million, this prestigious EPC and start-up contract builds on our long track record in Oman and, for the first time, takes us into the Salalah region. The scope of work includes construction of the LPG unit and associated facilities at Salalah Free Zone, including tie-ins to existing pipeline infrastructure, together with LPG storage and jetty facilities at the Port of Salalah.

It also has an important in-country value component.

Commissioned by Salalah LPG SFZCO LLC, it is a strategic investment for Oman, enabling the Sultanate to get more value from its gas assets. Once completed, the project will create new opportunities for the employment of Omanis, particularly in the Dhofar region.

Meanwhile, in delivering the project, Petrofac focused on local sourcing and vendor development. A supply chain roadshow event was held in Salalah, which enabled more than 100 local companies to demonstrate their capabilities, with particular focus on small and medium-sized enterprises. Across the project as a whole, more than 300 locally-based businesses were engaged by Petrofac.

By the year-end, the project had achieved over 95% project engineering progress, with around 53% progress overall.

95%

Overall engineering progress

ENGINEERING & PRODUCTION SERVICES

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

John Pearson
EPS Chief Operating Officer

Revenue (US$)

↑6%

US$1,479m

US$1,725m	16
US$1,392m	17
US$1,479m	**18**

Business performance net profit (US$)

↑7%

US$96m

US$111m	16
US$90m	17
US$96m	**18**

Business performance net margin (%)

6.5%

6.4%	16
6.5%	17
6.5%	**18**

Group revenue contribution

25%

EPS headcount at 31 December

4,250

(2017: 4,950)

In 2018 the continued resilience of our operations business, short-term extensions of historical contracts in EPS East and growth in our Engineering, Procurement and Construction Management (EPCm) portfolio offset a challenging market environment for brownfield projects in the North Sea.

New awards and extensions

During the year, EPS secured awards and extensions with new and existing clients worth approximately US$1.2 billion, predominantly in the UK, Oman, Turkey and Iraq.

Marmul Polymer Phase 3 Project, Oman

In March 2018, we were awarded a contract worth US$265 million for the development of the Marmul Polymer Phase 3 (MPP3) Project in southern Oman. This was the first award to be secured under a 10-year Framework Agreement with Petroleum Development Oman (PDO) signed in 2017, which enables Petrofac to provide EPCm support services for PDO's major oil and gas projects. The scope of the MPP3 project involves EPC support for the extension of off-plot and on-plot production facilities associated with around 500 producing and 75 injector wells. In line with our commitment to further increasing in-country value, we will undertake the engineering, procurement and project management activities in Muscat, Oman.

Qarn Alam Co-Generation Project, Oman

In December 2018, we were awarded our second contract under the Framework Agreement, worth around US$115 million, for the development of the Qarn Alam Co-Generation Project, located 350 kilometres southwest of Muscat, Oman. The 36-month project scope includes installation and commissioning support for a Gas Turbine Generator Package with one Heat Recovery Steam Generator at the power plant which was built to support oil extraction in Oman's central region.

Awards and extensions

In addition to the above, we secured many extensions and new awards with a range of clients during the year. In the UK, we secured US$0.3 billion of awards and extensions, including a new Well Operator and Well Engineering Project Management services contract with Siccar Point Energy and contract extensions with Chevron and ENI. In June 2018, we announced a new award and several contract extensions in Iraq, with a combined value of more than US$110 million, for construction management, engineering, commissioning and start-up services for international oil company clients.

Results

Revenue increased 6% to US$1,479 million (2017: US$1,392 million), reflecting strong growth in EPCm driven by new awards and project phasing.

Business performance net margin was unchanged at 6.5% (2017: 6.5%), with lower overheads offset by higher tax and minority interests. Business performance net profit increased 7% to US$96 million (2017: US$90 million).

Backlog in the EPS division decreased to US$2.3 billion at 31 December 2018 (2017: US$2.7 billion) reflecting the level of order intake.

Headcount in the EPS division was 4,250 at 31 December 2018 (2017: 4,950).

USING DIGITAL TO WORK SMARTER, FASTER, AND SAFER

Having witnessed disruption in other industries, the oil and gas sector is currently looking at how digital technologies could be used to create new value and address historical challenges. To this end, Petrofac has initiated a strategic programme to reimagine the way it operates. In an ageing basin like the UKCS, where cost pressures are intense and new operating models are emerging, the opportunities are significant.

In the EPS business, the money we are paid often reflects the targets we achieve. If we can use digital initiatives to enhance asset performance, the bottom line benefits can be significant – as can the level of client satisfaction.

As part of our Group-wide digital programme, we identified more than 100 potential projects. Of these, 12 were prioritised for trial during 2018, and three are already moving into implementation in the UKCS:

- Connected Worker – uses mobile wearable technologies, like head-mounted cameras and microphones, to create a direct link between offshore workers and the full capability of the wider Petrofac teams. Expert advice is always available and emerging issues are quickly resolved. In field trials, we saw productivity improvements of up to 30%, as well as improved uptime.
- Petrolytics – uses artificial intelligence and machine learning to forecast an asset's performance and predict potential failures. This means maintenance programmes can be based on data-driven insights rather than fixed schedules. As just one example, we proved that the technology would have predicted a costly gas compressor fault, avoiding 2,200 boe (barrels of oil equivalent) of lost production, and saving around US$160,000.
- Digital Twin – integrates the 3D visualisation of a facility with all of the relevant engineering information and performance data. This can take engineers on a virtual visit to an asset, and gives them easy access to information upon which key decisions are made. This streamlines engineering and planning activities, more of which can be done without visiting a site. With access to accurate, up-to-date visual information, it also improves work-pack development.

In December a new Innovation Zone was also opened in our Aberdeen offices. This immersive, collaborative space is equipped with a range of the latest technologies. It enables employees, clients, and suppliers to explore emerging digital trends, see new technologies in action, and conduct idea-generation sessions. Attention is focused on the potential value of digital technology, with Petrofac positioned as a pioneer in the field.

INTEGRATED ENERGY SERVICES

Integrated Energy Services (IES) provides an integrated service for clients under flexible commercial models that are aligned with their requirements. Our projects cover upstream developments – both greenfield and brownfield – and related energy infrastructure projects. IES deploys the Group's capabilities using a range of commercial frameworks, including Production Enhancement Contracts (PECs) and traditional equity upstream investment models including both Production Sharing Contracts (PSCs) and concession agreements. Divestments are considered once assets reach the point in their life cycle when our services contribution is diminished.

Rob Jewkes
IES Chief Operating Officer

Revenue (US$)

↑24%

US$282m

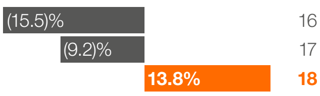
Business performance net profit/(loss) (US$)

↑286%

US$39m

Business performance net margin (%)

13.8%



Group revenue contribution

5%

IES headcount at 31 December

600

(2017: 700)

Equity Upstream Investments

Net entitlement production for the year from our equity interests increased to 3.7 million barrels of oil equivalent (mboe) (2017: 2.5 mboe), reflecting the recommencement of production from the Chergui gas concession in Tunisia in May 2017, our formal entry onto the Greater Stella Area development (GSA) licence in September 2017 and the migration of Santuario from a PEC to a PSC in December 2017.

In October 2018, we completed the sale of 49% of our operations in Mexico, including the Santuario PSC and Magallanes and Arenque PECs, to Perenco (Oil and Gas) International Limited (see note 11 to the consolidated financial statements).

In December 2018, we completed the sale of our interest in the Greater Stella Area development to Ithaca Energy (UK) Limited and the sale of the Chergui gas concession to Perenco Tunisia Oil and Gas International Limited (see note 11 to the consolidated financial statements).

Production Enhancement Contracts

Petrofac earns a tariff per barrel on PECs for an agreed level of baseline production and an enhanced tariff per barrel on incremental production. We earned tariff income on a total of 2.5 mboe in 2018 (2017: 4.8 mboe). The decrease reflects the conversion of Santuario from a PEC to a PSC in December 2017 and the sale of the Pánuco PEC to Schlumberger in August 2017.

Results

Revenue increased 24% to US$282 million (2017: US$228 million). Excluding asset sales, revenue was up 33%, largely reflecting an increase in equity production and higher prices. The average realised price (net of royalties) for the year was US$59 per barrel (2017: US$52) reflecting higher oil prices, production mix and hedging activity.

EBITDA increased 65% to US$160 million (2017: US$97 million). Excluding asset sales, EBITDA was up 66%, reflecting higher production and average realised prices. The contribution from our remaining PECs in Mexico also increased due to higher tariff income and cost recovery.

IES returned to profit in 2018, generating a business performance net profit of US$39 million (2017: US$21 million loss), reflecting the increase in EBITDA, lower depreciation and lower net finance costs, partly offset by higher taxes.

Exceptional items and certain re-measurements totalled US$235 million after tax (2017: US$179 million). These predominantly reflect asset sales during 2018, which triggered US$186 million of post-tax exceptional items and certain re-measurements in relation to the sale of 49% of its Mexico operations, the Chergui gas concession and the Greater Stella Area development (see note 11 to the consolidated financial statements). In addition, IES recognised an impairment of the deferred consideration from the sale of our interest in the Pánuco Production Enhancement Contract in 2017 of US$43 million (post-tax) due to considerable uncertainty concerning the timing and outcome of migration of the Pánuco PEC to a PSC and whether the contingent consideration pay out conditions will be achieved.

IES headcount stood at 600 at 31 December 2018 (2017: 700).

Key IES projects

	2017	2018	2019	2020	2021	End date
Production Enhancement Contracts (PEC)						
Magallanes, Mexico						2037
Arenque, Mexico						2043
Equity Upstream Investments						
Santuario, Mexico[1]						2042
Block PM304, Malaysia						2026
Chergui gas concession, Tunisia[2]						2031
Greater Stella Area development, UK[2]						Life of field

1 Migrated from PEC to PSC on 18 December 2017.
2 Sale completed December 2018.

Alastair Cochran
Chief Financial Officer

AT A GLANCE

- Revenues down 9% to US$5.8 billion
- EBITDA down 10% to US$671 million[2]
- Business performance net profit down 2% to US$353 million[1,2]
- Reported net profit of US$64 million[1]
- Fully diluted EPS of 102.3 cents[1,2]
- Group backlog down 6% to US$9.6 billion
- Cash conversion of 101%[3]
- Capital expenditure down 42% to US$98 million
- Net cash of US$90 million
- Full year dividend unchanged at 38.0 cents per share

	Year ended 31 December 2018			Year ended 31 December 2017*		
	Business performance[2] US$m	**Exceptional items and certain re-measurements US$m**	**Reported US$m**	Business performance US$m	Exceptional items and certain re-measurements US$m	Reported US$m
Revenue	**5,829**	**–**	5,829	6,395	–	6,395
EBITDA	**671**	**n/a**	n/a	748	n/a	n/a
Net profit/(loss)[1]	**353**	**(289)**	64	361	(390)	(29)

* Re-presented due to the reclassification of an item from exceptional items and certain re-measurements to business performance as set out in note 6 to the consolidated financial statements.

1 Attributable to Petrofac Limited shareholders.
2 Business performance before exceptional items and certain re-measurements. This measurement is shown by Petrofac as a means of measuring underlying business performance (see note 2 to the consolidated financial statements).
3 Cash conversion is calculated as cash generated from operations divided by business performance EBITDA.

The Group delivered good financial performance in the year, reflecting solid operational performance in all our businesses. Reported revenue was lower at US$5.8 billion (2017: US$6.4 billion), driven by business mix. Business performance net profit decreased 2% to US$353 million (2017 re-presented: US$361 million), benefiting from an increase in net margin.

Revenue

Revenue for the year decreased 9% to US$5,829 million (2017: US$6,395 million). Revenue in Engineering & Construction (E&C) decreased 15%, primarily due to project phasing. Revenue in Engineering & Production Services (EPS) increased 6%, driven by strong EPCm growth. Integrated Energy Services' (IES) revenue increased 24% reflecting production mix, higher average realised prices and asset sales.

The Group implemented IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. Prior to the adoption of IFRS 15, revenue from lump-sum engineering, procurement and construction project execution services contracts was recognised using the percentage-of-completion method based on client certified surveys of work performed, once the outcome of the contract could be estimated reliably. From 1 January 2018, the Group has adopted the input method for recognising revenue. At 1 January 2018, the Group recognised a cumulative catch-up adjustment of US$61 million (of which US$40 million is related to the change to the input method), recognised as a reduction to the opening reserves (see note 2 to the consolidated financial statements for further detail). The adoption of IFRS 15 resulted in an increase in revenue in 2018 compared to the pro forma consolidated income statement (see note 35 to the consolidated financial statements).

Backlog

The Group's backlog decreased 6% to US$9.6 billion at 31 December 2018 (2017: US$10.2 billion), reflecting progress delivered on the existing project portfolio and US$5.0 billion of new order intake in 2018.

	31 December 2018 US$bn	31 December 2017 US$bn
Engineering & Construction	**7.3**	7.5
Engineering & Production Services	**2.3**	2.7
Group	**9.6**	10.2

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

Business performance EBITDA decreased 10% to US$671 million (2017 re-presented: US$748 million). Lower EBITDA in E&C, due to project phasing and mix was partly offset by higher EBITDA in IES, due to higher production, average realised prices and cost recovery.

Finance expense/income

Finance expense for the year increased to US$81 million (2017: US$80 million), reflecting an increase in the cost of variable rate borrowings due to higher average LIBOR rates, which more than offset a reduction in average borrowings. Finance income increased to US$14 million (2017: US$10 million) reflecting the unwinding of the discount on long-term receivables and higher finance income on the Group's cash and short-term deposits.

Taxation

The Group's business performance effective tax rate (ETR) for the year was 24.4% (2017 re-presented: 27.5%) and the reported ETR was 43.0% (2017: 160.0%). The 2017 tax charge included a deferred tax asset derecognition of US$39 million resulting from a combination of changes in UK tax loss relief rules and a reassessment of forecast UK profit.

A number of factors have impacted the reported ETR, with key drivers being: the realisation of impairments without tax benefits and certain re-measurements that are not subject to tax; and, expenditure which is not deductible for tax purposes. In line with prior years, the reported ETR is also driven by tax laws in the jurisdictions where the Group operates and generates profits.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders decreased 2% to US$353 million (2017 re-presented: US$361 million) driven by business mix, with strong growth in IES more than offset by a decrease in E&C.

The reported net profit attributable to Petrofac Limited shareholders of US$64 million was impacted by post-tax exceptional items and certain re-measurements of US$289 million (2017 re-presented: US$390 million), of which approximately US$265 million were non-cash items (2017 re-presented: US$368 million; see note 6 to the consolidated financial statements):

- Asset sales during 2018 triggered US$196 million (post-tax) of non-cash exceptional items in relation to the JSD6000 installation vessel, a 49% interest in our Mexican operations, the Chergui gas concession and the Greater Stella Area development;
- A downward fair value adjustment of US$43 million (post-tax) due to considerable uncertainty concerning the timing and outcome of migration of the Pánuco Production Enhancement Contract (PEC) to a Production Sharing Contract (PSC) and whether the contingent consideration pay out conditions will be achieved; and,
- Other exceptional net items of US$50 million (post-tax), including onerous leasehold property provisions of US$18 million.

Business performance net margin increased to 6.1% (2017 re-presented: 5.6%), reflecting a return to profitability in IES, partly offset by lower net margins in E&C.

Earnings per share

Business performance diluted earnings per share decreased 4% to 102.3 cents per share (2017 re-presented: 106.2 cents per share), in line with the decrease in business performance net profit. Reported diluted earnings per share increased to a profit of 18.6 cents per share (2017: loss of 8.5 cents per share), reflecting lower exceptional items and certain re-measurements.

Operating cash flow

The net cash inflow generated from operating activities in the year was US$484 million (2017: US$422 million). The key components were:

- Operating profit before changes in working capital and other non-current items of US$693 million (2017: US$789 million), reflecting an increase in profit before tax and a decrease in exceptional items and certain re-measurements.
- Net working capital outflows of US$15 million (2017: US$213 million) including:
  - An outflow of US$320 million from a reduction in accrued contract expenses, primarily due to higher vendor and subcontractor payment milestones achieved during the year in E&C (see note 32 to the consolidated financial statements);
  - An inflow of US$316 million from a reduction in contract assets primarily due to advances received from customers and a reduction in variation orders pending customer approval of US$139 million (see note 21 to the consolidated financial statements);
  - An inflow of US$121 million from an increase in contract liabilities, predominantly reflecting an increase in billings in excess of costs and estimated earnings of US$176 million; and,
  - An outflow of US$103 million from a reduction in trade and other payables.
- An increase in net income taxes paid to US$104 million (2017: US$69 million), reflecting an increase in current income tax liabilities in 2017.

Capital expenditure

Group capital expenditure, on a cash basis, decreased 42% to US$98 million (2017 re-presented: US$168 million), principally reflecting decreases in capital expenditure on the Greater Stella Area development and on the JSD6000 installation vessel (see A5 in Appendix A to the consolidated financial statements).

	31 December 2018 US$m	31 December 2017 US$m
Purchase of property, plant and equipment	**90**	108
Payments for intangible oil and gas assets	**8**	9
Loan in respect of the Greater Stella Area development	**-**	51
Group capital expenditure	**98**	168

Free cash flow

The Group defines free cash flow as net cash flows generated from operating activities, net cash flows from investing activities and amounts received from non-controlling interests (see A6 in Appendix A to the consolidated financial statements).

Free cash flow for the year increased to US$921 million (2017: US$281 million) due to: an increase in net cash flows generated from operating activities to US$484 million (2017: US$422 million); net cash from investing activities of US$213 million (2017: US$141 million outflow) following the sale of the JSD6000 installation vessel, the Chergui gas concession and the Greater Stella Area development; and amounts received from a non-controlling interest of US$224 million following the sale of 49% of the Group's operations in Mexico.

	31 December 2018 US$m	31 December 2017 US$m
Net cash flows generated from operating activities	**484**	422
Net cash flows from/(used in) investing activities	**213**	(141)
Amounts received from non-controlling interest	**224**	-
Free cash flow	**921**	(281)

Balance sheet

IES carrying value

During the year, the Group sold its interest in the Greater Stella Area development, the Chergui gas concession and 49% of the Group's operations in Mexico (see note 11 to the consolidated financial statements). As a result, the carrying value of the IES portfolio at 31 December 2018 (including balances within oil & gas assets, intangible assets and interest in associates) decreased to US$490 million (2017: US$1,031 million); balance also includes other financial assets).

		31 December 2018 US$m	31 December 2017 US$m
Santuario, Magallanes, Arenque	Mexico	**248**	382
PM304	Malaysia	**222**	286
Greater Stella Area development	United Kingdom	**–**	255
Chergui gas concession	Tunisia	**–**	47
Other (including PetroFirst)	–	**20**	61
Total		**490**	1,031

Working capital

The net working capital balance at 31 December 2018 decreased US$83 million to US$339 million (2017: US$422 million). The key movements in working capital during the year compared with 31 December 2017 (reclassified under IFRS 15) were:

- A decrease in contract assets of US$416 million primarily due to advances received from customers and a reduction in variation orders pending customer approval of US$139 million;
- An increase in contract liabilities of US$121 million, predominantly reflecting an increase in billings in excess of costs and estimates earnings of US$176 million;
- A decrease in accrued contract expenses of US$311 million primarily due to higher vendor and sub-contractor payment milestones achieved during the year in the E&C division; and,
- A decrease in trade and other payables of US$177 million reflecting a decrease in trade payables of US$83 million and a reduction in accrued expenses of US$68 million.

Finance leases

Net finance lease liabilities decreased 17% to US$138 million at 31 December 2018 (2017: US$166 million; see A10 in Appendix A to the consolidated financial statements) and predominantly relate to two leased floating production facilities on Block PM304 in Malaysia.

Total equity

Total equity at 31 December 2018 was US$1,009 million (2017: US$948 million), reflecting: a reduction in opening reserves of US$113 million on implementation of IFRS 9 and IFRS 15 (see note 2 to the consolidated financial statements); the reported profit for the year of US$61 million; the purchase of the Company's shares by the Employee Benefit Trust (which are held for the purpose of making awards under the Group's share schemes) of US$44 million; US$266 million recognised as a non-controlling interest on disposal of 49% of the Group's operations in Mexico; and, dividends paid of US$129 million.

Of the total equity of US$1,009 million at 31 December 2018, US$707 million (2017: US$912 million) was attributable to Petrofac Limited shareholders and US$302 million (2017: US$36 million) was attributable to non-controlling interests. The increase in equity attributable to non-controlling interests reflects the recognition of a non-controlling interest on disposal of 49% of the Group's operations in Mexico.

Net cash/(debt), liquidity and return on capital employed

Net cash/(debt)

The Group had net cash of US$90 million at 31 December 2018 (2017: US$612 million net debt), benefitting from better than expected working capital inflows at the year-end, lower capital expenditure and US$506 million of net divestment proceeds[1].

Total gross borrowings less associated debt acquisition costs at 31 December 2018 decreased to US$636 million (2017: US$1,579 million including the discount on senior notes issuance).

	31 December 2018 US$m	31 December 2017 US$m
Interest-bearing loans and borrowings (A)	**636**	1,579
Cash and short-term deposits (B)	**726**	967
Net cash/(debt) (C) = (B) – (A)	**90**	(612)
Equity attributable to Petrofac Limited shareholders (D)	**707**	912
EBITDA (E)	**671**	748
Gross gearing ratio (A)/(D)	**90%**	173%
Net gearing ratio (C)/(D)	**n/a**	67%
Net debt/EBITDA (C)/(E)	**n/a**	82%

Liquidity

The Group's total available borrowing facilities, excluding bank overdrafts, were US$1,798 million at 31 December 2018 (2017: US$2,210 million). The decrease reflects the repayment of the senior notes in October 2018, partially offset by new term loan and other facilities (see note 27 to the consolidated financial statements). Of the total available borrowing facilities, US$1,178 million was undrawn at 31 December 2018 (2017: US$645 million).

1 Net disposal proceeds include cash received upon completion less cash disposal costs (net disposal proceeds therefore excludes operating cashflows received from the effective dates of the transactions to the completion dates). Net disposal proceeds of US$506 million comprises the following items from the Consolidated Statement of Cash Flows: US$152 million of "proceeds from disposal of property, plant and equipment"; US$130 million of "proceeds from disposals of subsidiaries"; and, US$224 million of "amounts received from non-controlling interest".

Combined with the Group's cash balances of US$726 million (2017: US$967 million), the Group had US$1,904 million of liquidity available at 31 December 2018 (2017: US$1,612 million).

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

Return on capital employed

The Group's return on capital employed for the year increased to 26% (2017 re-presented: 22%), reflecting a decrease in average capital employed (see A8 in appendix A to the consolidated financial statements).

Employees

The Group had approximately 11,500 employees at 31 December 2018, including long-term contractors (2017: 12,500).

Dividends

The Group's dividend policy targets a dividend cover of between 2.0x and 3.0x business performance net profit and paying an interim dividend each year of approximately 33% of the prior year total dividend.

In line with the policy, the Board is proposing a final dividend of 25.3 cents per share (2017: 25.3 cents). The final dividend will be paid on 24 May 2019 to eligible shareholders on the register at 26 April 2019 (the 'record date'). Shareholders who have not elected to receive dividends in US dollars will receive a sterling equivalent. Shareholders can elect by close of business on the record date to change their dividend currency election. Together with the interim dividend of 12.7 cents per share (2017: 12.7 cents), this gives a total dividend for the year of 38.0 cents per share (2017: 38.0 cents).

In determining the Company's capacity to pay dividends, the Board primarily considers the available distributable reserves, the sustainability of the dividend policy and the Company's financial position. At 31 December 2018, Petrofac Limited had distributable reserves of US$512 million (2017: US$416 million) and the total declared dividends in 2018 amounted to US$130 million (2017: US$130 million). The Company's distributable reserves therefore support over 3.9 times this dividend. Dividends paid in 2018 were covered by free cash flow.

Alastair Cochran
Chief Financial Officer
27 February 2019