Consolidated income statement

For the year ended 31 December 2023

	Notes	Business performance[1] US$m	Separately disclosed items US$m	Reported 2023 US$m	Business performance[1] (restated)[2] US$m	Separately disclosed items US$m	Reported (restated)[2] 2022 US$m
Revenue	3	**2,496**	**–**	**2,496**	2,567	–	2,567
Cost of sales	5a	**(2,684)**	**–**	**(2,684)**	(2,667)	–	(2,667)
Gross loss		**(188)**	**–**	**(188)**	(100)	–	(100)
Selling, general and administration expenses	5b,6	**(202)**	**(25)**	**(227)**	(175)	(7)	(182)
Expected credit loss (charge)/reversal	5e	**(14)**	**–**	**(14)**	23	–	23
Other operating income	5f	**12**	**–**	**12**	23	–	23
Other operating expenses	5g	**(3)**	**–**	**(3)**	(5)	–	(5)
Operating loss		**(395)**	**(25)**	**(420)**	(234)	(7)	(241)
Finance income	6,7	**6**	**5**	**11**	7	–	7
Finance expense	6,7	**(119)**	**–**	**(119)**	(98)	(18)	(116)
Share of net profit of associates and joint ventures	16	**2**	**–**	**2**	5	–	5
Loss before tax		**(506)**	**(20)**	**(526)**	(320)	(25)	(345)
Income tax credit/(expense)	8a	**3**	**–**	**3**	(1)	(1)	(2)
Net loss		**(503)**	**(20)**	**(523)**	(321)	(26)	(347)
Attributable to:							
Petrofac Limited shareholders		**(485)**	**(20)**	**(505)**	(294)	(26)	(320)
Non-controlling interests	13	**(18)**	**–**	**(18)**	(27)	–	(27)
		(503)	**(20)**	**(523)**	(321)	(26)	(347)
Loss per share (US cents)							
Basic	9	**(93.4)**	**(3.9)**	**(97.3)**	(57.1)	(5.0)	(62.1)
Diluted	9	**(93.4)**	**(3.9)**	**(97.3)**	(57.1)	(5.0)	(62.1)

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 2023

	Notes	2023 US$m	2022 (restated)[1] US$m
Reported net loss		**(523)**	(347)
Other comprehensive (loss)/income that may 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)
Hedging (gains)/losses reclassified to consolidated income statement	25	**(4)**	7
Foreign currency translation gains reclassified to the consolidated income statement	25	**(3)**	–
Foreign currency translation (losses)/gains	25	**(12)**	14
Other comprehensive (loss)/income that may be reclassified to consolidated income statement in subsequent periods		**(18)**	20
Other comprehensive loss that will not be reclassified to consolidated income statement (post-tax)			
Remeasurement loss on end of service benefit plans	27	**(5)**	–
Other comprehensive loss that will not be reclassified to consolidated income statement		**(5)**	–
Total comprehensive loss for the year		**(546)**	(327)
Attributable to:			
Petrofac Limited shareholders		**(528)**	(300)
Non-controlling interests	13	**(18)**	(27)
		(546)	(327)

1. The prior year numbers are restated; see note 2.9.

Consolidated balance sheet

At 31 December 2023

	Notes	2023 US$m	2022 (restated)[1] US$m
Assets			
Non-current assets			
Property, plant and equipment	12	**170**	244
Goodwill	14	**96**	96
Intangible assets	15	**26**	25
Investments in associates and joint ventures	16	**11**	30
Other financial assets	17	**250**	151
Deferred consideration	11	**59**	56
Income tax receivable		**20**	–
Deferred tax assets	8c	**1**	1
		633	603
Current assets			
Inventories	18	**11**	17
Trade and other receivables	19	**977**	739
Contract assets	20	**832**	1,324
Other financial assets	17	**86**	103
Income tax receivable		**19**	26
Cash and short-term deposits	21	**201**	450
		2,126	2,659
Total assets		**2,759**	3,262
Equity and liabilities			

	Notes	2023 US$m	2022 (restated)[1] US$m
Equity			
Share capital	22	**10**	10
Share premium	22	**251**	251
Capital redemption reserve	22	**11**	11
Employee Benefit Trust shares	23	**(38)**	(56)
Other reserves	25	**28**	56
Retained earnings		**(663)**	(153)
Equity attributable to Petrofac Limited shareholders		**(401)**	119
Non-controlling interests	13	**(35)**	(17)
Total equity		**(436)**	102
Non-current liabilities			
Provisions	27	**144**	135
Other financial liabilities	17	**79**	146
Deferred tax liabilities	8c	**16**	28
		239	309
Current liabilities			
Trade and other payables	28	**930**	865
Contract liabilities	20	**292**	155
Interest-bearing loans and borrowings	26	**784**	799
Other financial liabilities	17	**97**	114
Income tax payable		**48**	65
Accrued contract expenses	32	**691**	759
Provisions	27	**114**	94
		2,956	2,851
Total liabilities		**3,195**	3,160
Total equity and liabilities		**2,759**	3,262

The consolidated financial statements on pages 146 to 208 were approved by the Board of Directors on 31 May 2024 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 2023

	Notes	2023 US$m	2022 (restated)[1] US$m
Operating activities			
Loss before tax		**(526)**	(345)
Separately disclosed items	6	**20**	25
Loss before tax and separately disclosed items		**(506)**	(320)
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:			
Depreciation, amortisation and business performance impairment	5a, 5b	**83**	79
Expected credit loss charge/(reversal) recognised	5e	**14**	(23)
Share-based payments	24	**8**	6
Difference between end of service benefits paid and amounts recognised in the consolidated income statement	27	**(3)**	(10)
Net finance expense before separately disclosed finance expense	7	**113**	91
Net movement in other provisions	27	**18**	12
Share of net profit of associates and joint ventures	16	**(2)**	(5)
Net foreign exchange gains and losses	16	**(18)**	35
Net other non-cash items		**(3)**	(3)
		(296)	(138)
Working capital movements:			
Inventories		**6**	7
Trade and other receivables		**(252)**	(101)
Contract assets	20	**495**	273
Restricted cash	17	**(112)**	26
Net derivative contracts – designated and undesignated	17	**(7)**	6
Trade and other payables		**59**	(95)
Contract liabilities	20	**135**	81
Accrued contract expenses		**(67)**	(38)
Net working capital movements		**257**	159

	Notes	2023 US$m	2022 (restated)[1] US$m
Cash (used in)/generated from operations		**(39)**	21
Separately disclosed items paid – operating costs		**(23)**	(115)
Net income taxes paid		**(35)**	(52)
Net cash flows used in operating activities		**(97)**	(146)
Investing activities			
Purchase of property, plant and equipment		**(10)**	(38)
Payments for intangible assets	15	**(6)**	(8)
Contingent consideration paid	17	**(4)**	(2)
Dividends received from associates and joint ventures	16	**4**	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		**28**	28
Net cash flows from disposal of subsidiaries, including receipt against deferred and contingent consideration	6, 17	**(1)**	98
Net proceeds from disposal of investment in associates	6, 16	**13**	–
Proceeds from disposal of property, plant and equipment		**2**	1
Interest received		**6**	6
Net cash flows generated from investing activities		**32**	98
Financing activities			
Proceeds from interest-bearing loans and borrowings	17	**38**	62
Repayment of interest-bearing loans and borrowings	17	**(65)**	(36)
Repayment of lease liabilities	29	**(57)**	(54)
Interest paid		**(101)**	(86)
Net cash flows used in financing activities		**(185)**	(114)
Net decrease in cash and cash equivalents		**(250)**	(162)
Net foreign exchange difference		**1**	(8)
Cash and cash equivalents at 1 January		**450**	620
Cash and cash equivalents at 31 December	21	**201**	450

1. The prior year numbers are restated; see note 2.9.

Consolidated statement of changes in equity

For the year ended 31 December 2023

	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 2022	10	251	11	(69)	42	168	413	10	423
Reported net loss (restated)[2]	–	–	–	–	–	(320)	(320)	(27)	(347)
Other comprehensive income	–	–	–	–	20	–	20	–	20
Total comprehensive income/(loss) (restated)[2]	–	–	–	–	20	(320)	(300)	(27)	(327)
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 (restated)[2]	10	251	11	(56)	56	(153)	119	(17)	102
At 1 January 2023	**10**	**251**	**11**	**(56)**	**56**	**(153)**	**119**	**(17)**	**102**
Reported net loss	**–**	**–**	**–**	**–**	**–**	**(505)**	**(505)**	**(18)**	**(523)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(18)**	**(5)**	**(23)**	**–**	**(23)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(18)**	**(510)**	**(528)**	**(18)**	**(546)**
Issue of Company's shares by Employee Benefit Trust (note 23)	**–**	**–**	**–**	**18**	**(18)**	**–**	**–**	**–**	**–**
Credit to equity for share-based payments charge (note 24)	**–**	**–**	**–**	**–**	**8**	**–**	**8**	**–**	**8**
At 31 December 2023	**10**	**251**	**11**	**(38)**	**28**	**(663)**	**(401)**	**(35)**	**(436)**

1. Petrofac Limited 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 2023

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 2023 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, maintain and decommission infrastructure for the energy industries.

The Group's financial statements (the 'consolidated financial statements') for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 31 May 2024. As indicated last year and as permitted under Article 105(11) of the Companies (Jersey) Law 1991, the Directors have elected not to present standalone Company financial statements, in order to simplify the Group's Annual Report.

2 Material accounting policy information

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS Accounting 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 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.

2.2 Presentation of results

The Group uses Alternative Performance Measures (APMs) that are not defined or specified under IFRS when assessing and discussing the Group's financial performance, financial position and cash flows. 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 Appendix A for more details). Separately disclosed items are defined in note 2.8 and disclosed in note 6.

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 2023.

These standards and amendments are listed below but have not had a material impact on the consolidated financial statements of the Group:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12. The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:
  - I. A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
  - II. Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The Group does operate in a small number of jurisdictions where the corporation tax rate is below 15%. The Group has assessed its exposure to Multinational Top Up Taxes and any impact is expected to be immaterial. Refer to note 8(b) for details. In addition, the Group has applied the exception in 'International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)' to recognising or disclosing information about deferred tax assets and liabilities related to OECD Pillar Two income taxes.

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 2023 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.5 Going concern

Introduction

The Directors performed a thorough going concern assessment to determine whether it is appropriate to adopt the going concern basis for the preparation of accounts.

The going concern assessment period is the period from the date of signing the Group's consolidated financial statements to 31 December 2025 (the Assessment Period).

The Directors concluded that it is appropriate to adopt the going concern basis of preparation, noting four material uncertainties were identified in their assessment, which include a number of events which are outside of the control of the Board. The details of these are set out in more detail in the final section of this note.

Current financial condition of the Group

The Group is seeking to implement a comprehensive refinancing (the Financial Restructure) to materially strengthen its balance sheet, improve liquidity and secure performance and advance payment guarantees to support current and future engineering, procurement and construction (EPC) contracts.

As described in this note, the Group is in a fragile financial condition and is subject to a range of material matters that are not in the Board's control. Further, these matters may evolve in the immediate or near term to cause the Group to enter insolvency.

The Financial Restructure discussed below is currently the only option to secure the future operations of the Group and active discussions are ongoing. The realistic alternative to the Financial Restructure is insolvency.

By virtue of not having paid the interest coupon under the terms of its senior secured notes of US$29 million on its due date of 15 May 2024, the Company is in default. The grace period for this payment expires on 14 June 2024, after which time, if not remedied, a sufficiently large group of noteholders, being above 25%, could initiate enforcement action. An ad hoc group of noteholders (the ad hoc group), representing approximately 41% of the outstanding senior secured notes, has entered into a forbearance agreement with the Company, agreeing not to take enforcement action in respect of the non-payment of the coupon until at least 30 June 2024.

To date, the Company has agreed deferrals of its contractual amortisation payments on its bank debt facilities, in part since October 2023, and more recently from April 2024, which now amount to US$84 million currently due on 31 May 2024. It is expected to continue to rely on further deferral of these obligations by its lenders, which to date, have been providing these for no longer than on a rolling weekly basis. The remaining balance of the Group's bank facilities, amounting to US$114 million will additionally become due on 30 October 2024, absent an alternative position to be agreed as part of the Financial Restructure.

Even without making payments to its noteholders and lenders, the Group forecasts to have minimal headroom above its US$75 million minimum liquidity covenant until the Financial Restructure is implemented. To maintain this liquidity, the Group is having to manage its payment obligations carefully, including by seeking to delay all but critical payments to creditors and by not funding obligations under operational joint venture arrangements.

Various restructuring options have been considered and reviewed since the formation of the Special Committee in December 2023 (page 110). Following the initial indicative proposal from the ad hoc group in April 2024, the terms of the Financial Restructure have not yet been defined and, further, it is not yet known whether the required inter-conditional support can be secured from other key stakeholders, including the remaining senior secured noteholders, lenders and providers of performance guarantees. If successful, the Financial Restructure is not expected to be implemented before September 2024, at the earliest, albeit with the necessary inter-conditional agreements being reached approximately one to two months prior to final implementation.

Securing approximately US$400 million of performance guarantees with limited collateral requirements is critical to the Financial Restructure. Initial exploratory discussions with potential providers were initiated in early 2024. These increased following receipt of the ad hoc group's proposal, and whilst discussions with them have been ongoing for several weeks since that time, the Group has not yet received commitments or firm expressions of interest.

Furthermore, the Group has not been able to meet its contractual obligations to provide performance guarantees in support of certain of the EPC contracts awarded in 2023, and consequently there is a risk that one or more of these contracts could be terminated. In particular, the Group has received a notice of default from a key customer requiring a performance guarantee to be posted by 16 June 2024. Failure to do so would entitle the customer to terminate the contract, which could have a detrimental impact on the liquidity of the Group and the Group's ability to proceed with the Financial Restructure. The Group has made arrangements to provide the performance guarantee, but requires bank lender consent for the posting of the required cash collateral. Discussions are ongoing but this consent has not yet been provided.

As part of the ongoing discussions, the lender group has required the Group to make preparations for alternative outcomes to a successful Financial Restructure, as set out below. The future intentions of the lender group cannot be known with certainty.

Criticality of the Financial Restructure to achieve a solvent outcome

The Directors' assessment of going concern is predicated on, amongst other considerations, the successful implementation of this Financial Restructure.

The key elements of the proposed Financial Restructure, which are inter-conditional, are expected to be as follows:

- Conversion of a substantial portion of the Group's existing debt into equity, resulting in a material reduction in indebtedness, a return to positive equity for the Group, and a material reduction in annual interest expense.
- New debt funding of US$200 million, with a maturity date beyond the Assessment Period; and
- New performance guarantees of approximately US$400 million for existing contracts, with limited collateral requirements, which are expected to result in the release of over US$200 million of cash collateral and retentions.

The quantum and terms of the conversion of debt to equity are yet to be agreed with the lending group (noteholders and bank lenders).

The Company has received an indicative proposal from the ad hoc group, representing approximately 41% of the outstanding senior secured notes, indicating that they are willing to provide the new debt funding of US$200 million on a super senior basis, as well as US$100 million of credit support to help secure the performance guarantees for certain existing EPC contracts. This proposal is non-binding and is conditional upon, amongst other things, the Company securing approximately US$400 million of new performance guarantees, as part of the implementation of the Financial Restructure. Detailed terms are yet to be negotiated with the ad hoc group.

The remaining 59% of noteholders have not been wall-crossed to the Group's proposed Financial Restructure and have not been involved in the process to date and therefore, their support, or otherwise, for the Financial Restructure is currently unknown.

The Company has had discussions with around twenty credit institutions to secure the required performance guarantees of approximately US$400 million. While some of these institutions have indicated an expression of potential interest to provide guarantees, at the time of signing the accounts no commitments or firm expressions of interest have been received.

As discussed above, ahead of the Restructure, the Group requires bank lender consent for the posting of the required collateral for a performance guarantee on a key existing EPC contract ahead of 16 June 2024, which, if not posted, could result in the termination of this contract. Discussions are ongoing but this consent has not yet been provided.

The Financial Restructure is expected to be implemented through a restructuring plan under Part 26A of the Companies Act 2006. This will require at least 75% (by value) of at least one 'in the money' class of creditors, to vote in favour. Subject to finalisation of the terms of the Financial Restructure, an 'in the money' voting class constitutes the Company's senior secured noteholders, RCF and term loan bank lenders.

The Company maintains continuous dialogue with the ad hoc group (from whom it received the indicative proposal) and its lending banks, keeping them informed of the progress of the Financial Restructure as part of the engagement to secure the ongoing deferrals of scheduled amortisation payments. However, their support, or otherwise, for the final Financial Restructure is unknown.

The approval of other classes of existing or contingent creditors, that will also be affected by the Financial Restructure, is not required, provided those classes are not worse off under the plan than they would be under a viable alternative, potentially insolvent, process and the Court sanctions the restructuring plan.

The implementation of the Financial Restructure will also require shareholder approval for (among others, depending on the final terms of the Financial Restructure) the issuance of new shares as part of the debt-for-equity swap and the disapplication of pre-emption rights. A number of large shareholders have been briefed on the proposed Financial Restructure, having been wall-crossed. A draft combined prospectus and circular has been submitted to the Financial Conduct Authority and will be updated and published following finalisation of the terms of the Financial Restructure.

If successful, the Financial Restructure is not expected to be implemented before September 2024, at the earliest, due to the steps required including Court approval, albeit with the necessary inter-conditional agreements being reached approximately one to two months prior to final implementation.

The success and timing of the implementation of the Financial Restructure is uncertain and not within the control of the Board. Based on the status of discussion with stakeholders, and taking into account the advice from the Company's external financial, legal and liquidity advisors, the Directors have concluded that there is currently a reasonable prospect of the Group implementing the Financial Restructure which provides a realistic alternative to liquidation or cessation of operations. However, if negotiations with counterparties were to be unsuccessful within the time available to implement the Financial Restructure (see below), the Directors may change their view rapidly and the Company could therefore enter into insolvency proceedings with little notice.

In light of these risks, as part of the negotiations of the Financial Restructure, the Company's secured creditors have required the Board to work on various contingency plans including making preparations for alternative outcomes to a successful restructure. This includes changes to the Group structure to create a single point of enforcement. In addition, work has been required to evaluate which parts of the Group, if any, could be separated and continue to trade independently. These assessments are ongoing and expected to be completed prior to the implementation of the Financial Restructure. Such contingency plans, if enacted, in the absence of a successful implementation of the Financial Restructure, would likely result in the Company entering an insolvency process. The future intentions of Lender Group stakeholders in this regard cannot be known with certainty by the Board.

In the event of an unremedied default by the Company, the lending group could exercise their security rights which would likely result in the Company entering insolvency proceedings.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.5 Going concern continued

Short-term Liquidity

The Directors' assessment of going concern also depends on the ability of the Company to maintain liquidity in the period up to the implementation of the Financial Restructure, which as noted above, is not expected to be implemented before September 2024, at the earliest. Failure to maintain sufficient liquidity prior to the Financial Restructure, could jeopardise the Financial Restructure and result in the Group entering into insolvency proceedings.

The Group is managing its liquidity carefully, through management of its payment obligations and working capital, and has engaged the services of an external liquidity advisor. It has remained in compliance with its minimum liquidity covenant of US$75 million, with the support of amortisation deferrals from its banks and by not paying the interest coupon on its senior notes that was due on 15 May 2024 and by seeking to defer all but critical creditor payments.

This non-payment constitutes a default under the terms of the senior secured notes, with a 30-day grace period which expires on 14 June 2024. The ad hoc group has entered into a forbearance agreement with the Company, agreeing not to take enforcement action in respect of the non-payment of the coupon until at least 30 June 2024. If the Financial Restructure cannot be sufficiently progressed within the grace period, there is a risk that other noteholders could take enforcement action following the 30-day grace period – which would require at least 25% of noteholders to initiate such proceedings – and could result in the Company entering into insolvency proceedings. The Company will seek to engage with the remaining noteholders ahead of this date.

In addition to the overdue interest coupon of US$29 million, the Group is unable to make payments of US$84 million amortisation in respect of the bank facilities which are due on 31 May 2024. Deferrals of these payments, which have grown over time, have been received since October 2023. To date, the lenders have been providing these for no longer than on a rolling weekly basis. The remaining balance of the bank facilities, amounting to US$114 million, becomes due on the maturity of the facilities on 30 October 2024, absent an alternative position to be agreed as part of the Financial Restructure. Continuing deferral of these amortisation payments is of critical importance to the Group's ability to maintain liquidity prior to the Financial Restructure without triggering a default. In the event of failure to secure new deferrals from lenders, the lenders would have a default and could accelerate their debt or enforce their security which would likely result in the Company entering insolvency proceedings.

Absent any enforcement action on the interest coupon or amortisation payments, the Group forecasts to have minimal headroom above its US$75 million minimum liquidity covenant until the Financial Restructure is implemented. Liquidity is being managed through seeking to delay all but critical payments of creditors and other payment obligations until liquidity is provided by cash from ongoing operations, and not funding obligations under operational joint venture arrangements.

Enforcement action by creditors on overdue payments or obligations, or delays in operational cash receipts may cause further demands on liquidity, which if sufficiently great could result in default on the debt facilities, if remedial action is not taken.

Notwithstanding these critical risks, the Group's projections show that it will be able to maintain liquidity at or above its covenant level until at least the end of September 2024 through continued working capital management. It is the Company's intention to conclude the Financial Restructure by the end of September 2024, which would require the restructuring plan to be launched at the beginning of July. This is not in the control of the Company, as it requires agreement to be reached with multiple stakeholders, some of which are yet to be involved in the process. If the launch is delayed, the timeline for implementation would need to be extended, exposing the Company to liquidity risks set out above for an extended period.

Approach

To evaluate whether it is appropriate to adopt the going concern basis for the preparation of accounts, the Directors reviewed the Group's short-term liquidity in the period before the proposed Financial Restructure, considered the feasibility of the Financial Restructure, and reviewed forecasts for the duration of the Assessment Period (following the Financial Restructure) under a downside scenario, considered to be severe but plausible, based on the principal risks and uncertainties as set out on pages 72 to 77 of the Group's Annual report and accounts for the year ended 31 December 2023.

In particular, the Directors:

- Reviewed the non-binding proposal from the ad hoc group, the progress of discussions with the other stakeholders, including the lending banks and existing and prospective guarantee providers, and the process and consents required to implement the Financial Restructure.
- Sought advice from the Company's external financial, legal and liquidity advisors to assess whether there is a reasonable prospect of the Financial Restructure being implemented, including the requirement to obtain shareholder approvals and receiving Court sanction, and that appropriate considerations were made by the Directors to conclude that the going concern basis of preparation was appropriate at the time of approving the financial statements.
- Forecast the Group's expected short-term cash flows to assess the ability of the Group to continue to maintain sufficient liquidity up to the Financial Restructure, including potential slippages in the timeline, noting that there is very limited headroom in the liquidity covenant during this period.
- Forecast the Group's liquidity following the Financial Restructure over the Assessment Period, based on management's best estimates of: new order intake; availability of performance and advanced payment guarantees; project and contract schedules and costs; timing and quantum of collections and commercial settlements; future commodity prices; oil and gas production; and capital expenditure.

- Modelled a severe but plausible downside scenario in the period following the proposed Financial Restructure, to reflect the impact of the Financial Restructure on the Group's liquidity and working capital, 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; reduced access to guarantees; cost overruns; adverse or delayed commercial settlements; a deterioration in net working capital and adverse outcomes on contingent liabilities.
- Evaluated the mitigation actions deemed to be in the control of management, comprising the conservation of cash through working capital management and cost mitigation actions. Additional mitigations, such as the disposal of non-core assets and further working capital management, were not modelled as they are not entirely in the control of management.

The going concern assessment is based on the Group's ability to maintain liquidity above a minimum level of US$75 million under severe but plausible downside scenarios. This reflects the current minimum liquidity covenant under the Group's current bank facilities and then the expected level of liquidity required if the covenants are removed.

It is also based on the expected terms of the Financial Restructure, which are yet to be negotiated with the relevant counterparties, including the assumption that the Group's borrowing facilities, following the Financial Restructure, will consist solely of listed debt instruments without financial covenants.

A key remaining assumption in the severe but plausible case is that, whilst some reductions are modelled, performance guarantees and advance payment guarantees are available to the Group in the period after the Financial Restructure, without collateral being required. Were these not to be secured over the forecast period, or significant collateral required, positive liquidity would be difficult to maintain.

The Directors have also performed a stress test analysis which extended the severe but plausible downside scenario analysis by modelling the impact of no new orders being secured in the Assessment Period and of no advance payments being received on existing contracts. The Group would not maintain positive liquidity under the stress test scenario, which would result in the Group entering into insolvency proceedings.

Key Risks

In summary, the risks to which forecast cash flows are most sensitive are: (i) the ability to maintain sufficient liquidity prior to the implementation of the Financial Restructure; (ii) the implementation of the Financial Restructure; (iii) the ability to secure performance and advance payment guarantees following the Financial Restructure; (iv) working capital movements, in particular the receipt of high value one-off collections; and (v) contract cost overruns. Individually or in combination, these risks could have a significant impact on the Group's ability to maintain sufficient liquidity over the Assessment Period.

The first two risks are covered in detail in the sections Short-term Liquidity and Importance of the Financial Restructure, above:

(i) *Securing performance and advance payment guarantees following the Financial Restructure:* the Group is required to provide bank guarantees in favour of its EPC clients, a standard industry requirement. Performance guarantees are usually a contractual requirement, and advance payment guarantees are required to collect the associated cash advances.

It is expected that the Financial Restructure will restore the Group's ability to secure guarantees in the future, on normal commercial terms, including advanced payment guarantees for approximately US$200 million. Continued delays in obtaining guarantees could lead to the termination of existing contracts and affect the Group's ability to win and deliver new contracts and/or the timing of the receipt of cash flows. (Principal Risk: Financial Risks – Loss of financial capacity, see page 76).

(ii) *Contract collections:* there are a small number of relatively high value one-off collections of E&C working capital within the Assessment Period. These are not entirely within the control of the Group and may be subject to adverse commercial settlements or timing delays. (Principal Risk: Financial Risks – Loss of financial capacity, see page 76).

(iii) *Contract cost overruns:* the Directors noted that the impact of identified cost increases on E&C contracts was reflected in the Group's financial performance to 31 December 2023 and in future margin forecasts. Approximately 90% of the E&C backlog relates to awards secured in 2023, and is therefore not affected by the historical COVID-19 related delays and overruns that affected the legacy portfolio. For this reason, the Directors have concluded that the risk of cost increases during the Assessment Period is lower than in prior periods. (Principal Risk: Operational Risks – Operational and project performance, see page 74).

As a result of the significant increase in the E&C backlog, which more than tripled in 2023, and the expectation of further awards under the TenneT Framework Agreement in the Assessment Period, the sensitivity to new contract awards has reduced during the Assessment Period, compared with previous assessments. (Principal Risks: Strategic Risks – Low order intake, Failure to deliver strategic initiatives and Failure to deliver energy transition strategy, see pages 73 to 74).

Assessment

The Directors considered the following factors in their going concern assessment:

- The critical importance of the Financial Restructure and the status of discussions with the various stakeholders, as discussed above.
- The Group's short-term liquidity position ahead of the Financial Restructure, and required actions to maintain this, as discussed above.
- The expectation that, following the proposed Financial Restructure, the Group will have a stronger balance sheet, expecting to be in a net cash position and to have positive equity.
- As a result of the materially strengthened balance sheet and improved liquidity resulting from the Financial Restructure, the Group expects to be able to secure future performance and advanced payment guarantees on normal commercial terms (i.e. without onerous collateral requirements).
- Following the assumed successful implementation of the Financial Restructure, the Group is forecast to retain sufficient liquidity to support operations, and settle debts as they become due throughout the remainder of the Assessment Period, in the mitigated severe but plausible downside scenario, which has been modelled on a consistent basis as for prior periods' assessments. This assumes no changes to the expected principal terms of the agreements to be reached with the relevant stakeholders, including the absence of financial covenants and access to performance and advance payment guarantees.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.5 Going concern continued

Assessment continued

- The Group had a contract backlog of US$8.1 billion at 31 December 2023, following the US$7.1 billion of new awards in 2023, and a strong 18-month bidding pipeline of US$60 billion, including the expectation of further contract awards under the TenneT Framework Agreement in the Assessment Period.
- The Group has a proven track record of taking timely actions, within the control of management, to effectively mitigate downside risks, including working capital management, cost cutting and asset divestments.
- A significant proportion of the collections for which there is timing uncertainty relate to existing contractual entitlements of the Group.
- There are additional actions available to management, including further working capital management, asset disposals, and other opportunities, such as favourable commercial settlements, which management believe could result in liquidity improvements to mitigate risks, albeit they are not all wholly within their control and therefore not included in the assessment, and are unlikely to be possible prior to the Financial Restructure.

Basis of preparation and conclusion

The Directors reviewed and carefully evaluated relevant available information in order to reach a conclusion on the appropriate basis of preparation of the accounts. A summary of the Group's challenging financial position at the date of signing these financial statements and the current status of the various elements of the ongoing discussions with stakeholders in respect of the Financial Restructure are summarised at the beginning of this note.

Having assessed whether or not there is a reasonable prospect of the Group managing short-term liquidity and implementing the Financial Restructure which provides a realistic alternative to liquidation or cessation of operations, and the forecast liquidity in the mitigated severe but plausible scenario for the remainder of the Assessment Period, the Directors concluded that it is appropriate to adopt the going concern basis for the preparation of accounts. The financial statements do not contain the adjustments that would result if the Group were unable to continue as a going concern.

However, noting the matters described above, the Directors identified four material uncertainties that cast 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 2023. These are:

- The ability to maintain sufficient liquidity prior to the implementation of the Financial Restructure, including maintaining the support of the lending group, trade and other creditors without acceleration of their debt or enforcement of their security rights.
- The successful implementation of the inter-conditional elements of the Financial Restructure on terms consistent with those currently proposed, including new guarantees, agreement of terms with the lending group, approvals and Court sanction and final execution.
- The ability to secure performance and advance payment guarantees on normal commercial terms, following the Financial Restructure.
- The ongoing reliance on the timely receipt of a small number of relatively high value collections from clients.

Within these uncertainties, there are a number of events which are outside of the control of the Board and may result in the Group entering insolvency in the immediate or near term, including:

- The Group is, and is expected to continue to be, unable to make contractual amortisation payments of US$84 million on its debt facilities that are due 31 May 2024. The lenders have continued to require one-week extensions to this on a rolling weekly basis so could accelerate their debt within a week at any subsequent point.
- The Group is in default and is expected to continue to be unable to make the payment of the interest coupon of US$29 million on its senior secured notes, with a sufficiently large group of noteholders being able to take enforcement action from 14 June 2024.
- The Group has received a notice of default from a key customer requiring a performance guarantee to be posted by 16 June 2024. Failure to do so would entitle the customer to terminate the contract, which could have a detrimental impact on the Group's ability to proceed with the Financial Restructure. The Group has made arrangements to provide the performance guarantee, but requires bank lender consent for the posting of the required cash collateral. Discussions are ongoing but this consent has not yet been provided.
- Absent any acceleration or enforcement action on the interest coupon or amortisation payments, liquidity is being managed through seeking to delay all but critical payments of creditors and other payment obligations, including not funding obligations under operational joint venture arrangements. Enforcement action by creditors on overdue payments or obligations, or delays in operational cash receipts or the termination of customer contracts may cause further demands on liquidity, which if sufficiently great could result in default on the debt facilities, if remedial action is not taken.
- Agreement from key stakeholders that they will not support or participate in the Financial Restructure could result in the Financial Restructure not being capable of being implemented.

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 2023. 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.

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 Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates.

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.6 Basis of consolidation continued

Foreign currency translation continued

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 comprehensive income. On disposal of a subsidiary with non-United States dollars as a functional currency, the component of the consolidated statement of 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 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 2023, only 16% of total assets were non-current assets excluding non-current restricted cash (2022: 17%) and only 6% were property, plant and equipment (2022: 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 remaining period up to the contractual end date of the current Production Sharing Contract in 2026 (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, land and buildings, and other small assets. Block PM304 includes capitalised decommissioning costs of US$56m (2022: US$54m). 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 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 residual impact of the Covid-19 pandemic

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 revenue and profit from AVOs using the expected value approach. It assesses/reassesses AVOs at contract inception and at each reporting date recognising an AVO only when 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 2023, AVOs of US$360m were recognised in the consolidated balance sheet (2022 restated: US$354m), of which US$351m (2022 restated: US$348m) was included within the contract assets; and US$9m (2022: US$6m) 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 three contracts representing approximately 71% 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$20m.
- Liquidated damages (LDs): LDs are contractual penalties applied by customers, normally relating to failure of the Group 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 extensions of time (EoT) for excusable delays, and past experience with the customer. 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.7 Significant accounting judgements and estimates continued

Fixed-price engineering, procurement and construction contracts continued

- 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 2023, 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.
- While the adverse impact of Covid-19 on the Group's operations has declined significantly, due to the long-duration nature of contracts (primarily) in the Engineering & Construction operating segment, the economic and financial risks associated with the legacy portfolio impacted by the pandemic 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 Thai Oil Clean Fuels contract is a highly complex and large-scale contract to transform the existing oil refinery in Sriracha, 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 start-up 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.

  It is being delivered by a consortium of three joint venture partners working collaboratively, with defined scope split. The joint venture partners have joint and several liability for the execution of the contract. At 31 December 2023, the contract was 83% complete based on value of work done. Unfortunately, due to the complexity and unique elements of the contract, losses have been incurred and reflected in the Group's historic financial statements.

  At the time of reporting the full year 2023 results, and as reflected in the Group's trading updates throughout 2023 and 2024, the Company and its joint venture partners remain engaged with its client in relation to the reimbursement of additional project costs. However, management has not progressed discussions sufficiently to recognise the expected outcome of the negotiations and the resulting recoveries in its accounts.

  Therefore, whilst the financial statements represent management's current best estimate of the financial outcome of the contract, this is subject to estimation uncertainty of both contract costs at completion and the final agreed level of reimbursement and additional revenue awarded by the client.

  Management has assessed the range of likely possible outcomes and expects to reach a settlement with its client that results in a commercial outcome no worse than the position assumed in the financial statements.

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 2023, was US$54m (2022: US$59m). The change in the total uncertain tax position during the year reflects the outcomes of tax audits and certain settlements during 2023. Whilst a range of outcomes is reasonably possible for open uncertain tax items, the Group believes that it has made appropriate provision for periods which are not yet agreed with the tax authorities and hence the sensitivity of this range is likely to be between US$nil and US$54m. The potential impact of the OECD Pillar Two framework and the new federal corporate tax regime in the UAE is covered in more detail in note 8b.

Recoverable value of oil and gas assets

- Block PM304 oil and gas asset in Malaysia had a recoverable amount of US$73m (2022: US$86m). 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$7m (2022: US$6m) in the period (note 6). The Group's fair value less cost of disposal estimate includes an assessment of future field performance and future oil price assumptions (note 6). The fair value less cost of disposal is 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 2023 was estimated at US$17m (2022: US$22m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a separately disclosed fair value gain of US$5m in the Corporate reporting segment (note 6). The fair value of the embedded derivative is most sensitive to the current size of the Revolving Credit Facility, the time to maturity of the embedded derivative and the 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

- Deferred consideration relating to disposal of the JSD6000 installation vessel (the 'vessel'): the deferred consideration relating to the 2018 disposal of the vessel represents a contractual right to the Group for 10% of the value of the vessel, and 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 remeasured at fair value through profit or loss. The fair value of the deferred consideration considers 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, noting that sea trials have already begun and a potential charter customer identified. The fair value is also subject to change based on changes in the market value of similar specification deep-water vessels. Furthermore, factors impacting 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. At the end of each reporting period, management reviews its estimate to reassess these factors and consider their impact on the fair value of the deferred consideration, and to conclude whether a corresponding gain or loss needs to be recognised in the consolidated income statement. Management reviewed the carrying amount of the deferred consideration at year-end and concluded that there was a fair value increase of US$3m (2022: US$1m) to a total value of US$59m.

  Supporting this assessment was an independent shipbroker's valuation (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), corroborating a fair value range for the deferred consideration of between US$57m and US$60m.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.8 Significant accounting policies continued

Engineering & Construction continued

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 as determined at the inception of the contract. 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, at the inception of the contract, 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. Where the contract with customers includes distinct performance obligations but the margins on that contract, at inception, is negligible or zero, the Group recognises the revenue as the performance obligation is satisfied over time, and discloses this revenue as 'pass-through' revenue (note 3).

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.

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, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country, and other significant one-off events or transactions.

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.

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.8 Significant accounting policies continued

Leases continued

Group as a lessee continued

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.

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).

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. The estimated useful economic life of customer contracts is 10 years from initial recognition.

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.

The estimated useful economic life for software and IT digital systems is five to seven years.

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 counterparty is estimated with input from a third-party provider

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.8 Significant accounting policies continued

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.

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.8 Significant accounting policies continued

Financial liabilities continued

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 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 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.

Financial liabilities at fair value through profit or loss

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 curve of the applicable reference rate.

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 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.

End of service benefits

Liabilities recognised in respect of end of service 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. Remeasurements, comprising of actuarial gains and losses, excluding amounts included in net interest income or expense on end of service benefits, are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

2.8 Significant accounting policies continued

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 and does not give rise to equal taxable and deductible temporary differences
- 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 the year, a review was conducted by management into one of the contracts in the E&C portfolio, as part of the process for completing the audit of the Group's associated subsidiary 2022 financial statements, and it was established that certain information had been provided by third-party advisors prior to the approval of the Group's consolidated financial statements for the year ended 31 December 2022. However, this information was not shared with 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.

   The information provided by the third-party advisors was integral to management's judgement and assessment in respect of an AVO recognised on that contract in 2021 and had it been evaluated prior to the approval of the Group's consolidated financial statements, the highly probable criteria for continued recognition of the AVO would not have been met. Consequently, this would have resulted in an adjusting post balance sheet event reflecting a reduction in revenue and an additional pre-tax loss of US$24m.

   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. There was no impact on amounts reported as at 1 January 2022.

2. The Group conducted a review of the criteria and methodology for measurement of current tax liabilities, taking into account relevant tax laws and prevailing tax rates. As a result of this review, it was identified that tax releases in certain tax jurisdictions amounting to US$6m related to developments and events that occurred in prior periods (rather than representing a change in accounting estimate during 2023) and a further US$8m related to errors in translating foreign currency balances. 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. There was no impact on amounts reported as at 1 January 2022.

The affected financial statement line items are as follows:

	31 Dec 2022 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	31 Dec 2022 Restated US$m
Income statement impact				
Revenue (note 3)	2,591	(24)	–	2.567
Cost of sales	(2,667)	–	–	(2,667)
Gross loss	(76)	(24)	–	(100)
Selling, general and administration expenses	(182)	–	–	(182)
Operating loss	(217)	(24)	–	(241)
Finance expense (note 7)	(116)	–	–	(116)
Loss before tax	(321)	(24)	–	(345)
Income tax expense (note 8)	(16)	–	14	(2)
Net loss	(337)	(24)	14	(347)
Net loss attributable to Petrofac Limited shareholders	(310)	(24)	14	(320)
Loss per share (US cents)				
Loss per share – basic and diluted (note 9)	(60.2)	(4.7)	2.8	(62.1)

	31 Dec 2022 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	31 Dec 2022 Restated US$m
Statement of comprehensive income				
Total comprehensive loss for the year	(317)	(24)	14	(327)
Total comprehensive loss attributable to Petrofac Limited shareholders	(290)	(24)	14	(300)

	31 Dec 2022 As reported US$m	Restatement 1 US$m	Restatement 2 US$m	31 Dec 2022 Restated US$m
Balance sheet impact				
Contract assets (note 20)	1,329	(5)	–	1,324
Total current assets	2,664	(5)	–	2,659
Total assets	3,267	(5)	–	3,262
Retained earnings	(143)	(24)	14	(153)
Total equity	112	(24)	14	102
Contract liabilities (note 20)	136	19	–	155
Income tax payable	79	–	(14)	65
Total current liabilities	2,846	19	(14)	2,851
Total liabilities	3,155	19	(14)	3,160
Total equity and liabilities	3,267	(5)	–	3,262

	31 Dec 2022 As reported US$m	Restatement 1 US$m	31 Dec 2022 Restated US$m
Statement of cash flows impact			
Loss before tax	(321)	(24)	(345)
Loss before tax and separately disclosed items	(296)	(24)	(320)
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:			
Difference between end of service benefits paid and amounts recognised in the consolidated income statement	(10)	–	(10)
Net finance expense before separately disclosed finance expense	91	–	91
Working capital adjustments:			
Contract assets	268	5	273
Contract liabilities	62	19	81
Net working capital adjustments	135	24	159
Cash generated from operations	21	–	21
Net cash flows used in operating activities	(146)	–	(146)

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

3 Revenue from contracts with customers

	2023 US$m	2022 (restated)[1] US$m
Rendering of services	**2,376**	2,431
Sale of crude oil and gas	**120**	136
	2,496	2,567

1. The prior year numbers are restated; see note 2.9.

Included in revenues are Engineering & Construction and Asset Solutions revenues of a 'pass-through' nature with zero or low margins amounting to US$404m (2022: US$417m).

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$m	2023 US$m	Engineering & Construction (restated)[1] US$m	Asset Solutions US$m	Integrated Energy Services US$m	2022 (restated)[1] US$m
Geographical markets								
United Kingdom	**13**	**782**	**–**	**795**	8	640	–	648
Algeria	**243**	**–**	**–**	**243**	374	1	–	375
Lithuania	**220**	**–**	**–**	**220**	159	–	–	159
Malaysia	**2**	**59**	**121**	**182**	1	50	137	188
United States of America	**–**	**168**	**–**	**168**	–	92	–	92
Oman	**115**	**21**	**–**	**136**	233	24	–	257
Thailand	**103**	**29**	**–**	**132**	255	25	–	280
Australia	**–**	**131**	**–**	**131**	–	31	–	31
Netherlands	**67**	**18**	**–**	**85**	14	26	–	40
Bahrain	**–**	**76**	**–**	**76**	–	54	–	54
United Arab Emirates	**25**	**29**	**–**	**54**	26	32	–	58
Libya	**48**	**3**	**–**	**51**	21	–	–	21
Iraq	**31**	**16**	**–**	**47**	54	75	–	129
India	**21**	**20**	**–**	**41**	32	8	–	40
Kuwait	**28**	**4**	**–**	**32**	74	5	–	79
Ivory Coast	**–**	**21**	**–**	**21**	–	–	–	–

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	2023 US$m	Engineering & Construction (restated)[1] US$m	Asset Solutions US$m	Integrated Energy Services US$m	2022 (restated)[1] US$m
Kazakhstan	**10**	**7**	**–**	**17**	3	23	–	26
Azerbaijan	**–**	**15**	**–**	**15**	–	14	–	14
Turkmenistan	**–**	**7**	**–**	**7**	–	–	–	–
Saudi Arabia	**6**	**–**	**–**	**6**	8	–	–	8
New Zealand	**–**	**3**	**–**	**3**	–	7	–	7
Russia	**(3)**	**1**	**–**	**(2)**	16	1	–	17
Others	**2**	**34**	**–**	**36**	5	39	–	44
Total revenue from contracts with customers	**931**	**1,444**	**121**	**2,496**	1,283	1,147	137	2,567
Type of goods or service								
Fixed price	**886**	**160**	**–**	**1,046**	1,180	141	–	1,321
Reimbursable	**45**	**1,284**	**1**	**1,330**	103	1,006	1	1,110
Sale of crude oil and gas	**–**	**–**	**120**	**120**	–	–	136	136
Total revenue from contracts with customers	**931**	**1,444**	**121**	**2,496**	1,283	1,147	137	2,567
Customer type								
Government	**447**	**273**	**16**	**736**	1,053	197	49	1,299
Non-government	**484**	**1,171**	**105**	**1,760**	230	950	88	1,268
Total revenue from contracts with customers	**931**	**1,444**	**121**	**2,496**	1,283	1,147	137	2,567
Timing of revenue recognition								
Services transferred over time	**931**	**1,444**	**1**	**2,376**	1,283	1,147	1	2,431
Goods transferred at a point in time	**–**	**–**	**120**	**120**	–	–	136	136
Total revenue from contracts with customers	**931**	**1,444**	**121**	**2,496**	1,283	1,147	137	2,567

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.

There were no customers representing revenue greater than 10% of Group revenue (2022: one customer amounting to 37%/US$372m 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	2023 US$m	Engineering & Construction US$m	Asset Solutions US$m	2022 US$m
Within one year	**1,238**	**885**	**2,123**	918	1,169	2,087
More than one year	**4,919**	**1,107**	**6,026**	638	652	1,290
	6,157	**1,992**	**8,149**	1,556	1,821	3,377

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

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 2.8, 6 and Appendix A for details. Consequently, the CODMs assess the performance of the operating segments based on measures 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 2023 and restated 31 December 2022.

Year ended 31 December 2023

	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	931	1,444	121	–	–	2,496	–	2,496
Inter-segment sales	5	2	–	6	(13)	–	–	–
Total revenue	936	1,446	121	6	(13)	2,496	–	2,496
Operating (loss)/profit	(422)	–	34	(7)	–	(395)	(25)	(420)
Finance income	–	–	5	1	–	6	5	11
Finance expense	(4)	(2)	(9)	(104)	–	(119)	–	(119)
Share of net profit of associates and joint ventures	–	2	–	–	–	2	–	2
(Loss)/profit before tax	(426)	–	30	(110)	–	(506)	(20)	(526)
Income tax credit/(expense)	11	2	(7)	(3)	–	3	–	3
Net (loss)/profit	(415)	2	23	(113)	–	(503)	(20)	(523)
Attributable to:								
Petrofac Limited shareholders	(397)	2	23	(113)	–	(485)	(20)	(505)
Non-controlling interests	(18)	–	–	–	–	(18)	–	(18)
Net (loss)/profit	(415)	2	23	(113)	–	(503)	(20)	(523)
EBIT	(422)	2	34	(7)	–	(393)	(25)	(418)
EBITDA	(412)	13	90	(1)	–	(310)	(30)	(340)

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$m	Total US$m
Other segment information					
Capital expenditures:					
Property, plant and equipment (note 12)	**5**	**8**	**1**	**1**	**15**
Intangible assets (note 15)	**–**	**–**	**–**	**6**	**6**
Charges:					
Depreciation (note 12)	**10**	**10**	**56**	**2**	**78**
Amortisation, business performance impairment and write off (notes 5a, 5b and 5g)	**–**	**1**	**–**	**4**	**5**
Separately disclosed items, pre-tax (note 6)	**–**	**7**	**(7)**	**20**	**20**
Expected credit loss (reversal)/charge (note 5e)	**(1)**	**15**	**–**	**–**	**14**
Share-based payments (note 24)	**3**	**2**	**–**	**3**	**8**

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 (restated)[1]	1,283	1,147	137	–	–	2,567	–	2,567
Inter-segment sales	4	11	–	6	(21)	–	–	–
Total revenue (restated)[1]	1,287	1,158	137	6	(21)	2,567	–	2,567
Operating (loss)/profit (restated)[1]	(323)	55	58	(24)	–	(234)	(7)	(241)
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 (restated)[1]	(325)	59	54	(108)	–	(320)	(25)	(345)
Income tax expense (restated)[1]	9	(4)	(1)	(5)	–	(1)	(1)	(2)
Net (loss)/profit (restated)[1]	(316)	55	53	(113)	–	(321)	(26)	(347)
Attributable to:								
Petrofac Limited shareholders (restated)[1]	(289)	55	53	(113)	–	(294)	(26)	(320)
Non-controlling interests	(27)	–	–	–	–	(27)	–	(27)
Net (loss)/profit (restated)[1]	(316)	55	53	(113)	–	(321)	(26)	(347)
EBIT (restated)[1]	(323)	60	58	(24)	–	(229)	(7)	(236)
EBITDA (restated)[1]	(311)	70	109	(18)	–	(150)	(12)	(162)

1. The prior year numbers are restated; see note 2.9.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

4 Segment information continued

	Engineering & Construction US$m	Asset Solutions US$m	Integrated Energy Services US$m	Corporate & others US$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 (notes 5a, 5b and 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)
Share-based payments (note 24)	2	2	–	2	6

Geographical segments

The following tables present selected non-current assets by geographical segments for the years ended 31 December 2023 and 31 December 2022.

As at 31 December 2023

	Malaysia US$m	**United Arab Emirates US$m**	**United Kingdom US$m**	**India US$m**	**United States of America US$m**	**Other countries US$m**	**Total US$m**
Property, plant and equipment (note 12)	**113**	**22**	**10**	**12**	**11**	**2**	**170**
Goodwill (note 14)	**3**	**30**	**39**	**–**	**24**	**–**	**96**
Other intangible assets (note 15)	**–**	**–**	**17**	**–**	**4**	**5**	**26**

As at 31 December 2022

	Malaysia US$m	United Arab Emirates US$m	United Kingdom US$m	India US$m	United States of America US$m	Other countries US$m	Total US$m
Property, plant and equipment (note 12)	173	30	17	12	10	2	244
Goodwill (note 14)	3	29	38	–	25	1	96
Other intangible assets (note 15)	–	–	21	–	–	4	25

5 Expenses and income

a. Cost of sales

Included in cost of sales are staff costs of US$658m (2022: US$608m), depreciation charged on property, plant and equipment of US$71m (2022: US$67m) and amortisation charge on intangible assets of US$1m (2022: US$1m).

b. Selling, general and administration expenses

	2023 US$m	2022 US$m
Staff costs	**114**	100
Depreciation and amortisation (notes 12 and 15)	**11**	11
Other general and administration expenses	**77**	64
Business performance selling, general and administration expenses (before separately disclosed items)	**202**	175
Separately disclosed items (note 6)	**25**	7
	227	182

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 increased in the year due to additional proposal costs related to increased business development activities and an increase in overheads driven by the growth in headcount reflecting the additional new contracts secured in the previous two years.

c. Staff costs

	2023 US$m	2022 US$m
Total staff costs:		
Wages and salaries	**692**	644
Social security costs	**33**	31
Defined contribution pension costs	**29**	24
End of service benefits costs (note 27)	**10**	3
Share-based payments costs (note 24)	**8**	6
	772	708

The average number of staff employed by the Group during the year was 8,191 (2022: 7,817).

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:

	2023 US$m	2022 US$m
Group audit fee	**5**	4
Audit of subsidiaries' accounts	**2**	1
	7	5

Auditor's remuneration includes audit-related assurance services of US$0.1m (2022: US$0.1m).

e. Expected credit loss allowance

The movement in ECL allowance recognised by the Group during 2023 and 2022 was as follows:

	2023 US$m	2022 US$m
ECL charge on trade receivables (note 19)	**16**	–
ECL reversal on contract assets (note 20)	**(1)**	(21)
ECL reversal on other financial assets (note 17)	**–**	(1)
ECL reversal on cash at bank (note 21)	**(1)**	–
ECL reversal on other receivables (note 19)	**–**	(1)
	14	(23)

f. Other operating income

	2023 US$m	2022 US$m
Foreign exchange gains	**6**	3
Other income	**6**	20
	12	23

Other income included US$2m in respect of insurance claims recoveries (2022: US$4m) and a gain on disposal of property and equipment of US$1m in the Engineering & Construction operating segment (2022: US$1m). During 2022, the Group also received government grants of US$11m in respect of services exported from India that generated net foreign remittances.

g. Other operating expenses

	2023 US$m	2022 US$m
Other expenses	**3**	5

Other operating expenses are primarily in respect of insurance excesses payable by the Group through its captive insurer.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

6 Separately disclosed items

	2023 US$m	2022 US$m
Reversal of impairment of assets	**(7)**	(6)
Impairment of assets	**–**	1
Losses on disposal	**8**	–
Fair value remeasurements	**(3)**	(10)
Cloud ERP software implementation costs	**5**	10
Restructuring and refinancing-related costs	**20**	5
Other separately disclosed items	**2**	7
Total separately disclosed items as reported within selling, general and administrative expenses (note 5b)	**25**	7
Separately disclosed items as reported within finance (income)/expense (note 7)	**(5)**	18
Income tax charge on separately disclosed items	**–**	1
Total separately disclosed items as reported within income tax charge (note 8)	**–**	1
Consolidated income statement charge	**20**	26

Reversal of impairment of assets

At 31 December 2023, 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 9.1% (2022: 10.0%). This review involved assessing the field operational performance, oil price and licence extension assumptions (with an extension beyond the current PSC expiry date of 2026 deemed unlikely). This assessment resulted in an impairment reversal of US$7m (2022: US$6m) allocated to property, plant and equipment in the Integrated Energy Services operating segment.

The average oil price assumptions used by management were US$84 per barrel for 2024, US$83 per barrel for 2025 and US$81 per barrel for the remaining period of the assessment (equivalent to the end of licence period) (2022: US$85 per barrel for 2023, US$80 per barrel for 2024 and US$75 per barrel to the end of licence period). The oil price assumption and future field performance were the most sensitive inputs in determining the fair value less cost of disposal. US$10 per barrel decrease in oil prices would result in an incremental impairment charge of US$22m and a US$10 increase in oil prices would result in an incremental impairment reversal of US$19m and a 10% decrease in production would result in an incremental impairment charge of US$18m and a 10% increase in production would result in an incremental impairment reversal of US$15m.

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 prior 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. This resulted in an impairment charge of US$1m in the Asset Solutions operating segment.

Losses on disposal

During 2023, the Group sold its investment in two associate entities PetroFirst Infrastructure 2 Limited and PetroFirst Infrastructure Limited (note 16) and as a result, recognised a net gain on disposal of US$3m and a loss on disposal of US$9m respectively, both in the Asset Solutions operating segment. As a result of this disposal, the Group derecognised the right-of-use asset in respect of the West Desaru mobile offshore production unit (MOPU) of US$16m and the associated lease liability of US$17m, resulting in a net gain of US$1m in the Asset Solutions operating segment (notes 12 and 29).

Additionally, on 22 September 2023, the Group disposed of its shareholding in a wholly-owned subsidiary Petrofac Cyprus Limited (which held two Russian subsidiaries) as part of the Group's strategic decision to exit from Russia. The disposal, which related to the Asset Solutions operating segment, was for US$nil consideration and resulted in a loss on disposal of US$3m, as follows:

	US$m
Disposal consideration less cost of disposal	**–**
Trade and other receivables	**5**
Cash at bank	**1**
Trade and other payables	**(3)**
Carrying value of net assets derecognised as part of the disposal	**3**
Net loss on disposal	**(3)**

Fair value remeasurements

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 considers, 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$3m (2022: US$1m) was recognised as a separately disclosed item in the Engineering & Construction operating segment which increased the deferred consideration to US$59m at the end of the reporting period (2022: US$56m). Supporting the assessment was an independent broker's valuation, corroborating a fair value range for the deferred consideration ranges of between US$57m and US$60m.

Management also reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc (W&W) based on W&W's financial performance during the earn-out period, which concluded in 2023. No fair value gain or loss was recognised during the year (2022: negative fair value adjustment of US$1m recognised in the Asset Solutions operating segment).

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 resulting in a fair value gain of US$10m in the Integrated Energy Services operating segment.

Software implementation costs

Following IFRIC's agenda decision published in April 2022, the Group 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 of cloud computing software, resulting in costs of US$5m being recognised as an expense in the current year (2022: US$10m). The implementation has now been successfully completed for the majority of the Group and will be completed for the remaining Group entities by the end of 2024.

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.

Restructuring and refinancing-related costs

The Group incurred US$20m of professional services fees in relation to non-recurring projects within the Corporate reporting segment (2022: US$5m).

Other separately disclosed items

One of the Group's subsidiaries in the United Kingdom ceased operations during the year and as a result, served notice on their office lease (to effect the break clause) due to uncertainty over the continued use of office space in future periods for the remaining lease period. As the related right-of-use asset had been fully impaired in prior periods, the reduction in lease liability generated a one-off gain of US$4m. Additionally, US$2m of goodwill associated with this subsidiary was written off during the year and additional costs of US$1m were incurred, all in the Asset Solutions operating segment.

The Group also recognised a provision for estimated penalties of US$3m due to administrative non-compliance of Russian sanctions resulting from our exit from those operations (page 77) in the Engineering & Construction operating segment.

During 2022, the Group collected US$12m of the deferred consideration due from Ithaca Energy UK Ltd and sold the remaining deferred consideration 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, cost reduction measures were taken by management which resulted in total redundancy costs of US$4m during 2022.

Separately disclosed finance income/(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 remeasured at fair value through profit or loss. The fair value of the embedded derivative as at 31 December 2023 was estimated at US$17m (2022: US$22m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') resulting in a fair value gain of US$5m (2022: fair value loss of US$18m) in the Corporate reporting segment.

7 Finance income/(expense)

	2023 US$m	2022 US$m
Finance income		
Bank interest	**1**	1
Interest income from joint operation partners in respect of leases	**5**	6
Business performance finance income (before separately disclosed items)	**6**	7
Separately disclosed items – finance income (note 6)	**5**	–
Total finance income	**11**	7
Finance expense		
Group borrowings	**(105)**	(85)
Lease liabilities	**(9)**	(12)
Unwinding of discount on provisions (note 27)	**(5)**	(1)
Business performance finance expense (before separately disclosed items)	**(119)**	(98)
Separately disclosed items – finance expense (note 6)	**–**	(18)
Total finance expense	**(119)**	(116)

The increase in the Group's borrowing costs is primarily attributable to the increase in the Group's average net debt levels and an increase in interest rates during the year, impacting the interest cost in respect of floating rate term loans and the RCF facility. In addition, Group borrowing costs include modification losses of US$13m in accordance with IFRS 9 'Financial Instruments' (2022: US$nil) arising as a result of the external debt amendments and extension completed during the year (note 26), which extended the maturity of the RCF and terms loans to October 2024.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

8 Income tax

a. Tax on ordinary activities

The major components of income tax (credit)/expense are as follows:

	Business performance[1] US$m	Separately disclosed items US$m	Reported 2023 US$m	Business performance[1] US$m	Separately disclosed items US$m	Reported 2022 US$m
Current income tax						
Current income tax charge	**23**	**–**	**23**	20	1	21
Adjustments in respect of previous years	**(14)**	**–**	**(14)**	(34)	–	(34)
	9	**–**	**9**	(14)	1	(13)
Deferred tax						
Relating to origination and reversal of temporary differences	**(12)**	**–**	**(12)**	(1)	–	(1)
Derecognition of deferred tax assets previously recognised	**–**	**–**	**–**	16	–	16
	(12)	**–**	**(12)**	15	–	15
Income tax (credit)/expense reported in the consolidated income statement	**(3)**	**–**	**(3)**	1	1	2
Income tax reported outside profit and loss						
Foreign exchange movements	**–**	**–**	**–**	2	–	2
Income tax expense reported	**–**	**–**	**–**	2	–	2

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.

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 (credit)/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 2023 US$m**	Business performance[1] (restated)[3] US$m	Separately disclosed items US$m	Reported 2022 (restated)[3] US$m
Loss before tax	**(506)**	**(20)**	**(526)**	(320)	(25)	(345)
Applicable tax (credit)/charge at standard statutory rates[2]	**(51)**	**–**	**(51)**	(6)	2	(4)
Expenditure not allowable for income tax purposes	**15**	**1**	**16**	8	2	10
Income not subject to tax	**(2)**	**–**	**(2)**	–	(2)	(2)
Adjustments in respect of previous years	**(14)**	**–**	**(14)**	(34)	–	(34)
Adjustments in respect of deferred tax assets previously not recognised	**(1)**	**–**	**(1)**	16	–	16
Utilisation of tax assets not previously recognised	**(13)**	**(3)**	**(16)**	(26)	–	(26)
Current year deferred tax assets not recognised	**63**	**2**	**65**	43	(1)	42
At the effective income tax rate of positive 0.6% on reported profit before tax (2022: negative 0.6%)	**(3)**	**–**	**(3)**	1	1	2

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 negative 9.7% (2022: 1.2%). Compared with 2022, the rate in 2023 was higher primarily due to lower profits in Malaysia and increased losses in Thailand, resulting in a higher weighted average statutory tax rate. 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 numbers are restated; see note 2.9.

The Group's effective tax rate for the year ended 31 December 2023 was positive 0.6% (2022: negative 0.6%). The Group's effective tax rate excluding the impact of impairments, remeasurements and other separately disclosed items for the year ended 31 December 2023 was also positive 0.6% (2022: negative 0.3%).

The adjustments in respect of previous years of US$14m largely relates to accrual adjustments and 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 Group monitors corporate tax developments in these territories which could affect the Group's tax liabilities.

A significant development in this landscape occurred in December 2021 when the Organisation for Economic Co-operation and Development (OECD) issued model rules for a new global minimum tax framework (Pillar Two). Governments worldwide have since been issuing or planning legislation to align domestic tax laws with the Pillar Two requirements. The primary objective of these rules is to establish a minimum level of taxation, effectively imposing a 15% minimum tax rate for multinational entities. This effect is achieved through the imposition of a top-up tax when a subsidiary pays less than a 15% effective tax rate, thereby triggering a liability for the top-up tax at the parent entity level.

Specifically, on 19 May 2023, the Jersey Government announced its intention to implement an Income Inclusion Rule and a domestic minimum tax rate of 15% from 2025. On 20 June 2023, UK Finance (No. 2) Act 2023 was substantially enacted, including legislation to implement Pillar Two requirements for accounting periods beginning on or after 31 December 2023. On 13 September 2023, the UAE Ministry of Finance made an informal announcement deferring the implementation of Pillar Two requirements until 2025.

Although the Group operates in a small number of jurisdictions where the effective tax rate is below 15%, any potential additional top-up tax that may arise is evaluated as being immaterial.

In addition, the Group has applied the exception in IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to OECD Pillar Two income taxes.

On 16 January 2023, the UAE government published a Cabinet Decision establishing the threshold for the application of the new federal Corporate Income Tax regime in the UAE. This event made the Corporate Income Tax substantively enacted and enacted within the meaning of IAS 12. Current taxes will only become payable for financial years beginning on or after 1 June 2023, thus the Group will be subject to current tax for the first time in the UAE during the year ending 31 December 2024. However, the enactment of the legislation requires the Group to recognise deferred taxes where relevant using the enacted tax rate of 9%. The associated impact of deferred taxes as at 31 December 2023 is deemed immaterial to the consolidated financial statements based on management's assessment of its effects.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

8 Income tax continued

c. Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Movement	
	2023 US$m	2022 US$m	**2023 US$m**	2022[1] US$m
Deferred tax liabilities				
Profit recognition[1]	**12**	25	**(13)**	(3)
Overseas earnings	**6**	4	**2**	1
Other temporary differences	**–**	1	**(1)**	1
Gross deferred tax liabilities	**18**	30	**(12)**	(1)
Deferred tax assets				
Losses available for offset	**1**	–	**1**	15
Decelerated depreciation for tax purposes	**–**	–	**–**	2
Other temporary differences	**2**	3	**(1)**	–
Gross deferred tax assets	**3**	3	**–**	17

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	
	2023 US$m	2022 US$m	**2023 US$m**	2022[1] US$m
Net deferred tax liability and income tax expense	**(15)**	(27)	**(12)**	(16)
Of which:				
UK	**–**	–	**–**	(17)
Other (outside of the UK)	**1**	1	**–**	–
Deferred tax assets	**1**	1	**–**	(17)
Deferred tax liabilities	**16**	28	**(12)**	1

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 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.

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$0.3m (2022: US$0.2m) 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 (2022: US$5m).

d. Unrecognised tax losses and tax credits

Deferred tax assets are recognised for tax loss carry forwards, tax credits and other deductible temporary differences 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, tax credits and other deductible temporary differences of US$2,099m (2022: US$1,806m). These other deductible temporary differences include decelerated capital allowances, provisions and decommissioning related amounts.

	2023 US$m	2022 US$m
Expiration dates for tax losses		
Expiring within 5 years	**373**	144
Expiring within 6-10 years	**231**	72
No expiration date	**1,347**	1,445
	1,951	1,661
Tax credits (no expiration date)	**9**	9
Other temporary differences (no expiration date)	**139**	136
	2,099	1,806

During 2023, previously unrecognised losses of US$12m were utilised by the Group (2022: US$4m).

9 Loss per share

Basic loss 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 loss 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 loss and share data used in calculating basic and diluted loss per share:

	2023 US$m	2022 (restated)[3] US$m
Business performance net loss attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(485)**	(294)
Separately disclosed items attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(20)**	(26)
Reported net loss attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(505)**	(320)

	2023 Shares million	2022 Shares million
Weighted average number of ordinary shares for basic earnings per share[1]	**519**	515
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	**519**	515

	2023 US cents	2022 (restated)[3] US cents
Basic loss per share		
Business performance	**(93.4)**	(57.1)
Separately disclosed items	**(3.9)**	(5.0)
Reported	**(97.3)**	(62.1)
Diluted loss per share[2]		
Business performance	**(93.4)**	(57.1)
Separately disclosed items	**(3.9)**	(5.0)
Reported	**(97.3)**	(62.1)

1. The weighted number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust.
2. For the years ended 31 December 2022 and 2023, potentially issuable ordinary shares under the share-based payment plans are excluded from the diluted loss 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 (2022: US$nil).

11 Deferred consideration

The deferred consideration associated with the disposal of the JSD6000 installation 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$59m at 31 December 2023 (2022: US$56m) (note 6).

Notes to the consolidated financial statements continued
For the year ended 31 December 2023

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$m	Office furniture and equipment US$m	Assets under construction US$m	Total US$m
Cost								
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)
Transfer	4	–	(2)	(1)	–	3	(1)	3
Translation difference	–	–	(8)	–	–	(7)	–	(15)
At 1 January 2023	**614**	**208**	**203**	**15**	**22**	**76**	**–**	**1,138**
Additions	**–**	**–**	**6**	**2**	**5**	**2**	**–**	**15**
Disposals	**(2)**	**(16)**	**(9)**	**(6)**	**(1)**	**(1)**	**–**	**(35)**
Translation difference	**–**	**–**	**1**	**–**	**–**	**2**	**–**	**3**
At 31 December 2023	**612**	**192**	**201**	**11**	**26**	**79**	**–**	**1,121**
Depreciation and impairment								
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 1 January 2023	**(496)**	**(149)**	**(146)**	**(12)**	**(15)**	**(76)**	**–**	**(894)**
Depreciation charge (notes 5a and 5b)	**(44)**	**(11)**	**(13)**	**(2)**	**(5)**	**(3)**	**–**	**(78)**
Reversal of impairment (note 6)	**5**	**2**	**–**	**–**	**–**	**–**	**–**	**7**
Disposals	**–**	**–**	**8**	**6**	**1**	**1**	**–**	**16**
Translation difference	**–**	**–**	**(1)**	**–**	**–**	**(1)**	**–**	**(2)**
At 31 December 2023	**(535)**	**(158)**	**(152)**	**(8)**	**(19)**	**(79)**	**–**	**(951)**
Net carrying amount								
At 31 December 2023	**77**	**34**	**49**	**3**	**7**	**–**	**–**	**170**
At 31 December 2022	118	59	57	3	7	–	–	244

Additions

Additions during the year of US$15m mainly comprised of right-of-use asset additions of US$11m related to land, buildings and leasehold improvements and leased vehicles, predominantly in the Asset Solutions operating segment.

Depreciation and impairment

The depreciation charge in the consolidated income statement consists of US$70m (2022: US$67m) in cost of sales and US$8m (2022: US$7m) in selling, general and administration expenses.

During 2023, the Group reassessed its estimate of recoverable value and reversed US$7m 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.

Disposals

The disposal within land, buildings and leasehold improvements and plant and equipment, having a net carrying amount of US$1m (2022: US$nil), related to the write-off of unused assets in the Asset Solutions operating segment. The disposal of US$16m within oil and gas facilities related to the extinguishment of the obligation to acquire the West Desaru MOPU as set out on page 178.

Right-of-use assets

The table below provides details of right-of-use assets recognised within various categories of the property, plant and equipment line item:

	Oil and gas facilities US$m	Land, buildings and leasehold improvements US$m	Plant and equipment US$m	Vehicles US$m	Total US$m
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 difference	–	(3)	–	–	(3)
At 1 January 2023	**55**	**28**	**1**	**5**	**89**
Additions	**–**	**6**	**–**	**5**	**11**
Depreciation charge (note 29)	**(11)**	**(8)**	**(1)**	**(4)**	**(24)**
Derecognition of assets	**(16)**	**(2)**	**–**	**–**	**(18)**
Reversal of impairment (note 6)	**2**	**–**	**–**	**–**	**2**
At 31 December 2023	**30**	**24**	**–**	**6**	**60**

The Group had an obligation to acquire the West Desaru mobile offshore production unit (MOPU) which was previously recognised as a right-of-use asset and a corresponding lease liability (note 29). This obligation expired upon the sale of the Group's investment in associates (note 6) and therefore, the Group derecognised the right-of-use assets (with a carrying value of US$16m) in relation to this obligation.

13 Non-controlling interests

Movement of non-controlling interest in Petrofac Emirates LLC and Petrofac Engineering Services (Malaysia) Sdn. Bhd.

	2023 US$m	2022 US$m
At 1 January	**(17)**	10
Loss for the year	**(18)**	(27)
At 31 December	**(35)**	(17)

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	2023 US$m	2022 US$m
Revenue	**54**	37
Cost of sales	**(101)**	(137)
Gross profit	**(47)**	(100)
Selling, general and administration expenses	**(6)**	(4)
Other income	**–**	9
Net finance expense	**(17)**	(10)
Net loss for the year	**(70)**	(105)
Attributable to non-controlling interest	**(18)**	(27)
Summarised balance sheet		
Current assets	**132**	156
Total assets	**132**	156
Non-current liabilities	**4**	3
Current liabilities	**271**	219
Total liabilities	**275**	222
Total equity	**(143)**	(66)
Attributable to non-controlling interest	**(35)**	(17)
Summarised cash flow statement		
Operating	**35**	(3)
Financing	**(34)**	–
	1	(3)

No dividends were declared by Petrofac Emirates LLC during 2023 (2022: US$nil).

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

14 Goodwill

A summary of the movements in goodwill is presented below:

	2023 US$m	2022 US$m
At 1 January	**96**	101
Derecognised on cessation of operations (note 6)	**(2)**	–
Translation difference	**2**	(5)
At 31 December	**96**	96

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

	2023 US$m	2022 US$m
Engineering & Construction	**41**	41
Asset Solutions	**55**	55
	96	96

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.

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 14.8% (2022: 16.0%) 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 a subsequent growth rate of 5.0% 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 14.8% (2022: 16.0%) 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

	2023 US$m	2022 US$m
Intangible oil and gas assets		
Carrying value:		
At 1 January	–	4
Transferred to property, plant and equipment (note 12)	–	(4)
At 31 December	–	–
Other intangible assets		
Cost:		
At 1 January	56	50
Additions	6	7
Transfer from property, plant and equipment (note 12)	–	2
Disposals	(2)	–
Translation difference	2	(3)
At 31 December	62	56
Accumulated amortisation:		
At 1 January	(31)	(27)
Amortisation (notes 5a and 5b)	(5)	(5)
Disposals	2	–
Translation difference	(2)	1
At 31 December	(36)	(31)
Carrying amount of other intangible assets at 31 December	26	25
Total intangible assets	26	25

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$6m (2022: US$7m) primarily related to investment in the development and implementation of Group-wide digital systems.

16 Investments in associates and joint ventures

	Associates US$m	Joint ventures US$m	Total US$m
As at 1 January 2022	21	13	34
Share of net profit	6	–	6
Dividends received	(10)	–	(10)
As at 1 January 2023	17	13	30
Share of net profit/(loss)	4	(2)	2
Dividends received	(2)	–	(2)
Disposal of associates at carrying value	(19)	–	(19)
As at 31 December 2023	–	11	11

Dividends received during the year include US$2m received from PetroFirst Infrastructure Limited prior to their disposal (2022: US$9m received from PetroFirst Infrastructure Limited and US$1m received from PetroFirst Infrastructure 2 Limited).

During 2023, the Group sold its investment in these two associates and as a result, recognised a gain on sale of US$3m in respect of the sale of PetroFirst Infrastructure 2 Limited and a loss of US$9m in respect of PetroFirst Infrastructure Limited, both in the Asset Solutions operating segment (note 6).

Investment in associates

	2023 US$m	2022 US$m
PetroFirst Infrastructure Limited	–	17
PetroFirst Infrastructure 2 Limited	–	–
	–	17

Summarised financial information on associates has not been presented following the sale of the Group's investment in associates during 2023.

Investment in joint ventures

	2023 US$m	2022 US$m
Takatuf Petrofac Oman LLC	10	13
Petrofac (Ghana) IJV Limited Company	1	–
	11	13

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16 Investments in associates and joint ventures continued

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:

	2023 US$m	2022 US$m
Revenue	**84**	62
Cost of sales	**(85)**	(61)
Gross profit	**(1)**	1
Selling, general and administration expenses	**(5)**	(3)
Loss before tax and net loss	**(6)**	(2)
Group's share of net loss	**(2)**	–
Non-current assets	**22**	26
Current assets	**32**	22
Total assets	**54**	48
Non-current liabilities	**(3)**	(3)
Current liabilities	**(31)**	(20)
Total liabilities	**(34)**	(23)
Net assets	**20**	25
Group's share of net assets	**11**	13
Carrying amount of the investment in joint ventures	**11**	13

A list of all joint ventures is disclosed in note 34.

No joint ventures had contingent liabilities or capital commitments at 31 December 2023 and 2022. The joint ventures cannot distribute their distributable reserves until they obtain consent from the joint venture partners.

17 Financial assets and financial liabilities

	2023 US$m	2022 US$m
Other financial assets		
Non-current		
Receivable from joint operation partners for leases	**34**	60
Advances relating to decommissioning provision	**44**	40
Restricted cash	**172**	51
	250	151
Current		
Receivable from joint operation partners for leases	**35**	34
Restricted cash	**51**	60
Derivative contracts not designated as hedges (note 33)	**–**	4
Derivative contracts designated as cash flow hedges (note 33)	**–**	5
	86	103
Other financial liabilities		
Non-current		
Lease liabilities (note 29)	**79**	144
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**–**	2
	79	146
Current		
Lease liabilities (note 29)	**68**	66
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	**–**	4
Interest payable	**12**	9
Derivative contracts not designated as hedges (note 33)	**–**	12
Derivative contracts designated as cash flow hedges (note 33)	**–**	1
Embedded derivative in respect of the revolving credit facility (note 6)	**17**	22
	97	114

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 (2022: 64.7%). 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 2023, based on the Group's interest in the joint operation, was US$38m (2022: US$52m). At 31 December 2023, 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.

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$6m (2022: US$4m) made during the year was presented in the consolidated statement of cash flows as a cash outflow from investing activities. The carrying value was adjusted by US$2m (2022: US$2m) for foreign currency translation losses.

Restricted cash

The Group had outstanding letters of guarantee, including performance, advance payments and bid bonds (see note 30) against which the Group had pledged or restricted cash balances. The increase in restricted cash balances is primarily due to collateral pledged against new letters of guarantee in respect of recently awarded contracts.

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.

The increase in the year reflects the tightening of the guarantee market both generally, and specifically for the Company, and hence the need for increased collateral to be placed.

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:

	2023 US$m	2022 US$m
Opening balance	6	7
Fair value loss (note 6)	–	1
Payments	(4)	(2)
Transferred to other payables	(2)	–
As at the end of the reporting period	–	6

At 31 December 2023, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc (W&W) in 2020 based on W&W's financial performance during the earn-out period, which concluded in 2023. No fair value gain or loss was recognised during the year (2022: negative fair value adjustment of US$1m recognised as a separately disclosed item in the Asset Solutions operating segment).

At the end of the year the fair value of contingent consideration payable was transferred to other payables as a current liability.

Changes in liabilities arising from financing activities

Year ended 31 December 2023

	1 January 2023 US$m	Cash inflows US$m	Cash outflows US$m	Additions US$m	Others[1] US$m	31 December 2023 US$m
Senior secured notes	583	–	–	–	3	586
Other interest-bearing loans and borrowings	216	38	(65)	–	9	198
Interest-bearing loans and borrowings	799	38	(65)	–	12	784
Lease liabilities	210	–	(65)	14	(12)	147
At 31 December 2023	1,009	38	(130)	14	–	931

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17 Financial assets and financial liabilities continued

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

1. Represents the IFRS 9 modification loss and the movement in debt acquisition costs for interest-bearing loans and borrowings and represents interest expense, lease liability derecognised and effect of translation gains and losses of foreign operations for lease liabilities.

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:

		Carrying amount		Fair value	
	Level	**2023 US$m**	2022 US$m	**2023 US$m**	2022 US$m
Financial assets					
Measured at amortised cost					
Restricted cash	Level 2	**223**	111	**223**	111
Receivable from joint operation partners for leases	Level 2	**69**	94	**69**	94
Advances relating to provision for decommissioning liability	Level 2	**44**	40	**44**	40
Measured at fair value through profit and loss					
Deferred consideration arising from the disposal of the JSD6000 installation vessel (note 11)	Level 3	**59**	56	**59**	56
Derivative contracts – undesignated	Level 2	**–**	4	**–**	4
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	**586**	583	**319**	334
Term loans (note 26)	Level 2	**71**	99	**71**	99
Revolving credit facility (note 26)	Level 2	**127**	117	**127**	117
Interest payable	Level 2	**12**	9	**12**	9
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**2**	6	**2**	6
Derivative contracts – undesignated	Level 2	**–**	12	**–**	12
Embedded derivative in respect of the revolving credit facility (note 6)	Level 2	**17**	22	**17**	22
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 fair value of the embedded derivative in respect of the RCF is estimated using option pricing models based on observable market yields on senior notes as the closest comparable debt instruments issued by the 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 (note 2.7)

18 Inventories

	2023 US$m	2022 US$m
Project materials	5	11
Crude oil	5	5
Stores and raw materials	1	1
	11	17

Inventories expensed of US$81m (2022: US$79m) were included within cost of sales in the consolidated income statement.

19 Trade and other receivables

	2023 US$m	2022 US$m
Trade receivables	722	499
Advances to vendors and subcontractors	130	105
Prepayments and deposits	20	29
Receivables from joint operation partners	19	18
Related party receivables (note 31)	2	1
VAT receivable	44	49
Other receivables	40	38
	977	739

The increase in trade receivables is mainly in respect of one customer in the Engineering & Construction operating segment where commercial negotiations were ongoing in the prior period and opening work in progress balances in excess of US$250m were invoiced in the last quarter of the year. Of this total, over US$120m was collected before the end of the year. At 31 December 2023, the Group had an ECL allowance of US$23m (2022: US$19m) against an outstanding trade receivable balance of US$745m (2022: US$518m).

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 2023 and 2022 against trade receivables was as follows:

	2023 US$m	2022 US$m
At 1 January	19	23
Reversal of ECL allowance (note 5e)	(2)	(4)
Charge for the year (note 5e)	18	4
Write-off	(11)	–
ECL transfer to contract assets (note 20)	–	(3)
Translation difference	(1)	(1)
At 31 December	23	19

The ECL charge for the year included US$11m due to one customer filing for insolvency in the Asset Solutions operating segment.

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19 Trade and other receivables continued

At 31 December 2023, 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	**0.1%**	**5.7%**	**2.4%**	**17.0%**	**38.3%**	**31.7%**	
Gross trade receivables	**595**	**29**	**60**	**7**	**30**	**24**	**745**
Less: ECL allowance	**–**	**(2)**	**(1)**	**(1)**	**(11)**	**(8)**	**(23)**
Net trade receivables at 31 December 2023	**595**	**27**	**59**	**6**	**19**	**16**	**722**

The ECL allowance ageing profile is impacted due to ECL allowance of US$11m in respect of one customer which filed for insolvency during the year.

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

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 increase in this balance of US$25m was mainly due to mobilisation of subcontractors on two recently awarded projects 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.

No additional ECL loss was recorded against other receivables during the year (2022: reversal of US$1m).

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

	2023 US$m	2022 (restated)[1] US$m
Work in progress	**680**	1,148
Retention receivables	**106**	133
Accrued income	**46**	43
	832	1,324

1. The prior year numbers are restated; see note 2.9.

At 31 December 2023, work in progress included AVOs pending customer approval of US$351m (2022 restated: US$348m). The decrease in the work in progress balance is mainly in respect of one customer in the Engineering & Construction operating segment, where commercial negotiations were ongoing in the prior period and opening work in progress balances in excess of US$250m were invoiced in the last quarter of the year. Of this total, over US$120m was collected before the end of the year (note 19). Additionally, work in progress balances reduced as a result of contract milestones achieved during the year in the Engineering & Construction operating segment.

b. Contract liabilities

	2023 US$m	2022 (restated)[1] US$m
Billings in excess of costs and estimated earnings	**244**	91
Advances received from customers	**48**	64
	292	155

1. The prior year numbers are restated; see note 2.9.

At 31 December 2023, billings in excess of costs and estimated earnings included an offset for AVOs pending customer approval of US$9m (2022: US$6m).

Revenue of US$60m (2022: US$40m) 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 2023

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
ECL rate	**0.6%**	**0.4%**	**0.1%**	**0.5%**
Gross carrying amount	**684**	**106**	**46**	**836**
Less: ECL allowance	**(4)**	**–**	**–**	**(4)**
Net contract assets at 31 December 2023	**680**	**106**	**46**	**832**

As at 31 December 2022

	Work in progress (restated)[1] US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets (restated)[1] US$m
ECL rate	0.4%	0.1%	0.4%	0.4%
Gross carrying amount	1,153	133	43	1,329
Less: ECL allowance	(5)	–	–	(5)
Net contract assets at 31 December 2022	1,148	133	43	1,324

1. The prior year numbers are restated; see note 2.9.

The movement in ECL allowance against each contract asset category is as follows:

Year ended 31 December 2023

	Work in progress US$m	Retention receivables US$m	Accrued income US$m	Total current contract assets US$m
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 1 January 2023	**5**	**–**	**–**	**5**
Reversal of ECL provision (note 5e)	**(1)**	**–**	**–**	**(1)**
At 31 December 2023	**4**	**–**	**–**	**4**

d. Contract balances arising from contracts with customers

The Group's contract balances at 31 December are as follows:

	2023 US$m	2022 (restated)[1] US$m
Trade receivables (note 19)	**722**	499
Contract assets	**832**	1,324
Contract liabilities	**(292)**	(155)

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 an ECL allowance charge 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$15m for the year ended 31 December 2023 (2022: reversal of ECL allowance of US$21m).

Revenue recognised during the year from performance obligations satisfied in previous years, resulting from a change in transaction price, amounted to US$106m (2022 restated: US$163m).

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21 Cash and short-term deposits

	2023 US$m	2022 US$m
Cash at bank and in hand	**121**	418
Short-term deposits	**80**	33
ECL allowance	**–**	(1)
Cash and short-term deposits	**201**	450

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$201m (2022: US$450m).

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2023 US$m	2022 US$m
Cash and short-term deposits	**201**	450

Cash and cash equivalents included amounts totalling US$12m (2022: US$12m) 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$71m (2022: US$203m) 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 2022	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**
Issue of shares to Employee Benefit Trust	**892,079**	**–**	**–**	**–**
At 31 December 2023	**522,049,521**	**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 2023, the Company issued 892,079 shares to the Employee Benefit Trust, with a nominal value of $0.02 (2022: 1,338,610 shares issued with a nominal value of $0.02).

Share premium: The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares adjusted for 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:

	2023		2022	
	Number	US$m	Number	US$m
At 1 January	**4,090,678**	**56**	5,232,105	69
Purchase of Company's shares by EBT[1]	**1,492,079**	**–**	1,338,610	–
Issue of Company's shares by EBT	**(2,286,445)**	**(18)**	(2,480,037)	(13)
At 31 December	**3,296,312**	**38**	4,090,678	56

1. Shares purchased in 2023 were at an average price of US$0.19 (2022: all shares purchased were at par value of US$0.02 per share).

Shares vested during the year include dividend shares of 25,279 shares (2022: 91,304 shares).

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 predefined and independent market and non-market-based performance conditions. The market performance-based element of PSP awards is 50% (2022: 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 2023 awards	**Other participants 2023 awards[1]**	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
Expected share price volatility (based on median of comparator group's three-year volatilities)	**75.5%**	**75.5%/66.9%**	73.8%	73.8%/75.1%	69.9%/71.2%	71.2%	51.4%	51.4%
Share price correlation with comparator group	**30.7%**	**30.7%/29.5%**	30.6%	30.6%/30.3%	31.8%/31.3%	31.3%	13.5%	13.5%
Risk-free interest rate	**3.7%**	**3.7%/4.9%**	1.5%	1.5%	0.2%	0.2%	0.2%	0.2%
Expected life of share award	**3 years**	**3 years**	3 years	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	**25.0p**	**28.5p/40.2p**	31.8p	43.4p/65.3p	46.7p/58.7p	78.5p	145p	168p

1. There were two separate grants in the year.

The non-market-based condition governing the vesting of the remaining 50% (2022: 50%) of the PSP awards is subject to achieving certain strategic targets, including growing the revenue, delivering sector-leading margins, deleveraging the balance sheet and promoting diversity over a three-year period for the PSP awards granted during the year. 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, typically three years.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

24 Share-based payment plans continued

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
2023 awards	**65.6p**	**28.5%**	**74.8p/80.6p**	**28.5%**	**n/a**	**n/a**	**74.8p**	**95.0%**	**77.1p**	**95.0%**
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%

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	
	2023 Number	2022 Number	**2023 Number[1]**	2022 Number[1]	**2023 Number**	2022 Number	**2023 Number**	2022 Number	**2023 Number**	2022 Number
Outstanding at 1 January	**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
Granted during the year	**14,585,597**	7,482,644	**–**	–	**6,599,146**	1,163,631	**7,861,789**	1,618,858	**29,046,532**	10,265,133
Vested during the year	**(86,965)**	(62,647)	**(460,715)**	(1,267,041)	**(542,427)**	–	**(1,175,716)**	(1,059,045)	**(2,265,823)**	(2,388,733)
Forfeited during the year	**(4,720,756)**	(1,747,116)	**(5,488)**	(75,380)	**(688,269)**	(84,355)	**(561,046)**	(302,068)	**(5,975,559)**	(2,208,919)
Outstanding at 31 December	**22,732,956**	12,955,080	**–**	466,203	**6,447,726**	1,079,276	**8,700,028**	2,575,001	**37,880,710**	17,075,560

1. Includes Invested and Matching Shares.

The number of shares still outstanding but not exercisable at 31 December for each award is as follows:

	PSP		DBSP		DBP		RSP		Total	
	2023 Number	2022 Number	**2023 Number[1]**	2022 Number[1]	**2023 Number**	2022 Number	**2023 Number**	2022 Number	**2023 Number**	2022 Number
2023 awards	**13,752,597**	n/a	**n/a**	n/a	**5,943,964**	n/a	**7,637,857**	n/a	**27,334,418**	n/a
2022 awards	**5,569,509**	7,114,108	**n/a**	–	**503,762**	1,079,276	**861,381**	1,591,374	**6,934,652**	9,784,758
2021 awards	**3,410,850**	4,390,419	**n/a**	–	**–**	–	**200,790**	513,927	**3,611,640**	4,904,346
2020 awards	**–**	1,450,553	**–**	466,203	**–**	–	**–**	468,991	**–**	2,385,747
2019 awards	**–**	–	**–**	–	**–**	–	**–**	709	**–**	709
Total awards	**22,732,956**	12,955,080	**–**	466,203	**6,447,726**	1,079,276	**8,700,028**	2,575,001	**37,880,710**	17,075,560

1. Includes Invested and Matching Shares.

The average share price of the Company's shares during 2023 was US$0.83, Sterling equivalent of £0.67 (2022: US$1.44, Sterling equivalent of £1.16).

The number of outstanding shares excludes the dividend shares shown below:

	RSP	
	2023 Number	2022 Number
Dividend shares outstanding at 31 December[1]	**–**	25,279

1. There were no outstanding dividend shares in respect of the PSP, DBSP or DBP as at 31 December 2023 (2022: nil).

The charge in respect of share-based payment plans recognised in the consolidated income statement is as follows:

	PSP		DBP		RSP		Total	
	2023 US$m	2022 US$m	**2023 US$m**	2022 US$m	**2023 US$m**	2022 US$m	**2023 US$m**	2022 US$m
Share-based payment charge	**3**	3	**3**	1	**2**	2	**8**	6

The Group recognised a share-based payment charge of US$8m (2022: US$6m) 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 131 to 136 of the Directors' remuneration report.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

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 2022	(3)	(18)	63	42
Net changes in fair value of derivatives after reclassification of hedging gains 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
At 1 January 2023	**3**	**(4)**	**57**	**56**
Net changes in fair value of derivatives after reclassification of hedging losses to consolidated income statement	**(3)**	**–**	**–**	**(3)**
Foreign currency translation	**–**	**(12)**	**–**	**(12)**
Foreign currency translation gains reclassified to the consolidated income statement	**–**	**(3)**	**–**	**(3)**
Issue of Company's shares by Employee Benefit Trust	**–**	**–**	**(18)**	**(18)**
Credit to equity for share-based payments charge (note 24)	**–**	**–**	**8**	**8**
At 31 December 2023	**–**	**(19)**	**47**	**28**

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 2023 a fair value loss of US$3m (2022: gain of US$6m) 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 gains of US$1m (2022: US$nil) relating to an interest rate swap designated as a cash flow hedge were recognised in the finance expense line item in the consolidated income statement. Additionally, a net gain of US$3m (2022: loss of US$7m) relating to commodity swaps was recognised in revenue 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.

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

	2023 US$m	2022 US$m
Current		
Senior secured notes	**586**	583
Revolving credit facility	**127**	117
Term loans	**71**	99
Total interest-bearing loans and borrowings	**784**	799

In April 2023, the Group successfully completed an amendment and extension to its existing bank debt facilities, with the maturity of the RCF and term loans extended to October 2024.

In December 2023, Petrofac's Board announced it was reviewing a range of strategic and financial options to strengthen the Group's balance sheet, improve liquidity and secure guarantees to support current and future EPC contracts. The planned resulting Financial Restructure is detailed on pages 8 and 9 and is expected to result in a conversion of a substantial portion of the Company's existing debt into equity, whilst also providing new debt facilities.

All facilities are for general corporate purposes. Details of the Group's interest-bearing loans and borrowings as at 31 December 2023 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 B+ from Fitch and BB- from S&P, and the rating at 31 December 2023 stood at B-. Following the Group's announcements that it was undergoing a financial restructuring in 2024, S&P and Fitch reduced their ratings to CCC- and CC respectively.

The interest coupon is payable semi-annually in arrears and the Company has a call option to redeem the notes with a make-whole premium of 4.88% (2.44% from November 2024).

The Company did not make the interest coupon payment due on 15 May 2024. The payment has a 30-day grace period. An ad hoc group of noteholders representing approximately 41% of the outstanding notes, has entered into a forbearance agreement with the Company, which provides an assurance that those noteholders will not take any action in respect of the non-payment of the coupon until at least 30 June 2024, in order to provide time for the Financial Restructure to be progressed. The Company will seek to engage with other noteholders in the coming weeks and it is expected that any remaining non-payment will be resolved through the Financial Restructure.

Revolving credit facility
The Group had a US$127m committed RCF (2022: US$180m) with a syndicate of international banks. It is scheduled to amortise in steps over the remaining tenor and to mature in October 2024. At 31 December 2023, US$127m was drawn under this facility, net of US$nil of unamortised deferred acquisition costs (2022: US$117m). 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 2023 was estimated at US$17m (2022: US$22m) (Level 2 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') as disclosed in note 6.

Term loans
At 31 December 2023, the Group had in place two bilateral term loans with a combined (and drawn) total of US$71m, net of US$nil of unamortised debt acquisition costs (2022: US$99m). Both facilities amortise 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 RCF and term loans (together, the 'Senior Loans') are subject to two financial covenants relating to minimum liquidity and minimum EBITDA:

- 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 is the 12-month period ending on the relevant calendar quarter end.

The Group was compliant with its liquidity covenant throughout the year and with its EBITDA covenant for the quarters ended 31 March 2023 and 30 September 2023. However, whilst E&C made further progress towards closing out and completing historical contracts, EBITDA in Q2 and Q4 2023 suffered from a combination of lower levels of activity, no margin recognition on onerous contracts, an adverse operating leverage and write-downs in contract settlements resulting from measures taken to protect full-year cash flows. Due to the carryover effect of this result on the subsequent EBITDA financial covenants, Senior Loan lenders granted an amendment such that certain costs were agreed to be excluded from the computation of EBITDA for the quarter ended 30 June 2023 and subsequent testing dates for the purposes of the EBITDA covenant calculations.

As a result of this amendment, the Group was compliant with the covenant for the quarter ended 30 June 2023. The Group also received a waiver in respect of this covenant for the quarter ended 31 December 2023. However, as the amendment for the Senior Loans was received post year end, the Senior Secured Notes were reclassified as current loans and borrowings in the balance sheet at 31 December 2023.

Additionally, whilst the Company has been progressing the Financial Restructure, Senior Loan lenders have provided a series of rolling short-term deferrals of the contractual amortisation payments and the Company continued to engage with these lenders on extending these deferrals as required.

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

	End of service benefits provision US$m	Provision for decommissioning US$m	Other provisions US$m	Total US$m
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
Translation difference	–	–	(1)	(1)
At 1 January 2023	**73**	**54**	**8**	**135**
Additions during the year	**10**	**–**	**1**	**11**
Paid during the year	**(13)**	**–**	**–**	**(13)**
Remeasurement of end of service benefits obligation	**5**	**–**	**–**	**5**
Unwinding of discount (note 7)	**3**	**2**	**–**	**5**
Translation difference	**1**	**–**	**–**	**1**
At 31 December 2023	**79**	**56**	**9**	**144**

End of service benefits provision
Labour laws in the Middle East and India require employers to provide for end of service 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. These arrangements are accounted for as post-employment benefits under IAS 19.

The end of service benefits provision is based on an independent specialist's valuation model, with the key underlying assumptions being as on the following page:

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

27 Provisions continued

End of service benefits provision continued

	2023	2022
Average annual % salary increases	**3.3%**	2.0%
Discount factor	**5.2%**	5.1%

The discount factor used represents the yield on UAE 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 end of service benefits obligation is three years (2022: five years). The unwinding of the discount is recognised in the finance expense (note 7) line item of the consolidated income statement and the remeasurements, comprising of actuarial gains and losses, are recognised as part of the retained earnings through OCI in the period in which they occur.

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 3.7% on Block PM304 (2022: 3.9%). The Group had paid US$44m as advances related to the decommissioning liability at 31 December 2023 (2022: US$40m), as disclosed in note 17.

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.

Other provisions

The other provisions carrying amount at 31 December 2023 mainly represents technical insurance provisions and incurred but not reported (IBNR) reserves of US$7m (2022: US$6m) in respect of the Group's captive insurance company, Jermyn Insurance Company Limited.

Current provisions

	Onerous contract provisions US$m	Other provisions US$m	Total US$m
At 1 January 2022	50	31	81
Amounts provided during the year	269	1	270
Utilised during the year	(239)	(18)	(257)
At 1 January 2023	**80**	**14**	**94**
Amounts provided during the year	**296**	**6**	**302**
Utilised during the year	**(277)**	**(1)**	**(278)**
Reversed during the year	**–**	**(4)**	**(4)**
At 31 December 2023	**99**	**15**	**114**

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$292m provided during the year related to contracts in the Engineering & Construction operating segment (2022: US$269m) and US$4m related to Asset Solutions operating segment (2022: US$nil)

Other provisions

The other provisions carrying amount as at 31 December 2023 includes provisions for dilapidations costs. US$4m reversed during the year (2022: provided US$1m) which related to a favourable outcome in respect of claims in the Engineering & Construction operating segment.

28 Trade and other payables

	2023 US$m	2022 (restated)[1] US$m
Trade payables	**604**	475
Accrued expenses	**213**	229
Retentions held against vendors and subcontractors	**60**	73
Payable to joint operation partners	**28**	28
Other taxes payable	**17**	21
Other payables	**8**	39
	930	865

1. Retentions held against vendors and subcontractors as at 31 December 2022 included US$17m in respect of amounts withheld as part of customary documentation completion procedures and therefore this has been reclassified to trade payables.

The increase in trade and other payables of US$65m is mainly due to the Group's focus on working capital management.

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:

	2023 US$m	2022 US$m
Lease liabilities at 1 January	**210**	251
Additions	**14**	19
Interest	**9**	12
Principal payments	**(57)**	(54)
Interest paid	**(8)**	(12)
Derecognised	**(22)**	–
Translation difference	**1**	(6)
At 31 December	**147**	210

The above lease liabilities included US$107m (2022: US$146m) 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.

The Group had a lease liability for an obligation to acquire the MOPU at the end of the lease term for an amount specified in the lease contract which was recognised as a lease liability equal to the future payment to acquire the unit, discounted at the incremental borrowing rate. The obligation to acquire the MOPU was extinguished upon the disposal of the Group's investment in associates (note 6) and therefore the associated carrying value of the lease liability of US$17m was derecognised during the year.

Additionally, one of the Group's subsidiaries in the United Kingdom ceased operations during the year and as a result, served notice on their office lease (to effect the break clause) due to uncertainty over the continued use of office space, for the remaining lease period. As a result, a lease liability of US$4m was derecognised during the year (note 6).

c. Amounts recognised in the consolidated income statement in respect of leases

	2023 US$m	2022 US$m
Depreciation charge in respect of right-of-use assets (note 12)	**24**	22
Finance expense recognised associated with lease liabilities (note 7)	**9**	12
Lease expense recognised for short-term leases and leases for low-value assets	**5**	7

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 2023 are as follows:

	Present value US$m	Finance expense US$m	Future minimum lease payments US$m
Within one year	**68**	**7**	**75**
After one year but not more than five years	**79**	**5**	**84**
	147	**12**	**159**

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

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

29 Leases continued

Group as lessor continued

During 2023, the Group recognised finance income on the lease receivable of US$5m (2022: US$6m). The maturity analysis of the lease receivable, on an undiscounted basis, is presented as follows:

	2023 US$m	2022 US$m
Within one year	**38**	39
One to two years	**21**	29
Two to three years	**15**	21
Three to four years	**–**	15
Total undiscounted lease receivable	**74**	104
Unearned finance income	**(5)**	(10)
Net investment in the lease	**69**	94

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 2023 (2022: US$nil).

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 2023, the Group had outstanding letters of credit, letters of guarantee, including performance, advance payments and bid bonds of US$2,134m (2022: US$3,009m) against which the Group had pledged or restricted cash balances of US$223m (2022: US$111m).

At 31 December 2023, the Group had outstanding forward exchange contracts amounting to US$19m (2022: US$667m). 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 2023, the Group had capital commitments of US$6m (2022: US$6m) excluding lease commitments (note 29):

	2023 US$m	2022 US$m
Block PM304 in Malaysia	**–**	3
Commitments in respect of development of the Group's digital systems and other information technology equipment	**6**	3
	6	6

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 2021, 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), currently expected in the first quarter of 2025. 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 £137m, equivalent to US$174m.

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 balances outstanding with related parties as at 31 December:

Related party receivables	2023 US$m	2022 US$m
Joint ventures	**15**	1

All sales to and purchases from related parties are approved by the operating segment's management. Related party transactions during the year included US$2m revenue from associates and US$13m revenue from joint ventures. 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 2023, US$0.4m was paid to the AUB (2022: US$1m). 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 127 to 140.

	2023 US$m	2022 US$m
Short-term employee benefits	**11**	7
Share-based payments charge	**5**	4
Fees paid to Non-executive Directors	**1**	1
	17	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$68m was mainly due to lower levels of activity on construction contracts during the year in the Engineering & Construction operating segment.

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 120.

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 reference rates. The Group uses derivatives to swap between fixed and floating rates. At 31 December 2023, the proportion of floating rate debt was 25% of the total financial debt outstanding (2022: 27%).

Interest rate sensitivity analysis

The impact on the Group's profit before tax due to a reasonably possible change in interest rates on interest-bearing loans and borrowings at the reporting date and the impact on the Group's pre-tax equity due to changes in the fair value of interest rate swaps designated as cash flow hedges 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 2023	**(2)**	**2**	**–**	**–**
31 December 2022	(2)	2	–	–

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

33 Risk management and financial instruments continued

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.

Due to a reduction in facility lines available from the Group's banks, the majority of the Group's hedged positions were closed out during the year, with the remainder closed out subsequent to the year end.

The following significant exchange rates applied during the year in relation to United States dollars:

	2023		2022	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**1.24**	**1.27**	1.24	1.20
Kuwaiti dinar	**3.25**	**3.25**	3.27	3.27
Euro	**1.08**	**1.10**	1.06	1.07

The following table summarises the impact on the Group's profit before tax (due to a change in the fair value of monetary assets, liabilities and derivative instruments) and the impact on the Group's pre-tax equity due to changes in the fair value of forward exchange contracts designated as cash flow hedges 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 2023	**65**	**(65)**	**–**	**–**
31 December 2022	25	(25)	3	(3)

1. Includes impact on pegged currencies.

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]	
	2023 US$m	2022 US$m	**2023 US$m**	2022 US$m	**2023 US$m**	2022 US$m	**2023 US$m**	2022 US$m
Euro (sales)/purchases	**(13)**	(42)	**–**	1	**–**	(1)	**–**	(1)
Sterling sales	**–**	275	**–**	(9)	**–**	–	**–**	–
Kuwaiti dinar sales	**–**	218	**–**	–	**–**	(1)	**–**	(1)
Arab Emirates dirham purchases	**–**	(50)	**–**	–	**–**	–	**–**	–
Others	**2**	7		–		1		1
	(11)	408	**–**	(8)	**–**	(1)	**–**	(1)

1. Attributable to Petrofac Limited shareholders.

The above foreign exchange contracts mature and will affect profit before tax between January 2024 and April 2024 (2022: between January 2023 and November 2023).

During 2023, net changes in fair value resulting in a gain of US$nil (2022: gain of US$2m) relating to these derivative instruments were taken to equity. No gains or losses (2022: US$nil) were recycled from equity into cost of sales in the consolidated income statement.

As noted above, there are no more hedged positions in place.

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.

Commodity price risk – oil prices

At 31 December 2023, the Group had commodity swap contracts as follows:

	Contract value	Fair value (designated)	Net unrealised gain
	bbl (thousands)	US$m	US$m
31 December 2023 – Brent Oil swaps	**515**	**–**	**–**
31 December 2022 – Brent Oil swaps	693	3	3

During 2023, net changes in fair value resulting in a loss of US$3m (2022: gain of US$3m) relating to commodity swap contracts were taken to equity and gains of US$3m (2022: losses of US$7m) were recycled from equity to revenues in the consolidated income statement. As noted above, further commodity hedges are also no longer available and therefore the Group only has commodity hedges in place for IES in respect of approximately 80% of forecast oil production volumes up to 30 September 2024.

A 10% increase in oil prices would result in a US$4m decrease in the fair value of commodity swap contracts and a 10% decrease in oil prices would result in a US$4m increase in the fair value of commodity swap contracts.

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 2023, the Group's five largest customers accounted for 55% of outstanding trade receivables and contract assets (2022: 48%). The Group assesses 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 (albeit the Group holds security over the counterparty's equity investments in these joint operations).

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 2023

	6 months or less US$m	6 – 12 months US$m	1 – 2 years US$m	2 – 5 years US$m	Contractual undiscounted cash flows US$m	Carrying amount US$m
Financial liabilities						
Interest-bearing loans and borrowings	**84**	**114**	**–**	**600**	**798**	**784**
Lease liabilities	**48**	**27**	**47**	**37**	**159**	**147**
Trade and other payables (excluding other taxes payable and retention payable)	**853**	**–**	**–**	**–**	**853**	**853**
Embedded derivative in respect of the revolving credit facility	**–**	**17**	**–**	**–**	**17**	**17**
Interest payments	**45**	**34**	**59**	**59**	**197**	**n/a**
	1,030	**192**	**106**	**696**	**2,024**	**1,801**

Year ended 31 December 2022 (restated)[1]

	6 months or less US$m	6 – 12 months US$m	1 – 2 years US$m	2 – 5 years US$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)	747	24	–	–	771	771
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
	845	341	116	816	2,118	1,815

1. The prior year numbers are restated; see note 28.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

33 Risk management and financial instruments continued

Capital management

The Group's policy is to maintain a robust capital base to support operations, growth and maximise shareholder value. Management notes that the ratios calculated below are significantly out of line with this policy and the comprehensive Financial Restructure (pages 8 and 9) that is currently being progressed with senior secured noteholders, lending banks and other key stakeholders is expected to result in a conversion of a significant portion of existing debt for equity, and therefore create a strengthened balance sheet and improved liquidity position, returning these ratios to more normalised levels.

The gearing ratio and return on shareholders' equity is as follows:

	2023 US$m	2022 (restated)[1] US$m
Cash and short-term deposits	**201**	450
Interest-bearing loans and borrowings (A)	**(784)**	(799)
Net debt (B)	**(583)**	(349)
Equity attributable to Petrofac Limited shareholders (C)	**(401)**	119
Reported net loss for the year attributable to Petrofac Limited shareholders (D)	**(505)**	(320)
Gross gearing ratio (A/C)	**(196)%**	671%
Net gearing ratio (B/C)	**(145)%**	293%
Shareholders' return on investment (D/C)	**(126)%**	(269)%

1. The prior year numbers are restated; see note 2.9.

34 Subsidiaries, associates and joint arrangements

At 31 December 2023, 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 **2023**	2022
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
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**	100
Jermyn Insurance Company Limited	Guernsey	**100[1]**	100[1]
PT Petrofac International Indonesia	Indonesia	**67**	–
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	100
Petrofac Projects and Services Private Limited (formerly Petrofac Information Services Private Limited)	India	**100**	100
Petrofac Energy Developments International Limited	Jersey	**100[1]**	100[1]

Name of entity	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2023	2022
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 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
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
Sakhalin Technical Training Centre	Russia	**–**	100
Petrofac Saudi Arabia Company Limited	Saudi Arabia	**100**	100
Petrofac International (Senegal) Sarl	Senegal	**100**	n/a
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

Name of entity	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2023	2022
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
Guardian Decommissioning Inc	United States	**100**	n/a
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

Name of entity	Principal activities	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2023	2022
Associates				
PetroFirst Infrastructure Limited	Leasing of floating platforms to oil and gas industry	Jersey	**–**	20
PetroFirst Infrastructure 2 Limited	Leasing of floating platforms to oil and gas industry	Jersey	**–**	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

Notes to the consolidated financial statements continued

For the year ended 31 December 2023

34 Subsidiaries, associates and joint arrangements continued

Name of entity	Principal activities	Country of incorporation	Percentage of nominal value of issued shares controlled by the Group 2023	2022
Petrofac (Ghana) IJV Limited Company	Operations and maintenance for floating production storage and offloading	Ghana	**65**	65
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40**	40
Petrofac HQC IJV LLC	Engineering, procurement and construction for a contract in Algeria	United Arab Emirates	**70**	n/a
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]**	35[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]
PFMIL/Gulf Petroleum Tech Services	Operations and maintenance services for a contract in Iraq	Unincorporated	**65[4]**	65[4]
Petrofac/Saipem JV	Front-end engineering design services for Umm Sharif Gas Project	Unincorporated	**50[4]**	50[4]

Please note that only active entities are shown in the above tables. All dormant entities have been omitted.

1. Directly held by Petrofac Limited.
2. Entities consolidated as subsidiaries on the basis of control.
3. The joint arrangement is classified as a joint operation as, contractually, the joint operation partners have rights to the joint operation's assets and obligation for the joint operation's liabilities.
4. The unincorporated arrangement between the venturers is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by the venturers. Unincorporated joint arrangements are recognised in the Group's financial statements as joint operations.

The Group's ownership interest in associates and joint ventures is disclosed in note 16.

Appendices

Appendix A

The Group references Alternative Performance Measures (APMs) when evaluating the Group's reported financial performance, financial position and cash flows that are not defined or specified under International Financial Reporting Standards (IFRS). The Group considers that these APMs, which are not a substitute for or superior to IFRS measures, provide stakeholders with additional useful information by adjusting for certain reported items which impact upon IFRS measures or, by defining new measures, aid the understanding of the Group's financial performance, financial position and cash flows. These are aligned to measures which are used internally to assess business performance in the Group's processes when determining compensation.

The ROCE APM has been removed this year as it is no longer an APM that the Group actively monitors, as the volume of activity in the capital-intensive IES operating segment reduces.

<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>Reported earnings before interest, tax, depreciation and amortisation (EBITDA) (note A5)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>Excludes impairment of non-financial assets, depreciation, amortisation 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 operating performance</td></tr>
<tr><td>Reported earnings before interest and tax (EBIT) (note A6)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>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 operating performance</td></tr>
</table>

Appendices continued

Appendix A continued

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Business performance effective tax rate (ETR) (note A7)	Measures tax charge	Income tax expense	Excludes income tax expense or credit related to SDI	The intention of this measure is to provide users of the consolidated financial statements with a clear and consistent presentation of underlying business performance ETR
Capital expenditure (note A8)	Measures net cash cost of capital investment	Net cash flows generated from/(used in) investing activities	Excludes dividends received from associates and joint ventures, net loans repaid by/(paid to) associates and joint ventures, proceeds from disposal of property, plant and equipment, proceeds from disposal of subsidiaries and interest received	Excludes items not considered relevant to capital investment
Free cash flow (note A9)	Measures net cash generated after operating and investing activities to finance returns to shareholders	Net cash flows generated from/(used in) operating activities plus net cash flows (used in)/generated from investing activities less interest paid and the repayment of finance lease principal plus amounts received from non-controlling interest	n/a	n/a
Working capital, balance sheet measure (note A10)	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
Cash conversion (note A11)	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 A12)	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 A13)	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 A14)	Provides visibility of future revenue	No direct equivalent. Calculated as net awards and net variation orders	n/a	n/a

A1. Business performance net loss attributable to Petrofac Limited shareholders

	2023 US$m	2022 (restated)[1] US$m
Reported net loss (A)	**(523)**	(347)
Adjustments – separately disclosed items (note 6):		
Impairment of assets (net)	**(7)**	(5)
Losses on disposal	**8**	–
Fair value remeasurements	**(3)**	(10)
Cloud ERP implementation costs	**5**	10
Restructuring and refinancing-related costs	**20**	5
Other separately disclosed items	**2**	7
Operating loss separately disclosed items (B1)	**25**	7
Finance expense separately disclosed items (B2)	**(5)**	18
Tax charge on separately disclosed items (B3)	**–**	1
Post-tax separately disclosed items (C = B1 + B2 + B3)	**20**	26
Group's business performance net loss (D = (A + C))	**(503)**	(321)
Loss attributable to non-controlling interest	**18**	27
Business performance net loss attributable to Petrofac Limited shareholders	**(485)**	(294)

1. The prior year numbers are restated; see note 2.9.

A2. Business performance basic loss per share attributable to Petrofac Limited shareholders

	2023 US$m	2022 (restated)[3] US$m
Reported net loss attributable to Petrofac Limited shareholders (E)	**(505)**	(320)
Add: post-tax separately disclosed items (Appendix A, note A1)	**20**	26
Business performance net loss attributable to Petrofac Limited shareholders (E1)	**(485)**	(294)

	2023 Shares million	2022 Shares million
Weighted average number of ordinary shares for basic earnings per share[1] (F) (note 9)	**519**	515
Weighted average number of ordinary shares for diluted earnings per share[2] (F1) (note 9)	**519**	515

	2023 US cents	2022 (restated)[3] US cents
Basic loss per share		
Business performance (E1/F x 100)	**(93.4)**	(57.1)
Reported (E/F x 100)	**(97.3)**	(62.1)
Diluted loss per share		
Business performance (E1/F1 x 100)	**(93.4)**	(57.1)
Reported (E/F1 x 100)	**(97.3)**	(62.1)

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 2023 and 2022, 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

	2023 US$m	2022 (restated)[1] US$m
Reported operating loss	**(420)**	(241)
Adjustments:		
Operating loss separately disclosed items (Appendix A, note A1)	**25**	7
Share of net profits from associates and joint ventures (note 16)	**2**	5
Depreciation (note 12)	**78**	74
Amortisation, business performance impairment and write-off (notes 5a, 5b and 5g)	**5**	5
Business performance EBITDA	**(310)**	(150)

1. The prior year numbers are restated; see note 2.9.

Appendices continued

A4. Business performance EBIT

	2023 US$m	2022 (restated)[1] US$m
Reported operating loss	**(420)**	(241)
Adjustments:		
Operating loss separately disclosed items (Appendix A, note A1)	**25**	7
Share of net profits from associates and joint ventures (note 16)	**2**	5
Business performance EBIT	**(393)**	(229)

1. The prior year numbers are restated; see note 2.9.

A5. Reported EBITDA

	2023 US$m	2022 (restated)[1] US$m
Reported operating loss	**(420)**	(241)
Adjustments:		
Net impairment of non-financial assets classified as separately disclosed items (notes 12 and 15)	**(5)**	(5)
Share of net profits from associates and joint ventures (note 16)	**2**	5
Depreciation (note 12)	**78**	74
Amortisation, business performance impairment and write-off (notes 5a, 5b and 5g)	**5**	5
Reported EBITDA	**(340)**	(162)

1. The prior year numbers are restated; see note 2.9.

A6. Reported EBIT

	2023 US$m	2022 (restated)[1] US$m
Reported operating loss	**(420)**	(241)
Adjustments:		
Share of net profits from associates and joint ventures (note 16)	**2**	5
Reported EBIT	**(418)**	(236)

1. The prior year numbers are restated; see note 2.9.

A7. Business performance ETR

	2023 US$m	2022 (restated)[1] US$m
Reported income tax (credit)/expense	**(3)**	2
Less: Tax charge on separately disclosed items (Appendix A, note A1)	**–**	(1)
Business performance income tax (credit)/expense (G)	**(3)**	1
Group's business performance net loss (Appendix A, note A1)	**(503)**	(321)
Group's business performance loss before tax (H)	**(506)**	(320)
Business performance ETR (G/H x 100)	**(0.6)%**	0.3%

1. The prior year numbers are restated; see note 2.9.

A8. Capital expenditure

	2023 US$m	2022 US$m
Net cash flows generated from investing activities	**(32)**	(98)
Adjustments:		
Contingent consideration paid	**(4)**	(2)
Dividends received from associates and joint ventures	**4**	8
Net proceeds from disposal of investment in associates	**13**	–
Receipts from Shanghai Zhenhua Heavy Industries Co Ltd in respect of JSD6000 vessel	**–**	5
Receipts from joint operation partners in respect of leases	**28**	28
Net cash flows from disposal of subsidiaries, including receipt against contingent consideration	**(1)**	98
Proceeds from disposal of property, plant and equipment	**2**	1
Interest received	**6**	6
Capital expenditure	**16**	46

A9. Free cash flow

	2023 US$m	2022 US$m
Net cash flows used in operating activities	**(97)**	(146)
Net cash flows generated from investing activities	**32**	98
Interest paid	**(101)**	(86)
Repayment of lease liabilities	**(57)**	(54)
Free cash flow	**(223)**	(188)

A10. Working capital

	2023 US$m	2022 (restated)[1] US$m
Inventories (note 18)	**11**	17
Trade and other receivables (note 19)	**977**	739
Contract assets (note 20)	**832**	1,324
Restricted cash (note 17)	**223**	111
Assets (I)	**2,043**	2,191
Trade and other payables (note 28)	**930**	865
Contract liabilities (note 20)	**292**	155
Accrued contract expenses (note 32)	**691**	759
Liabilities (J)	**1,913**	1,779
Working capital (I – J)	**130**	412

1. The prior year numbers are restated; see note 2.9.

A11. Cash conversion

	2023 US$m	2022 (restated)[1] US$m
Cash (used in)/generated from operations (S)	**(39)**	21
Business performance EBITDA (T)	**(310)**	(150)
Cash conversion (S/T x 100)	**12.6%**	<0.0%

1. The prior year numbers are restated; see note 2.9.

A12. Net lease liabilities

	2023 US$m	2022 US$m
Non-current lease liabilities (note 17)	**79**	144
Current lease liabilities (note 17)	**68**	66
Total lease liabilities	**147**	210
Non-current receivable from joint operation partners for leases relating to Block PM304 in Malaysia (note 17)	**34**	60
Current receivable from joint operation partners for leases relating to Block PM304 in Malaysia (note 17)	**35**	34
Total receivable from joint operation partners for leases relating to Block PM304 in Malaysia	**69**	94
Net non-current lease liabilities	**45**	84
Net current lease liabilities	**33**	32
Net lease liabilities	**78**	116

A13. Net debt

	2023 US$m	2022 US$m
Interest-bearing loans and borrowings (U) (note 26)	**784**	799
Less: Cash and short-term deposits (V) (note 21)	**(201)**	(450)
Net debt (U – V)	**583**	349

A14. New order intake

	2023 US$m	2022 US$m
Engineering & Construction operating segment		
Net awards	**5,337**	281
Net variation orders	**161**	269
	5,498	550
Asset Solutions operating segment		
Net awards	**1,332**	1,312
Net variation orders	**275**	65
	1,607	1,377
New order intake	**7,105**	1,927