

## Independent auditor's report to the members of Petrofac Limited

### Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### What we have audited

We have audited the group financial statements of Petrofac Limited for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our renewed engagement letter dated 19 February 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 114, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements;
- review the directors' statement in relation to going concern as set out on page 114, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Conduct Authority; and
- whether the information given in the strategic report is consistent with the group financial statements.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Our assessment of risks of material misstatement

We identified the following risks of material misstatement that have had the greatest impact on our overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Revenue recognition in respect of long term contracting;
- Taxation, as a result of the complexity of the group's operations and the large number of jurisdictions in which the group operates;
- Initial recognition and determination of subsequent accounting for contracts in the Integrated Energy Services segment of the business; and
- Consideration of potential impairment of goodwill and other assets.

### Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

As we developed our audit strategy, we determine materiality at the overall level and at the individual account level. Performance materiality is the application of materiality at the individual account or balance level.

Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the group to be \$38 million (2012: \$38 million), which is approximately 5% (2012: 5%) of pre-tax profit for the year adjusted for exceptional items if applicable. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement is that performance materiality was 50% (2012: 50%) of our planning materiality, namely \$19 million (2012: \$19 million). Our objective in adopting this approach was to ensure that uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

## Independent auditor's report to the members of Petrofac Limited continued

We agreed with the Audit Committee that would report to them all uncorrected audit differences in excess of \$1.9 million (2012: \$1.9 million), which is set at 5% of planning materiality. We report all corrected audit differences that in our view warrant reporting on qualitative grounds or where the corrected difference exceeds performance materiality. Reclassification differences are reported to the Audit Committee where the difference exceeds 2% of the applicable primary financial statement line items.

### An overview of the scope of our audit

Our group audit scope focussed on four operating locations<sup>1</sup>, all of which were subject to a full scope audit for the year ended 31 December 2013 and were selected based on our assessment of the risk of material misstatement due to both size and risk. An additional five components were selected for a specific scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of those locations to the Group's business operations.

Together with the group functions which were also subject to a full audit for the year ended 31 December 2013, these locations represent the principal business units of the group and account for 82% of the group's revenue, 83% of the group's operating profit, and 85% of the group's total assets. Audits of these locations are performed at a performance materiality level calculated with reference to a proportion of the group materiality appropriate to the relative scale and risk associated with each location. They are also selected to provide a basis for undertaking audit work to address the risks of material misstatement identified above. An additional two components were selected for a limited scope review, which primarily involves inquiries of management and analytical procedures based on our assessment of the risk of these locations.

The group audit team follows a programme of planned site visits that is designed to ensure that a senior member of the team visits each of the four full audit scope locations at least once a year. In 2013, the group audit team including the senior engagement partner visited the main operating location in the United Arab Emirates during planning, interim review and year end audit procedures. A group team audit partner also visited the remaining full scope locations in Malaysia and Mexico, reviewed key working papers and participated in the component team's planning, including the discussion of fraud and error. The group audit team attended the audit closing meetings for each full audit scope component.

### The way in which we responded to the risks identified above was as follows:

#### Long term contracts-revenue and margin recognition

We audited the systems in place to ensure the appropriate determination of the percentage completion of each significant contract, ensuring appropriate approval from customers was evidenced. We challenged management in respect of the reasonableness of judgements made regarding the cost to complete estimate, the timing of recognition of variation orders, the adequacy of contingency provisions to mitigate contract specific risks and their assessments around the potential for liquidated damages for projects behind schedule. We consider these to be the key judgemental areas driving the recognition of revenue and margins in respect of long term contracts. We also ensured that management's policies and processes for making these estimates continue to be applied consistently.

#### Accounting for taxation assets, liabilities, income and expenses

We utilised tax specialists in our London team in the planning stages to determine which jurisdictions should be in scope, as well as in the audit of tax balances. We also involved local tax specialists in the relevant jurisdictions where we deemed it necessary. We considered and challenged the tax exposures estimated by management and the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We also audited the calculation and disclosure of current and deferred tax to ensure compliance with local tax rules and the group's accounting policies including the impact of complex items such as share based payments and the review of management's assessment of the likelihood of the realisation of deferred tax balances.

#### Initial recognition and subsequent accounting for IES contracts

We challenged the judgements and accounting treatments made by management arising from the most complex contractual arrangements at inception for these contracts. We also considered the underlying economic models, supporting calculations and assumptions using valuations specialists where necessary to ensure that these are materially accurate and in line with the Group's accounting policies as well as the requirements of IFRS. We involved internal financial reporting specialists to ensure that all relevant considerations have been identified and appropriately reflected in accounting treatments.

#### Impairment of goodwill and other assets

We focused on this area as it involves complex and subjective judgements by the Directors about the future results of the business. In evaluating whether any impairment was necessary to the remaining carrying value of goodwill and other assets, our audit work involved obtaining evidence regarding its recoverable amount and how it compared to the amount at which the goodwill or other assets are currently recorded. We challenged management's assessment of impairment, including the key inputs of the forecast cash flows, the discount rate used, the growth rate assumed and the historical accuracy of budgets and we used a valuation specialist to assist us with our consideration of the discount rate. We also evaluated management's sensitivity analysis; and we confirmed that the financial statement disclosures met the requirements of accounting standards.

#### Opinion on other matters

In our opinion:

- the information given in the Corporate Governance Statement set out on pages 66 to 91 in the Annual Report and Accounts with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.
- the information given in the strategic report is consistent with the group financial statements.

#### Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, or knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

## Independent auditor's report to the members of Petrofac Limited continued

Under Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

The company has voluntarily complied with, and has instructed us to review, the directors' statement, set out on page 114, in relation to going concern. This statement is specified for review by the Listing Rules of the Financial Services Authority for premium listed UK incorporated companies.

We have nothing to report in respect of these matters.

### Other matter

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

### John Flaherty

for and on behalf of Ernst & Young LLP  
London

25 February 2014

Notes:

- <sup>1</sup> Full scope includes head office and Group consolidation procedures
- <sup>2</sup> The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- <sup>3</sup> Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Consolidated income statement

### For the year ended 31 December 2013

	Notes	2013 US\$m	2012 US\$m (Restated)
<b>Revenue</b>	4a	<b>6,329</b>	6,240
Cost of sales	4b	<b>(5,165)</b>	(5,164)
<b>Gross profit</b>		<b>1,164</b>	1,076
Selling, general and administration expenses	4c	<b>(387)</b>	(357)
Other income	4f	<b>11</b>	65
Other expenses	4g	<b>(17)</b>	(20)
<b>Profit from operations before tax and finance (costs)/income</b>		<b>771</b>	764
Finance costs	5	<b>(28)</b>	(5)
Finance income	5	<b>24</b>	12
Share of profits/(losses) of associates/joint ventures	13	<b>22</b>	(6)
<b>Profit before tax</b>		<b>789</b>	765
Income tax expense	6	<b>(142)</b>	(135)
<b>Profit for the year</b>		<b>647</b>	630
<b>Attributable to:</b>			
Petrofac Limited shareholders		<b>650</b>	632
Non-controlling interests		<b>(3)</b>	(2)
		<b>647</b>	630
<b>Earnings per share (US cents) on profit attributable to Petrofac Limited shareholders</b>	7		
– Basic		<b>190.85</b>	185.55
– Diluted		<b>189.10</b>	183.88

The attached notes 1 to 30 form part of these consolidated financial statements.

## Consolidated statement of other comprehensive income

### For the year ended 31 December 2013

	Notes	2013 US\$m	2012 US\$m
<b>Profit for the year</b>		<b>647</b>	630
<b>Other Comprehensive Income</b>			
Foreign currency translation (losses)/gains	23	(4)	10
Net (gain)/loss on maturity of cash flow hedges recycled in the year	23	(1)	20
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	23	29	–
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods		24	30
<b>Total comprehensive income for the year</b>		<b>671</b>	660
<b>Attributable to:</b>			
Petrofac Limited shareholders		674	662
Non-controlling interests		(3)	(2)
		<b>671</b>	660

The attached notes 1 to 30 form part of these consolidated financial statements.

## Consolidated statement of financial position

### At 31 December 2013

	Notes	2013 US\$m	2012 US\$m (Restated)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,191	897
Goodwill	11	155	125
Intangible assets	12	330	307
Investments in associates/joint ventures	13	215	210
Other financial assets	14	527	444
Income tax receivable		9	–
Deferred tax assets	6c	37	43
		<b>2,464</b>	<b>2,026</b>
<b>Current assets</b>			
Inventories	16	16	27
Work in progress	17	1,473	656
Trade and other receivables	18	2,360	1,846
Due from related parties	28	5	10
Other financial assets	14	320	85
Income tax receivable		2	12
Cash and short-term deposits	19	617	582
		<b>4,793</b>	<b>3,218</b>
<b>Total assets</b>		<b>7,257</b>	<b>5,244</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to Petrofac Limited shareholders</b>			
Share capital	20	7	7
Share premium		4	4
Capital redemption reserve		11	11
Treasury shares	21	(110)	(100)
Other reserves	23	63	38
Retained earnings		2,014	1,589
		<b>1,989</b>	<b>1,549</b>
Non-controlling interests		3	1
<b>Total equity</b>		<b>1,992</b>	<b>1,550</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	24	1,291	292
Provisions	25	213	100
Other financial liabilities	14	2	8
Deferred tax liabilities	6c	140	143
		<b>1,646</b>	<b>543</b>
<b>Current liabilities</b>			
Trade and other payables	26	2,296	1,918
Due to related parties	28	3	34
Interest-bearing loans and borrowings	24	53	57
Other financial liabilities	14	37	17
Income tax payable		140	75
Billings in excess of cost and estimated earnings	17	254	307
Accrued contract expenses		836	743
		<b>3,619</b>	<b>3,151</b>
<b>Total liabilities</b>		<b>5,265</b>	<b>3,694</b>
<b>Total equity and liabilities</b>		<b>7,257</b>	<b>5,244</b>

The financial statements on pages 119 to 168 were approved by the Board of Directors on 25 February 2014 and signed on its behalf by Tim Weller – Chief Financial Officer.

The attached notes 1 to 30 form part of these consolidated financial statements.

## Consolidated statement of cash flows

### For the year ended 31 December 2013

	Notes	2013 US\$m	2012 US\$m (Restated)
<b>Operating activities</b>			
<b>Profit before tax</b>		<b>789</b>	<b>765</b>
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation, amortisation, impairment and write off	4b, 4c	238	125
Share-based payments	4d	15	26
Difference between other long-term employment benefits paid and amounts recognised in the income statement		7	11
Net finance expense/(income)	5	4	(7)
Gain arising from sale of a vessel under a finance lease		(22)	–
Loss on fair value changes in Seven Energy warrants	4g	1	6
Gain on disposal of an investment in a joint venture	4f	–	(6)
Share of (profits)/losses of associates/joint ventures	13	(22)	6
Gain on disposal of non-current asset held for sale	4f	–	(27)
Fair value gain on initial recognition of investment in associate	13	–	(9)
Debt acquisition costs written off		–	3
Other non-cash items, net		16	7
		<b>1,026</b>	<b>900</b>
Working capital adjustments:			
Trade and other receivables		(252)	(487)
Work in progress		(817)	(44)
Due from related parties		5	77
Inventories		11	(16)
Other current financial assets		75	(68)
Trade and other payables		116	184
Billings in excess of cost and estimated earnings		(92)	(82)
Accrued contract expenses		92	(525)
Due to related parties		(31)	11
		<b>133</b>	<b>(50)</b>
Long-term receivables from customers	14	(134)	(185)
Other non-current items, net		6	(4)
<b>Cash generated from/(used in) operations</b>		<b>5</b>	<b>(239)</b>
Interest paid		(14)	(3)
Income taxes paid, net		(77)	(83)
<b>Net cash flows used in operating activities</b>		<b>(86)</b>	<b>(325)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(487)	(392)
Acquisition of subsidiaries, net of cash acquired		23	(20)
Payment of contingent consideration on acquisition		–	(1)
Purchase of intangible oil and gas assets	12	(43)	(165)
Purchase of other intangible assets	12	(10)	(7)
Loan extended to an associate / investments in an associate	13	(4)	(25)
Dividend received from joint ventures		10	2
Loan in respect of the development of the Greater Stella Area		(85)	(115)
Proceeds from disposal of property, plant and equipment		2	1
Proceeds from disposal of non-current asset held for sale		–	60
Proceeds from disposal of an investment in a joint venture		–	5
Interest received		1	5
<b>Net cash flows used in investing activities</b>		<b>(593)</b>	<b>(652)</b>
<b>Financing activities</b>			
Interest-bearing loans and borrowings obtained, net of debt acquisition cost		1,919	291
Repayment of interest-bearing loans and borrowings		(910)	(50)
Treasury shares purchased	21	(47)	(76)
Equity dividends paid		(224)	(201)
<b>Net cash flows from / (used in) financing activities</b>		<b>738</b>	<b>(36)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>59</b>	<b>(1,013)</b>
Net foreign exchange difference		1	3
Cash and cash equivalents at 1 January		525	1,535
<b>Cash and cash equivalents at 31 December</b>	19	<b>585</b>	<b>525</b>

The attached notes 1 to 30 form part of these consolidated financial statements.

## Consolidated statement of changes in equity

### For the year ended 31 December 2013

	Attributable to shareholders of Petrofac Limited							Non-controlling interests US\$m	Total equity US\$m
	Issued share capital US\$m	Share premium US\$m	Capital redemption reserve US\$m	*Treasury shares US\$m (note 21)	Other reserves US\$m (note 23)	Retained earnings US\$m	Total US\$m		
Balance at 1 January 2013	7	4	11	(100)	38	1,589	1,549	1	1,550
Profit for the year	–	–	–	–	–	650	650	(3)	647
Other comprehensive income	–	–	–	–	24	–	24	–	24
Total comprehensive income for the year	–	–	–	–	24	650	674	(3)	671
Share-based payments charge (note 22)	–	–	–	–	15	–	15	–	15
Shares vested during the year (note 21)	–	–	–	37	(34)	(3)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	22	–	22	–	22
Treasury shares purchased (note 21)	–	–	–	(47)	–	–	(47)	–	(47)
Income tax on share-based payments reserve	–	–	–	–	(2)	–	(2)	–	(2)
Non-controlling interest arising on a business combination (note 10)	–	–	–	–	–	–	–	5	5
Dividends (note 8)	–	–	–	–	–	(222)	(222)	–	(222)
<b>Balance at 31 December 2013</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>(110)</b>	<b>63</b>	<b>2,014</b>	<b>1,989</b>	<b>3</b>	<b>1,992</b>

	Attributable to shareholders of Petrofac Limited							Non-controlling interests US\$m	Total equity US\$m
	Issued share capital US\$m	Share premium US\$m	Capital redemption reserve US\$m	*Treasury shares US\$m (note 21)	Other reserves US\$m (note 23)	Retained earnings US\$m	Total US\$m		
Balance at 1 January 2012	7	2	11	(75)	6	1,161	1,112	3	1,115
Profit for the year	–	–	–	–	–	632	632	(2)	630
Other comprehensive income	–	–	–	–	30	–	30	–	30
Total comprehensive income for the year	–	–	–	–	30	632	662	(2)	660
Shares issued as payment of consideration on acquisition	–	2	–	–	–	–	2	–	2
Share-based payments charge (note 22)	–	–	–	–	26	–	26	–	26
Shares vested during the year (note 21)	–	–	–	51	(45)	(6)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	20	–	20	–	20
Treasury shares purchased (note 21)	–	–	–	(76)	–	–	(76)	–	(76)
Income tax on share-based payments reserve	–	–	–	–	1	–	1	–	1
Dividends (note 8)	–	–	–	–	–	(198)	(198)	–	(198)
<b>Balance at 31 December 2012</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>(100)</b>	<b>38</b>	<b>1,589</b>	<b>1,549</b>	<b>1</b>	<b>1,550</b>

\* Shares held by Petrofac Employee Benefit Trust and Petrofac Joint Venture Companies Employee Benefit Trust.

The attached notes 1 to 30 form part of these consolidated financial statements.



## Notes to the consolidated financial statements

### For the year ended 31 December 2013

#### 1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 25 February 2014.

Petrofac Limited 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 (together the 'Group'). The Company's 31 December 2013 financial statements are shown on pages 171 to 184. The Group's principal activity is the provision of services to the oil and gas production and processing industry.

The principal Group companies, and joint venture entities, are contained in note 30 to these consolidated financial statements.

#### 2 Summary of significant accounting policies

##### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value. The presentation currency of the consolidated financial statements is United States dollars and all values in the financial statements are rounded to the nearest million (US\$m) except where otherwise stated.

##### Statement of compliance

The consolidated financial statements of Petrofac Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

##### Restatements

The financial performance of the Group for the year ended 31 December 2012, the financial position of the Group as at 31 December 2012 and the statement of cash flows of the Group for the year ended 31 December 2012 have been restated by replacing proportionate consolidation of joint ventures with the equity method of accounting, as a result of the application of new IFRS 11 – Joint Arrangements and amended IAS 28 – Investment in associates and joint ventures (refer note 13 for details). The loan extended in respect of development of the Greater Stella Area of US\$115m was incorrectly classified in the cash flow statements for the year ended 31 December 2012. The financial statements have been restated to re-classify the amount of the loan given by the company from operating activities to investing activities to correctly disclose the nature of the loan. This restatement had no impact on the profit number of both the prior and the current period.

##### Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. The financial statements of its subsidiaries are prepared for the same reporting year as the Company and where necessary, adjustments are made to the financial statements of the Group's subsidiaries to bring their accounting policies into line with those of the Group.

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. All intra-Group balances and transactions, including unrealised profits, have been eliminated on consolidation.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests in subsidiaries consolidated by the Group are disclosed separately from the Group's equity and income statement and non-controlling interests are allocated their share of total comprehensive income for the year even if this results in a deficit balance.

##### New standards and interpretations

The Group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2013. The principal effects of the adoption of the relevant new and amended standards and interpretations are discussed below:

##### IAS 1 – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be recycled to the consolidated income statement at a future point in time now have to be presented separately from items that will never be recycled. The amendment only affected the presentation and had no impact on the Group's financial position or performance.

##### IFRS 10 – Consolidated Financial Statements and IAS 27 – Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of the previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 has had no impact on the consolidation of investments held by the Group.

##### IFRS 11 – Joint Arrangements and IAS 28 – Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in Petrofac Emirates LLC, TTE Petrofac Limited, Professional Mechanical Repair Services Company, Spie Capag – Petrofac International Limited and China Petroleum Petrofac Engineering Services Cooperatif U.A. with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. The effect of IFRS 11 is described in more detail in note 13, which includes quantification of the effect on the financial statements.

#### IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The Group does not have subsidiaries with material non-controlling interests and there are no unconsolidated structured entities. IFRS 12 disclosures are provided in notes 13 and 30.

#### IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The Fair value hierarchy is provided in note 15.

#### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below and include only those standards and interpretations that are likely to have an impact on the disclosures, financial position or performance of the Group at a future date. The Group intends to adopt these standards when they become effective.

#### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The IASB decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new Standard because the impairment phase of the IFRS 9 project has not yet been completed. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

#### IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

#### Significant accounting judgements and estimates

##### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- revenue recognition on fixed-price engineering, procurement and construction contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts
- revenue recognition on Integrated Energy Services contracts: the Group assesses on a case by case basis the most appropriate treatment for its various of commercial structures which include Risk Service Contracts, Production Enhancement Contracts and Equity Upstream Investments including Production Sharing Contracts (see accounting policies note on page 131 for further details).

##### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- provisions for liquidated damages claims (LD's): the Group provides for LD claims where there have been significant contract delays and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LD's payable under a claim which involves a number of management judgements and assumptions regarding the amounts to recognise
- project cost to complete estimates: at each statement of financial position date the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the statement of financial position date. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses
- recognition of contract variation orders (VO's): the Group recognises revenues and margins from VO's where it is considered probable that they will be awarded by the customer and this requires management to assess the likelihood of such an award being made by reference to customer communications and other forms of documentary evidence
- onerous contract provisions: the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time US\$ nil at 31 December 2013 (2012: US\$ nil)
- impairment of goodwill: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was US\$155m (2012: US\$125m) (note 11)

## Notes to the consolidated financial statements continued

For the year ended 31 December 2013

### 2 Summary of significant accounting policies continued

- deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2013 was US\$37m (2012: US\$43m)
- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of property, plant and equipment, intangible oil and gas and other intangible assets: the Group determines at each statement of financial position date whether there is any evidence of indicators of impairment in the carrying value of its property, plant and equipment, intangible oil and gas and other intangible assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets for example by reference to quoted market values, similar arm's length transactions involving these assets, fair value less costs of disposal discounted cash flow models or value in use calculations. For certain oil and gas assets, where impairment triggers were identified, the recoverable amounts for these assets were estimated using both value in use and fair value less costs of disposal discounted cash flow models. For all assets tested, the recoverable amount was higher than the carrying amount and therefore no impairment was recorded. The key sources of estimation uncertainty for these tests are consistent with those disclosed in note 11.
- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure

#### Investment in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group's interests in joint operation 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

Under joint operations, the expenses that the Group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the Group and liabilities incurred by it are recognised in the statement of financial position.

The Group recognises its share of the profits after tax and non-controlling interest of the associates and joint ventures in its consolidated income statement. Any unrealised gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in its associates and joint ventures.

Where necessary, adjustments are made to the financial statements of the Group's joint ventures and operations to bring their accounting policies into line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Selling, general and administration expenses' in the consolidated income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in consolidated income statement.

**Foreign currency translation**

The Company's functional and presentational currency is US dollars. In the financial statements of individual subsidiaries, joint ventures, joint operations and associates, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the reporting date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in subsidiaries. These are taken directly to the statement of changes in equity until the disposal of the net investment at which time they are recognised in the consolidated income statement.

The statements of financial position of overseas subsidiaries, joint ventures, joint operations and associates are translated into US dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the reporting date. The income statements of overseas subsidiaries and joint operations are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to other reserves within the statement of changes in equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. 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 on oil and gas assets, at the following rates:

Oil and gas facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33%
	(or lease term if shorter)
Office furniture and equipment	25% – 50%
Vehicles	20% – 33%

Tangible 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, refer to page 45 for life of these fields.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

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 or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the consolidated income statement when the item is derecognised. Gains are not classified as revenue.

**Non-current assets held for sale**

Non-current assets or disposal Groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

**Borrowing costs**

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

**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 fair value 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. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. 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 such carrying value may be impaired. All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.



## Notes to the consolidated financial statements continued

For the year ended 31 December 2013

### 2 Summary of significant accounting policies continued

#### Contingent consideration payable on a business combination

When, as part of a business combination, the Group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. The unwinding of the discount element is recognised as a finance cost in the consolidated income statement. For business combinations prior to 1 January 2010, all changes in estimated contingent consideration payable on acquisition are adjusted against the carried goodwill. For business combinations after 1 January 2010, changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

#### Intangible assets – non oil and gas 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 any accumulated impairment losses. 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 in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

#### Oil and gas assets

##### Capitalised costs

The Group's activities in relation to oil and gas assets are limited to assets in the evaluation, development and production phases.

Oil and gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

##### Evaluation expenditures

Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible 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 carried 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, the costs are written-off in the income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

##### Development expenditures

Expenditure relating to development of assets which include the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

##### Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively in accordance with the treatment of changes in accounting estimates, not by immediate adjustment of prior years' amounts.

##### Decommissioning

Provision for future decommissioning costs is made in full when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil and gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the consolidated income statement.

##### Impairment of assets (excluding goodwill)

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

##### Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

### Work in progress and billings in excess of cost and estimated earnings

Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the statement of financial position under 'work in progress'
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'billings in excess of cost and estimated earnings' within current liabilities

### Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

### Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

### Fair value measurement

The Group measures financial instruments, such as derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 29.

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 to 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 are 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 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 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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.

## Notes to the consolidated financial statements continued

For the year ended 31 December 2013

### 2 Summary of significant accounting policies continued

#### De-recognition of financial assets and liabilities

##### Financial assets

A financial asset (or, where applicable a part of a financial asset) is de-recognised 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 de-recognised 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 de-recognition 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.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

#### Pensions and other long-term employment benefits

The Group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

The Group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in note 25.

#### Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, 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. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date 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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions and service conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the consolidated income statement.

#### Petrofac Employee Benefit Trusts

The Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company and its joint venture partner employees, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trusts continue to be consolidated in the Group financial statements under IFRS 10, which has been adopted in the current year.

#### Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity. Shares vested during the year are satisfied with treasury shares.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at 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.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as non-current assets of the Group at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

**Revenue recognition**

Revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria also apply:

**Onshore Engineering & Construction**

Revenues from fixed-price lump-sum contracts are recognised using the percentage-of-completion method, based on surveys of work performed 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.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Variation orders are only included in revenue when it is probable they will be accepted and can be measured reliably and claims are only included in revenue when negotiations have reached an advanced stage.

**Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services**

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion 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.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

**Integrated Energy Services**

Oil and gas revenues comprise the Group's share of sales from the processing or sale of hydrocarbons from the Group's Equity Upstream Investments on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

Revenue from production enhancement contracts is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

**Pre-contract/bid costs**

Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed over the life of the contract.

**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 statement of financial position date.

Deferred tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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 statement of financial position 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.



## Notes to the consolidated financial statements continued

For the year ended 31 December 2013

### 2 Summary of significant accounting policies continued

#### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and oil price collars and forward contracts to hedge its risks associated with foreign currency and oil price fluctuations. 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 oil price collar contracts is determined by reference to market values for similar instruments.

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 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 other comprehensive income in the 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 the other comprehensive income is immediately transferred to the consolidated income statement.

#### Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the Group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

### 3 Segment information

The Group delivers its services through the four reporting segments set out below:

- Onshore Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil and gas industry
- Offshore Projects & Operations which provides offshore engineering, operations and maintenance onshore and offshore and engineering, procurement and construction project execution services to the offshore oil and gas industry
- Engineering & Consulting Services which provides technical engineering, consultancy, conceptual design, front end engineering and design (FEED) and project management consultancy (PMC) across all sectors including renewables and carbon capture
- Integrated Energy Services which co-invests with partners in oil and gas production, processing and transportation assets, provides production improvement services under value aligned commercial structures and oil and gas related technical competency training and consultancy services

Management separately monitors the trading results of its four reporting segments for the purpose of making an assessment of their performance and making decisions about how resources are allocated to them. Each segment's performance is measured based on its profitability which is reflected in a manner consistent with the results shown below. However, certain shareholder services related overheads, Group financing and consolidation adjustments are managed at a corporate level and are not allocated to reporting segments.

The following tables represent revenue and profit information relating to the Group's reporting segments for the year ended 31 December 2013.

#### Year ended 31 December 2013

	Onshore Engineering & Construction US\$m	Offshore Projects & Operations US\$m	Engineering & Consulting Services US\$m	Integrated Energy Services US\$m	Corporate & others US\$m	Consolidation adjustments & eliminations US\$m	Total US\$m
<b>Revenue</b>							
External sales	3,524	1,639	196	922	–	<sup>1</sup> 48	6,329
Inter-segment sales	10	32	166	12	–	(220)	–
<b>Total revenue</b>	<b>3,534</b>	<b>1,671</b>	<b>362</b>	<b>934</b>	<b>–</b>	<b>(172)</b>	<b>6,329</b>
<b>Segment results</b>	483	99	31	146	2	<sup>2</sup> 19	780
Unallocated corporate costs	–	–	–	–	(9)	–	(9)
Profit/(loss) before tax and finance income/(costs)	483	99	31	146	(7)	19	771
Share of profits of associates/joint ventures	–	–	2	20	–	–	22
Finance costs	(2)	(3)	–	(12)	(23)	12	(28)
Finance income	16	1	–	23	27	(43)	24
Profit/(loss) before income tax	497	97	33	177	(3)	(12)	789
Income tax expense	(50)	(28)	(4)	(56)	(3)	(1)	(142)
Non-controlling interests	–	–	3	–	–	–	3
<b>Profit/(loss) for the year attributable to Petrofac Limited shareholders</b>	<b>447</b>	<b>69</b>	<b>32</b>	<b>121</b>	<b>(6)</b>	<b>(13)</b>	<b>650</b>

#### Other segment information

##### Capital expenditures:

Property, plant and equipment	60	40	6	497	5	(11)	597
Intangible oil and gas assets	–	–	–	43	–	–	43

##### Charges:

Depreciation	52	19	5	144	11	(2)	229
Amortisation, impairment and write off	4	–	–	5	–	–	9
Other long-term employment benefits	19	1	–	–	–	–	20
Share-based payments	9	2	1	2	1	–	15

<sup>1</sup> Positive elimination of external sales shown above of US\$48m represents a Group adjustment to the overall project percentage of completion on the Laggan-Tormore project as OEC and OPO are reflecting in their segments progress on their own respective shares of the total project scope.

<sup>2</sup> Includes US\$22m gain arising from the granting of a finance lease for the FPF5 floating production facility to the PM304 joint venture in which the Group has a 30% interest.

## Notes to the consolidated financial statements continued

## 3 Segment information continued

Year ended 31 December 2012 (restated)

	Onshore Engineering & Construction US\$m	Offshore Projects & Operations US\$m	Engineering & Consulting Services US\$m	Integrated Energy Services US\$m	Corporate & others US\$m	Consolidation adjustments & eliminations US\$m	Total US\$m
<b>Revenue</b>							
External sales	4,262	1,237	97	693	–	<sup>1</sup> (49)	6,240
Inter-segment sales	26	166	148	15	–	(355)	–
<b>Total revenue</b>	<b>4,288</b>	<b>1,403</b>	<b>245</b>	<b>708</b>	<b>–</b>	<b>(404)</b>	<b>6,240</b>
<b>Segment results</b>	<b>540</b>	<b>80</b>	<b>30</b>	<b>138</b>	<b>6</b>	<b><sup>2</sup>(26)</b>	<b>768</b>
Unallocated corporate costs	–	–	–	–	(4)	–	(4)
Profit/(loss) before tax and finance income/(costs)	540	80	30	138	2	(26)	764
Share of losses of associates/joint ventures	–	(1)	–	(5)	–	–	(6)
Finance costs	–	–	–	(4)	(6)	5	(5)
Finance income	8	–	1	7	9	(13)	12
Profit/(loss) before income tax	548	79	31	136	5	(34)	765
Income tax (expense)/income	(69)	(18)	(4)	(47)	8	(5)	(135)
Non-controlling interests	–	–	2	–	–	–	2
<b>Profit/(loss) for the year attributable to Petrofac Limited shareholders</b>	<b>479</b>	<b>61</b>	<b>29</b>	<b>89</b>	<b>13</b>	<b>(39)</b>	<b>632</b>

## Other segment information

## Capital expenditures:

Property, plant and equipment	74	13	7	355	4	(25)	428
Intangible oil and gas assets	–	–	–	165	–	–	165

## Charges:

Depreciation	35	15	5	55	6	(2)	114
Amortisation, impairment and write off	–	1	1	8	1	–	11
Other long-term employment benefits	16	1	–	1	–	1	19
Share-based payments	13	3	1	5	4	–	26

<sup>1</sup> Elimination of external sales shown above of US\$49m represents a Group adjustment to the overall project percentage of completion on the Laggan-Tormore project as OEC and OPO are reflecting in their segments progress on their own respective shares of the total project scope.

<sup>2</sup> Includes US\$31m elimination on consolidation of profit made by OPO on the upgrade of the PPF5 floating production facility, the costs of which have been capitalised in the property, plant and equipment of IES.

## Geographical segments

The following tables present revenue from external customers based on their location and non-current assets by geographical segments for the years ended 31 December 2013 and 2012.

Year ended 31 December 2013

	United Kingdom US\$m	Turkmenistan US\$m	Algeria US\$m	United Arab Emirates US\$m	Malaysia US\$m	Saudi Arabia US\$m	Iraq US\$m	Other countries US\$m	Consolidated US\$m
<b>Revenues from external customers</b>	<b>1,640</b>	<b>697</b>	<b>714</b>	<b>678</b>	<b>556</b>	<b>395</b>	<b>388</b>	<b>1,261</b>	<b>6,329</b>
<b>Non-current assets:</b>									
Property, plant and equipment	48	139	327	139	377	50	111	1,191	
Intangible oil and gas assets	11	–	–	–	270	8	1	290	
Other intangible assets	10	–	24	5	–	–	1	40	
Goodwill	107	44	–	–	–	–	4	155	

## Year ended 31 December 2012 (restated)

	Turkmenistan US\$m	United Kingdom US\$m	Algeria US\$m	United Arab Emirates US\$m	Malaysia US\$m	Kuwait US\$m	Qatar US\$m	Other countries US\$m	Consolidated US\$m
<b>Revenues from external customers</b>	1,697	1,186	862	720	448	319	259	749	6,240

	United Kingdom US\$m	United Arab Emirates US\$m	Mexico US\$m	Romania US\$m	Malaysia US\$m	Singapore US\$m	Other countries US\$m	Consolidated US\$m
<b>Non-current assets:</b>								
Property, plant and equipment	68	120	86	75	382	76	90	897
Intangible oil and gas assets	10	–	–	–	251	–	7	268
Other intangible assets	13	–	16	5	–	–	5	39
Goodwill	107	17	–	–	–	–	1	125

Revenues disclosed in the above tables are based on where the project is located. Revenues representing greater than 10% of Group revenues arose from one customer amounting to US\$696m (2012: one customer US\$1,697m) in the Onshore Engineering & Construction segment.

## 4 Revenues and expenses

### a. Revenue

	2013 US\$m	2012 US\$m (Restated)
Rendering of services	6,181	6,121
Sale of crude oil and gas	148	111
Sale of processed hydrocarbons	–	8
	6,329	6,240

Included in revenues from rendering of services are Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services revenues of a 'pass-through' nature with zero or low margins amounting to US\$389m (2012: US\$220m). The revenues are included as external revenues of the Group since the risks and rewards associated with recognition are assumed by the Group.

### b. Cost of sales

Included in cost of sales for the year ended 31 December 2013 is depreciation charged on property, plant and equipment of US\$207m during 2013 (2012: US\$96m) (note 9).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US\$nil (2012: US\$2m loss). These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 and are most appropriately recorded in cost of sales.

### c. Selling, general and administration expenses

	2013 US\$m	2012 US\$m (Restated)
Staff costs	245	226
Depreciation (note 9)	22	18
Amortisation (note 12)	9	4
Net impairment of an investment in associate (note 13)	–	7
Other operating expenses	111	102
	387	357

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

## Notes to the consolidated financial statements continued

## 4 Revenues and expenses continued

## d. Staff costs

	2013 US\$m	2012 US\$m (Restated)
<b>Total staff costs:</b>		
Wages and salaries	1,154	1,147
Social security costs	58	52
Defined contribution pension costs	18	20
Other long-term employee benefit costs (note 25)	20	19
Expense of share-based payments (note 22)	15	26
	<b>1,265</b>	<b>1,264</b>

Of the US\$1,265m (2012: US\$1,264m restated) of staff costs shown above, US\$1,020m (2012 restated: US\$1,038m) is included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 15,948 (2012: 15,259).

## e. Auditors remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group:

	2013 US\$m	2012 US\$m
Group audit fee	2	1
Audit of accounts of subsidiaries	1	1
Others	1	1
	<b>4</b>	<b>3</b>

Others include audit related assurance services of US\$350,000 (2012: US\$327,000), tax advisory services of US\$460,000 (2012: US\$235,000), tax compliance services of US\$200,000 (2012: US\$113,000) and other non-audit services of US\$340,000 (2012: US\$118,000).

## f. Other income

	2013 US\$m	2012 US\$m
Foreign exchange gains	10	9
Gain on disposal of non-current asset held for sale	–	27
Fair value on initial recognition of investment in associate (note 13)	–	9
Gain on disposal of an investment in a joint venture	–	6
Recovery of legal claim	–	6
Other income	1	8
	<b>11</b>	<b>65</b>

Prior year gain on sale of non-current asset held for sale of US\$36m comprised US\$27m on disposal of 75.2% of Petrofac's interest in Petrofac FPF1 Limited to Ithaca Energy Inc and US\$9m being the increase in fair value of the remaining 24.8% interest held which was classified as an associate.

## g. Other expenses

	2013 US\$m	2012 US\$m
Foreign exchange losses	15	11
Loss on fair value changes in Seven Energy warrants (note 13)	1	6
Other expenses	1	3
	<b>17</b>	<b>20</b>

## 5 Finance (costs)/income

	2013 US\$m	2012 US\$m
<b>Finance costs</b>		
Long-term borrowings	(23)	(2)
Other interest, including short-term loans and overdrafts	(1)	(1)
Unwinding of discount on provisions (note 25)	(4)	(2)
<b>Total finance costs</b>	<b>(28)</b>	<b>(5)</b>
<b>Finance income</b>		
Bank interest receivable	1	5
Unwinding of discount on long-term receivables from customers	23	7
<b>Total finance income</b>	<b>24</b>	<b>12</b>

## 6 Income tax

### a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2013 US\$m	2012 US\$m
<b>Current income tax</b>		
Current income tax charge	170	97
Adjustments in respect of current income tax of previous years	(29)	(29)
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	2	73
Recognition of tax losses relating to prior periods	(1)	(6)
<b>Income tax expense reported in the income statement</b>	<b>142</b>	<b>135</b>
<b>Income tax reported in equity</b>		
Deferred tax related to items charged directly to equity	2	4
Current income tax related to share schemes	–	(5)
<b>Income tax income/(expense) reported in equity</b>	<b>2</b>	<b>(1)</b>

The split of the Group's tax charge between current and deferred tax varies from year to year depending largely on:

- the variance between tax provided on the percentage of completion of projects versus that paid on accrued income for engineering, procurement and construction contracts; and
- the tax deductions available for expenditure on Risk Service Contracts and Production Enhancement Contracts (PECs), which are partially offset by the creation of losses.

See 6c below for the impact on the movements in the year.

### b. Reconciliation of total tax charge

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

	2013 US\$m	2012 US\$m
<b>Accounting profit before tax</b>	<b>789</b>	<b>765</b>
At Jersey's domestic income tax rate of 0% (2012: 0%)	–	–
Expected tax charge in higher rate jurisdictions	154	160
Expenditure not allowable for income tax purposes	20	13
Adjustments in respect of previous years	(28)	(36)
Adjustments in respect of losses not previously recognised/derecognised	(8)	(2)
Unrecognised tax losses	1	–
Other permanent differences	2	(1)
Effect of change in tax rates	1	1
<b>At the effective income tax rate of 18.0% (2012: 17.7%)</b>	<b>142</b>	<b>135</b>

The Group's effective tax rate for the year ended 31 December 2013 is 18.0% (2012: 17.7%). A number of factors have impacted the effective tax rate this year, net release of tax provisions held in respect of income taxes and from the recognition of tax losses previously unrecognised and the mix of profits in the jurisdictions in which profits are earned. Adjustments in respect of prior periods represent the creation or release of tax provisions following the normal review, audit and final settlement process that occurs in the territories in which the Group operates.

From 1 April 2014, the main UK corporation tax rate will be 21%, subsequently reducing to 20% in 2015. The change in the UK rate to 20% was substantively enacted as at the reporting date and the impact of the change has been included above.

## Notes to the consolidated financial statements continued

## 6 Income tax continued

## c. Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
<b>Deferred tax liabilities</b>				
Fair value adjustment on acquisitions	3	3	–	–
Accelerated depreciation	204	121	83	78
Profit recognition	32	100	(68)	86
Other temporary differences	2	–	2	–
Gross deferred tax liabilities	241	224		
<b>Deferred tax assets</b>				
Losses available for offset	93	96	3	(94)
Decelerated depreciation for tax purposes	2	3	1	(1)
Share scheme	6	9	1	(1)
Profit recognition	6	11	5	–
Other temporary differences	31	5	(26)	(1)
Gross deferred tax assets	138	124		
Net deferred tax liability/deferred tax charge	103	100	1	67
Of which				
Deferred tax assets	37	43		
Deferred tax liabilities	140	143		

## d. Unrecognised tax losses and tax credits

Deferred income tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise deferred income tax assets of US\$29m (2012: US\$27m).

	2013 US\$m	2012 US\$m
<b>Expiration dates for tax losses</b>		
No earlier than 2018	–	7
No expiration date	17	8
	17	15
Tax credits (no expiration date)	12	12
	29	27

During 2013, the Group recognised a tax benefit from the utilisation of tax losses US\$2m (2012: US\$3m), recognition of losses not previously recognised of US\$7m (2012: US\$6m) and there is no derecognition of tax losses from a prior period (2012: US\$7m).

## 7 Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary 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 employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

	2013 US\$m	2012 US\$m
Profit attributable to ordinary shareholders for basic and diluted earnings per share	<b>650</b>	632

  

	2013 Number 'm	2012 Number 'm
Weighted average number of ordinary shares for basic earnings per share	<b>341</b>	340
Effect of dilutive potential ordinary shares granted under share-based payment schemes	<b>3</b>	3
Adjusted weighted average number of ordinary shares for diluted earnings per share	<b>344</b>	343

## 8 Dividends paid and proposed

	2013 US\$m	2012 US\$m
<b>Declared and paid during the year</b>		
<b>Equity dividends on ordinary shares:</b>		
Final dividend for 2011: 37.20 cents per share	–	127
Interim dividend 2012: 21.00 cents per share	–	71
Final dividend for 2012: 43.00 cents per share	<b>147</b>	–
Interim dividend 2013: 22.00 cents per share	<b>75</b>	–
	<b>222</b>	198
	2013 US\$m	2012 US\$m
<b>Proposed for approval at AGM</b>		
(not recognised as a liability as at 31 December)		
<b>Equity dividends on ordinary shares</b>		
Final dividend for 2013: 43.80 cents per share (2012: 43.00 cents per share)	<b>152</b>	149



## Notes to the consolidated financial statements continued

## 9 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
<b>Cost</b>								
At 1 January 2012	118	426	206	25	17	116	24	932
Additions ( <i>restated</i> )	170	139	28	3	6	29	53	428
Disposals	–	(7)	(4)	(10)	–	(2)	–	(23)
Exchange difference	–	–	1	–	–	1	–	2
At 1 January 2013 ( <i>restated</i> )	288	558	231	18	23	144	77	1,339
Additions	491	–	38	8	1	36	23	597
Acquisition of subsidiaries	–	–	31	5	–	6	–	42
Disposals	–	(110)	(1)	(1)	(1)	(4)	–	(117)
Transfer from intangible oil and gas assets (note 12)	21	–	–	–	–	–	–	21
Transfers	28	–	43	–	–	–	(71)	–
Exchange difference	–	–	1	–	–	1	–	2
<b>At 31 December 2013</b>	<b>828</b>	<b>448</b>	<b>343</b>	<b>30</b>	<b>23</b>	<b>183</b>	<b>29</b>	<b>1,884</b>
<b>Depreciation</b>								
At 1 January 2012	(62)	(137)	(59)	(17)	(12)	(62)	–	(349)
Charge for the year ( <i>restated</i> )	(36)	(11)	(29)	(2)	(4)	(32)	–	(114)
Disposals	–	7	4	10	–	1	–	22
Exchange difference	–	–	–	–	–	(1)	–	(1)
At 1 January 2013 ( <i>restated</i> )	(98)	(141)	(84)	(9)	(16)	(94)	–	(442)
Charge for the year	(102)	(34)	(53)	(6)	(4)	(30)	–	(229)
Acquisition of subsidiaries	–	–	(18)	(3)	–	(4)	–	(25)
Disposals	–	–	1	–	1	3	–	5
Transfers	–	–	(7)	–	–	7	–	–
Exchange difference	–	–	(1)	–	–	(1)	–	(2)
<b>At 31 December 2013</b>	<b>(200)</b>	<b>(175)</b>	<b>(162)</b>	<b>(18)</b>	<b>(19)</b>	<b>(119)</b>	<b>–</b>	<b>(693)</b>
<b>Net carrying amount:</b>								
<b>At 31 December 2013</b>	<b>628</b>	<b>273</b>	<b>181</b>	<b>12</b>	<b>4</b>	<b>64</b>	<b>29</b>	<b>1,191</b>
At 31 December 2012 ( <i>restated</i> )	190	417	147	9	7	50	77	897

Additions to oil and gas assets mainly comprise field development costs relating to block PM304 in Malaysia of US\$46m, Santuario, Magallanes and Arenque PECs of US\$211m, Ticleni PECs of US\$54m and Panuco PECs of US\$22m (2012: Santuario and Magallanes PECs of US\$106m and Ticleni PECs of US\$48m), capitalised decommissioning costs provided on the PM304 block in Malaysia of US\$13m, Santuario, Magallanes and Arenque PECs of US\$77m and Panuco PECs of US\$10m.

Additions to oil and gas facilities in 2012 mainly comprised the upgrade of the PPF5 at a cost of US\$104m.

Disposal within oil and gas facilities in 2013 of US\$110m represents a sale under a finance lease of the PPF5 to the PM304 joint venture in which the Group has a 30% interest.

Of the total charge for depreciation in the income statement, US\$207m (2012: US\$96m restated) is included in cost of sales and US\$22m (2012: US\$18m) in selling, general and administration expenses.

Assets under construction comprise expenditures incurred in relation to a new office building in the United Arab Emirates, the Group Enterprise Resource Planning (ERP) project and construction of the new Petrofac JSD6000 installation vessel.

Included in 'land, buildings and leasehold improvements' and 'plant and equipment' is property, plant and equipment under finance lease agreements, for which book values are as follows:

	2013 US\$m	2012 US\$m
<b>Net book value</b>		
Gross book value	34	35
Addition	10	5
Depreciation	(24)	(7)
Exchange difference	(1)	1
<b>At 31 December</b>	<b>19</b>	<b>34</b>

## 10 Business combination

### Petrofac Emirates LLC (PE)

The financial position and performance of PE have been consolidated into the Group financial statements from 1 January 2013, the effective date of the acquisition of an additional 25% economic interest by the Group, following the disposal of the 50% economic interest in the entity previously held by Mubadala Petroleum (Mubadala). Nama Development Enterprises has acquired the remaining 25% economic interest. Mubadala ceded control of PE to the Group with effect from 1 January 2013, including the exercise of their voting rights to enable the Group to exercise control over PE.

The fair values of the identifiable assets and liabilities of PE on 1 January 2013 are analysed below:

	Recognised on acquisition US\$m	Carrying value US\$m
Property, plant and equipment	15	15
Trade and other receivables	258	258
Cash and short-term deposits	58	58
	<b>331</b>	<b>331</b>
<b>Less:</b>		
Trade and other payables	269	269
Billings in excess of cost and estimated earnings	39	39
Accrued contract expenses	1	1
	<b>309</b>	<b>309</b>
Fair value of net assets acquired	22	
Non-controlling interest arising on acquisition	(5)	
Acquisition date fair value of initial 50% interest (note 13)	(11)	
Goodwill arising on acquisition	29	
<b>Consideration for 25% interest acquired on 1 January 2013</b>	<b>35</b>	
<b>Cash inflow on acquisition:</b>		
Cash paid on acquisition		(35)
Cash acquired with subsidiary		58
<b>Net cash inflow on the acquisition of subsidiary</b>		<b>23</b>

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the Group.

### RNZ Integrated (M) Sdn Bhd (RNZ)

During 2011, the Group entered into a collaboration agreement with the owners of RNZ, whereby, it was agreed that when certain conditions had been fulfilled, three out of five members of the management committee of RNZ would be Petrofac representatives and the actions of the management committee would be decided by a simple majority. The conditions were fulfilled and the membership changes of the management committee took place on 1 April 2013, being the date from which the Group has the power to control the relevant activities of RNZ. RNZ has been consolidated 100% in the Group results since 1 April 2013.

If the above combination had taken place at the beginning of the year, profit of RNZ would have been US\$2m and revenue would have been US\$44m.

The Group has an agreement with owners of RNZ that the profits of the company will not be distributed until it obtains the consent of the Group.

## Notes to the consolidated financial statements continued

### 11 Goodwill

A summary of the movements in goodwill is presented below:

	2013 US\$m	2012 US\$m
At 1 January	125	107
Acquisitions during the year	32	15
Re-assessment of contingent consideration payable	(4)	(1)
Exchange difference	2	4
<b>At 31 December</b>	<b>155</b>	<b>125</b>

Acquisitions during the year comprise the goodwill recognised on the acquisition of an additional 25% interest in Petrofac Emirates LLC of US\$29m and RNZ of US\$3m. Acquisitions during 2012 comprised the goodwill recognised on acquisition of KW Limited of US\$14m and H&L/SPD Americas S de R.L of US\$1m.

Re-assessment of contingent consideration payable comprises a decrease in contingent consideration payable on Caltec Limited of US\$4m (2012: US\$1m).

Goodwill acquired through business combinations has been allocated to four groups of cash-generating units, for impairment testing as follows:

- Onshore Engineering & Construction
- Offshore Projects & Operations
- Engineering & Consulting Services
- Integrated Energy Services

These represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The Group considers cash-generating units to be individually significant where they represent greater than 25% of the total goodwill balance.

#### **Onshore Engineering & Construction, Offshore Projects & Operations, Engineering & Consulting Services and Integrated Energy Services cash-generating units**

Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management have adopted projection periods appropriate to each unit's value in use. For Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services cash-generating units the cash flow projections are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5%.

For the Integrated Energy Services business the cash flows are based on economic models over the length of the contracted period for Production Enhancement Contracts, Equity upstream investments and Risk Service Contracts. For other operations included in Integrated Energy Services, cash flows are based on financial budgets approved by senior management covering a five-year period, extrapolated at a growth rate of 2.5%.

The carrying amount of goodwill for the Onshore Engineering & Construction, Offshore Projects & Operations and Engineering & Consulting Services cash-generating units are not individually significant in comparison with the total carrying amount of goodwill and therefore no analysis of sensitivities has been provided below.

**Carrying amount of goodwill allocated to each group of cash-generating units**

	2013 US\$m	2012 US\$m
Onshore Engineering & Construction unit	29	–
Offshore Projects & Operations unit	30	29
Engineering & Consulting Services unit	26	23
Integrated Energy Services unit	70	73
	<b>155</b>	<b>125</b>

**Key assumptions used in value in use calculations for the Integrated Energy Services unit**

The following key assumptions were included in the value in use calculations used to estimate the recoverable amount of the Integrated Energy Services cash-generating unit. Where management has identified a reasonably possible change in any of these assumptions that would result in impairment, details have been provided below:

**Market share:** for the Training business which is within Integrated Energy Services, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

**Capital expenditure:** the Production Enhancement Contracts in the Integrated Energy Services unit require a minimum level of capital spend on the projects in the initial years to meet contractual commitments. If the capital is not spent, a cash payment of the balance is required which does not qualify for cost recovery. The level of capital spend assumed in the value in use calculation is that expected over the period of the budget based on the current field development plans which assumes the minimum spend is met on each project and the contracts remain in force for the entire duration of the project. For other equity upstream investments, the level of capital spend assumed is based on sanctioned field development plans and represents the activities required to access commercial reserves. A 10% increase in capital expenditure, representing a total overspend of US\$300m undiscounted, across the portfolio of Integrated Energy Services projects would result in an impairment charge of US\$43m.

**Reserve volumes and production profiles:** management has used its internally developed economic models of reserves and production profiles as inputs in to the value in use for the Production Enhancement Contracts, Risk Service Contracts and Equity Upstream Investments. These economic models are revised annually as part of the preparation of the group's five year business plans which are approved by the Board. Management has used an oil price of US\$100 per barrel (2012: US\$100 per barrel) to determine reserve volumes. A 10% decrease in forecast production across the portfolio of Integrated Energy Services projects would result in an impairment charge equal to the carrying value of goodwill of US\$70m and a 10% reduction in the oil price would result in an impairment charge of US\$23m.

**Growth rate:** estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past in the markets in which the unit operates. A growth rate of 2.5% per annum has been applied for businesses within the Integrated Energy Services cash-generating unit where the cash flows are not based on long term contractual arrangements.

**Discount rate:** management has used a pre-tax discount rate of 10.4% per annum (2012: 13.2% per annum). The discount rate is derived from the estimated weighted average cost of capital (WACC) of the Group and has been calculated using an estimated risk free rate of return adjusted for the Group's estimated equity market risk premium. There has been a significant reduction in the Group's WACC during 2013, principally due to a major change in the macro-economic outlook compared with the previous year which has resulted in a shift in the market risk premium used in the calculation of the Group WACC. Furthermore, the introduction of leverage in to the Group's consolidated statement of financial position has also reduced the Group WACC due to the cost of debt being much lower than the cost of equity. A 100 basis point increase in the pre-tax discount rate to 11.4% would result in an impairment charge of US\$63m.

## Notes to the consolidated financial statements continued

## 12 Intangible assets

	2013 US\$m	2012 US\$m
<b>Intangible oil and gas assets</b>		
<b>Cost:</b>		
At 1 January	268	103
Additions	43	165
Transfer to oil and gas assets (note 9)	(21)	–
Net book value of intangible oil and gas assets at 31 December	290	268
<b>Other intangible assets</b>		
<b>Cost:</b>		
At 1 January	54	30
Additions on acquisition	–	6
Transfer from other non-current financial assets	–	10
Additions	10	7
Write off	(4)	–
Exchange difference	–	1
At 31 December	60	54
<b>Accumulated amortisation:</b>		
At 1 January	(15)	(11)
Amortisation	(5)	(4)
At 31 December	(20)	(15)
Net book value of other intangible assets at 31 December	40	39
<b>Total intangible assets</b>	<b>330</b>	<b>307</b>

**Intangible oil and gas assets**

Oil and gas assets (part of the Integrated Energy Services segment) additions above comprise largely US\$40m (2012: US\$149m) of capitalised expenditure on the Group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil and gas assets of US\$43m (2012: US\$165m) in the current period arising from pre-development activities.

Transfers within intangible oil and gas assets represent transfers to oil and gas assets relating to block PM304 in Malaysia (note 9).

**Other intangible assets**

Other intangible assets comprising project development expenditure, customer contracts, proprietary software and patent technology are being amortised over their estimated economic useful life on a straight-line basis and the related amortisation charges included in selling, general and administration expenses (note 4c).

US\$4m relating to LNG intellectual property was written off during the year.

## 13 Investments in associates/joint ventures

	Associates US\$m	Joint ventures US\$m	Total US\$m
As at 1 January 2012	164	21	185
Additional investment in Seven Energy International Limited	25	–	25
Transfer from subsidiary to investment in associate – Petrofac FPF1 Limited	9	–	9
Transfer of a long-term receivable from a related party – Petrofac FPF1 Limited	13	–	13
Share of (losses)/profits	(8)	2	(6)
Impairment of investment in Gateway Storage Company Limited	(14)	–	(14)
Dividends received	–	(2)	(2)
As at 31 December 2012 (restated)	189	21	210
Investment in Petrofac FPF1 Limited	4	–	4
Share of profits	17	5	22
Transferred to investment in subsidiary (note 10)	–	(11)	(11)
Dividends received	–	(10)	(10)
<b>As at 31 December 2013</b>	<b>210</b>	<b>5</b>	<b>215</b>

Dividends received include US\$8m received from Petrofac Emirates LLC and US\$2m received from TTE Petrofac Limited (2012: US\$2m received from TTE Petrofac Limited).

### Associates

	2013 US\$m	2012 US\$m
Associates acquired through acquisition of subsidiary	1	1
Petrofac FPF1 Limited	25	21
Investment in Seven Energy International Limited	184	167
	<b>210</b>	<b>189</b>

### Seven Energy International Limited

On 25 November 2010, the Group invested US\$100m for 15.0% (12.6% on a fully diluted basis) of the share capital of Seven Energy International Limited (Seven Energy), a leading Nigerian gas development and production company incurring US\$1m of transaction costs. This investment which was previously held under available-for-sale financial assets was transferred to investments in associates, pursuant to an investment on 10 June 2011 of US\$50m for an additional 4.6% of the share capital of Seven Energy which resulted in the Group being in a position to exercise significant influence over Seven Energy. On 30 October 2012, the Group invested US\$25m for an additional 2.4% of the share capital of Seven Energy. The additional US\$25m investment was made as part of a discounted rights issue required to deal with a short-term funding requirement by Seven Energy at a subscription price of US\$150 per share and in light of this the carrying value of the investment has been tested for impairment and no impairment provision is required. No negative goodwill has been accounted for on the rights issue as the range of possible outcomes was immaterial. The Group also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US\$52m, subject to the performance of certain service provision conditions and milestones in relation to project execution. These warrants have been fair valued at 31 December 2013 as derivative financial instruments under IAS 39, using a Black Scholes model, amounting to US\$11m (2012: US\$12m). US\$1m (2012: US\$6m other expense) has been recognised as other expense in the current period income statement as a result of the revaluation of these derivatives at 31 December 2013 (note 4g). During 2012 deferred revenue recognised in trade and other payables of US\$10m was released in full to the consolidated income statement as 100% of the performance conditions required to subscribe for the remaining warrants in the Company were satisfied.

The share of the associate's statement of financial position is as follows:

	2013 US\$m	2012 US\$m
Non-current assets	1,140	740
Current assets	220	100
Non-current liabilities	(284)	(254)
Current liabilities	(682)	(268)
Equity	394	318
<b>Group's share of net assets</b>	<b>87</b>	<b>70</b>
Transaction costs incurred	2	2
Residual goodwill	95	95
<b>Carrying value of investment</b>	<b>184</b>	<b>167</b>
Share of associates revenues and net profit/(loss):		
Revenue	76	23
Net profit/(loss)	17	(8)

## Notes to the consolidated financial statements continued

## 13 Investments in associates/joint ventures continued

## Joint ventures

	2013 US\$m	2012 US\$m
Petrofac Emirates LLC	–	19
Spie Capag – Petrofac International Limited	1	1
China Petroleum Petrofac Engineering Services Cooperatif U.A.	2	–
TTE Petrofac Limited	2	1
	<b>5</b>	<b>21</b>

## Transition to IFRS 11

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in Petrofac Emirates LLC, TTE Petrofac Limited, Professional Mechanical Repair Services Company, Spie Capag – Petrofac International Limited and China Petroleum Petrofac Engineering Services Cooperatif U.A. were classified as jointly controlled entities and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest in these entities to be joint ventures and they are required to be accounted for using the equity method. The effect of applying IFRS 11 is as follows:

## Impact on the consolidated income statement

	2012 US\$m
Decrease in the reported revenue	(84)
Decrease in the cost of sales	80
<b>Decrease in gross profit</b>	<b>(4)</b>
Decrease in selling, general and administration expenses	2
<b>Decrease in operating profit</b>	<b>(2)</b>
Increase in share of profits of joint ventures	2
<b>Net impact on profit after tax</b>	<b>–</b>

## Impact on the consolidated statement of financial position

	2012 US\$m
Increase in net investment in joint venture (non-current)	21
Decrease in non-current assets	(8)
Decrease in current assets	(101)
Decrease in current liabilities	88
<b>Net impact on equity</b>	<b>–</b>

## Impact on the consolidated statement of cash flows

	2012 US\$m
Decrease in net cash flows from operating activities	(34)
Increase in net cash flows used in investing activities	2
<b>Net decrease in cash and cash equivalents</b>	<b>(32)</b>

**Interest in joint ventures**

Summarised financial information of the joint ventures<sup>1</sup>, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2013 US\$m	2012 US\$m (Restated)
Revenue	38	168
Cost of sales	(25)	(160)
Gross profit	13	8
Selling, general and administration expenses	(2)	(4)
Finance (expense)/income, net	–	–
Profit before income tax	11	4
Income tax	(1)	–
Profit	10	4
<b>Group's share of profit for the year</b>	<b>5</b>	<b>2</b>
Current assets	12	202
Non-current assets	2	16
Total assets	14	218
Current liabilities	2	176
Non-current liabilities	2	–
Total liabilities	4	176
Net assets	10	42
<b>Group's share of net assets</b>	<b>5</b>	<b>21</b>
<b>Carrying amount of the investment</b>	<b>5</b>	<b>21</b>

<sup>1</sup> A list of these joint ventures is disclosed in note 30.

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2013 and 2012. The joint ventures cannot distribute their profits until they obtain consent from the venturers.



## Notes to the consolidated financial statements continued

## 14 Other financial assets and other financial liabilities

	2013 US\$m	2012 US\$m
<b>Other financial assets</b>		
<b>Non-current</b>		
Long-term receivables from customers	394	437
Receivable from a joint venture partner	127	–
Fair value of derivative instruments (note 29)	5	–
Restricted cash	1	7
	<b>527</b>	<b>444</b>
<b>Current</b>		
Short-term component of receivable from customers	282	67
Seven Energy warrants (note 13)	11	12
Fair value of derivative instruments (note 29)	23	2
Restricted cash	4	4
	<b>320</b>	<b>85</b>
<b>Other financial liabilities</b>		
<b>Non-current</b>		
Contingent consideration payable	1	1
Interest rate swaps (note 29)	1	–
Finance lease creditors (note 27)	–	6
Fair value of derivative instruments (note 29)	–	1
	<b>2</b>	<b>8</b>
<b>Current</b>		
Contingent consideration payable	1	7
Fair value of derivative instruments (note 29)	14	3
Finance lease creditors (note 27)	15	7
Interest rate swaps (note 29)	1	–
Interest payable	6	–
	<b>37</b>	<b>17</b>

The long-term receivables from customers relate to the discounted value of amounts due under the Berantai RSC, which are being recovered over a six year period from 2013 in line with the contractual terms of the project. The 2012 balance also includes amounts receivable in respect of the development of the Greater Stella Area.

The short-term component of receivable from customers relate to the amounts due under the Berantai RSC and to amounts receivable in respect of the development of the Greater Stella Area.

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities (note 27). This cash will be released on the maturity of these guarantees and performance bonds.

## 15 Fair Value Measurement

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Level 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities

Level 2: Other valuation techniques where the inputs are based on significant observable factors

Level 3: Other valuation techniques where the inputs are based on significant unobservable market data

### Year ended 31 December 2013

	Date of valuation	Level 2 US\$m	Level 3 US\$m
<b>Financial assets</b>			
Seven Energy warrants	31 December 2013	–	11
Receivable under the Berantai RSC	31 December 2013	–	476
Amounts receivable in respect of the development of the Greater Stella Area	31 December 2013	200	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	24	–
GBP forward currency contracts – designated as cash flow hedge	31 December 2013	4	–
<b>Assets for which fair values are disclosed (note 29):</b>			
Cash and short-term deposits	31 December 2013	617	–
Restricted cash	31 December 2013	5	–
<b>Financial liabilities</b>			
Euro forward currency contracts – designated as cash flow hedge	31 December 2013	2	–
Sterling forward currency contracts – undesignated	31 December 2013	11	–
Interest rate swaps	31 December 2013	2	–
Oil derivative	31 December 2013	1	–
<b>Liabilities for which fair values are disclosed (note 29):</b>			
Interest-bearing loans and borrowings			
Senior notes	31 December 2013	750	–
Revolving credit facility	31 December 2013	444	–
Project financing	31 December 2013	138	–
Bank overdrafts	31 December 2013	32	–
Contingent consideration	31 December 2013	2	–

### Year ended 31 December 2012

	Date of valuation	Level 2 US\$m	Level 3 US\$m
<b>Financial assets</b>			
Seven Energy warrants	31 December 2012	–	12
Receivable under the Berantai RSC	31 December 2012	–	389
Amounts receivable in respect of the development of the Greater Stella Area	31 December 2012	115	–
Euro forward currency contracts – designated as cash flow hedge	31 December 2012	1	–
Euro forward currency contracts – undesignated	31 December 2012	1	–
<b>Financial liabilities</b>			
Euro forward currency contracts – designated as cash flow hedge	31 December 2012	1	–
Euro forward currency contracts – undesignated	31 December 2012	1	–
Sterling forward currency contracts – undesignated	31 December 2012	2	–

## Notes to the consolidated financial statements continued

## 16 Inventories

	2013 US\$m	2012 US\$m
Crude oil	4	3
Stores and spares	12	23
Raw materials	–	1
	<b>16</b>	<b>27</b>

Included in the consolidated income statement are costs of inventories expensed of US\$43m (2012: US\$18m).

## 17 Work in progress and billings in excess of cost and estimated earnings

	2013 US\$m	2012 US\$m (Restated)
Cost and estimated earnings	14,244	10,619
Less: billings	(12,771)	(9,963)
Work in progress	1,473	656
Billings	5,690	5,356
Less: cost and estimated earnings	(5,436)	(5,049)
Billings in excess of cost and estimated earnings	254	307
Total cost and estimated earnings	<b>19,680</b>	<b>15,668</b>
Total billings	<b>18,461</b>	<b>15,319</b>

## 18 Trade and other receivables

	2013 US\$m	2012 US\$m (Restated)
Trade receivables	1,294	1,212
Retentions receivable	254	170
Advances	216	110
Prepayments and deposits	70	32
Receivables from joint venture partners	314	268
Other receivables	212	54
	<b>2,360</b>	<b>1,846</b>

Other receivables mainly consist of Value Added Tax recoverable of US\$130m (2012: US\$46m), US\$76m being unbilled accruals on Santuario and Magallanes PECs and the balance being miscellaneous non-trading receivables.

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US\$1,299m (2012: US\$1,215m) are as follows:

	2013			2012		
	Specific impairment US\$m	General impairment US\$m	Total US\$m	Specific impairment US\$m	General impairment US\$m	Total US\$m
At 1 January	2	1	3	2	1	3
Charge for the year	2	–	2	–	2	2
Amounts written off	–	–	–	–	(2)	(2)
<b>At 31 December</b>	<b>4</b>	<b>1</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>3</b>

At 31 December, the analysis of trade receivables is as follows:

	Neither past due nor impaired US\$m	Number of days past due						Total US\$m
		< 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	
Unimpaired	532	586	91	23	8	31	6	1,277
Impaired	–	–	–	–	7	6	9	22
	532	586	91	23	15	37	15	1,299
Less: impairment provision	–	–	–	–	(1)	(1)	(3)	(5)
<b>Net trade receivables 2013</b>	<b>532</b>	<b>586</b>	<b>91</b>	<b>23</b>	<b>14</b>	<b>36</b>	<b>12</b>	<b>1,294</b>
Unimpaired (restated)	838	237	58	21	5	24	10	1,193
Impaired	–	–	–	–	13	5	4	22
	838	237	58	21	18	29	14	1,215
Less: impairment provision	–	–	–	–	(1)	(1)	(1)	(3)
<b>Net trade receivables 2012 (restated)</b>	<b>838</b>	<b>237</b>	<b>58</b>	<b>21</b>	<b>17</b>	<b>28</b>	<b>13</b>	<b>1,212</b>

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the Group's subcontractors for projects in progress, on which the related work had not been performed at the statement of financial position date.

Receivables from joint venture partners are amounts recoverable from venture partners on the FPSO Berantai, Block PM304 and Petrofac Emirates on an engineering, procurement and construction project.

All trade and other receivables 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 and euros.

## 19 Cash and short-term deposits

	2013 US\$m	2012 US\$m (Restated)
Cash at bank and in hand	506	366
Short-term deposits	111	216
<b>Total cash and bank balances</b>	<b>617</b>	<b>582</b>

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\$617m (2012: US\$582m).

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

	2013 US\$m	2012 US\$m (Restated)
Cash at bank and in hand	506	366
Short-term deposits	111	216
Bank overdrafts (note 24)	(32)	(57)
	<b>585</b>	<b>525</b>

## Notes to the consolidated financial statements continued

### 20 Share capital

The share capital of the Company as at 31 December was as follows:

	2013 US\$m	2012 US\$m
<b>Authorised</b>		
750,000,000 ordinary shares of US\$0.020 each (2012: 750,000,000 ordinary shares of US\$0.020 each)	<b>15</b>	15
<b>Issued and fully paid</b>		
345,912,747 ordinary shares of US\$0.020 each (2012: 345,891,490 ordinary shares of US\$0.020 each)	<b>7</b>	7

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
<b>Ordinary shares:</b>	
Ordinary shares of US\$0.020 each at 1 January 2012	345,821,729
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	69,761
Ordinary shares of US\$0.020 each at 1 January 2013	345,891,490
Issued during the year as further contingent consideration payable for the acquisition of a subsidiary	21,257
<b>Ordinary shares of US\$0.020 each at 31 December 2013</b>	<b>345,912,747</b>

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

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

**Capital redemption reserve:** The balance on the capital redemption reserve represents the aggregated nominal value of the ordinary shares repurchased and cancelled.

### 21 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust and the Petrofac Joint Venture Companies Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

	2013		2012	
	Number	US\$m	Number	US\$m
At 1 January	5,466,213	100	5,736,017	75
Acquired during the year	2,300,000	47	3,000,000	76
Vested during the year	(2,093,522)	(37)	(3,269,804)	(51)
<b>At 31 December</b>	<b>5,672,691</b>	<b>110</b>	<b>5,466,213</b>	<b>100</b>

Shares vested during the year include dividend shares and 8% uplift adjustment made in respect of the EnQuest demerger of 153,408 shares (2012: 375,040 shares).

### 22 Share-based payment plans

#### Performance Share Plan (PSP)

Under the Performance Share Plan of the Company, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market-based performance conditions. The 50% market performance based part of these awards is dependent on the total shareholder return (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:

	22 Mar 2013 awards	18 Apr 2013 awards	24 May 2013 awards	2012 awards	2011 awards	2010 awards
Expected share price volatility (based on median of comparator Group's three-year volatilities)	34.6%	34.7%	33.9%	38.0%	51.0%	50.0%
Share price correlation with comparator Group	44.0%	44.3%	42.0%	46.0%	43.0%	39.0%
Risk-free interest rate	0.4%	0.4%	0.5%	0.4%	1.7%	1.5%
Expected life of share award	3 years	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	692p	492p	571p	1,103p	788p	743p

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 10% and 20% earnings per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated, based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan.

#### Deferred Bonus Share Plan (DBSP)

Under the DBSP selected employees are required to defer a proportion of their annual cash bonus into Company shares ('Invested Award'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares'), typically using a 1:1 ratio. Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one-third on the first anniversary of the grant, one-third on the second anniversary and the final proportion on the third anniversary.

At the year end the values of the bonuses 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 final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge 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 sterling £1,500 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)

Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, 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.

#### Value Creation Plan (VCP)

During 2012 the Company introduced a new one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Company. VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will vest to the extent of satisfying Group and divisional profit after tax targets, together with various other performance underpins and risk/malus provisions that can be imposed at the discretion of the Remuneration Committee of the Board. The share options vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant.

The VCP share options were fair valued by an independent valuer using a Black-Scholes option pricing model taking into account the rules of the plan and using the following key assumptions:

	Tranche 1	Tranche 2	Tranche 3
Share price at the date of grant	1,555p	1,555p	1,555p
Exercise price	1,710p	1,710p	1,710p
Expected lives of the award	6 years	6.5 years	7 years
Share price volatility	41%	41%	41%
Share price dividend yield	2.3%	2.3%	2.3%
Risk-free interest rates	1.1%	1.2%	1.3%
Per share fair values	451p	467p	482p

#### Share-based payment plans information

The details of the fair values and assumed vesting rates of the share-based payment plans are below:

	PSP (EPS portion)						DBSP		RSP	
	22 Mar		18 Apr		24 May		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				
<b>2013 awards</b>	<b>1,446p</b>	<b>3.1%</b>	<b>1,266p</b>	<b>3.1%</b>	<b>1,340p</b>	<b>3.1%</b>	<b>1,446p</b>	<b>91.4%</b>	<b>1,366p</b>	<b>96.7%</b>
2012 awards	1,705p	0.0%	–	–	–	–	1,705p	85.5%	1,555p	87.4%
2011 awards	1,426p	16.6%	–	–	–	–	1,426p	87.9%	1,463p	67.3%
2010 awards	1,103p	93.8%	–	–	–	–	1,185p	88.9%	990p	83.1%

## Notes to the consolidated financial statements continued

## 22 Share-based payment plans continued

The following table shows the movements in the number of shares held under the share-based payment plans outstanding but not exercisable:

	PSP		DBSP		RSP		VCP		Total	
	2013 Number	2012 Number	2013 *Number	2012 *Number	2013 Number	2012 Number	2013 Number	2012 Number	2013 Number	2012 Number
Outstanding at 1 January	1,232,186	1,358,046	3,120,968	3,809,746	522,171	534,780	1,773,713	–	6,649,038	5,702,572
Granted during the year	499,221	409,212	1,948,702	1,507,614	204,722	227,726	–	1,773,713	2,652,645	3,918,265
Vested during the year	(368,005)	(535,072)	(1,097,127)	(1,991,385)	(123,133)	(210,836)	–	–	(1,588,265)	(2,737,293)
Forfeited during the year**	(47,532)	–	(264,237)	(205,007)	(64,886)	(29,499)	(72,563)	–	(449,218)	(234,506)
Outstanding at 31 December	1,315,870	1,232,186	3,708,306	3,120,968	538,874	522,171	1,701,150	1,773,713	7,264,200	6,649,038

\*Includes Invested and Matching Shares

\*\*Excludes shares which will be forfeited by Andy Inglis on leaving the company effective 28 February 2014, as explained in the Remuneration Report on page 109

The number of shares still outstanding but not exercisable at 31 December 2013, for each award is as follows:

	PSP		DBSP		RSP		VCP		Total	
	2013 Number	2012 Number	2013 *Number	2012 *Number	2013 Number	2012 Number	2013 Number	2012 Number	2013 Number	2012 Number
2013 awards	488,879	–	1,794,234	–	201,635	–	–	–	2,484,748	–
2012 awards	385,312	409,212	1,251,020	1,421,132	198,424	222,056	1,701,150	1,773,713	3,535,906	3,826,113
2011 awards	441,679	454,969	663,052	1,049,174	108,453	138,135	–	–	1,213,184	1,642,278
2010 awards	–	368,005	–	650,662	30,362	161,980	–	–	30,362	1,180,647
Total awards	1,315,870	1,232,186	3,708,306	3,120,968	538,874	522,171	1,701,150	1,773,713	7,264,200	6,649,038

\* Includes Invested and Matching Shares.

The weighted average share price of the Company shares during 2013 was US\$21.76 (sterling equivalent of £13.90).

The number of outstanding shares excludes the 8% uplift adjustment made in respect of the EnQuest demerger and dividend shares shown below:

	PSP		DBSP		RSP		VCP		Total	
	2013 Number	2012 Number	2013 *Number	2012 *Number	2013 Number	2012 Number	2013 Number	2012 Number	2013 Number	2012 Number
EnQuest 8% uplift	–	–	318	52,037	916	4,542	–	–	1,234	56,579
Dividend shares	74,196	55,511	155,741	119,699	17,992	14,058	–	–	247,929	189,268
Outstanding at 31 December	74,196	55,511	156,059	171,736	18,908	18,600	–	–	249,163	245,847

\* Includes Invested and Matching Shares.

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

	PSP		*DBSP		RSP		VCP		Total	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
Share based payment charge/(credit)	(1)	6	14	15	3	4	(1)	1	15	26

\* Represents charge on Matching Shares only.

The Group has recognised a total charge of US\$15m (2012: US\$26m) in the consolidated income statement during the year relating to the above employee share-based schemes (see note 4d) which has been transferred to the reserve for share-based payments along with US\$22m of the bonus liability accrued for the year ended 31 December 2012 which has been settled in shares granted during the year (2011 bonus of US\$20m).

The reduction in the share based payments charge compared with the previous year is due to a significant decrease in the expected future vesting rates of the Performance Share Plans and the Value Creation Plan together with an increase in employee leaver rates within the Deferred Bonus Share Plans.

For further details on the above employee share-based payment schemes refer to pages 99, 106, 107 and 109 to 111 of the Directors' remuneration report.

## 23 Other reserves

	Net unrealised (gains)/losses on derivatives US\$m	Foreign currency translation US\$m	Reserve for share-based payments US\$m	Total US\$m
Balance at 1 January 2012	(20)	(35)	61	6
Foreign currency translation	–	10	–	10
Net losses on maturity of cash flow hedges recycled in the year	20	–	–	20
Share-based payments charge (note 22)	–	–	26	26
Transfer during the year (note 22)	–	–	20	20
Shares vested during the year	–	–	(45)	(45)
Deferred tax on share-based payments reserve	–	–	1	1
Balance at 1 January 2013	–	(25)	63	38
Foreign currency translation	–	(4)	–	(4)
Net gains on maturity of cash flow hedges recycled in the year	(1)	–	–	(1)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	29	–	–	29
Share-based payments charge (note 22)	–	–	15	15
Transfer during the year (note 22)	–	–	22	22
Shares vested during the year	–	–	(34)	(34)
Deferred tax on share-based payments reserve	–	–	(2)	(2)
<b>Balance at 31 December 2013</b>	<b>28</b>	<b>(29)</b>	<b>64</b>	<b>63</b>

### Nature and purpose of other reserves

#### 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. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred out of equity to the consolidated income statement. Realised net gains amounting to US\$1m (2012: US\$20m net loss) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on un-designated derivatives amounting to US\$nil (2012: US\$2m loss) have been recognised in the cost of sales.

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the Group's net investment in subsidiaries.

#### Reserve for share-based payments

The reserve for share-based payments is used to record 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.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2012 of US\$22m (2011 bonus of US\$20m) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 22).



## Notes to the consolidated financial statements continued

## 24 Interest-bearing loans and borrowings

The Group had the following interest-bearing loans and borrowings outstanding:

		31 December 2013 Actual interest rate %	31 December 2012 Actual interest rate %	Effective interest rate %	Maturity	2013 US\$m	2012 US\$m
<b>Current</b>							
Bank overdrafts	(i)	UK LIBOR + 1.50%	UK LIBOR + 1.50%	UK LIBOR + 1.50%	on demand	32	57
		US LIBOR + 1.50%	US LIBOR + 1.50%	US LIBOR + 1.50%			
Other loans:							
Current portion of project financing	(iv)	US LIBOR + 2.70%	–	US LIBOR + 2.70%	2014	21	–
						53	57
<b>Non-current</b>							
Senior notes	(ii)	3.40%	–	3.68%	5 years	750	–
Revolving credit facility (RCF)	(iii)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	4 years	444	303
Project financing	(iv)	US LIBOR + 2.70%	–	US LIBOR + 2.70%	6 years	117	–
						1,311	303
<b>Less:</b>							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(17)	(11)
Discount on senior notes issuance						(3)	–
						1,291	292

Details of the Group's interest-bearing loans and borrowings are as follows:

**(i) Bank overdrafts**

Bank overdrafts are drawn down in US dollars and sterling denominations to meet the Group's working capital requirements. These are repayable on demand.

**(ii) Senior notes**

On 10 October 2013, Petrofac issued an aggregate principal amount of US\$750m 5 year Senior Notes (Notes) at an issue price of 99.627%. The Group will pay interest on the Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Notes is payable semi-annually in arrears in April and October of each year, commencing in April 2014. The Notes are senior unsecured obligations of the Company and will rank equally in right of payment with the Company's other existing and future unsecured and unsubordinated indebtedness. Petrofac International Ltd and Petrofac International (UAE) LLC irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Notes. The Guarantees are senior unsecured obligations of each Guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each Guarantor.

**(iii) Revolving Credit Facility**

On 11 September 2012, Petrofac entered into a US\$1,200m 5 year committed revolving credit facility with a syndicate of 13 international banks, which is available for general corporate purposes. The facility, which matures on 11 September 2017, is unsecured and is subject to two financial covenants relating to leverage and interest cover. Petrofac was in compliance with these covenants for the year ending 31 December 2013. As at 31 December 2013, US\$444m was drawn under this facility (2012: US\$303m).

Interest is payable on the drawn balance of the facility at LIBOR + 1.5% and in addition utilisation fees are payable depending on the level of utilisation.

**(iv) Project financing**

In May 2013, Berantai Floating Production Limited entered into a US\$300m (Group's 51% share US\$153m) senior secured term loan facility with a syndicate of 4 banks to refinance the cost of obtaining and developing the Berantai FPSO. The loan, which was advanced in full in May 2013, is being amortised on a quarterly basis and has a final maturity date of October 2019. The facility contains a Debt Service Coverage Ratio financial covenant of not less than 1.15:1. Interest on the loan is calculated at LIBOR plus a margin of 2.70%. Underlying LIBOR has been hedged at 1.675% for the duration of the loan (note 29).

Fees relating to the Group's financing arrangements have been capitalised and are being amortised over the term of the respective borrowings.

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

## 25 Provisions

	Other long-term employment benefits provision US\$m	Provision for decommissioning US\$m	Other provisions US\$m	Total US\$m
At 1 January 2013	63	33	4	100
Additions during the year	20	100	2	122
Paid in the year	(13)	–	–	(13)
Unwinding of discount	1	3	–	4
<b>At 31 December 2013</b>	<b>71</b>	<b>136</b>	<b>6</b>	<b>213</b>

### Other long-term employment benefits provision

Labour laws in the United Arab Emirates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment based on their final salary and number of years' service. All amounts are unfunded. The long-term employment benefits provision is based on an internally produced end of service benefits valuation model with the key underlying assumptions being as follows:

	Senior employees	Other employees
Average number of years of future service	5	3
Average annual % salary increases	6%	4%
Discount factor	5%	5%

Senior employees are those earning a base of salary of over US\$96,000 per annum.

Discount factor used is the local Dubai five-year Sukuk rate.

### Provision for decommissioning

The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the PM304 field in Malaysia, Chergui in Tunisia and Santuario, Magallanes, Arenque and Panuco Production Enhancement Contracts in Mexico. For additions during the year refer to note 9. The liability is discounted at the rate of 4.16% on PM304 (2012: 4.16%), 5.25% on Chergui (2012: 5.25%) and 5.86% on Santuario, Magallanes, Arenque and Panuco Production Enhancement Contracts (2012: 5.38%). The unwinding of the discount is classified as finance cost (note 5). The Group estimates that the cash outflows against these provisions will arise in 2026 on PM304, 2018 on Chergui, 2033 on Santuario and Magallanes, 2038 on Arenque and 2030 on Panuco Production Enhancement Contracts.

### Other provisions

This represents amounts set aside to cover claims against the Group which will be settled via the captive insurance company Jermyn Insurance Company Limited.

## 26 Trade and other payables

	2013 US\$m	2012 US\$m (Restated)
Trade payables	927	830
Advances received from customers	444	367
Accrued expenses	684	576
Other taxes payable	44	40
Other payables	197	105
	<b>2,296</b>	<b>1,918</b>

Advances received from customers represent payments received for contracts on which the related work had not been performed at the statement of financial position date.

Other payables mainly consist of retentions held against subcontractors of US\$73m (2012: US\$86m) and payable to joint venture partners of US\$50m (2012: US\$nil).

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.

## Notes to the consolidated financial statements continued

### 27 Commitments and contingencies

#### Commitments

In the normal course of business the Group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2013, the Group had letters of credit of US\$29m (2012: US\$nil) and outstanding letters of guarantee, including performance, advance payments and bid bonds of US\$3,602m (2012: US\$2,296m) against which the Group had pledged or restricted cash balances of, in aggregate, US\$5m (2012: US\$11m).

At 31 December 2013, the Group had outstanding forward exchange contracts amounting to US\$1,273m (2012: US\$228m). These commitments consist of future obligations either to acquire or to sell designated amounts of foreign currency at agreed rates and value dates (note 29).

#### Leases

The Group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2013 US\$m	2012 US\$m
Within one year	33	25
After one year but not more than five years	73	108
More than five years	89	198
	<b>195</b>	<b>331</b>

Included in the above are commitments relating to the leasing of a Mobile Operating Production Unit for the Cendor Phase 1 project of US\$5m (2012: US\$149m) and the lease of office buildings in Aberdeen, United Kingdom of US\$120m (2012: US\$127m).

Minimum lease payments recognised as an operating lease expense during the year amounted to US\$44m (2012: US\$37m).

Long-term finance lease commitments are as follows:

	Future minimum lease payments US\$m	Finance cost US\$m	Present value US\$m
Land, buildings and leasehold improvements			
The commitments are as follows:			
Within one year	16	1	15
After one year but not more than five years	–	–	–
More than five years	–	–	–
	<b>16</b>	<b>1</b>	<b>15</b>

#### Capital commitments

At 31 December 2013, the Group had capital commitments of US\$942m (2012: US\$493m) excluding the above lease commitments.

Included in the US\$942m of commitments are:

	2013 US\$m	2012 US\$m
Building of the Petrofac JSD6000 installation vessel	489	–
Production Enhancement Contracts in Mexico	390	146
Further appraisal and development of wells as part of Block PM304 in Malaysia	20	287
Costs in respect of Ithaca Greater Stella Field development in the North Sea	41	50
Commitments in respect of the construction of a new office building in United Arab Emirates	–	5

## 28 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 30. Petrofac Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Sales to related parties US\$m	Purchases from related parties US\$m	Amounts owed by related parties US\$m	Amounts owed to related parties US\$m
Joint ventures	<b>2013</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>3</b>
	2012 (restated)	170	135	5	34
Associates	<b>2013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	2012 (restated)	3	–	5	–
Key management personnel interests	<b>2013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	2012	–	2	–	–

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the Group's management.

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests of US\$264,000 (2012: US\$1,521,000) reflect the costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the Group on company business, which is owned by an offshore trust of which the Group Chief Executive of the Company is a beneficiary. The charter rates charged for Group usage of the aeroplane are significantly less than comparable market rates.

Also include in purchases in respect of key management personnel interests is US\$138,000 (2012: US\$189,000) relating to client entertainment provided by a business owned by a member of the Group's key management.

For details of the rights issue by Seven Energy and the warrants held see note 13 to the financial statements.

### 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 the individual Directors is provided in the Directors' remuneration report on pages 92 to 113.

	2013 US\$m	2012 US\$m
Short-term employee benefits	17	21
Share-based payments	–	8
Fees paid to Non-executive Directors	1	1
	<b>18</b>	<b>30</b>

## Notes to the consolidated financial statements continued

### 29 Risk management and financial instruments

#### Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise available-for-sale financial assets, trade and other receivables, amounts due from/to related parties, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and contingent consideration.

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, loans and borrowings and foreign currency risk on both conducting business in currencies other than reporting 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 line 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 and Board Risk Committee to help identify, evaluate and manage the significant financial risks faced by the Group and their activities are discussed in detail on pages 82 to 91.

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 and the policies relating to these risks are discussed in detail below:

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the 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 bank balances. 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.

#### Interest rate sensitivity analysis

The impact on the Group's pre-tax profit and equity due to a reasonably possible change in interest rates on loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

	Pre-tax profit		Equity	
	100 basis point increase US\$m	100 basis point decrease US\$m	100 basis point increase US\$m	100 basis point decrease US\$m
<b>31 December 2013</b>	<b>(5)</b>	<b>5</b>	<b>–</b>	<b>–</b>
31 December 2012	(2)	2	–	–

The following table reflects the maturity profile of these financial liabilities and assets:

#### Year ended 31 December 2013

	Within 1 year US\$m	1–2 years US\$m	2–3 years US\$m	3–4 years US\$m	4–5 years US\$m	More than 5 years US\$m	Total US\$m
<b>Financial liabilities</b>							
<b>Floating rates</b>							
Bank overdrafts (note 24)	32	–	–	–	–	–	32
Term loans (note 24)	21	22	23	467	24	25	582
	53	22	23	467	24	25	614
<b>Financial assets</b>							
<b>Floating rates</b>							
Cash and short-term deposits (note 19)	617	–	–	–	–	–	617
Restricted cash balances (note 14)	4	1	–	–	–	–	5
	621	1	–	–	–	–	622

#### Interest rate swaps

At 31 December 2013, the Group had interest rate swap agreements in place for its project financing with a notional principle equivalent to US\$153m whereby it pays a fixed rate of interest of 1.675% and receives a variable rate equal to 3 month US LIBOR on the notional amount. The fair value of the interest rate swap at 31 December 2013 is a liability of US\$2m (2012: US\$nil) and is being used to hedge the exposure to changes in US LIBOR rates.

## Year ended 31 December 2012 (restated)

	Within 1 year US\$m	1–2 years US\$m	2–3 years US\$m	3–4 years US\$m	4–5 years US\$m	More than 5 years US\$m	Total US\$m
<b>Financial liabilities</b>							
<b>Floating rates</b>							
Bank overdrafts (note 24)	57	–	–	–	–	–	57
Term loans (note 24)	–	–	–	–	303	–	303
	57	–	–	–	303	–	360
<b>Financial assets</b>							
<b>Floating rates</b>							
Cash and short-term deposits (note 19)	582	–	–	–	–	–	582
Restricted cash balances (note 14)	4	7	–	–	–	–	11
	586	7	–	–	–	–	593

Financial liabilities in the above table are disclosed gross of debt acquisition costs, effective interest rate adjustments and discount on senior notes of US\$20m (2012: US\$11m).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

**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 US dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US dollar terms, of the Group totals.

	2013 % of foreign currency denominated items	2012 % of foreign currency denominated items
Revenues	32.4%	34.5%
Costs	45.0%	54.7%
Current financial assets	33.1%	37.8%
Non-current financial assets	1.0%	0.0%
Current financial liabilities	22.2%	33.9%
Non-current financial liabilities	0.0%	2.7%

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 foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to US dollars:

	2013		2012	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.57	1.66	1.59	1.63
Kuwaiti dinar	3.52	3.54	3.57	3.55
Euro	1.33	1.37	1.29	1.32

The following table summarises the impact on the Group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

	Pre-tax profit		Equity	
	+10% US dollar rate increase US\$m	-10% US dollar rate decrease US\$m	+10% US dollar rate increase US\$m	-10% US dollar rate decrease US\$m
31 December 2013	(34)	34	66	(66)
31 December 2012	(10)	10	19	(19)

## Notes to the consolidated financial statements continued

## 29 Risk management and financial instruments continued

## Derivative instruments designated as cash flow hedges

At 31 December, the Group had foreign exchange forward contracts as follows:

	Contract value		Fair value (undesigned)		Fair value (designated)		Net unrealised gain/(loss)	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
Euro purchases	561	67	–	–	22	–	26	–
Sterling purchases (sales)	(349)	(103)	(11)	(2)	4	–	4	–
Yen (sales)	(3)	(4)	–	–	–	–	–	–
			(11)	(2)	26	–	30	–

The above foreign exchange contracts mature and will affect income between January 2014 and November 2015 (2012: between January 2013 and July 2014).

At 31 December 2013, the Group had cash and short-term deposits designated as cash flow hedges with net unrealised gains of US\$1m (2012: US\$nil) as follows:

	Fair value		Net unrealised gain/(loss)	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
Euro cash and short-term deposits	32	118	1	–
Sterling cash and short-term deposits	–	7	–	–
Yen cash and short-term deposits	–	1	–	–
			1	–

During 2013, changes in fair value gains of US\$32m (2012: gains US\$2m) relating to these derivative instruments and financial assets were taken to equity and gains of US\$1m (2012: US\$18m losses) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on un-designated derivatives of US\$nil (2012: US\$2m loss) were recognised in the income statement (note 4b).

## Commodity price risk – oil prices

The Group is exposed to the impact of changes in oil and gas prices on its revenues and profits 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, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the Group entered into various crude oil swaps and zero cost collars hedging oil production of 323,657 barrels (bbl) (2012: 1,000,000 bbl) with maturities ranging from January 2014 to December 2014. In addition, fuel oil swaps were also entered into for hedging gas production of 35,147 metric tonnes (MT) (2012: 31,743MT) with maturities from January 2014 to December 2014.

The fair value of oil derivatives at 31 December 2013 was a liability of US\$1m (2012: US\$nil) with net unrealised losses deferred in equity of US\$1m (2012: US\$nil). During the year, US\$nil (2012: US\$2m loss) was recycled from equity into the consolidated income statement on the occurrence of the hedged transactions and a loss in the fair value recognised in equity of US\$1m (2012: US\$2m loss).

The following table summarises the impact on the Group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

	Pre-tax profit		Equity	
	+10 US\$/bbl increase US\$m	-10 US\$/bbl decrease US\$m	+10 US\$/bbl increase US\$m	-10 US\$/bbl decrease US\$m
31 December 2013	(1)	1	(3)	3
31 December 2012	–	–	(12)	12

## Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) evaluates 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 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 2013, the Group's five largest customers accounted for 49.3% of outstanding trade receivables and work in progress (2012: 48.8%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**Liquidity risk**

The Group's primary objective is to ensure sufficient liquidity is available to support future growth. Our strategy includes the provision of financial capital and the potential impact on the Group's capital structure is reviewed regularly. The Group is not exposed to any external capital constraints. The maturity profiles of the Group's financial liabilities at 31 December are as follows:

**Year ended 31 December 2013**

	6 months or less US\$m	6–12 months US\$m	1–2 years US\$m	2–5 years US\$m	More than 5 years US\$m	Contractual undiscounted cash flows US\$m	Carrying amount US\$m
<b>Financial liabilities</b>							
Interest-bearing loans and borrowings	42	11	22	1,264	25	1,364	1,344
Finance lease creditors	10	6	–	–	–	16	15
Trade and other payables (excluding advances from customers and other taxes payable)	1,760	48	–	–	–	1,808	1,808
Due to related parties	3	–	–	–	–	3	3
Contingent consideration	–	1	1	–	–	2	2
Derivative instruments	13	1	–	–	–	14	14
Interest payments	20	19	38	101	1	179	–
	<b>1,848</b>	<b>86</b>	<b>61</b>	<b>1,365</b>	<b>26</b>	<b>3,386</b>	<b>3,186</b>

**Year ended 31 December 2012 (restated)**

	6 months or less US\$m	6–12 months US\$m	1–2 years US\$m	2–5 years US\$m	More than 5 years US\$m	Contractual undiscounted cash flows US\$m	Carrying amount US\$m
<b>Financial liabilities</b>							
Interest-bearing loans and borrowings	57	–	–	303	–	360	349
Finance lease creditors	–	8	6	–	–	14	13
Trade and other payables (excluding advances from customers and other taxes payable)	1,407	104	–	–	–	1,511	1,511
Due to related parties	34	–	–	–	–	34	34
Contingent consideration	1	6	2	–	–	9	8
Derivative instruments	3	–	1	–	–	4	4
Interest payments	4	3	6	6	–	19	–
	<b>1,506</b>	<b>121</b>	<b>15</b>	<b>309</b>	<b>–</b>	<b>1,951</b>	<b>1,919</b>

The Group uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

**Capital management**

The Group's policy is to maintain a healthy capital base to sustain future growth and maximise shareholder value.

The Group seeks to optimise shareholder returns by maintaining a balance between debt and capital and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

	2013 US\$m	2012 US\$m
Cash and short-term deposits	617	582
Interest-bearing loans and borrowings (A)	(1,344)	(349)
Net (debt)/cash (B)	(727)	233
Equity attributable to Petrofac Limited shareholders (C)	1,989	1,549
Profit for the year attributable to Petrofac Limited shareholders (D)	650	632
Gross gearing ratio (A/C)	67.6%	22.5%
Net gearing ratio (B/C)	36.6%	Net cash position
Shareholders' return on investment (D/C)	32.7%	40.8%



## Notes to the consolidated financial statements continued

## 29 Risk management and financial instruments continued

## Fair values of financial assets and liabilities

The fair value of the Group's financial instruments and their carrying amounts included within the Group's statement of financial position are set out below:

	Carrying amount		Fair value	
	2013 US\$m	2012 US\$m	2013 US\$m	2012 US\$m
<b>Financial assets</b>				
Cash and short-term deposits	617	582	617	582
Restricted cash	5	11	5	11
Seven Energy warrants	11	12	11	12
Receivable under Berantai RSC	476	389	476	389
Amounts receivable in respect of the development of the Greater Stella Area	200	115	200	115
Euro forward currency contracts – designated as cash flow hedge	24	1	24	1
Euro forward currency contracts – undesignated	4	1	4	1
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings				
Senior notes	742	–	750	–
Revolving credit facility	435	292	444	303
Project financing	135	–	138	–
Bank overdrafts	32	57	32	57
Contingent consideration	2	8	2	8
Interest rate swaps	2	–	2	–
Oil derivative	1	–	1	–
Euro forward currency contracts – designated as cash flow hedge	2	1	2	1
Euro forward currency contracts – undesignated	–	1	–	1
Sterling forward currency contracts – undesignated	11	2	11	2

The Group considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts and oil derivatives. Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts, interest rate swaps and oil derivatives.
- The fair values of long-term interest-bearing loans and borrowings 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 warrants over equity instruments in Seven Energy has been calculated using a Black Scholes model (note 13). The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	2013
Volatility of underlying interest	56.8%
Risk-free interest rate	0.4%
Value of underlying interest on valuation date (per share)	US\$300

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. An increase in the value of underlying interest would lead to an increase in the fair value of the warrants. The fair value of the warrants is not significantly sensitive to a reasonable change in the volatility of underlying interest or the risk-free interest rate, however it is to a reasonable change in the value of underlying interest, as is described in the following table:

	2013 US\$m
US\$25 increase in the value of underlying interest	2
US\$25 decrease in the value of underlying interest	(2)

- The fair value of the receivable under Berantai RSC has been calculated using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	2013
Internal rate of return	15%
Discount rate	6.0%
Oil price (per barrel)	US\$100
Gas price (per gigajoule)	US\$7.37

Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value. The fair value of the receivable under Berantai RSC is only sensitive to a reasonable change in the internal rate of return and the discount rate. The table below explains the impact on the fair value of the receivable as a result of changes to these inputs:

	2013 US\$m
100 basis points decrease in the internal rate of return	(16)
100 basis points increase in the discount rate	10
100 basis points decrease in the discount rate	(10)

Reconciliation of fair value measurement of the receivable under Berantai RSC:

	US\$m
As at 1 January 2013	389
Billings during the year	118
Fair value gain included in revenue	16
Unwinding of discount	23
Receipts during the year	(70)
As at 31 December 2013	476

## Notes to the consolidated financial statements continued

## 30 Subsidiaries and joint arrangements

At 31 December 2013, the Group had investments in the following subsidiaries and joint arrangements:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group	
		2013	2012
<b>Trading subsidiaries</b>			
Petrofac Algeria EURL	Algeria	100	100
Petrofac (Cyprus) Limited	Cyprus	100	100
CO <sub>2</sub> DeepStore (Aspen) Limited	England	–	100
Eclipse Petroleum Technology 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	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac UK Holdings Limited	England	<sup>1</sup> 100	<sup>1</sup> 100
The New Energy Industries Limited	England	100	100
TNEI Services Limited	England	100	100
Caltec Limited	England	100	100
Petrofac Energy Developments UK Limited	England	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Deutschland GmbH	Germany	100	–
Jermyn Insurance Company Limited	Guernsey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Engineering India Private Limited	India	100	100
Petrofac Engineering Services India Private Limited	India	100	100
Petrofac Information Services Private Limited	India	100	100
PT. PCI Indonesia	Indonesia	80	80
PT. Petrofac IKPT International	Indonesia	51	51
Petrofac Integrated Energy Services Limited (formerly CO <sub>2</sub> DeepStore Holdings Limited)	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Monsoon Shipmanagement Limited	Jersey	100	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	100	100
Petrofac Energy Developments International Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Energy Developments West Africa Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Facilities Management International Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac FPF004 Limited	Jersey	100	100
Petrofac FPSO Holding Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac GSA Limited	Jersey	100	100
Petrofac International Ltd	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Offshore Management Limited	Jersey	100	100
Petrofac Platform Management Services Limited	Jersey	100	100
Petrofac Training International Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petroleum Facilities E & C Limited	Jersey	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac (JSD 6000) Limited	Jersey	100	–
Petrokyrgyzstan Limited	Jersey	100	100
Petrofac E&C Sdn Bhd	Malaysia	100	100
Petrofac Energy Developments Sdn Bhd	Malaysia	100	100
Petrofac Engineering Services (Malaysia) Sdn Bhd	Malaysia	100	100
Petrofac FPF005 Limited	Malaysia	100	100
Petrofac Training Sdn Bhd	Malaysia	100	100
PFMAP Sdn Bhd	Malaysia	100	100

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group	
		2013	2012
<b>Trading subsidiaries</b> continued			
SPD Well Engineering Sdn Bhd	Malaysia	100	100
H&L/SPD Americas S. de R.L.	Mexico	100	100
Petrofac Mexico SA de CV	Mexico	100	100
Petrofac Mexico Servicios SA de CV	Mexico	100	100
Operadora de Campos del Noreste S.A. de C.V.	Mexico	100	–
Petrofac Global Employment B.V.	Netherlands	100	–
Petrofac Kazakhstan B.V.	Netherlands	100	100
Petrofac Mexico Holdings B.V.	Netherlands	100	100
Petrofac Netherlands Cooperatief U.A.	Netherlands	100	100
Petrofac Netherlands Holdings B.V.	Netherlands	100	100
Petrofac Treasury B.V.	Netherlands	100	100
PTS B.V.	Netherlands	100	100
Petrofac Kazakhstan Ventures B.V.	Netherlands	100	–
Petrofac Nigeria B.V.	Netherlands	100	–
Petrofac Norge B.V.	Netherlands	100	–
Petrofac Russia B.V.	Netherlands	100	–
Petrofac Energy Services Nigeria Limited	Nigeria	100	100
Petrofac International (Nigeria) Limited	Nigeria	100	100
KW Norge AS	Norway	100	100
Petrofac Norge AS	Norway	100	100
Petrofac E&C Oman LLC	Oman	100	100
Petrofac Solutions & Facilities Support S.R.L	Romania	100	100
PKT Technical Services Ltd	Russia	<sup>2</sup> 50	<sup>2</sup> 50
PKT Training Services Ltd	Russia	100	100
Sakhalin Technical Training Centre	Russia	100	80
Petrofac Saudi Arabia Company Limited	Saudi Arabia	100	100
Atlantic Resourcing Limited	Scotland	100	100
CO <sub>2</sub> DeepStore Limited	Scotland	–	100
Petrofac Facilities Management Group Limited	Scotland	100	100
Petrofac Facilities Management Limited	Scotland	100	100
Petrofac Training Limited	Scotland	100	100
Scotvalve Services Limited	Scotland	100	100
SPD Limited	Scotland	100	100
Stephen Gillespie Consultants Limited	Scotland	100	100
Petrofac Training Group Limited	Scotland	100	100
Petrofac Training Holdings Limited	Scotland	100	100
Plant Asset Management Limited	Scotland	100	100
Petrofac FPF003 Pte Limited	Singapore	100	100
Petrofac South East Asia Pte Ltd	Singapore	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Training Institute Pte Limited	Singapore	100	100
Petrofac International South Africa (Pty) Limited	South Africa	100	100
Petrofac Emirates LLC (note 10)	United Arab Emirates	<sup>2</sup> 49	<sup>3</sup> 49
Petrofac E&C International Limited	United Arab Emirates	100	100
Petrofac FZE	United Arab Emirates	100	100
Petrofac International (UAE) LLC	United Arab Emirates	100	100
SPD LLC	United Arab Emirates	<sup>2</sup> 49	<sup>2</sup> 49
Petrofac Energy Developments (Ohanet) LLC	United States	100	100
Petrofac Inc.	United States	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac Training Inc.	United States	100	100
SPD Group Limited	British Virgin Islands	100	100

## Notes to the consolidated financial statements continued

## 30 Subsidiaries and joint arrangements continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group	
		2013	2012
<b>Dormant subsidiaries</b>			
i Perform Limited	Scotland	100	100
Joint Venture International Limited	Scotland	100	100
Montrose Park Hotels Limited	Scotland	100	100
RGIT Ethos Health & Safety Limited	Scotland	100	100
Rubicon Response Limited	Scotland	100	100
Scota Limited	Scotland	100	100
Petrofac Training (Trinidad) Limited	Trinidad	100	100
Petrofac Services Inc	USA	<sup>1</sup> 100	<sup>1</sup> 100
Petrofac ESOP Trustees Limited	Jersey	–	<sup>1</sup> 100

Name of joint arrangement	Principal Activities	Country of incorporation	Proportion of nominal value of issued shares controlled by the Group	
			2013	2012
<b>Joint Arrangements</b>				
<b>Joint ventures</b>				
MJVI Sdn Bhd	Dormant	Brunei	50	50
Costain Petrofac Limited	Dormant	England	50	50
Spie Capag – Petrofac International Limited	Dormant	Jersey	50	50
TTE Petrofac Limited	Operation and management of a training centre	Jersey	50	50
China Petroleum Petrofac Engineering Services Cooperatif U.A.	Consultancy for Petroleum and chemical engineering	Netherlands	49	49
Professional Mechanical Repair Services Company	Operation of service centre providing mechanical services to oil and gas industry	Saudi Arabia	50	50
<b>Joint operations</b>				
PetroAlfa Servicios Integrados de Energia SAPI de CV	Services to oil and gas industry	Mexico	<sup>4</sup> 50	–
Petro-SPM Integrated Services S.A. de C.V.	Production enhancement for Pánuco	Mexico	<sup>5</sup> 50	<sup>5</sup> 50
Berantai Floating Production Limited	Bareboat charter of a floating platform	Malaysia	<sup>6</sup> 51	<sup>6</sup> 51
Bechtel Petrofac JV	Feasibility study for a project in UAE	Unincorporated	<sup>7</sup> 15	–
Petrofac / Daelim JV	EPC for a project in Oman	Unincorporated	<sup>7</sup> 50	–
Petrofac / Bonatti JV	EPC for a project in Algeria	Unincorporated	<sup>7</sup> 70	–
NGL 4 JV	EPC for a project in UAE	Unincorporated	<sup>7</sup> 45	<sup>7</sup> 45

<sup>1</sup> Directly held by Petrofac Limited.

<sup>2</sup> Companies consolidated as subsidiaries on the basis of control.

<sup>3</sup> Joint venture in 2012.

<sup>4</sup> Joint arrangement classified as joint operation on the basis of contractual arrangement, whereby the activities of the arrangement are primarily designed for the provision of output to the venturers, this indicates that the venturers have rights to substantially all the economic benefits of the assets of the arrangement.

<sup>5</sup> Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers to be jointly and severally liable for performance under Pánuco ISC.

<sup>6</sup> Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers that gives rights to assets and obligation for liabilities of the joint arrangement to the venturers.

<sup>7</sup> 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.

The Company's interest in joint ventures is disclosed on page 147.