Petrofac Limited

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

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US$2,103 million

Revenue

Six months ended 30 June 2019: US$2,821 million

US$129 million

EBITDA [1,2]

Six months ended 30 June 2019: US$305 million

US$21 million

Business performance net profit [1,3]

Six months ended 30 June 2019: US$154 million

US$(78) million

Reported net loss [3]

Six months ended 30 June 2019: US$139 million profit

nil

Interim dividend per share

Six months ended 30 June 2019: 12.7 cents

6.2 cents

Diluted earnings per share [1,3]

Six months ended 30 June 2019: 44.9 cents

US$(13) million

Free cash flow [4]

Six months ended 30 June 2019: US$123 million

US$29 million

Net debt

At 31 December 2019: US$15 million net cash

US$6.2 billion

Backlog [6]

At 31 December 2019: US$7.4 billion

14%

Return on capital employed [1,5]

12 months ended 30 June 2019: 26%

[1] Business performance before exceptional items and certain re-measurements. This measurement is shown by Petrofac as a means of measuring underlying business performance.

[2] Earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as operating profit, including the share of net profit of associates and joint ventures, adjusted to add back charges for depreciation and amortisation (see A3 in Appendix A to the interim condensed consolidated financial statements).

[3] Attributable to Petrofac Limited shareholders, as reported in the interim condensed consolidated income statement.

[4] Free cash flow is defined as net cash flows generated from operating activities and investing activities, less interest paid and amounts received from non-controlling interests (see A6 in Appendix A to the interim condensed consolidated financial statements).

[5] Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) for the 12 months ended 30 June divided by average capital employed (see A8 in Appendix A to the interim condensed consolidated financial statements).

[6] Backlog consists of: the estimated revenue attributable to the uncompleted portion of Engineering & Construction operating segment contracts; and, with regard to Engineering & Production Services, the estimated revenue attributable to the lesser of the remaining term of the contract and five years. The Group uses this key performance indicator as a measure of the visibility of future revenue.

BUSINESS REVIEW
At 30 June 2020

Financial Results

The Group's first half results for 2020 reflect the deterioration in market conditions triggered by the COVID-19 pandemic and subsequent decline in oil prices. Overall, revenue and profitability declined in all our operating segments, as unprecedented conditions disrupted project schedules, increased project costs, delayed tender awards and impacted commercial settlement discussions. In response, management has taken swift action to structurally reduce project support and overhead costs, and conserve cash. These actions have improved net margins and cash flow, and best position the business as markets recover.

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Business performance [1] US$m	**Exceptional items and certain re-measurements US$m**	**Reported US$m**	Business performance [1] US$m	Exceptional items and certain re-measurements US$m	Reported US$m
Revenue	**2,103**	–	**2,103**	2,821	–	2,821
EBITDA	**129**	**n/a**	**n/a**	305	n/a	n/a
Net profit/(loss) [2]	**21**	**(99)**	**(78)**	154	(15)	139

Income statement

Revenue

Revenue for the first half of the year decreased 25% to US$2.1 billion (2019: US$2.8 billion), with a reduction in revenue in all operating segments driven by COVID-19 disruption and low oil prices.

Engineering & Construction (E&C) decreased 28%, driven by COVID-19 related project delays. Revenue in Engineering & Production Services (EPS) decreased by 5%, reflecting a decline in Operations activity as offshore crews were reduced to minimum levels in order to meet social distancing measures and training centres were temporarily closed. Integrated Energy Services (IES) revenue decreased by 38%, primarily due to the decline in average realised oil prices.

Backlog

The Group's backlog decreased 16% to US$6.2 billion at 30 June 2020 (31 December 2019: US$7.4 billion), reflecting low new order intake and progress delivered on the existing project portfolio.

	30 June 2020 US$bn	31 December 2019 US$bn
Engineering & Construction	**4.3**	5.7
Engineering & Production Services	**1.9**	1.7
Group	**6.2**	7.4

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

Business performance EBITDA decreased 58% to US$129 million (2019: US$305 million), reflecting lower revenue and margins in all operating segments. Lower EBITDA was partly mitigated by management action to reduce costs.

Six months ended 30 June 2020

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m
Revenue	1,636	426	61	-	(20)	2,103
EBITDA	83	29	22	(5)	-	129
EBITDA margin	5.1%	6.8%	36.1%			6.1%

Six months ended 30 June 2019 (restated [(3)])

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m
Revenue	2,281	448	99	-	(7)	2,821
EBITDA	217	47	45	(4)	-	305
EBITDA margin	9.5%	10.5%	45.5%			10.8%

Finance expense/income

Finance expense for the first half of the year was lower at US$22 million (2019: US$30 million) due to lower average gross debt for the period. Finance income of US$7 million was in line with the prior comparative period (2019: US$7 million).

	30 June 2020 US$m	30 June 2019 US$m
Group borrowings	**16**	21
Lease liabilities	**5**	6
Unwinding of discount on decommissioning provisions	**1**	3
Finance expense	**22**	30

Taxation

Business performance income tax expense was 50% lower at US$29 million (2019: US$58 million) due to lower profit before tax.

The Group's business performance effective tax rate (ETR) for the six months ended 30 June 2020 increased to 62% (2019: 28%) reflecting the change in profile of jurisdictions in which the profits are earned, as well as the negative impact of the Jazan commercial settlement for which no tax relief was available.

The reported ETR was negative 69% (2019: positive 30%). The change in ETR was impacted by the realisation of impairments without tax benefits and certain re-measurements that are not subject to tax.

Net profit

Business performance net profit attributable to Petrofac Limited shareholders for the first half of the year decreased 86% to US$21 million (2019: US$154 million) driven by lower EBITDA, partially offset by lower net finance expense, lower tax expense, and lower depreciation and amortisation.

The reported net loss of US$78 million (2019: US$139 million profit) was impacted by post-tax exceptional items and certain re-measurements of US$99 million (2019: US$15 million), predominantly relating to an impairment of the carrying amount of Block PM304, fair value re-measurements of the carrying amounts of contingent consideration for Pánuco and Greater Stell Area (GSA), an exceptional loss associated with the early settlement of deferred consideration receivable for GSA, Group reorganisation and redundancy costs, and SFO related legal fees (see note 6 to the interim condensed consolidated financial statements).

Business performance net margin decreased to 1.0% (2019: 5.5%) reflecting business mix and a decline in contract margins, partially offset by lower overheads and lower tax.

Earnings per share

Business performance diluted earnings per share decreased 86% to 6.2 cents per share (2019: 44.9 cents per share), broadly in line with the decrease in business performance net profit. Reported diluted earnings per share decreased to a loss of 23.2 cents per share (2019: 40.5 cents per share).

Cash flow

Operating cash flow

Net cash flows generated from operating activities fell to US$22 million in the first half of the year (2019: US$190 million), primarily reflecting lower EBITDA, the anticipated reversal of temporary favourable working capital movements at the end of 2019 and lower tax payments.

	Six months ended 30 June 2020 US$m	Six months ended 30 June 2019 US$m
EBITDA	**129**	305

	Six months ended 30 June 2020 US$m	Six months ended 30 June 2019 US$m
Operating profit adjustments	**18**	15
Cash generated from operations before working capital adjustments and other items	**147**	**320**
Net working capital adjustments	**(57)**	(11)
Net other non-current items	**1**	1
Restructuring, redundancy, and other exceptional items paid	**(17)**	(11)
Net income taxes paid	**(52)**	(109)
Net cash flows generated from operating activities	**22**	190

Free cash flow

The free cash outflow [5] for the first half of the year was US$13 million (2019: US$123 million inflow), principally reflecting lower operating cash flow. The decline in operating cash flow was mitigated by management actions to reduce capital expenditure and to accelerate the receipt of deferred consideration from the Greater Stella Area (GSA) disposal. Of the US$57 million in deferred consideration received in the first half, US$13 million was recognised as disposal proceeds in IES and US$44 million was recognised as a reduction in contract assets in EPS.

	Six months ended 30 June 2020 US$m	Six months ended 30 June 2019 US$m
Net cash flows generated from operating activities	**22**	190
Capital expenditure	**(26)**	(53)
Proceeds from disposals	**13**	2
Dividends received from associates and JV's and other investing activities	**(1)**	(1)
Net cash flows used in investing activities	**(14)**	(52)
Interest paid	**(21)**	(25)
Amounts received from non-controlling interest	**–**	10
Free cash flow	**(13)**	123

Balance sheet

IES carrying amount

The carrying amount of the IES portfolio was US$323 million at 30 June 2020 (31 December 2019: US$395 million), reflecting the impact of impairment and fair value re-measurements in the period.

		30 June 2020 US$m	31 December 2019 US$m
Santuario, Magallanes, Arenque [4]	Mexico	**237**	242
PM304	Malaysia	**83**	150
Other [3]		**3**	3
Total		**323**	395

Working capital

The net working capital balance at 30 June 2020 increased by US$88 million to US$324 million (31 December 2019: US$236 million). The key movements in working capital during the period were:

- An increase of US$74 million in trade receivables [6] due to a net increase in trade receivables of US$64 million relating to three contracts in the E&C business unit;
- A decrease of US$193 million in contract assets [7], principally due to invoicing milestones achieved and lower assessed variation orders;
- A decrease in contract liabilities [8] of US$72 million as a result of a decrease in advances received from

customers due to low order intake in the period; and

- A decrease in accrued contract expenses [9] of US$209 million due to higher payment milestones achieved relating to vendors and subcontractors.

Days Sales Outstanding (DSO) increased by 19 days to 196 days at 30 June 2020 (31 December 2019: 177 days), whilst Days Payments Outstanding (DPO) increased by 8 days to 181 days at 30 June 2020 (31 December 2019: 173 days) [10].

Leases

Net lease liabilities, calculated as gross lease liabilities minus 70% of leases relating to Block PM304 in Malaysia, decreased 14% to US$154 million at 30 June 2020 (31 December 2019: US$179 million) as a result of lease payments made in the period (see note 13 and A10 in Appendix A to the interim condensed consolidated financial statements). Net lease liabilities attributable to PM304 amounted to US$95 million (31 December 2019: US$111 million).

Total equity

Total equity at 30 June 2020 decreased to US$857 million (31 December 2019: US$914 million), reflecting the reported loss for the period of US$78 million, largely due to the impairments and fair value remeasurements recognised in the period, and the purchase of the Company's shares by the Petrofac Employees Benefit Trust (which are held for the purpose of making awards under the Group's share based payment plans) of US$10 million).

Of the total equity of US$857 million at 30 June 2020, US$579 million (31 December 2019: US$633 million) was attributable to Petrofac Limited shareholders and US$278 million (31 December 2019: US$281 million) was attributable to non-controlling interests.

Net debt, liquidity and return on capital employed

Net debt

Net debt was US$29 million at 30 June 2020 (31 December 2019: US$15 million net cash) reflecting negative free cash flow, the repayment of interest-bearing loans, borrowings and leases, interest paid and the purchase of the Company's shares by the Petrofac Employee Benefit Trust (see A11 in Appendix A to the interim condensed consolidated financial statements). No dividends were paid in the period (2019: US$86 million) following the decision of the Board to suspend the 2019 final dividend payment in response to the COVID-19 pandemic.

Gross interest-bearing loans and borrowings less associated debt acquisition costs were US$890 million at 30 June 2020 (31 December 2019: US$1,010 million).

	30 June 2020 **US$m**	31 December 2019 US$m
Cash and short-term deposits	**861**	1,025
Interest-bearing loans and borrowings	**(890)**	(1,010)
Net (debt) / cash	**(29)**	15

Liquidity

The Group's total available borrowing facilities, excluding bank overdrafts, were US$1,225 million at 30 June 2020 (31 December 2019: US$1,500 million) following the repayment and retirement of US$75 million term loans and a US$200 million tranche of the revolving credit facility (RCF) during the period. Details of the Group's borrowing facilities are contained in note 19 to the interim condensed consolidated financial statements.

Of these facilities, US$386 million was undrawn at 30 June 2020 (31 December 2019: US$600 million). Combined with the Group's cash and cash equivalents of US$810 million (31 December 2019: US$914 million), excluding US$51 million cash from bank overdrafts, the Group had US$1,196 million of liquidity available at 30 June 2020 (31 December 2019: US$1,514 million [11]).

Borrowing facilities	**Maturity date**
Revolving credit facility – US$1,000 million	June 2021
Term loan 1 – US$150 million	August 2022
Term loan 2 – US$75 million	August 2020

The RCF and the term loans are subject to two financial covenants relating to leverage (net debt to EBITDA) and interest cover (EBITDA to net interest). At 30 June 2020, both covenants were in compliance, each with significant headroom to covenant limits:

	Leverage	Interest cover
Covenant	<3.0x	>3.0x
Ratio at 30 June 2020	0.5x	9.9x

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.

The Group has a BBB- (negative outlook) credit rating from Fitch and BB+ (negative outlook) credit rating from S&P.

Return on capital employed

The Group's return on capital employed was 14% for the twelve months ended 30 June 2020 (12 months ended 30 June 2019: 26%), due to the reduction in business performance earnings before interest, tax and amortisation (EBITA). Details of this alternative performance metric calculation are contained in A8 in Appendix A to the interim condensed consolidated financial statements.

Employees

At 30 June 2020, the Group had approximately 10,700 employees, including long-term contractors (31 December 2019: 11,500).

Dividends

In April 2020, the Board suspended the payment of the final dividend in response to the COVID-19 pandemic. Whilst the Board recognises the importance of dividends to shareholders, it has decided to continue to suspend dividend payments and therefore not pay an interim dividend in 2020 (2019: 12.7 US cents per share) to conserve cash. At this time of considerable economic uncertainty, the Board is prioritising maintaining a strong balance sheet and does not expect to resume the payment of dividends until there is a sustained recovery in new order intake.

At 30 June 2020, Petrofac Limited had distributable reserves of US$550 million (31 December 2019: US$558 million).

Notes:

1 This measurement is shown by Petrofac as a means of measuring underlying business performance, see note 4 to the interim condensed consolidated financial statements

2 Attributable to Petrofac Limited shareholders

3 On 1 January 2020, investment in associates i.e. PetroFirst Infrastructure Limited and PetroFirst Infrastructure 2 Limited were reorganised from Integrated Energy Services operating segment to Engineering & Production Services operating segment. Consequently, the share of net profit of associates of US$13m, net profit attributable to Petrofac Limited shareholders of US$13m and EBITDA of US$13m were reclassified from the Integrated Energy Services operating segment to the Engineering & Production Services (EPS) operating segment to reflect the reclassification of investment in associates. The 2019 IES operating segment balance sheet has been restated resulting in a US$25 million reduction to the 31 December 2019 carrying value.

4 51% share of net assets attributable to Petrofac Limited shareholders

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

6 See note 14 to the interim condensed consolidated financial statements

7 See note 15 to the interim condensed consolidated financial statements

8 See note 21 to the interim condensed consolidated financial statements

9 See note 22 to the interim condensed consolidated financial statements

10 DSO and DPO calculations have been adjusted to include assets held for sale balances related to the Mexico assets. DSO (days sales outstanding) comprises [(Trade Receivables + Contract Assets - Contract Liabilities) / Revenue)] x 365. DPO (days payable outstanding) comprises [((Trade Payables + Accrued Expenses + Accrued Contract Expenses + Other Payables) – (Loans and Advances + Prepayments and Deposits)) / COS)] x 365

11 December 2019 liquidity restated from $1,625 million to remove cash from overdrafts as these amounts are repayable on demand and as such do not meet the definition to be included within liquidity

Segmental analysis

The Group's business performance operating segment results were as follows:

US$ million	Revenue		Net profit [1]		EBITDA	
For the six months ended 30 June	**2020**	2019	**2020**	2019 (restated)	**2020**	2019 (restated)
Engineering & Construction	**1,636**	2,281	**35**	148	**83**	217
Engineering & Production Services	**426**	448	**17**	36	**29**	47
Integrated Energy Services	**61**	99	**(10)**	(6)	**22**	45
Corporate, others, consolidation adjustments & eliminations	**(20)**	(7)	**(21)**	(24)	**(5)**	(4)
Group	**2,103**	2,821	**21**	154	**129**	305

%	Revenue growth		Net margin		EBITDA margin	
For the six months ended 30 June	**2020**	2019	**2020**	2019 (restated)	**2020**	2019 (restated)
Engineering & Construction	**(28.3)**	2.4	**2.1**	6.5	**5.1**	9.5
Engineering & Production Services	**(4.7)**	4.2	**4.0**	8.1	**6.8**	10.5
Integrated Energy Services	**(38.6)**	(27.2)	**(15.8)**	(6.1)	**35.6**	45.5
Group	**(25.4)**	1.3	**1.0**	5.5	**6.1**	10.8

[1] Attributable to Petrofac Limited shareholders.

Engineering & Construction

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Our services encompass both greenfield and brownfield developments in upstream and downstream sectors in addition to supporting renewable energy projects. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models, such as providing services on a reimbursable basis through our engineering, procurement and construction management (EPCm) business. We have more than 38 years' expertise in engineering and construction.

E&C financial performance in the first half of 2020 has been materially impacted by the COVID-19 pandemic, which has disrupted project schedules and increased costs. Furthermore, the decline in oil prices has resulted in a contraction in capital spending by clients in the period, resulting in delays in tender awards, the termination of our Dalma project awards and a tighter commercial environment.

New awards

New order intake for the first half of the year totalled US$0.4 billion, comprising the EPC contract for the Seagreen offshore wind project in Scotland and net variation orders. The $1.65 billion Dalma project award, announced in February 2020, was subsequently terminated by the client in April in response to the fall in oil price.

Seagreen project, United Kingdom

In June 2020, we were awarded a contract with Seagreen Wind Energy Ltd to design, supply and install the High Voltage Alternating Current (HVAC) onshore and offshore substations for the Seagreen offshore wind farm project.

The wind farm, being developed by SSE Renewables, will be located 27 kilometres off the coast of Angus and once commissioned will be the largest in Scotland, providing around 1 million homes with low carbon energy. The full scope includes, on a lump-sum basis, the engineering, procurement, fabrication, transportation, installation and commissioning of the offshore substation platform, including the topside, jacket and piles. The onshore substation EPC scope includes all civil works and major equipment.

This award builds on Petrofac’s strong track record in offshore wind, specialising to date in the engineering, procurement, construction, installation and commissioning of HVDC and HVAC offshore and onshore substations for major international wind farms.

Results

Revenue for the first half of the year decreased 28% to US$1,636 million (2019: US$2,281 million). Progress delivering our E&C projects in the first half of the year was significantly disrupted by COVID-19. Activity on our lump-sum projects in Iraq and India was suspended in response to Government-enforced lockdowns. Elsewhere, progress has been materially impaired due to stringent health protocols, supply chain disruption and travel restrictions.

Business performance EBITDA in E&C declined 62% to US$83 million (2019: US$217 million), reflecting lower revenue, commercial settlements and higher estimated costs to complete.

Business performance net profit in E&C decreased by 76% to US$35 million (2019: US$148 million). Net margin decreased to 2.1% (2019: 6.5%), largely reflecting COVID-19 related cost increases, changes in project mix and the non-recurring Jazan project commercial settlement at completion. These headwinds were partly offset by lower tax expense, lower project support costs and lower overheads.

E&C backlog decreased to US$4.3 billion at 30 June 2020 (31 December 2019: US$5.7 billion) as revenue burn exceeded new order intake.

E&C headcount decreased by 9% to 6,050 at 30 June 2020 (31 December 2019: 6,650).

Engineering & Production Services

The Engineering & Production Services (EPS) division brings together our services' capability across: brownfield projects and operations; greenfield projects through concept, feasibility and front-end engineering and full project delivery; as well as a range of operations, maintenance and engineering services for onshore and offshore projects. EPS also provides training and competence solutions to support industry requirements and promote local economies.

EPS' financial performance in the first half of 2020 benefitted from strong order intake and lower overhead costs, which helped mitigate the impacts of lower revenue, an expected decline in brownfield project margins and a lower contribution from associates.

New awards

EPS secured US$0.6 billion of new orders in the first half of the year, representing a book-to-bill ratio of 1.5x, with contract awards and extensions in the UK North Sea, Iraq, Bahrain, the UAE and Kazakhstan. This positive start to the year included the award of an engineering and project management support contract for the Acorn Carbon Capture and Storage project, which will provide CO_2 mitigation infrastructure essential for meeting the Scottish and UK Government Net Zero targets.

Results

Revenue fell in the first half by 5% to US$426 million (2019: US$448 million), reflecting a decline in activity in Operations and the COVID-19 related closure of our training centres. Brownfield projects activity was broadly unchanged year-on-year despite the deterioration in market conditions.

Business performance EBITDA in EPS decreased 38% to US$29 million (2019: restated US$47 million), largely due to lower Operations revenue, lower brownfield project margins as historic contracts rolled-off, and a lower contribution from associates. The decline in net profit from associates of US$10 million was mainly due to a fair valuation gain of US$10 million in the prior year period, arising from the re-recognition of lease asset and lease liability due to changes in lease terms.

Business performance net profit decreased by 53% to US$17 million (2019 restated: US$36 million). Net margin decreased to 4.0% (2019 restated: 8.1%) reflecting the change in contract mix and margins, and lower contribution from associates, partly offset by overhead cost reductions and lower tax.

EPS backlog increased to US$1.9 billion at 30 June 2020 (31 December 2019: US$1.7 billion) reflecting strong order intake during the first half of the year.

EPS headcount decreased by 2% to 3,950 at 30 June 2020 (31 December 2019: 4,050).

Integrated Energy Services

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business, providing an integrated service for clients under flexible commercial models that are aligned with their requirements. These range from Production Enhancement Contracts (PECs) to traditional Production Sharing Contracts (PSCs).

Equity Upstream Investments

Petrofac's equity upstream investments comprise interests in Block PM304, offshore Malaysia, and the Santuario PSC in Mexico. Net entitlement production from Petrofac's equity interests increased to 1.1 million barrels of oil equivalent (mboe) in the period (2019: 1.0 mboe) reflecting strong growth in production at Santuario.

Production Enhancement Contracts

Petrofac earns a tariff per barrel for an agreed level of baseline production and an enhanced tariff per barrel on incremental production from our Magallanes and Arenque PECs in Mexico. Tariff income in the first half of 2020 was stable at 1.1 mboe in the period (2019: 1.1 mboe).

Divestment Update

In April 2020, we received US$57 million of deferred consideration from the sale of the Group's interests in the Greater Stella Area (GSA) development, earlier than the scheduled payment date of October 2020. The disposal of our interest in the GSA development to Ithaca Energy (UK) Limited was completed in 2018.

The disposal of our remaining 51% interest in our operations in Mexico to Perenco is expected to complete in the second half of 2020.

Results

Revenue decreased 38% to US$61 million (2019: US$99 million), with lower average realised oil prices and lower cost recovery in Mexico more than offsetting higher equity production. Average realised prices were US$37 per barrel of oil equivalent for the first half of 2020 (2019: US$69 per barrel of oil equivalent).

IES business Performance EBITDA decreased 51% to US$22 million (2019 restated: US$45 million) due to the decline in revenue and devaluation of the Mexican Peso, which more than offset a reduction in costs. EBITDA per barrel of oil equivalent from our equity interests decreased by 58% to US$21 per barrel of oil equivalent (2019: US$48 per barrel of oil equivalent), despite a material reduction in unit operating costs.

IES' business performance net loss for the first half of the year was US$10 million (2019 restated: US$6 million loss), with lower depreciation, lower tax and a higher non-controlling interest loss attribution mitigating the impact of lower EBITDA.

Exceptional items and certain re-measurements in IES totalled US$87 million post-tax (2019: US$1 million), comprising: an impairment of the carrying amount of Block PM304 (post-tax US$64 million); fair value re-measurements of the carrying amount of contingent consideration for Panuco in Mexico (post-tax US$8 million) and GSA (post-tax US$9 million); and, an exceptional loss associated with the early settlement of deferred consideration receivable for GSA (post-tax US$5 million).

IES headcount decreased by 18% to 450 at 30 June 2020 (31 December 2019: 550).

Going Concern

The Directors have performed a robust going concern assessment in preparing the financial statements, which has taken into account the Group's liquidity position and a range of severe but plausible downside scenarios. Based on this assessment, the Directors consider it appropriate for the going concern basis to be adopted in preparing the interim condensed consolidated financial statements for the six months ended 30 June 2020. Further information is provided in note 2 of the financial statements.

Principal risks and uncertainties

Principal risks are those risks that, given the Group's current position, could materially threaten our business model, future performance, prospects, solvency, liquidity, reputation, or prevent us from delivering our strategic objectives.

We manage these risks through our systems of risk management and internal control, which are founded upon deployment of our Enterprise Risk Management Framework (based upon BS ISO 31000/2018) and our Internal Control Framework, details of which are included in the 2019 Annual Report and Accounts (pages 28 to 29 and 83 to 87).

The Board has oversight of enterprise risk management, including identifying and conducting a robust assessment of the principal risks facing the company and their connection to viability. Responsibility for monitoring and reviewing the integrity and effectiveness of the Group's overall systems of risk management and internal controls is delegated to the Audit Committee.

The Group Risk Committee and Audit Committee has reviewed these principal risks throughout the first half of 2019, concluding that the COVID-19 pandemic has increased a number of risks either directly, by impacting operational performance, or indirectly as lower oil prices have reduced demand for our services.

Our principal risks and corresponding change in 2020 are detailed in the table below.

Principal Risk		Change in 2020	Details
1	Adverse geo-political and macroeconomic changes in key geographies	Increased	We have expanded this principal risk definition to include changes in macroeconomic conditions. The assessment of risk has increased reflecting the potential economic impact of the COVID-19 pandemic and decline in oil prices in the countries we operate.
2	Low order intake	Increased	The risk of low order intake has increased due to reduced investment appetite in the oil & gas sector as a result of the decline in oil prices.
3	Failure to deliver strategic initiatives	No change	COVID-19 has increased the risk to some of our strategic initiatives, particularly in respect of accessing new markets. However, the overall risk level remained stable.
4	Poor operational and project performance	Increased	COVID-19 has severely disrupted our E&C projects, resulting in material delays in construction activity. The impact on our operations and maintenance activities in EPS has been modest.
5	HSSEAI incidents	No change	COVID-19 continues to pose a health threat to our employees, suppliers, sub-contractors and communities. However, effective mitigation measures put in place by the Group has resulted in no change to the overall risk assessment.
6	Insufficient IT resilience	No change	The Group has observed an increase in cyber threats in the period, which has been managed through investment in in IT infrastructure, cyber security and enhanced controls.
7	Loss of financial capacity	Increased	Risk assessment has increased reflecting a reduction in lending appetite to the oil & gas sector (COVID-19, economic conditions and banks' sustainability agendas) and pending debt maturities.
8	Misstatement of financial information	No change	No change in risk assessment.
9	Historic or future breaches of laws, regulations and ethical standards	Decreased	The risk of future breaches has reduced due to improvements in our compliance system and related controls.
10	Inadequate leadership and talent management	Increased	The risk assessment has increased reflecting fragility in succession planning.

The Group Risk Committee and the Board continuously review and monitor the impact of COVID-19 and other risks on our business. A robust and adaptive response has been defined and is being executed. This includes actions to structurally reduce costs, preserve cash and maintain our competitiveness.

Outlook

We remain confident that the actions we have taken to strengthen the balance sheet, invest in our core capability and reduce structural costs will best position us for the recovery when it occurs. Whilst COVID-19 and low oil prices are continuing to disrupt business activity and delay project awards, there are early signs of improvements in the supply chain and Government related restrictions are easing.

We are committed to maintaining a strong balance sheet by exercising capital discipline. We remain on track to reduce overhead and project support costs by at least US$125 million in 2020 and by up to US$200 million in 2021. Cost reductions, the suspension of the dividend payments in 2020 and a 40% reduction in capital investment will conserve at least an incremental US$200 million of cash flow this year. Group reorganisation and redundancy costs for the full year are expected to be approximately US$50 million.

In addition, we are focused on rebuilding our order book, which was US$6.2 billion at 30 June 2020 (31 December 2019: US$7.4 billion). This provides near-term revenue visibility with US$1.7 billion scheduled for execution in the second half of 2020. The Group has a busy tendering pipeline with around US$46 billion of opportunities scheduled for award by the end of 2021. Whilst we are actively bidding on several large opportunities and are maintaining strict bidding discipline, we are prudently assuming that capital discipline by clients will delay the majority of awards until 2021.

Longer term, we expect to continue to benefit from a strong competitive position and a differentiated in-country value proposition in the Middle East where the cost of production is low. Furthermore, our growth in the renewables and low-carbon sectors has been underpinned by recent offshore wind and carbon capture & storage awards. This has the potential to deliver attractive growth as markets recover and the energy transition evolves.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

	Notes to the interim condensed consolidated financial statements	**Business performance (1) US$m**	**Exceptional items and certain re-measurements US$m**	**Reported six months ended 30 June 2020 Unaudited US$m**	Business performance (1) US$m	Exceptional items and certain re-measurements US$m	Reported six months ended 30 June 2019 Unaudited US$m
Revenue	3	**2,103**	**–**	**2,103**	2,821	–	2,821
Cost of sales		**(1,937)**	**–**	**(1,937)**	(2,491)	–	(2,491)
Gross profit		**166**	**–**	**166**	330	–	330
Selling, general and administration expenses	5	**(83)**	**–**	**(83)**	(116)	–	(116)
Exceptional items and certain re-measurements	6	**–**	**(95)**	**(95)**	–	(15)	(15)
Other operating income		**15**	**–**	**15**	9	–	9
Other operating expenses	7	**(39)**	**–**	**(39)**	(5)	–	(5)
Operating profit/(loss)		**59**	**(95)**	**(36)**	218	(**15**)	203
Finance income		**7**	**–**	**7**	7	–	7
Finance expense		**(22)**	**–**	**(22)**	(30)	–	(30)
Share of net profit of associates and joint ventures	8	**3**	**–**	**3**	13	–	13
Profit/(loss) before tax		**47**	**(95)**	**(48)**	208	(15)	193
Income tax expense	9	**(29)**	**(4)**	**(33)**	(58)	–	(58)
Net profit/(loss)		**18**	**(99)**	**(81)**	150	(15)	135
Attributable to:							
Petrofac Limited shareholders		**21**	**(99)**	**(78)**	154	(15)	139
Non-controlling interests		**(3)**	**–**	**(3)**	(4)	–	(4)
		18	**(99)**	**(81)**	150	(15)	135
Earnings/(loss) per share (US cents)							
Basic	10	**6.2**	**(29.4)**	**(23.2)**	45.7	(4.5)	41.2
Diluted	10	**6.2**	**(29.4)**	**(23.2)**	44.9	(4.4)	40.5

Note: (1) This measurement is shown by the Group as a means of measuring underlying business performance, see note 2 on page 20 and Appendix A on page 40.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes to the interim condensed consolidated financial statements	**Six months ended 30 June 2020 Unaudited US$m**	**Six months ended 30 June 2019 Unaudited US$m**
Reported net (loss)/profit		**(81)**	135
Other comprehensive income to be reclassified to the consolidated income statement in subsequent periods			
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	18	**(1)**	8
Foreign currency translation gains	18	**25**	4
Other comprehensive income to be reclassified to the interim condensed consolidated income statement in subsequent periods		**24**	12
Other comprehensive income/(loss) reclassified to the interim condensed consolidated income statement			
Net (gains)/losses on maturity of cash flow hedges recycled in the period	18	**(1)**	2
Other comprehensive (loss)/income reclassified to the interim condensed consolidated income statement		**(1)**	2
Total comprehensive (loss)/income for the period		**(58)**	149
Attributable to:			
Petrofac Limited shareholders		**(55)**	153
Non-controlling interests		**(3)**	(4)
		(58)	149

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2020

	Notes to the interim condensed consolidated financial statements	**30 June 2020 Unaudited US$m**	**31 December 2019 Audited US$m**
Assets			
Non-current assets			
Property, plant and equipment	12	**301**	398
Goodwill		**96**	99
Intangible assets		**72**	66
Investments in associates and joint ventures		**38**	38
Other financial assets	13	**235**	316
Deferred consideration		**58**	61
Deferred tax assets		**52**	50
		852	1028
Current assets			
Inventories		**14**	17
Trade and other receivables	14	**1,152**	1,102
Contract assets	15	**1,871**	2,064
Related party receivables	23	**4**	1
Other financial assets	13	**170**	135
Income tax receivable		**3**	4
Cash and short-term deposits	16	**861**	1,025
		4,075	4,348
Assets held for sale	17	**533**	600
		4,608	4,948
Total assets		**5.460**	5,976
Equity and liabilities			
Equity			
Share capital		**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Employee Benefit Trust shares		**(92)**	(110)
Other reserves	18	**94**	84
Retained earnings		**555**	637
Equity attributable to Petrofac Limited shareholders		**579**	633
Non-controlling interests		**278**	281
Total equity		**857**	914
Non-current liabilities			
Interest-bearing loans and borrowings	19	**764**	599
Other financial liabilities	13	**192**	315
Provisions		**186**	189
Deferred tax liabilities		**41**	37
		1,183	1,140
Current liabilities			
Trade and other payables	20	**1,122**	1,075
Contract liabilities	21	**201**	273
Interest-bearing loans and borrowings	19	**126**	411
Other financial liabilities	13	**201**	166
Income tax payable		**211**	231
Accrued contract expenses	22	**1,390**	1,599
Provisions		**47**	47
		3,298	3,802
Liabilities associated with assets held for sale	17	**122**	120
		3,420	3,922
Total liabilities		**4,603**	5,062
Total equity and liabilities		**5,460**	5,976

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes to the interim condensed consolidated financial statements	Six months ended June 30 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Operating activities			
Reported (loss)/profit before tax		**(48)**	193
Exceptional items and certain re-measurements		**95**	15
Profit before tax, exceptional items and certain re-measurements		**47**	208
Adjustments to reconcile profit before tax, exceptional items and certain re-measurements to net cash flows:			
Depreciation, amortisation, impairment and write-offs	4	**67**	74
Share-based payments		**7**	8
Difference between other long-term employment benefits paid and amounts recognised in the interim condensed consolidated income statement		**(8)**	5
Net finance expense		**15**	23
Provision for onerous contracts and other provisions		**8**	8
Expected credit loss allowance recognised during the period		**2**	1
Share of net profit of associates and joint ventures		**(3)**	(13)
Net other non-cash items		**12**	6
		147	320
Working capital adjustments:			
Inventories		**3**	2
Trade and other receivables		**(35)**	32
Contract assets		**191**	(255)
Other current financial assets and liabilities		**(50)**	19
Assets and liabilities held for sale		**55**	–
Trade and other payables		**58**	184
Contract liabilities		**(72)**	(37)
Accrued contract expenses		**(207)**	44
Net working capital adjustments		**(57)**	(11)
		90	309
Net other non-current items		**1**	1
Cash generated from operations		**91**	310
Restructuring, redundancy and other exceptional items paid		**(17)**	(11)
Net income taxes paid		**(52)**	(109)
Net cash flows generated from operating activities		**22**	190
Investing activities			
Purchase of property, plant and equipment		**(14)**	(45)
Payments for intangible assets		**(12)**	(8)
Dividend received from associates and joint ventures		**2**	2
Contingent consideration paid associated with acquisition of a subsidiary	13	**(3)**	–
Loans provided to associates and joint ventures		**(1)**	–
Proceeds from disposal of a subsidiary		**13**	2
Net disposal costs paid and proceeds from disposal of property, plant and equipment		**(1)**	(6)
Interest received		**2**	3
Net cash flows used in investing activities		**(14)**	(52)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost		**471**	775
Repayment of interest-bearing loans, borrowings and leases		**(556)**	(567)
Interest paid		**(21)**	(25)
Amounts received from non-controlling interest		**–**	10
Purchase of Company's shares by Employee Benefit Trust		**(10)**	(33)
Dividends paid		**–**	(86)
Net cash flows (used in)/generated from financing activities		**(116)**	74
Net (decrease)/increase in cash and cash equivalents		**(108)**	212
Net foreign exchange difference		**4**	–
Cash and cash equivalents at 1 January		**914**	705
Cash and cash equivalents at end of the reporting period	16	**810**	917

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares [1] US$m	Other reserves US$m (note 18)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2020 (audited)	7	4	11	(110)	84	637	633	281	914
Net loss	–	–	–	–	–	(78)	(78)	(3)	(81)
Other comprehensive income	–	–	–	–	23	–	23	–	23
Total comprehensive income	–	–	–	–	23	(78)	(55)	(3)	(58)
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(10)	–	–	(10)	–	(10)
Issue of Company's shares by Employee Benefit Trust	–	–	–	28	(24)	(4)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares	–	–	–	–	4	–	4	–	4
Credit to equity for share-based payments charge	–	–	–	–	7	–	7	–	7
Balance at 30 June 2020 (unaudited)	**7**	**4**	**11**	**(92)**	**94**	**555**	**579**	**278**	**857**

For the six months ended 30 June 2019

	Attributable to Petrofac Limited shareholders								
	Issued share capital US$m	Share premium US$m	Capital redemption reserve US$m	Employee Benefit Trust shares [1] US$m	Other reserves US$m (note 18)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2019 (audited)	7	4	11	(107)	95	697	707	302	1,009
Net profit/(loss)	–	–	–	–	–	139	139	(4)	135
Other comprehensive income	–	–	–	–	14	–	14	–	14
Total comprehensive income	–	–	–	–	14	139	153	(4)	149
Purchase of Company's shares by Employee Benefit Trust	–	–	–	(33)	–	–	(33)	–	(33)
Issue of Company's shares by Employee Benefit Trust	–	–	–	25	(23)	(2)	–	–	–
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares	–	–	–	–	12	–	12	–	12
Credit to equity for share-based payments charge	–	–	–	–	8	–	8	–	8
Dividends (note 11)	–	–	–	–	–	(86)	(86)	–	(86)
Balance at 30 June 2019 (unaudited)	7	4	11	(115)	106	748	761	298	1,059

Note: (1) Shares held by Petrofac Employee Benefit Trust.

1 Corporate information

Petrofac Limited (the ‘Company’) is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries. Petrofac Limited and its subsidiaries at 30 June 2020 comprised the Petrofac Group (the ‘Group’). The Group’s principal activity is to design, build, manage and maintain infrastructure for the energy industries.

The Group’s interim condensed consolidated financial statements for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 10 August 2020.

2 Summary of significant accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ and applicable requirements of Jersey law. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

The interim condensed consolidated financial statements are presented in United States dollars and all values are rounded to the nearest million (“US$m”), except where otherwise indicated.

2.2 Presentation of results

The Group uses Alternative Performance Measures (“APMs”) when assessing and discussing the Group’s financial performance, financial position and cash flows that are not defined or specified under IFRS. The Group uses these APMs, which are not considered to be a substitute for or superior to IFRS measures, to provide stakeholders with additional useful information by adjusting for exceptional items and certain re-measurements which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group’s financial performance, financial position and cash flows (refer note 6 on page 26 and Appendix A on page 40 for details).

For the six months ended 30 June 2020, the items below directly related to the COVID-19 pandemic were also presented within exceptional items and certain re-measurements to provide users of the interim condensed consolidated financial statements with a clear and consistent presentation of underlying business performance.

- the staff costs of US$3m associated with the Group employees on furlough in the United Kingdom; and
- associated recovery claims from HMRC in the United Kingdom of US$2m, resulting in a net expense of US$1m presented as an exceptional item in the Engineering & Production Services operating segment, see note 6

2.3 Adoption of new financial reporting standards, amendments and interpretations

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material

Going concern

The Directors have performed a robust going concern assessment. This included reviewing and challenging downside scenarios considered to be severe but plausible based on the principal risks and uncertainties, as set out on pages 30 to 35 of the Group’s annual report and accounts for the year ended 31 December 2019 - revised to reflect COVID-19 pandemic sub-risks, impacts and mitigations at 30 June 2020 (see page 12) - to validate the continued application of the going concern basis of financial statements preparation.

Management monitors the Group’s funding position and liquidity risk throughout the year to ensure it has ready access to liquidity, sufficient for the Group to meet its obligations over at least the next 12 months. In assessing whether the going concern assumption is appropriate, the Directors performed the following procedures:

- reviewed the Group’s forecast cash flows, liquidity and borrowing requirements over the 18-month period ended 31 December 2021. Cash flow and liquidity assumptions take into account the estimated potential impact of the COVID-19 pandemic and lower oil prices and are based on management’s best estimates, subject to estimation uncertainty, of future commodity prices, new order intake, project schedule, estimated cost to complete, commercial settlements, oil & gas production, capital expenditure and the Group’s borrowing facilities;
- evaluated a range of severe but plausible downside scenarios to reflect uncertainties inherent in forecasting future operational and financial performance, including the impact of the COVID-19 pandemic and changes in geo-political or macro-economic environments. These include, but are not limited to, lower order intake, lower realised oil prices, cost overruns, adverse commercial settlements, and a deterioration in net working capital;
- appraised the mitigation strategies available to management in the next 18 months including, but not limited to, taking measures to reduce costs and preserve cash. Under each scenario, mitigating actions are in the control of management and would not necessitate a significant structural change to the business; and,
- assessed a range of funding scenarios and the impact of each on forecast liquidity under the range of severe but plausible downside scenarios. Funding scenarios only consider financings under negotiation and take account of expressed lending appetite from relationship and other lenders.

The three risks that had the greatest aggregated negative impact on cash flow during the assessment period were: deterioration in net working capital driven by an increase in Days Sales Outstanding (DSO) negatively impacting cash flow by around US$220m; cost overruns from higher estimate to complete costs in the E&C portfolio negatively impacting cash flow by around US$60m; and, lower E&C new order intake of US$2.8 billion in 2020 and 2021 negatively impacting cash flow by around US$50m.

The largest difference between the severe but plausible mitigated downside case (pre-funding), a scenario in which all the downside levers were applied in aggregate, and forecast cash flow was US$207m at December 2020. This scenario, in which all severe but plausible downside risks crystallise simultaneously, is considered by the Directors to be a remote outcome.

The Directors concluded, after rigorously evaluating relevant, available information, that there were no material uncertainties concerning events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern for a period of at least 12 months from the date of approval of the interim condensed consolidated financial statements. This conclusion required significant judgement concerning the loss of financial capacity; a principal risk disclosed on page 33 of the Group’s annual report and accounts for the year ended 31 December 2019. The significant judgement focused upon access to funding - e.g. nature, amount, timing, duration, pricing, terms and conditions etc. - to maintain adequate liquidity and was prompted by the Company’s funding maturity profile and reduced lending appetite generally, and to the oil & gas and related sectors in particular.

The significant judgement applied by the Directors in the assessment of going concern is that there is a realistic expectation that the Group will be able to secure - or extend existing facilities by - at least US$450m of committed facilities by June 2021 in the severe but plausible mitigated downside case. This judgement was predicated upon the following key factors:

- the Group's strong balance sheet and credit metrics. At 30 June 2020, the Group had cash and cash equivalents of US$810m, net debt of US$29m and liquidity of US$1.2 billion. Furthermore, it retained an investment grade credit rating of BBB- (negative outlook) from Fitch and a BB+ (negative outlook) from S&P and was fully compliant with its covenant requirements, with 0.5x net debt to EBITDA being substantially below the maximum threshold of 3.0x;
- management's financing track record, with US$600m of committed and uncommitted facilities having been refinanced or extended in the last 18 months;
- the status of discussions with lenders to secure up to US$1.6 billion in new or extended facilities with tenors of up to five years; and,
- indications of support from lenders.

The Directors also considered the following factors in its going concern assessment. Historic and forecast profitability, which takes account of management's best estimates of the impacts of the COVID-19 pandemic and the decline in oil prices. The Group's order backlog of US$6.2 billion at 30 June 2020, which provides near-term revenue visibility, together with a tendering pipeline of approximately US$46 billion of opportunities currently scheduled for award over the next 18 months. In addition, the Group is on track to deliver its announced range of cost cutting measures announced in April 2020. These include measures expected to reduce overhead and project support costs by at least US$125m in 2020 and by up to US$200m in 2021, as well as measures to conserve cash and liquidity including but not limited to cutting capital expenditure by 40% (US$60m) in 2020 and suspending the 2019 final dividend of 25.3 US cents (US$85m).

Based on this comprehensive assessment, the Directors consider it appropriate for the going concern basis to be adopted in preparing the interim condensed consolidated financial statements for the six months ended 30 June 2020.

Significant judgements and estimates, including impact of COVID-19 pandemic and sharp fall in oil prices

The outbreak of ongoing COVID-19 pandemic and the associated economic slowdown could have an impact on Group's financial performance, financial position, cash flows and prospects as a result of a sharp fall in oil prices and lower demand for oil and gas services in the next twelve months.

Management's significant judgements and estimates, including the impact of COVID-19 pandemic and sharp fall in oil prices, where applicable, are as follows:

- Revenue recognition on fixed-price engineering, procurement and construction ("EPC") contracts: the Group measures progress and recognises revenue on its fixed-price EPC contracts using the input method, based on the actual cost of work performed at the end of the reporting period as a percentage of the estimated total contract costs at completion. The lock down measures applied by governments, in various jurisdictions in which the Group operates, predominantly impacted procurement and construction activities on the Group's fixed-price EPC contracts, which resulted in lower than expected progress at the end of the reporting period. This affected the timing and amount of revenue recognised for the six months ended 30 June 2020. The continued prevalence of the COVID-19 pandemic presents an uncertainty that could have an additional impact on the timing and the amount of revenue recognised, may involve additional costs to be incurred, and consequently would impact financial performance and cash flows for future periods.
- Recognition of assessed variation orders pending customer approval ("AVOs"): an AVO is a management estimated right of payment due from the customer resulting from a customer instructed change in the contractual scope of work or for the reimbursement of costs not included in the contract price. The Group did not recognise any assessed variation order associated with additional costs resulting from the COVID-19 pandemic induced project delays, due to the uncertainty associated with the recoverability of such amounts.
- Liquidated damages ("LDs"): no liquidated damages, resulting from progress delays associated with the COVID-19 pandemic, for Group's fixed-price EPC contracts, were recognised, since management judged these to be excusable delays in accordance with the terms and conditions of the contracts with customers. Any unfavourable outcome compared to management's current expectation may affect the revenue to be recognised in the future periods and consequently would impact the financial performance and cash flows for future periods.
- Estimate at completion contract costs: at the end of the reporting period the Group is required to estimate costs at completion on fixed-price EPC contracts, based on the work to be performed beyond the reporting period. At 30 June 2020, the estimate at completion contract costs represented managements best estimate of contract costs, including where applicable costs associated with COVID-19 pandemic induced delays. In addition, cost reduction measures taken by the Group in response to COVID-19 pandemic were also included in the estimate at completion contract costs. The continued prevalence of COVID-19 pandemic may result in additional estimate at completion contract costs and consequently could impact financial performance and cash flows for future periods.
- No new provision or contingent liability arising from COVID-19 pandemic was identified during the six months ended 30 June 2020.
- Significant judgements associated with classifying assets held for sale and presenting discontinued operations: management assessed that there was no likely impact as a result of the
- COVID-19 pandemic, the Group continues to classify assets and liabilities associated with its Mexican operations as held for sale. Completion of the disposal transaction is subject to the approval of relevant Mexican authorities and is expected to complete in the second half of 2020, see note 17.
- Income tax and deferred tax: internal and external impairment indicators existed at 30 June 2020, predominantly arising from the COVID-19 pandemic and sharp fall in oil prices. Consequently, management performed an impairment review of the carrying amount of deferred tax balance associated with Group's oil and gas asset in Malaysia which resulted in a deferred tax impairment charge of US$3m (six months ended 30 June 2019: US$nil) in the Integrated Energy Services operating segment, see note 6.
- Recoverable amount of net assets relating to the Group's operations in Mexico, including contingent consideration arising from the disposal (note 13): the carrying amount of the assets and liabilities held for sale in relation to Group's operations in Mexico, excluding cash, was US$411m at 30 June 2020 (30 December 2019: US$480m). Contingent consideration receivable associated with the 49% disposal of Group's operations in Mexico was US$42m (30 December 2019: US$42m). Not related to COVID-19 pandemic, there remains considerable uncertainty concerning the timing and outcome of the contingent consideration receivable where the pay-out conditions are based on migrations of the Production Enhancement Contracts ("PECs") to other forms of contract, the terms achieved in those future migrations, and the outcome of future field developments. Management has therefore considered alternative scenarios to estimate the recoverability of the contingent consideration, including but not limited to the impact of delay in migration or renegotiation to another form of contract. This was a significant accounting estimate made by management to determine the fair value of the contingent consideration at 30 June 2020. A fair value loss and/or impairment of up to US$61m would be recognised in the consolidated income statement, in the next reporting period or in the longer-term, if the actual outcome of the migration or commercial negotiation is less favourable than management's current estimate, see note 17.

- Recoverable amount of the Group’s oil and gas asset in Malaysia: internal and external impairment indicators existed at 30 June 2020, predominantly arising from the COVID-19 pandemic and sharp fall in oil prices. Consequently, management performed an impairment review of the carrying amount of the Group’s oil and gas asset in Malaysia on a fair value less cost of disposal basis (Level 3 of the ‘fair value hierarchy’ contained within IFRS 13 ‘Fair Value Measurement’), which resulted in a pre-tax impairment charge of US$64m, post-tax US$64m (six months ended 30 June 2019: US$nil) in the Integrated Energy Services operating segment, see note 6. The Group’s fair value less cost of disposal estimate includes an assessment of future field performance, the likelihood of a license extension beyond 2026 and future oil price assumptions. The oil price assumption was the most sensitive input in determining the fair value less cost of disposal, a further 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$35m (post-tax US$35m).
- Recoverable amount of the deferred consideration relating to disposal of JSD6000 installation vessel (the “vessel”): due to the forecast reduced demand for oil and gas services and sharp fall in oil and gas prices, that could be associated with the ongoing COVID-19 pandemic. At 30 June 2020, management reviewed the carrying amount of the deferred consideration associated with the disposal of JSD6000 installation vessel that was recognised as a non-current asset in the interim condensed consolidated balance sheet. Consequently, a downward fair value adjustment of US$3m (post-tax US$3m) was recognised as an exceptional item in the Engineering & Construction operating segment (six months ended 30 June 2019: US$nil). A further 10% decrease in the valuation of the vessel would result in additional negative fair value change of US$6m. The continued impact of the COVID-19 pandemic on global demand for oil and gas could have an adverse impact on the fair valuation of the vessel, that may result in additional negative fair value changes recognised in the consolidated income statement in future periods.

3 Revenue from contracts with customers

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Rendering of services	**2,063**	2,748
Sale of crude oil and gas	**40**	73
	2,103	2,821

Revenues from rendering of services include “pass-through” revenues with zero or low margins amounting to US$53m (six months ended 30 June 2019: US$34m) in the Engineering & Construction operating segment and US$49m (six months ended 30 June 2019: US$89m) in the Engineering & Production services operating segment.

The decrease in revenue of US$718m is mainly due to lower progress achieved on Group’s fixed-price engineering, procurement and construction contracts in the Engineering & Construction operating segment, due primarily to the ongoing COVID-19 pandemic, that affected the timing and amount of revenue recognised for the six months ended 30 June 2020. The progress delays on customer contracts were primarily due to lock down measures applied by the governments in various jurisdictions in which the Group operates which impacted procurement and construction activity. For further details, see business review on page 3.

Set out below is the disaggregation of the Group’s revenue from contracts with customers:

	Six months ended 30 June 2020 (unaudited)				**Six months ended 30 June 2019 (unaudited)**			
	Engineering & Construction US$m	**Engineering & Production Services US$m**	**Integrated Energy Services US$m**	**Six months ended 30 June 2020 US$m**	**Engineering & Construction US$m**	**Engineering & Production Services US$m**	**Integrated Energy Services US$m**	**Six months ended 30 June 2019 US$m**
Geographical markets								
Oman	447	6	–	453	667	10	–	677
Kuwait	177	6	–	183	507	3	–	510
Saudi Arabia	(50)	–	–	(50)	280	–	–	280
United Kingdom	56	226	–	282	–	273	–	273
United Arab Emirates	144	26	–	170	205	8	–	213
India	43	–	–	43	162	–	–	162
Iraq	66	86	–	152	62	94	–	156
Turkey	21	1	–	22	128	2	–	130
Russia	98	2	–	100	114	2	–	116
Malaysia	8	6	16	30	27	6	40	73
Thailand	272	8	–	280	47	8	5	60
Germany	12	–	–	12	27	–	–	27
Mexico	–	–	39	39	–	–	50	50
Algeria	288	–	–	288	42	1	–	43
Bahrain	–	1	–	1	–	18	–	18
Singapore	–	–	6	6	–	2	4	6
United States of America	–	18	–	18	–	–	–	–
Netherlands	36	–	–	36	–	–	–	–
Others	15	23	–	38	9	18	–	27
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**	2,277	445	99	2,821
Type of goods or service								
Fixed-price	1,552	91	–	1,643	2,209	85	–	2,294
Reimbursable	81	318	21	420	68	360	26	454
Sale of crude oil and gas	–	–	40	40	–	–	73	73
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**	2,277	445	99	2,821
Customer type								
Government	1,066	80	39	1,185	1,679	88	55	1,822
Non-government	567	329	22	918	598	357	44	999
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**	2,277	445	99	2,821
Timing of revenue recognition								
Services transferred over time	1,633	409	21	2,063	2,277	445	26	2,748
Goods transferred at a point in time	–	–	40	40	–	–	73	73
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**	2,277	445	99	2,821

4 Segment information

The Group organisational structure comprises the following three operating segments:

- Engineering & Construction (E&C), which provides fixed-price engineering, procurement and construction project execution services and reimbursable engineering, procurement and construction management services to energy industries
- Engineering & Production Services (EPS), which includes all reimbursable engineering and production services to energy industries
- Integrated Energy Services (IES), which is focused on delivering value from the existing asset portfolio

The Chief Operating Decision Maker (CODM) regularly reviews the performance of the operating segments to make decisions about resource allocations and to assess financial performance. Finance expense and income arising from borrowings and cash balances, which are not directly attributable to individual operating segments, are allocated to Corporate. In addition, certain shareholder services related costs, intra-group financing and consolidation adjustments are managed at Corporate and are not allocated to operating segments.

The Group's financial performance presented below also separately identifies the effect of exceptional items and certain remeasurements to provide users of the interim condensed consolidated financial statements with a clear and consistent presentation of the underlying business performance of the Group; refer to note 6 on page 26 and appendix A on page 40 for details.

The following tables represent revenue and profit/(loss) information relating to the Group's operating segments for the six months ended 30 June 2020 and the comparative information for the six months ended 30 June 2019:

Six months ended 30 June 2020 (unaudited)

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Reported US$m
Revenue								
External sales	1,633	409	61	–	–	2,103	–	2,103
Inter-segment sales	3	17	–	–	(20)	–	–	–
Total revenue	**1,636**	**426**	**61**	**–**	**(20)**	**2,103**	**–**	**2,103**
Operating profit/(loss)	65	20	(18)	(8)	–	59	(95)	(36)
Finance income	1	2	2	2	–	7	–	7
Finance expense	(1)	(1)	(4)	(16)	–	(22)	–	(22)
Share of net profit of associates and joint ventures	–	3	–	–	–	3	–	3
Profit/(loss) before tax	65	24	(20)	(22)	–	47	(95)	(48)
Income tax (expense)/credit	(30)	(6)	6	1	–	(29)	(4)	(33)
Net profit/(loss)	35	18	(14)	(21)	–	18	(99)	(81)
Non-controlling interests	–	(1)	4	–	–	3	–	3
Net profit/(loss) for the period attributable to Petrofac Limited shareholders	**35**	**17**	**(10)**	**(21)**	**–**	**21**	**(99)**	**(78)**
EBITDA [1]	**83**	**29**	**22**	**(5)**	**–**	**129**		

Note: (1) Earnings before interest, tax, depreciation and amortisation.

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Depreciation (note 12)	**18**	**5**	**19**	**1**	**–**	**43**
Amortisation, business performance impairment and write off	**–**	**1**	**21**	**2**	**–**	**24**
Exceptional items and certain re-measurements, pre-tax (note 6)	**6**	**(1)**	**87**	**3**	**–**	**95**
Expected credit loss allowance charge/(credit)	**4**	**(4)**	**2**	**–**	**–**	**2**
Other long-term employment benefits	**9**	**2**	**–**	**–**	**–**	**11**
Share-based payments	**4**	**1**	**–**	**2**	**–**	**7**

4 Segment information continued

Six months ended 30 June 2019 (unaudited and restated)

	Engineering & Construction US$m	Engineering & Production Services (2) US$m	Integrated Energy Services (2) US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Business performance US$m	Exceptional items and certain re-measurements US$m	Reported US$m
Revenue								
External sales	2,277	445	99	–	–	2,821	–	2,821
Inter-segment sales	4	3	–	–	(7)	–	–	–
Total revenue	2,281	448	99	–	(7)	2,821	–	2,821
Operating profit/(loss)	196	30	–	(8)	–	218	(15)	203
Finance income	–	1	3	3	–	7	–	7
Finance expense	(1)	(1)	(7)	(21)	–	(30)	–	(30)
Share of net profit of associates and joint ventures	–	13	–	–	–	13	–	13
Profit/(loss) before tax	195	43	(4)	(26)	–	208	(15)	193
Income tax (expense)/credit	(51)	(7)	(2)	2	–	(58)	–	(58)
Net profit/(loss)	144	36	(6)	(24)	–	150	(15)	135
Non-controlling interests	4	–	–	–	–	4	–	4
Net profit/(loss) for the period attributable to Petrofac Limited shareholders	148	36	(6)	(24)	–	154	(15)	139
EBITDA (1)	217	47	45	(4)	–	305		

Notes

(1) Earnings before interest, tax, depreciation and amortisation.

(2) On 1 January 2020, investment in associates i.e. PetroFirst Infrastructure Limited and PetroFirst Infrastructure 2 Limited were reorganised from Integrated Energy Services operating segment to Engineering & Production Services operating segment. Consequently, the share of net profit of associates of US$13m, net profit attributable to Petrofac Limited shareholders of US$13m and EBITDA of US$13m were reclassified from the Integrated Energy Services operating segment to the Engineering & Production Services (EPS) operating segment to reflect the reclassification of investment in associates.

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Consolidation adjustments & eliminations US$m	Total US$m
Other segment information						
Depreciation (note 12)	21	4	40	3	–	68
Amortisation and write off	–	–	5	1	–	6
Exceptional items and certain re-measurements, pre-tax (note 6)	6	–	1	8	–	15
Expected credit loss allowance charge	1	–	4	–	–	5
Other long-term employment benefits	12	1	–	–	–	13
Share-based payments	5	1	1	1	–	8

5 Selling, general and administration expenses

The decrease in selling, general and administration expenses of US$33m was mainly due to the reduction in staff cost of US$15m and the reduction in operating expenses of US$11m, primarily due to cost reduction measures taken by the Group in response to ongoing COVID-19 pandemic and sharp fall in oil prices; and due to a reduction in the expected credit loss allowance charge for the six months ended 30 June 2020 of US$2m in the Integrated Energy services operating segment..

6 Exceptional items and certain re-measurements

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Impairment of assets	**67**	–
Fair value re-measurements	**12**	–
Group reorganisation and redundancy costs	**8**	4
Other exceptional items	**8**	11
	95	15
Deferred tax impairment and foreign exchange translation loss on deferred tax balance	**4**	–
	4	–
Interim condensed consolidated income statement charge for the period	**99**	15

See note 2 on page 20 and appendix A on page 40 for further details on APMs

At each reporting date, the Group reviews the carrying amounts of its non-current assets including goodwill to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. At 30 June 2020, both internal and external impairment indicators existed, that predominantly arose from the ongoing COVID-19 pandemic and sharp fall in oil prices. The Group performed an impairment analysis for all its non-current assets including goodwill at 30 June 2020. This resulted in an impairment charge of US$67m, post-tax US$67m (six months ended 30 June 2019: US$nil) being recognised for the six months ended 30 June 2020, see further details in same section below.

Impairment of assets
At 30 June 2020, the Group reviewed the carrying amount of its Block PM304 oil and gas assets on a fair value less cost of disposal basis (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'), which resulted in a pre-tax impairment charge of US$64m (post-tax US$64m) in the Integrated Energy Services operating segment (six months ended 30 June 2019: US$nil). The review involved assessing the field operational performance; robustness of the future development plans; oil price and licence extension assumptions and the recoverability of deferred tax asset carrying amount. As a result of this review an impairment charge of US$64m was recognised and allocated proportionately to property, plant and equipment (US$60m; see note 12) and intangible oil and gas assets (US$4m). The oil price assumptions used by management were US$40 per barrel from 1 July 2020 to 31 December 2020, US$45 per barrel for 2021, US$50 per barrel for 2022, US$55 per barrel for 2023, US$60 per barrel for 2024, and a 2.0% oil price escalation for the period 2025 and beyond. The oil price assumption was the most sensitive input in determining the fair value less cost of disposal, a further 10% decrease in oil prices would result in an additional pre-tax impairment charge of US$35m (post-tax US$35m).

Fair value less costs of disposal is determined by discounting the post-tax cash flows expected to be generated from oil and gas production net of disposal costs considering assumptions that market participants would typically use in estimating fair values. Post-tax cash flows are derived from projected production profiles for each asset considering forward market commodity prices over the relevant period. As each field has different reservoir characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models, which include assumptions around the amount of recoverable reserves, production costs, life of the field/licence period and the selling price of the commodities produced.

At 30 June 2020, the Group also reviewed the carrying amount of its remaining property, plant and equipment including its right-of-use assets using the value-in-use basis. The value-in-use was calculated for the period of the lease using the latest approved cash flow forecast for 2020 and 2021 and a 3.5% increase for the period 2022 and beyond. The review resulted in a pre-tax impairment charge of US$3m (post-tax US$3m) in the Engineering & Production Services operating segment (six months ended 30 June 2019: US$nil) relating to the right-of-use asset associated with a facility in the United Kingdom having a carrying amount of US$7m and a recoverable amount of US$4m.

Fair value re-measurements
At 30 June 2020, management reviewed the carrying amount of the Pánuco contingent consideration and as a result of this review recognised a downward fair value adjustment of US$8m (post-tax US$8m) in the Integrated Energy Services operating segment (six months ended 30 June 2019: US$nil). The downward fair value adjustment was recognised in response to a confirmation received from the acquirer during 2020 to relinquish the Pánuco Production Enhancement Contract ("PEC") to its customer. The carrying amount of the Pánuco contingent consideration at 30 June 2020, after the downward fair value adjustment, was US$nil (note 13).

At 30 June 2020, management reviewed the carrying amount of the contingent consideration receivable from the GSA acquirer and as a result of this review recognised a downward fair value adjustment of US$9m (post-tax US$9m) in the Integrated Energy Services operating segment (six months ended 30 June 2019: US$nil). At 31 December 2019, the contingent consideration receivable from the GSA acquirer was fair valued at US$9m based on the most recent information available, including production volumes reported from when the well was brought on stream. Since this assessment, an audited independent reserves report for 31 December 2019 was received on 28 May 2020 based on the latest drilling production and operational performance that has shown a greater decline in production than expected and consequently provided evidence that the contingent consideration performance targets were unlikely to be met. The carrying amount of contingent consideration receivable from the acquirer at 30 June 2020, after the downward fair value adjustment, was US$nil (note 13).

At 30 June 2020, management reviewed the carrying amount of the deferred consideration associated with the disposal of JSD6000 installation vessel (the "vessel") that was recognised as a non-current asset in the interim condensed consolidated balance sheet. The fair value of the deferred consideration took into consideration, amongst other factors, an independent broker's valuation of the vessel (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). A downward fair value adjustment of US$3m (post-tax US$3m) was recognised as an exceptional item in the Engineering & Construction operating segment (six months ended 30 June 2019: US$nil), which reduced the deferred consideration to US$58m at the end of the reporting period. A further 10% decrease in the valuation of the vessel would result in additional downward fair value adjustment of US$6m. The continued impact of the COVID-19 pandemic on global demand for oil and gas could have an adverse impact on the fair valuation of the vessel that may result in additional negative fair value changes recognised in the consolidated income statement in the future periods.

The fair value of the deferred consideration, with management's current involvement and recent discussions with the Group's partner in the construction of the vessel, is based on the assumption that the Group's partner has the continued intent and the required capabilities to complete the construction and commissioning of the vessel within the due timeframe subject to potential COVID-19 related delays. The recoverable amount is also subject to change based on changes in the market value of similar specification deep-water vessels. At the end of each reporting period, management reviews its assessment of the Group's partner's ability to complete the construction and commissioning of the vessel and the circumstances that may impair the Group's partner's ability to complete these activities, a fair value downward adjustment would be recognised in the consolidated income statement, in the next reporting period or in the longer term.

At 30 June 2020, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc ("W&W"). At the end of the reporting period, the fair value of contingent consideration payable was calculated using the expected value pay-out approach applying a discount rate of 11.6% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the two-year evaluation period i.e. 2020 and 2021 starting from the acquisition date of 29 November 2019. The financial performance targets for the two-year evaluation period based on the latest approved forecast of W&W were expected to be negatively impacted, by the sharp fall in oil and gas prices and lower demand for oil and gas services, in part prompted by the COVID-19 induced economic slowdown. Consequently, a fair value gain of US$8m (post-tax US$8m) was recognised in the Engineering & Production Services operating segment (six months ended 30 June 2019: US$nil). A 10% reduction in performance targets would result in an additional fair value gain of US$466,000 (note 13).

Group reorganisation and redundancy costs

In accordance with the actions announced by management in response to COVID-19 on 6 April 2020, a voluntary redundancy programme was implemented for Group employees in certain locations. Consequently, incremental redundancy costs associated with the programme of US$3m (post-tax US$3m) were recognised in the Engineering & Construction operating segment and US$4m (post-tax US$4m) were recognised in the Engineering & Production Services operating segment (six months ended 30 June 2019: US$3m, post-tax US$3m of professional services fees in the Corporate reporting segment and US$1m, post-tax US$1m of staff redundancy costs associated with the Integrated Energy Services operating segment).

Additionally, the staff costs of US$3m and associated recovery claims from HMRC in the United Kingdom of US$2m for the Group employees on furlough relating to COVID-19 pandemic, were also recognised within exceptional items in the Engineering & Production Services operating segment.

Other exceptional items

Other exceptional items comprised US$3m (post-tax US$3m) of professional services fees relating to Corporate reporting segment and US$5m (post-tax US$5m) loss associated with early settlement of deferred consideration receivable (note 13) in the Integrated Energy Services operating segment (six months ended 30 June 2019: professional services fees of US5m, post-tax US$5m and additional disposal costs associated with the disposal of JSD6000 installation vessel US$6m, post-tax US$6m).

Taxation

At 30 June 2020, the Group reviewed the carrying amount of its deferred tax assets associated with Block PM304 in Malaysia and as a result of this review a deferred tax asset impairment of US$3m was recognised in the Integrated Energy Services operating segment. In addition, US$1m of foreign exchange loss on the retranslation of deferred tax balances denominated in Malaysian ringgits were also recognised during the period in respect of oil and gas activities in Malaysia, relating to the Integrated Energy Services operating segment, due to an approximate 5% weakening in the Malaysian ringgit against the United States dollar (six months ended 30 June 2019: US$nil).

7 Other operating expenses

The increase in other operating expenses of US$34m was mainly due to an impairment charge recognised for six months ended 30 June 2020 of US$21m (six months ended 30 June 2019: US$nil), relating to asset held for sale associated with Group's operations in Mexico (note 17) and a foreign exchange loss of US$7m associated with the translation of value added tax receivables relating to the Group's operation in Mexico, due to an approximate 18% weakening in the Mexican pesos against the United States dollar.

8 Share of net profit of associates and joint ventures

The decrease in the share of net profit of associates and joint ventures of US$10m was mainly due to a fair valuation gain of US$10m recognised for an associate for the six months ended 30 June 2019, arising from re-recognition of lease asset and lease liability due to changes in lease terms. No fair valuation gain was recognised for the six months ended 30 June 2020.

9 Income tax

Income tax expense or credit is recognised based on management's best estimate of the income tax rate applicable to the profit or loss before tax for the six months ended 30 June 2020. The major components of the income tax expense or credit are as follows:

	Business Performance [1] US$m	**Exceptional items and certain re-measurements US$m**	**Reported six months ended 30 June 2020 Unaudited US$m**	Business performance [1] US$m	Exceptional items and certain re-measurements US$m	**Reported six months ended 30 June 2019 Unaudited US$m**
Current income tax						
Current income tax expense	**34**	**–**	**34**	50	–	50
Adjustments in respect of previous periods	**–**	**–**	**–**	1	–	1
Deferred tax						
Relating to origination and reversal of temporary differences	**(5)**	**4**	**(1)**	7	–	7
Income tax expense/(credit) reported in the interim condensed consolidated income statement	**29**	**4**	**33**	58	–	58

Note: (1) This measurement is shown by the Group as a means of measuring underlying business performance, see note 2 on page 20 and appendix A on page 40.

The Group's business performance effective tax rate for the six months ended 30 June 2020 was 61.7% (six months ended 30 June 2019: 27.9%) and reported effective tax rate was negative 68.8% (six months ended 30 June 2019: 30.0%).

The Group's effective tax rate is dependent upon several factors, including the timing of profit recognition between the first and second halves of the year on contracts, as well as the mix of jurisdictions in which contracts profit before tax is generated within the Engineering & Construction and the Integrated Energy Services operating segments. The high effective tax rate is driven by the recognition of losses in Saudi Arabia, for which no associated tax credit is available.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to Petrofac Limited shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to Petrofac Limited shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of ordinary shares granted under the share-based payment plans which are held in Employee Benefit Trust.

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

	Six months ended 30 June 2020 Unaudited US$m	**Six months ended 30 June 2019 Unaudited** US$m
Business performance net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**21**	154
Reported net (loss)/profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(78)**	139

	At 30 June 2020 Shares Unaudited million	At 30 June 2019 Shares Unaudited Million
Weighted average number of ordinary shares for basic earnings per share [(1)]	**337**	337
Effect of dilutive potential ordinary shares granted under share-based payment plans [(2)]	**–**	6
Adjusted weighted average number of ordinary shares for diluted earnings per share	**337**	343

	Six months ended 30 June 2020 Unaudited US cents	**Six months ended 30 June 2019 Unaudited** US cents
Basic earnings per share		
Business performance	**6.2**	45.7
Reported	**(23.2)**	41.2
Diluted earnings per share [(2)]		
Business performance	**6.2**	44.9
Reported	**(23.2)**	40.5

Notes
(1) The weighted number of issued ordinary shares excludes those held by the Employee Benefit Trust.
(2) For the six months ended 30 June 2020, potentially issuable ordinary shares under the share-based payment plans are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

11 Dividends paid

	Six months ended 30 June 2020 Unaudited US$m	**Six months ended 30 June 2019 Unaudited** US$m
Declared and paid during the period		
Equity dividends on ordinary shares:		
Final dividend for 2018: US$0.253 per share	–	86

In April 2020, the Board agreed to suspend the final 2019 ordinary share dividend payments, which had previously been announced as part of the year-end results for 2019, to preserve balance sheet strength in response to the challenges presented by the COVID-19 pandemic. The Board has also decided to suspend the 2020 interim dividend (2019 interim dividend: 12.7 US cents per share) to prudently conserve cash in this unprecedented market environment. However, the Board recognises the importance of dividends to our shareholders and will seek to reinstate them as soon as it is appropriate to do so. This will be contingent on both a market recovery and confidence that the dividend can be paid sustainably whilst retaining a strong balance sheet and liquidity.

12 Property, plant and equipment

The decrease in property, plant and equipment of US$97m (six months ended 30 June 2019: US$28m) was mainly due to an impairment of US$60m (six months ended 30 June 2019: US$nil) recognised in the Integrated Energy Services operating segment associated with Group's oil and gas assets in Malaysia (note 6); an impairment of right-of-use asset of US$3m recognised in the Engineering & Production Services operating segment (note 6); and a depreciation charge for the six months ended 30 June 2020 of US$43m (six months ended 30 June 2019: US$68m).

13 Other financial assets and other financial liabilities

Other financial assets	Classification	**At 30 June 2020 Unaudited US$m**	At 31 December 2019 Audited US$m
Non-current			
Receivable from joint operation partners for leases	Amortised cost	**96**	170
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	**46**	45
Advances relating to decommissioning provision	Amortised cost	**22**	23
Bank guarantee receivable	Amortised cost	**23**	22
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Amortised cost	**5**	5
Contingent consideration arising from the disposal of Group's operations in Mexico	Fair value through profit and loss	**42**	42
Pánuco contingent consideration	Fair value through profit and loss	**–**	8
Forward currency contracts designated as cash flow hedges	Designated as cash flow hedges	**1**	1
		235	316
Current			
Receivable from joint operation partners for leases	Amortised cost	**125**	89
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	**–**	19
Restricted cash	Amortised cost	**32**	8
Contingent consideration receivable from Ithaca Energy UK Ltd	Fair value through profit and loss	**–**	9
Forward currency contracts undesignated as hedges	Fair value through profit and loss	**10**	5
Forward currency contracts designated as cash flow hedges	Designated as cash flow hedges	**3**	5
		170	135
Other financial liabilities			
Non-current			
Lease liabilities	Loans and borrowings	**186**	298
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	Fair value through profit and loss	**4**	15
Others	Amortised cost	**2**	2
		192	315
Current			
Lease liabilities	Loans and borrowings	**189**	140
Interest payable	Loans and borrowings	**4**	5
Forward currency contracts undesignated as hedges	Fair value through profit and loss	**4**	13
Forward currency contracts designated as cash flow hedges	Designated as cash flow hedges	**3**	6
Interest rate swap	Designated as cash flow hedges	**1**	2
		201	166

Receivable from joint operation partners for leases
The current and non-current receivables from joint operation partners represented 70% of the lease liability in respect of oil and gas facilities, office building, vehicles and transport vessels in Malaysia that are recognised 100% in the Group's interim condensed consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases. The Group's 30% share of this liability was US$95m (31 December 2019: US$111m). At 30 June 2020, management concluded that no expected credit loss allowance against the receivable from joint operation partners for leases was necessary, since under the joint operating agreement any default by the joint operation partners is fully recoverable through a recourse available to the non-defaulting partner through a transfer or an assignment of defaulting partner's equity interest.

Deferred consideration receivable from Ithaca Energy UK Ltd
The deferred consideration, recoverable over a period of four years under the terms of the Sales and Purchase Agreement, from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, is measured at amortised cost using a discount rate of 8.4%. Unwinding of the discount on the deferred consideration of US$2m was recognised during the six months ended 30 June 2020, within the finance income line item of the interim condensed consolidated income statement (six months ended 30 June 2019: US$3m). An increase in the credit risk for this financial asset resulted in expected credit loss allowance of US$2m being recognised for the six months ended 30 June 2020 (six months ended 30 June 2019: US$nil).

During April 2020, an early settlement was agreed with Ithaca Energy UK Ltd for amounts expected to mature in October 2020. Upon early settlement the Group recognised a loss of US$5m (six months ended 30 June 2019: US$nil) which was recognised as an exceptional item in the Integrated Energy Services operating segment (note 6).

	At 30 June 2020 Unaudited US$m	At 31 December 2019 **Audited** US$m
Opening balance (non-current and current)	**64**	59
Unwinding of discount	**2**	5
Expected credit loss allowance	**(2)**	–
Loss on early settlement (note 6)	**(5)**	–
Receipts	**(13)**	–
As at end of the reporting period	**46**	64

Pánuco contingent consideration
A reconciliation of the fair value measurement of the Pánuco contingent consideration is presented below:

	At 30 June 2020 Unaudited US$m	At 31 December 2019 **Audited** US$m
Opening balance	**8**	45
Fair value loss (note 6)	**(8)**	(37)
As at end of the reporting period	**–**	8

The downward fair value adjustment of US$8m (six months ended 30 June 2019: US$nil) was recognised as an exceptional item in response to a confirmation received from the acquirer during 2020 to relinquish the Pánuco Production Enhancement Contract ("PEC") to the customer (note 6).

Contingent consideration arising from the disposal of the Group's operations in Mexico
At 30 June 2020, the fair value of contingent consideration receivable arising from the disposal of the Group's operations in Mexico was US$42m (31 December 2019: US$42m). No fair value movement was recognised during the period. The fair value of the contingent consideration took into consideration management's expectation of future field development programme and migration terms to the Group's Magallanes and Arenque Production Enhancement Contracts by applying a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable. A 10% increase in risk factor would result in a downward fair value adjustment of US$7m. Management has also considered alternative scenarios to assess the recoverability of the contingent consideration receivable from the acquirer including, but not limited to, the impact of delay in migration or renegotiation of the contingent consideration in the event of migration to another form of contract. This is a significant accounting estimate made by management to determine the fair value of the contingent consideration at 30 June 2020. A fair value loss could be recognised as an exceptional item in the consolidated income statement if the outcome of the migration is less beneficial to the Group than management's current expectation (note 17).

Advances relating to provision for decommissioning liability
Advances relating to decommissioning provisions represent advance payments to a regulator for future decommissioning liabilities relating to the Group's assets in Malaysia.

Contingent consideration receivable from Ithaca Energy UK Ltd
A reconciliation of the fair value movement of contingent consideration arising from the disposal of Petrofac GSA Holdings Limited is presented below:

	At 30 June 2020 Unaudited US$m	At 31 December 2019 **Audited** US$m
Opening balance	**9**	19
Fair value loss (note 6)	**(9)**	–
Receipts	**–**	(10)
As at end of the reporting period	**–**	9

The downward fair value adjustment of US$9m (six months ended 30 June 2019: US$nil) was recognised as an exceptional item for the six months ended 30 June 2020 (note 6).

Contingent consideration payable arising from acquisition of W&W Energy Services Inc
A reconciliation of the fair value movement of contingent consideration payable arising from acquisition of W&W Energy Services Inc is presented below:

	At 30 June 2020 Unaudited US$m	At 31 December 2019 **Audited** US$m
Opening balance	**15**	–
Initial recognition	**–**	15
Fair value gain (note 6)	**(8)**	–
Payments	**(3)**	–
As at end of the reporting period	**4**	15

At the end of the reporting period, the fair value of contingent consideration payable was calculated using expected value pay-out approach using a discount rate of 11.6% (Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement'). The fair value represented management's best estimate based on the expected financial performance targets that will be achieved by W&W, over the two-year evaluation period i.e. 2020 and 2021 starting from the acquisition date of 29 November 2019. The financial performance targets for the two-year evaluation period based on the latest approved forecast of W&W were expected to be negatively impacted, by the sharp fall in oil and gas prices and lower demand for oil and gas services, in part prompted by the COVID-19 induced economic slowdown. Consequently, a fair value gain of US$8m (post-tax US$8m) was recognised in the Engineering & Production Services operating segment (six months ended 30 June 2019: US$nil). A 10% reduction in performance targets would result in an additional fair value gain of US$466,000.

Restricted cash
The Group had outstanding letters of guarantee, including performance, advance payments and bid bonds against which the Group had pledged or restricted cash balances.

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: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at:

	Level	Carrying amount		Fair value	
		30 June 2020 Unaudited US$m	31 December 2019 Audited US$m	**30 June 2020 Unaudited US$m**	31 December 2019 Audited US$m
Financial assets					
Measured at amortised cost					
Cash and short-term deposits	Level 2	**861**	1,025	**861**	1,025
Restricted cash	Level 2	**32**	8	**32**	8
Receivable from joint operation partners for leases	Level 2	**221**	259	**221**	259
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**46**	64	**6**	64
Advances relating to provision for decommissioning liability	Level 2	**22**	23	**23**	23
Bank guarantee receivable	Level 2	**23**	22	**22**	22
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Level 2	**5**	5	**5**	5

	Level	Carrying amount		Fair value	
		30 June 2020 Unaudited US$m	31 December 2019 Audited US$m	**30 June 2020 Unaudited US$m**	31 December 2019 Audited US$m
Measured at fair value through profit and loss					
Pánuco contingent consideration	Level 3	**–**	8	**–**	8
Contingent consideration arising from the disposal of the Group's operations in Mexico	Level 3	**42**	42	**42**	42
Contingent consideration receivable from Ithaca Energy UK Ltd	Level 3	**–**	9	**–**	9
Sterling forward currency contracts – undesignated	Level 2	**5**	3	**5**	3
Euro forward currency contracts – undesignated	Level 2	**5**	2	**5**	2
Designated as cash flow hedges					
Euro forward currency contracts	Level 2	**3**	3	**3**	3
Kuwaiti dinar forward currency contracts	Level 2	**1**	–	**1**	–
Russian ruble forward currency contracts	Level 2	**–**	2	**–**	2
Sterling forward currency contracts	Level 2	**–**	1	**–**	1
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Revolving Credit Facility	Level 2	**614**	599	**614**	600
Term loans	Level 2	**225**	300	**225**	300
Bank overdrafts	Level 2	**51**	111	**51**	111
Lease liabilities	Level 2	**375**	438	**375**	438
Interest payable	Level 2	**4**	5	**4**	5
Others	Level 2	**2**	2	**2**	2
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**4**	15	**4**	15
Sterling forward currency contracts – undesignated	Level 2	**2**	12	**2**	12
Euro forward currency contracts – undesignated	Level 2	**2**	1	**2**	1
Designated as cash flow hedges					
Euro forward currency contracts	Level 2	**1**	3	**1**	3
Kuwaiti dinar forward currency contracts	Level 2	**2**	1	**2**	1
Russian ruble forward currency contracts	Level 2	**–**	1	**–**	1
Sterling forward currency contracts	Level 2	**–**	1	**–**	1
Interest rate swap	Level 2	**1**	2	**1**	2

Management assessed the carrying amounts of trade and other receivables and trade and other payables to approximate their fair values largely due to the short-term maturities of these instruments.

When the fair values of financial assets and financial liabilities recognised in the interim condensed consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow ("DCF") model. The inputs to these models are taken from observable markets where possible, but where such information is not available, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the recognised fair value of financial instruments and are discussed further below.

The following methods and assumptions were used to estimate the fair values for material financial instruments:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts and commodity forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.
- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised costs determined as the present value of discounted future cash flows using the discount rate of 8.4% which includes the counterparty's risk of default.
- The fair value of long-term interest-bearing loans and borrowings, lease creditors and receivable from joint operation partners for leases are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

14 Trade and other receivables

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Trade receivables	**689**	615
Advances provided to vendors and sub-contractors	**319**	325
Prepayments and deposits	**40**	37
Receivables from joint operation partners	**50**	52
Other receivables	**54**	73
	1,152	1,102

The increase in trade receivables of US$74m was mainly due to a net increase in trade receivables of U$64m relating to three contracts with one customer in the Engineering & Construction operating segment. At 30 June 2020, the Group had an expected credit loss provision of US$22m (31 December 2019: US$26m) against outstanding trade receivable balance of US$711m.

15 Contract assets

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Work in progress	**1,613**	1,754
Retention receivables	**224**	228
Accrued income	**34**	82
	1,871	2,064

The decrease in work in progress during the period of US$141m was mainly due to commercial settlements agreed which resulted in a reduction in the assessed variation order balance of US$66m and the remaining net decrease of US$75m in underlying work in progress was primarily related to higher invoicing milestones achieved on customer contracts during the six months ended 30 June 2020 in the Engineering & Construction operating segment. At 30 June 2020, the Group had an expected credit loss provision of US$10m (31 December 2019: US$6m) against a work in progress balance of US$1,623m.

At 30 June 2020, work in progress includes variation orders pending customer's approval of US$259m (31 December 2019: US$341m).

The decrease in accrued income of US$48m is mainly due to a receipt of US$44m relating to a contract in the Engineering & Production Services operating segment. At 30 June 2020, the Group had an expected credit loss provision of US$1m (31 December 2019: US$5m) and US$33m (31 December 2019: US$33m) against an accrued income balance of US$35m and a retention receivable balance of US$257m respectively.

16 Cash and short-term deposits

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Cash at bank and in hand	**746**	712
Short-term deposits	**116**	314
ECL allowance	**(1)**	(1)
Cash and short-term deposits	**861**	1,025

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

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Cash and short-term deposits	**861**	1,025
Bank overdrafts (note 19)	**(51)**	(111)
Cash and cash equivalents	**810**	914

17 Assets and liabilities held for sale

Disposal of 49% interest in the Group's Mexican operations during 2018
On 30 July 2018, the Group signed a Sale and Purchase Agreement ("SPA") with Perenco (Oil and Gas) International Limited to dispose of a 49% non-controlling interest of the Group's operations in Mexico. A pre-tax impairment charge of US$156m (post-tax US$111m), which included disposal costs of US$6m, was recognised as an exceptional item in the 2018 consolidated income statement attributable to the Integrated Energy Services operating segment (note 6). The disposal was completed on 18 October 2018 and represented a transaction between equity holders under IFRS 10 'Consolidated Financial Statements'. The fair value of consideration received was recognised within equity as a non-controlling interest of US$266m.

The fair value of consideration comprised cash consideration of US$224m which was received by the Group on the date of completion and contingent consideration of US$42m, recoverable over a period of three years, which was recognised as a non-current financial asset in the consolidated balance sheet (note 13). The contingent consideration was initially measured and recognised at fair value and will subsequently be also measured at fair value with any fair value gain and loss recognised as an exceptional item in the consolidated income statement. No fair value movement was recognised from the date of disposal to the end of the reporting period. The fair value of the contingent consideration took into consideration management's expectation of future field development programme and migration terms relating to the Group's Magallanes and Arenque Production Enhancement Contracts by applying a risk factor (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration receivable. A 10% increase in risk factor would result in a negative fair value change of US$7m.

SPA signed in 2019 to dispose of the remaining 51% interest in the Group's Mexican operations
On 19 September 2019 the Group signed an SPA with Perenco (Oil and Gas) International Limited ('Perenco') to dispose of the remaining 51% ownership interest in the Group's Mexican operations. Consequently, a pre-tax impairment charge of US$49m (post-tax US$49m) was recognised as an exceptional item in the 2019 consolidated income statement attributable to the Integrated Energy Services operating segment.

The fair value of consideration for the remaining 51% interest in the Group's Mexican operations, at 30 June 2020, comprises initial cash consideration of US$225m and contingent consideration of US$19m, which will be recognised on completion of the disposal. The contingent consideration is dependent upon certain future milestones, which includes future field development programme and migration terms relating to the Group's Magallanes and Arenque Production Enhancement Contracts.

On the SPA signing date, the Group received an advance of US$37m from Perenco which was presented within trade and other payables line item of the interim condensed consolidated balance sheet.

The transaction related to Integrated Energy Services operating segment and is subject to the approval of relevant Mexican authorities, which is expected to complete in the second half of 2020. At 31 December 2019, the Group's assets in Mexico were classified as asset held for sale, since the asset's carrying amount is expected to be recovered through a disposal transaction rather than through its continuing use.

The assets and liabilities held for sale at the end of the reporting periods are presented below:

	30 June 2020 Unaudited US$m	31 December 2019 **Audited** US$m
Assets held for sale	**533**	600
Less: Liabilities associated with assets held for sale	**(122)**	(120)
Net assets held for sale	**411**	480

At 30 June 2020, the cash and short-term deposits associated with the Group's operations in Mexico amounted to US$90m (31 December 2019: US$30m). At completion the cash and short-term deposit balance will be offset against the cash consideration receivable by the Group and will be presented net of cash forgone associated with the disposal of subsidiary within investing activities in the Group's consolidated statement of cash flows.

An impairment charge of US$21m was recognised within other operating expenses line item of the interim condensed consolidated income statement for the six months ended 30 June 2020 (six months ended 30 June 2019: US$nil) such that the carrying amount of the net assets held for sale did not exceed the fair value less cost of disposal (note 7). Since the Group's operations in Mexico were classified as held for sale, the property, plant and equipment and intangible assets were not depreciated and amortised respectively in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operation'.

In the interim condensed consolidated statement of cash flows, US$55m of cash inflows associated with working capital changes were presented within operating activities and US$5m of cash outflows associated with the purchase of property, plant and equipment were presented within investing activity, relating to Group's Mexican operations.

18 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 2019 (audited)	13	(1)	83	95
Net changes in fair value of derivatives and financial assets designated as cash	(2)	–	–	(2)
Foreign currency translation	–	(13)	–	(13)
Issue of Company's shares by Employee Benefit Trust [(1)]	–	–	(26)	(26)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares	–	–	12	12
Credit to equity for share-based payments charge	–	–	18	18
Balance at 31 December 2019 (audited)	11	(14)	87	84
Attributable to:				
Petrofac Limited shareholders	11	(14)	87	84
Non-controlling interests	–	–	–	–
Balance at 31 December 2019 (audited)	11	(14)	87	84
Balance at 1 January 2020 (audited)	11	(14)	87	84
Net losses on maturity of cash flow hedges recycled in the period	(1)	–	–	(1)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(1)	–	–	(1)
Foreign currency translation	–	25	–	25
Issue of Company's shares by Employee Benefit Trust	–	–	(24)	(24)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares	–	–	4	4
Credit to equity for share-based payments charge	–	–	7	7
Balance at 30 June 2020 (unaudited)	**9**	**11**	**74**	**94**
Attributable to:				
Petrofac Limited shareholders	9	11	74	94
Non-controlling interests	–	–	–	–
Balance at 30 June 2020 (unaudited)	**9**	**11**	**74**	**94**

Note: (1) Includes US$23m relating to shares vested during the six months ended 30 June 2019.

19 Interest-bearing loans and borrowings

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Non-current		
Revolving Credit Facility	**614**	600
Term loans	**150**	–
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	**–**	(1)
	764	599
Current		
Term loans	**75**	300
Bank overdrafts	**51**	111
	126	411
Total interest-bearing loans and borrowings	**890**	1,010

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

Revolving Credit Facility
The Group has a US$1,000m committed Revolving Credit Facility with a syndicate of international banks, which is available for general corporate purposes. The facility is due to mature in June 2021. At 30 June 2020, US$614m was drawn under this facility (31 December 2019: US$600m).

Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

Term loans
At 30 June 2020, the Group had in place two bilateral term loans with a combined total of US$225m (31 December 2019: three bilateral term loans with a combined total of US$300m). At 30 June 2020, US$225m was drawn under these facilities, of which US$75m is scheduled to mature in August 2020 (1) and US$150m in August 2022.

Note: (1) On 7 August 2020, US$50m of the term loan scheduled to mature in August 2020 was extended by six months and will now mature in February 2021.

Bank overdrafts
Bank overdrafts are utilised to meet the Group's working capital requirements. These are repayable on demand.

Compliance with covenants
The Revolving Credit Facility and the term loans (together, the "Senior Loans") are subject to two financial covenants relating to leverage and interest cover. These covenants are tested at 30 June and 31 December. The leverage financial covenant is defined as the ratio of net debt, including net leases, at the end of the reporting period to the previous twelve months' EBITDA and shall not exceed 3:1. The interest cover financial covenant is defined as the ratio of the previous twelve months' EBITDA to the previous twelve months' net interest expense and shall not be less than 3:1. The Group was compliant with these covenants at 30 June 2020.

The Senior Loans are senior unsecured obligations of the Company and will rank equally in right of payment with each other and with the Company's other existing and future unsecured and unsubordinated indebtedness.

20 Trade and other payables

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Trade payables	**561**	507
Accrued expenses	**358**	357
Other taxes payable	**38**	39
Other payables	**165**	172
	1,122	1,075

The increase in trade payables of US$54m is mainly due to an increase of US$52m in the Engineering & Construction operating segment mainly arising from an increase in construction activity for late life contracts.

21 Contract liabilities

	30 June 2020 Unaudited US$m	31 December 2019 **Audited** US$m
Billings in excess of costs and estimated earnings	**150**	147
Advances received from customers	**51**	126
	201	273

The decrease in advances received from customers of US$75m was mainly due to revenue recognised during the period from amounts included in contract liabilities at the beginning of the year of US$75m.

22 Accrued contract expenses

The decrease in accrued contract expenses of US$209m was mainly due to higher payment milestones relating to vendors and subcontractors achieved during the period in the Engineering & Construction operating segment.

23 Related party transactions

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

Related party receivables	**30 June 2020 Unaudited US$m**	31 December 2019 **Audited** US$m
Joint ventures	**1**	1
Associates	**3**	–
	4	1

All sales to and purchases from related parties are conducted on an arm’s length basis and are approved by the operating segment’s management.

All related party balances will be settled in cash.

Other Directors’ interests include market-rate services of US$181,000 (six months ended 30 June 2019: US$103,000), incurred in the ordinary course of business by the Engineering & Production Services operating segment.

The Group Chief Executive is a beneficiary of a trust which had invested in a fund that has an equity interest in the company which provided the services. In May 2017, the board of directors approved a donation of up to US$5m over the course of 5 years to the American University of Beirut (AUB) to establish the Petrofac Fund for Engineers endowment fund, which will provide scholarships and internships to engineering students in memory of Mr Maroun Semaan, Petrofac’s co-founder. However, in response to COVID-19 pandemic and the change in economic circumstances, it has been agreed that Petrofac will pay for up to 100 Group employees to attend a AUB full-time course instead of making future donations for engineering scholarships. As part of its new commitment, Petrofac will pay the cost of the course to AUB and an educational stipend to all attendees. For six months ended 30 June 2020, no amounts were paid to the AUB (six months ended 30 June 2019: US$nil). The Group Chief Executive is a trustee of the AUB.

24 Commitments and contingent liabilities

Capital commitments

At 30 June 2020 the Group had capital commitments of US$32m (31 December 2019: US$53m).

Included in the US$32m of commitments are:

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Production Enhancement Contracts (PEC) in Mexico	**6**	19
Block PM304 in Malaysia	**21**	22
Commitments in respect of development of the Group's cloud-based Enterprise Resource Planning ("ERP"), digital systems and other information technology equipment	**5**	12

Contingent liabilities

UK Serious Fraud Office ("SFO") investigation

As described in pages 34, 74 and 86 of the 2019 Annual Report and Accounts, on 12 May 2017, the UK Serious Fraud Office ("SFO") announced an investigation into the activities of Petrofac, its subsidiaries, and their officers, employees and agents for suspected bribery, corruption, and/or money laundering. In February 2019, a former employee of a Petrofac subsidiary admitted offences contrary to the UK Bribery Act 2010. No charges have been brought against any Group company or any other officers or employees to date. Although not charged, a number of Petrofac individuals and entities are alleged to have acted together with the individual concerned. The SFO investigation is ongoing. The existence of any possible future financial obligations (such as fines or penalties), or other consequences, is unable to be determined at this time.

National Insurance Contributions to workers in the UK Continental Shelf

The Group is aware of challenges to the historical application of National Insurance Contributions to workers in the UK Continental Shelf. At this point, the Group considers this to be a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group and, accordingly, no provision has been recognised. Management does not believe it is possible to make a reliable estimate of the potential financial effect in the event that the Group was determined to have any liability that may arise from this matter.

Appendices

For the six months ended 30 June 2020

Appendix A

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

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)	Measures net profitability	Group's net profit/(loss)	Petrofac presents business performance APM in the interim condensed consolidated income statement as a means of measuring underlying business performance. The business performance net profit measure excludes the contribution of impairments of assets, fair value re-measurements, losses on disposal, restructuring and redundancy costs, certain Corporate reporting segment professional services, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country and other items that management based on its judgement believes are not relevant to underlying business performance and therefore can appropriately be classified as exceptional items	The intention of this measure is to provide users of the interim condensed consolidated financial statements with a clear and consistent presentation of underlying business performance and it excludes the impact of certain items to aid comparability
Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)	Measures net profitability	Basic and diluted earnings per share		
Business performance earnings before interest, tax, depreciation and amortisation ("EBITDA") (note A3)	Measures operating profitability	Operating profit/(loss)	Excludes exceptional items and certain re-measurements, depreciation, amortisation, business performance impairment and write off and includes share of net profits from associates and joint ventures	The intention of this measure is to provide users of the interim condensed consolidated financial statements with a clear and consistent presentation of underlying operating performance
Business performance effective tax rate ('ETR') (note A4)	Measures tax charge	Income tax expense	Excludes income tax credit related to exceptional items and certain re-measurements	The intention of this measure is to provide users of the interim condensed consolidated financial statements with a clear and consistent presentation of underlying business performance ETR
Capital expenditure (note A5)	Measures net cash cost of capital investment	Net cash flows used in investing activities	Excludes dividends received from associates and joint ventures, contingent consideration paid associated with acquisition of a subsidiary, Loans paid to associates and joint ventures, proceeds from disposal of a subsidiary, net disposal costs paid and proceeds from disposal of property, plant and equipment and interest received	Excludes items not considered relevant to capital investment
Free cash flow (note A6)	Measures net cash generated after operating and investing activities to finance returns to shareholders	Net cash flows generated from operating activities plus net cash flows used in investing activities minus interest paid plus amounts received from non-controlling interest	n/a	n/a

APM	Description	Closest equivalent IFRS measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Working capital, balance sheet measure (note A7)	Measures the investment in working capital	No direct equivalent. Calculated as inventories plus trade and other receivables plus contract assets minus trade and other payables minus contract liabilities minus accrued contract expenses	n/a	n/a
Return on capital employed ('ROCE') (note A8)	Measures the efficiency of generating operating profits from capital employed	No direct equivalent. Calculated as business performance earnings before interest, tax and amortisation (EBITA) divided by capital employed (average total assets minus average current liabilities after adjusting for certain leases)	n/a	n/a
Cash conversion (note A9)	Measures the conversion of EBITDA into cash	No direct equivalent. Calculated as cash generated from operations divided by business performance EBITDA	n/a	n/a
Net lease liabilities (note A10)	Measures net lease liabilities	No direct equivalent. Calculated as gross lease liabilities minus 70% of leases in respect of oil and gas facilities relating to Block PM304 in Malaysia	n/a	n/a
Net debt (note A11)	Measure indebtedness	No direct equivalent. Calculated as interest bearing loans and borrowings minus cash and short-term deposits	n/a	n/a
Net debt/EBITDA (note A12)	Measures leverage	No direct equivalent. Calculated as net debt divided by EBITDA	n/a	n/a
New order intake (note A13)	Provides visibility of future revenue	No direct equivalent. Calculated as net awards plus net variation orders	n/a	n/a

Appendices

For the six months ended 30 June 2020

A1. Business performance net profit attributable to Petrofac Limited shareholders

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Reported net (loss)/profit (A)	**(81)**	135
Adjustments – exceptional items and certain re-measurements (note 6):		
Impairment of Assets	**67**	–
Fair value re-measurements	**12**	–
Group reorganisation and redundancy costs	**8**	4
Other exceptional items	**8**	11
Pre-tax exceptional items and certain re-measurements (B)	**95**	15
Deferred tax impairment and foreign exchange translation loss on deferred tax balance	**4**	–
Tax on exceptional items and certain re-measurements (C)	**4**	–
Post-tax exceptional items and certain re-measurements (D = B + C)	**99**	15
Business performance net profit (A + D)	**18**	150
Loss attributable to non-controlling interest	**3**	4
Business performance net profit attributable to Petrofac Limited shareholders	**21**	154

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

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Reported net (loss)/profit attributable to Petrofac Limited shareholders (E)	**(78)**	139
Add: post-tax exceptional items and certain re-measurements (appendix A note A1)	**99**	15
Business performance net profit attributable to Petrofac Limited shareholders (E_1)	**21**	154

	30 June 2020 Unaudited shares Million	30 June 2019 Unaudited shares Million
Weighted average number of ordinary shares for basic earnings per share [1] (F) (note 10)	**337**	337
Weighted average number of ordinary shares for diluted earnings per share [2] (F_1) (note 10)	**337**	343

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Basic earnings per share		
Business performance (E_1 / F x 100)	**6.2**	45.7
Reported (E / F x 100)	**(23.2)**	41.2
Diluted earnings per share [2]		
Business performance (E_1 / F_1 x 100)	**6.2**	44.9
Reported (E / F_1 x 100)	**(23.2)**	40.5

Notes

[1] The weighted number of issued ordinary shares excludes those held by the Employee Benefit Trust.

[2] For the six months ended 30 June 2020, potentially issuable ordinary shares under the share-based payment plans are excluded from the diluted earnings per ordinary share calculation, as their inclusion would decrease the loss per ordinary share.

A3. Business performance EBITDA

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Reported operating (loss)/profit	**(36)**	203
Adjustments:		
Pre-tax exceptional items and certain re-measurements (appendix A note A1)	**95**	15
Share of net profit of associates and joint ventures	**3**	13
Depreciation (note 4)	**43**	68
Amortisation, business performance impairment and write off (note 4)	**24**	6
Business performance EBITDA	**129**	305

A4. Business performance ETR

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Reported income tax expense	**33**	58
Add: Income tax expense on exceptional items and certain re-measurements (appendix A note A1)	**(4)**	–
Business performance income tax expense (G)	**29**	58
Business performance net profit (appendix A note A1)	**18**	150
Business performance net profit before tax (H)	**47**	208
Business performance ETR (G / H x 100)	**61.7%**	27.9%

A5. Capital expenditure

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Net cash flows used in investing activities	**14**	52
Adjustments:		
Dividend received from associates and joint ventures	**2**	2
Contingent consideration paid associated with acquisition of a subsidiary	**(3)**	–
Loans provided to associates and joint ventures	**(1)**	–
Proceeds from disposal of a subsidiary	**13**	2
Net disposal costs paid/proceeds from disposal of property, plant and equipment	**(1)**	(6)
Interest received	**2**	3
Capital expenditure	**26**	53

A6. Free cash flow

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Net cash flows generated from operating activities	**22**	190
Net cash flows used in investing activities	**(14)**	(52)
Interest paid	**(21)**	(25)
Amounts received from non-controlling interest	**–**	10
Free cash flow	**(13)**	123

Appendices

For the six months ended 30 June 2020

A7. Working capital

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Inventories	**14**	17
Trade and other receivables (note 14)	**1,152**	1,102
Contract assets (note 15)	**1,871**	2,064
Current Assets (I)	**3,037**	3,183
Trade and other payables (note 20)	**1,122**	1,075
Contract liabilities (note 21)	**201**	273
Accrued contract expenses	**1,390**	1,599
Current Liabilities (J)	**2,713**	2,947
Working capital (I - J)	**324**	236

A8. Return on capital employed

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Reported operating (loss)/profit (12 months)	**(19)**	394
Adjustments:		
Pre-tax exceptional items and certain re-measurements (12 months)	**269**	91
Share of profits from associates and joint ventures (12 months)	**7**	20
Amortisation (12 months)	**4**	3
Business performance EBITA (12 months) (K)	**261**	508
Total assets opening balance	**5,976**	5,806
Less: 70% lease adjustment relating to Block PM304 in Malaysia	**(259)**	(313)
Adjusted total assets opening balance (L)	**5,717**	5,493
Total assets closing balance	**5,460**	6,307
Less: 70% lease adjustment relating to Block PM304 in Malaysia (note A10)	**(221)**	(296)
Adjusted total assets closing balance (M)	**5,239**	6,011
Average total assets (N = (L + M) / 2)	**5,478**	5,752
Current liabilities opening balance	**3,922**	3,794
Less: 70% lease adjustment relating to Block PM304 in Malaysia (note A10)	**(89)**	(76)
Adjusted current liabilities opening balance (O)	**3,833**	3,718
Current liabilities closing balance	**3,420**	3,918
Less: 70% lease adjustment relating to Block PM304 in Malaysia (note A10)	**(125)**	(86)
Adjusted current liabilities closing balance (P)	**3,295**	3,832
Average current liabilities (Q = (O + P) / 2)	**3,564**	3,775
Capital employed (R = N – Q)	**1,914**	1,977
Return on capital employed (K / R x 100)	**13.6%**	25.7%

A9. Cash conversion

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Cash generated from operations (S)	**91**	310
Business performance EBITDA (T)	**129**	305
Cash conversion (S / T x 100)	**70.5%**	101.6%

A10. Net lease liabilities

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Non-current liability for leases (note 13)	186	298
Current liability for leases (note 13)	189	140
Total gross liability for leases	375	438
70% gross up on non-current liability for leases relating to Block PM304 in Malaysia (note 13)	96	170
70% gross up on current liability for leases relating to Block PM304 in Malaysia (note 13)	125	89
70% gross up on total liability for leases relating to Block PM304 in Malaysia	221	259
Net non-current liability for leases	90	128
Net current liability for leases	64	51
Net liability for leases	154	179

A11. Net debt

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Interest-bearing loans and borrowings (U) (note 19)	890	1,010
Less: Cash and short-term deposits (V) (note 16)	(861)	(1,025)
Net debt/(cash) (U – V)	29	(15)

A12. Net debt/EBITDA

	30 June 2020 Unaudited US$m	31 December 2019 Audited US$m
Net debt (W) (appendix A note A11)	29	NA
Business performance EBITDA (12 months) (X)	383	NA
Net debt/EBITDA (W / X)	0.1	NA

A13. New order intake

	Six months ended 30 June 2020 Unaudited US$m	Six months ended 30 June 2019 Unaudited US$m
Engineering & Construction operating segment		
New awards	314	1,159
Net variation orders	89	432
	403	1,591
Engineering & Production Services operating segment		
New awards	621	190
Net variation orders	22	(2)
	643	188
New order intake	1,046	1,779

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that, to the best of their knowledge, the interim condensed consolidated financial statements on pages 14 to 39 has been prepared in accordance with IAS 34 'Interim Financial Reporting', and that the interim management report on pages 1 to 13 includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of Petrofac Limited are listed in the Petrofac Annual Report and Accounts 2019.

By the order of the Board

Ayman Asfari
Chief Executive Officer
10 August 2020

Alastair Cochran
Chief Financial Officer
10 August 2020

SHAREHOLDER INFORMATION

At 30 June 2020

Petrofac shares are traded on the London Stock Exchange using code ‘PFC.L’.

Registrar
Equiniti (Jersey) Limited
26 New Street
St Helier
Jersey JE2 3RA

Legal Advisers to the Company
Linklaters LLP
One Silk Street
London EC2Y 8HQ

Company Secretary and registered office
Intertrust Corporate Services (Jersey) Limited
44 Esplanade
St Helier
Jersey JE4 9WG

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate Brokers
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Corporate and Financial PR
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

Financial calendar[1]

31 December 2020	2020 financial year end
24 February 2021	2020 full year results announcement

[1] Dates are based on current expectations.

Copies of all announcements will be available on the Company’s website at www.petrofac.com following their release.