Petrofac Limited

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

CONTENTS

GROUP FINANCIAL HIGHLIGHTS

US$1,595 million
Revenue
Six months ended 30 June 2020: US$2,103 million

US$82 million
EBITDA [1,2]
Six months ended 30 June 2020: US$129 million

US$39 million
Business performance net profit [1,3]
Six months ended 30 June 2020: US$21 million

US$(86) million
Reported net profit/(loss) [3]
Six months ended 30 June 2020: US$78 million loss

Nil
Interim dividend
Six months ended 30 June 2020: nil

11.5 cents
Business performance diluted EPS [1,3]
Six months ended 30 June 2020: 6.2 cents

US$51 million
Free cash outflow [4]
Six months ended 30 June 2020: US$13 million

US$188 million
Net debt
At 31 December 2020: US$116 million

US$3.8 billion
Backlog [6]
At 31 December 2020: US$5.0 billion

6.2%
Return on capital employed [1,5]
12 months ended 30 June 2020: 13.6%

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1 Business performance before separately disclosed items. This measures 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 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 from operating activities, plus net cash flows from investing activities, plus net interest on borrowing and interest on finance leases plus amounts received from/paid to non-controlling interests (see A6 in Appendix A to the consolidated financial statements).

5 Return on capital employed (ROCE) is calculated as EBITA (earnings before interest, tax and amortisation, calculated as EBITDA less depreciation) divided by average adjusted capital employed (see A8 in Appendix A to the 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 2021

Resolution of legacy SFO investigation

On 24 September, the Company announced it had reached a plea agreement with the UK Serious Fraud Office (SFO) in relation to its investigation into the Company's historical use of agents. Pursuant to this plea agreement, the Company indicated guilty pleas to seven counts of failing to prevent former Petrofac group employees from offering or making payments to agents in relation to projects awarded between 2012 and 2015 in Iraq, Kingdom of Saudi Arabia and the UAE, contrary to Section 7 of the UK Bribery Act 2010.

On 4 October, Southwark Crown Court imposed a penalty of GBP £77 million. In determining the penalty, the Court and the SFO acknowledged Petrofac's corporate reform through its transformation of the Company's leadership, personnel, compliance and assurance processes.

Petrofac has a well-developed, comprehensive compliance and governance regime. This is supported by a dedicated compliance and investigations team, new systems and technologies, mandatory training and a company culture based on ethical business conduct and transparency. Its compliance regime is championed, supported, and overseen at local, divisional and Board level, and supplemented by regular independent audit by Freeh Sporkin & Sullivan LLP.

Proposed placing of ordinary shares and debt refinancing

On the date of publication of the interim financial statements, the Group announced a proposed equity raising of US$275 million. The net proceeds of the equity raise, together with other components of the Group's refinancing, will be used to reduce net indebtedness and to pay the penalty imposed by the Crown Court in relation to the SFO investigation.

The Group's refinancing plan, which becomes effective upon completion of the equity raising, also includes entry into a new US$180 million two-year revolving credit facility and a US$500 million debt bridge to a bond. Furthermore, the US$90 million term loan with ADCB will be repaid and replaced with a new US$50 million term loan, maturing in October 2023. The Covid Corporate Finance Facility will be repaid immediately upon completion of the refinancing or funds will be put into escrow for this to be repaid on maturity in January 2022.

The equity raising remains subject to approval by shareholders.

Financial results

Overall, Group business performance net profit for the first half of 2021 increased year-on-year despite declines in revenue and EBITDA. The Group had a reported net loss of US$86 million as a result of the GBP £77 million (US$106 million) court penalty. Challenging market conditions continued to impact our Engineering & Construction (E&C) operating segment in particular, with COVID-19 continuing to disrupt project schedules, increase project costs, delay tender awards and impact commercial settlement discussions. In response, management has taken further action to structurally reduce costs and to conserve cash, whilst delivering strong growth in the Engineering & Production Services (EPS) operating segment. These actions improved net margin, protected cash flow and maintained liquidity.

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Business performance [2] US$m	**Exceptional items and certain re-measurements US$m**	**Reported US$m**	Business performance [2] US$m	Exceptional items and certain re-measurements US$m	Reported US$m
Revenue	**1,595**	**–**	**1,595**	2,103	–	2,103
EBITDA[1]	**82**	**n/a**	**n/a**	129	n/a	n/a
Net profit/(loss) [1]	**39**	**(125)**	**(86)**	21	(99)	(78)

Income statement

Revenue

Revenue for the first half of the year decreased by 24% to US$1.6 billion (2020: US$2.1 billion), largely reflecting lower activity in E&C and prior year asset sales in Integrated Energy Services (IES).

E&C revenue decreased 32%, driven by lower activity levels and COVID-19 related project delays. Revenue in

EPS increased by 24%, reflecting strong new order intake in both the Operations and Projects service lines. IES revenue decreased by 75%, primarily reflecting prior year asset sales and lower production in PM304, partly offset by higher realised oil prices.

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

Business performance EBITDA decreased by 36% to US$82 million (2020: US$129 million) reflecting lower revenue, changes in project mix and higher project costs in E&C, partially offset by growth in margins in EPS. Lower EBITDA margins were partly mitigated by project support and overhead cost savings in the period.

Six months ended 30 June 2021

	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	**1,113**	**526**	**15**	**-**	**(59)**	**1,595**
EBITDA[1]	**34**	**48**	**4**	**(4)**	**-**	**82**
EBITDA margin	**3.1%**	**9.1%**	**26.7%**	**n/a**	**n/a**	**5.1%**

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[1]	83	29	22	(5)	-	129
EBITDA margin	5.1%	6.8%	36.1%	n/a	n/a	6.1%

Finance income/(expense)

Finance expense for the first half of the year was US$17 million (2020: US$22 million) due to lower average gross debt for the period. Finance income was US$3 million (2020: US$7 million), largely due to a reduction in the unwinding of discounts on receivables in line with the reduction in deferred consideration receivable.

Finance income	**30 June 2021 US$m**	30 June 2020 US$m
Bank interest	**1**	2
Unwinding of discount on receivables	**2**	5
Finance income	**3**	7

Finance expense	**30 June 2021 US$m**	30 June 2020 US$m
Group borrowings	**12**	16
Lease liabilities	**4**	5
Unwinding of discount on provisions	**1**	1
Finance expense	**17**	22

Taxation

The reported income tax credit of US$5 million (2020: US$33 million expense) primarily relates to tax charges in respect of the Group's Engineering & Production Services division reduced by tax credits associated with losses in Malaysia and adjustments in respect of previous periods following the release of uncertain tax provisions in the Group's E&C division.

The business performance income tax credit was US$6 million (2020: US$29 million expense). The Group's business performance effective tax rate (ETR) for the six months ended 30 June 2021 was negative 18.2% (2020: positive 61.7%), whereas the weighted average of tax rates applicable on business performance profits for the six months ended 30 June 2021 was 27.3% (2020: 6.4%), reflecting an adverse change in the profile of jurisdictions in which profits were earned. However, this was offset by the release of tax provisions following favourable developments on tax assessments in relation to previous periods which has significantly lowered the business performance effective tax rate. The ETR reduction has also benefited from the non-recurring prior year negative impact of the Jazan commercial settlement for which no tax relief was available.

Net profit
Business performance net profit attributable to Petrofac Limited shareholders for the first half of the year increased 86% to US$39 million (2020: US$21 million) with lower EBITDA more than offset by lower interest, tax and depreciation. Consequently, business performance net margin increased to 2.4% (2020: 1.0%).

The reported net loss of US$86 million (2020: US$78 million) was negatively impacted by separately disclosed costs of US$125 million (2020: US$99 million). This is principally comprised of a liability of $106 million[5] relating to the penalty from the UK Serious Fraud Office. (see note 5 to the interim condensed consolidated financial statements).

Earnings per share
Business performance diluted earnings per share increased 85% to 11.5 cents per share (2020: 6.2 cents per share), broadly in line with the increase in business performance net profit. Reported diluted earnings per share decreased to a loss of 25.4 cents per share (2020: loss of 23.2 cents per share).

Cash flow

Operating cash flow
Net cash flow used in operating activities was US$21 million in the first half of the year (2020: US$22 million generated from operating activities), primarily due to lower EBITDA and higher non-cash adjustments, mitigated by lower tax paid in the period.

The net working capital outflow of US$34 million (30 June 2020: US$57million) was principally due to a decrease in accrued contract expenses, reflecting higher vendor and subcontractor payment milestones achieved during the period in the E&C operating segment. Days sales outstanding (DSO) was slightly higher at 214 days (30 June 2020: 196 days), due to longer billing cycles, largely due to COVID-19 related disruption on E&C projects as well as slower cash collections from clients.

	Six months ended 30 June 2021 US$m	Six months ended 30 June 2020 US$m
EBITDA	**82**	129
Operating profit adjustments	**(47)**	18
Cash generated from operations before working capital adjustments and other items	**35**	**147**
Net working capital adjustments	**(34)**	(57)
Net other non-current items	**-**	1
Restructuring, redundancy, and other separately disclosed items paid	**(6)**	(17)
Net income taxes paid	**(16)**	(52)
Net cash flows (used in)/generated from operating activities	**(21)**	22

Free cash flow [3]
The free cash outflow for the first half of the year was US$51 million (2020: US$13 million), principally reflecting lower operating cash flow partly offset by lower interest payments.

	Six months ended 30 June 2021 US$m	Six months ended 30 June 2020 US$m
Net cash flows (used in)/generated from operating activities	**(21)**	22
Capital expenditure	**(29)**	(26)
Proceeds from disposals	**9**	13
Dividends received from associates and JV's and other investing activities	**1**	(1)
Net cash flows used in investing activities	**(19)**	(14)
Net interest paid	**(11)**	(21)
Free cash flow	**(51)**	(13)

BUSINESS REVIEW
At 30 June 2021

Balance sheet

IES carrying amount
The carrying amount of the IES portfolio was US$119 million at 30 June 2021 (31 December 2020: US$116 million), reflecting an increase in the carrying amount of PM304 in Malaysia as a result of the development of the East Cendor field, which reached first production in June 2021.

Leases
Net lease liabilities, calculated as gross lease liabilities minus 70% of leases relating to Block PM304 in Malaysia for the amount receivable from joint operation partners (this treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases), increased 4% to US$141 million at 30 June 2021 (31 December 2020: US$136 million) (see A10 in Appendix A to the interim condensed consolidated financial statements). Net lease liabilities attributable to PM304 amounted to US$73 million (31 December 2020: US$76 million).

Total equity
Total equity at 30 June 2021 decreased to US$366 million (31 December 2020: US$440 million), principally reflecting the reported loss for the period of US$86 million. No dividends were paid in the period.

Of the total equity of US$366 million at 30 June 2021, US$359 million (31 December 2020: US$433 million) was attributable to Petrofac Limited shareholders and US$7 million was attributable to non-controlling interests (31 December 2020: US$7 million).

Net debt, liquidity and return on capital employed

Net debt
Net debt was US$188 million at 30 June 2021 (31 December 2020: US$116 million) reflecting negative free cash flow and payments on leases. No dividends were paid in the period (2020: none).

Gross interest-bearing loans and borrowings less associated debt acquisition costs were US$904 million at 30 June 2021 (31 December 2020: US$800 million). This consists of US$350 million drawn on a revolving credit facility and US$554 million of term loans and commercial paper.

	30 June 2021 US$m	30 December 2020 US$m
Cash and short-term deposits	**716**	684
Interest-bearing loans and borrowings	**(904)**	(800)
Net debt	**(188)**	(116)

Liquidity
The Group's total available borrowing facilities, excluding bank overdrafts, were US$1,164 million at 30 June 2021 (31 December 2020: US$1,250 million). Details of the Group's borrowing facilities are contained in note 15 to the interim condensed consolidated financial statements.

On 1 February 2020, the Group increased its short-term liquidity position through issuing £300 million (US$414 million as at 30 June 2021) in commercial paper with a maturity of 12 months under the UK Government's Covid Corporate Financing Facility, the maximum amount it was eligible to issue under this facility. Accessing additional liquidity headroom was considered to be a prudent step in this uncertain market environment.

In April 2021, the Company extended US$700 million of its banking facilities. These extensions comprised a US$610 million extension of its existing revolving credit facility to 2 June 2022, with the potential to extend for a further six months [(4)], and a US$90 million extension of a bilateral term facility to 1 April 2022.

Of these facilities, US$260 million was undrawn at 30 June 2021 (31 December 2020: US$495 million). Combined with the Group's cash and cash equivalents of US$708 million (31 December 2020: US$639 million), excluding US$8 million cash from bank overdrafts, the Group had US$968 million of liquidity available at 30 June 2021 (31 December 2020: US$1,133 million).

Borrowing facilities	US$ million	Maturity date
Revolving credit facility	610	June 2022
Covid Corporate Finance Facility	414	January 2022
Term loan 1	90	April 2022
Term loan 2	50	November 2023
Total	**1,164**	

The revolving credit facility (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 2021 the company was in compliance with both covenants, each with significant headroom. The RCF also includes an additional minimum liquidity covenant of US$100 million that must be maintained at all times.

	Leverage	Interest cover
Covenant	<3.0x	>3.0x
Ratio at 30 June 2021	2.0x	6.1x

Return on capital employed

The Group's return on capital employed was 6.2% for the twelve months ended 30 June 2021 (12 months ended 30 June 2020: 13.6%), 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.

Backlog

The Group's backlog decreased 24% to US$3.8 billion at 30 June 2021 (31 December 2021: US$5.0 billion), reflecting low new order intake and progress delivered on the existing project portfolio.

	30 June 2021 US$bn	31 December 2020 US$bn
Engineering & Construction	**2.1**	3.3
Engineering & Production Services	**1.7**	1.7
Group	**3.8**	5.0

Dividends

In April 2020, the Board suspended the payment of the final dividend in response to the COVID-19 pandemic and the fall in oil prices. The Board recognises the importance of dividends to shareholders, but in light of current market conditions has decided that dividend payments will remain suspended and therefore no interim dividend will be paid in respect of 2021 (2020: nil).

Notes:

1 Attributable to Petrofac Limited shareholders

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

3 Free cash flow is defined as net cash flows from operating activities, plus net cash flows from investing activities, plus net interest on borrowing and interest on finance leases plus amounts received from/paid to from non-controlling interests (see A6 in Appendix A to the consolidated financial statements).

4 The option to extend the revolving credit facility to 2 December 2022 is subject to the approval of lenders and is up to a maximum of US$550 million

5 Based on the GBP:USD exchange rate at 30 June 2021

BUSINESS REVIEW
At 30 June 2021

Segmental analysis

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

US$ million	Revenue		Net profit [1,2]		EBITDA[1,2]	
For the six months ended 30 June	2021	2020	2021	2020	2021	2020
Engineering & Construction	1,113	1,636	29	35	34	83
Engineering & Production Services	526	426	34	17	48	29
Integrated Energy Services	15	61	(4)	(10)	4	22
Corporate, others, consolidation adjustments & eliminations	(59)	(20)	(20)	(21)	(4)	(5)
Group	1,595	2,103	39	21	82	129

%	Revenue growth		Net margin		EBITDA margin	
For the six months ended 30 June	2021	2020	2021	2020	2021	2020
Engineering & Construction	(32.0)	(28.3)	2.6	2.1	3.1	5.1
Engineering & Production Services	23.5	(4.7)	6.5	4.0	9.1	6.8
Integrated Energy Services	(75.4)	(38.6)	(26.7)	(15.8)	26.7	35.6
Group	(24.2)	(25.4)	2.4	1.0	5.1	6.1

1 Attributable to Petrofac Limited shareholders.

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

BUSINESS REVIEW
At 30 June 2021

Engineering & Construction

The Engineering & Construction (E&C) division delivers onshore and offshore engineering, procurement, construction, installation and commissioning services. Lump-sum turnkey is the predominant commercial model used, but we also offer our clients the flexibility of other models. The division has a 40-year track record in designing and building major energy infrastructure projects.

Results
E&C's financial performance in the first half was impacted by a continuation of challenging market conditions.

Revenue in the first half of the year decreased 32% to US$1.1 billion, (2020: US$1.6 billion), driven by a decline in project activity, COVID-19 related project delays and negative variation orders as a result of a mutually agreed rescoping of the Sakhalin contract.

Business performance EBITDA decreased 59% to US$34 million (2020: US$83 million), reflecting lower revenues and a lower EBITDA margin driven by changes in project mix, higher costs and a higher overhead ratio.

E&C's business performance effective tax rate was negative 47.4% (2020: positive 46.2%) mainly due to the release of uncertain tax treatment items.

Business performance net profit attributable to Petrofac Limited shareholders decreased 17% to US$29 million (2020: US$35 million), due to the reduction in EBITDA, partially offset by a reduction in the effective tax rate. Business performance net margin increased to 2.6% (2020: 2.1%), largely as a result of the reduction in effective tax rate.

Notwithstanding the decrease in earnings, management has made good progress in reshaping the E&C business and has continued to take measures to reduce project support and other costs in anticipation of a recovery in market conditions.

New awards
As expected, the recovery in oil prices has yet to manifest itself in a significant expansion in capital spending by clients. The SFO investigation added increased challenges with ADNOC, a national oil company in the UAE, notifying Petrofac in March 2021 that it would be suspended from competing for new awards until further notice. New order intake in the first half declined to US$75 million (2020: US$403 million), comprising the EPC contract for the Marmul Main Production Station Gas Compression project in Oman offset by negative net variation orders.

E&C backlog was US$2.1 billion at 30 June 2021 (31 December 2020: US$3.3 billion) as revenue burn exceeded new order intake.

Headcount
E&C headcount decreased by 9% to 4,320 at 30 June 2021 (31 December 2020: 4,760).

Engineering & Production Services

The Engineering & Production Services (EPS) division manages and maintains client assets, both onshore and offshore, delivers small to medium scale EPC projects and provides concept, feasibility and front-end engineering design (FEED) services. The division is also home to market-leading well engineering, decommissioning and training capabilities. The majority of EPS' services are executed on a reimbursable basis, but we are responsive to clients' preferred commercial models to deliver our expertise.

Results

EPS has performed well in the first half, driven by higher activity and good cost discipline, which resulted in a material increase in net margin. Strong growth in revenue in Operations and Projects service lines was driven by high order intake in the prior year and Q1, reflecting improvements in both underlying market conditions, EPS's cost-competitiveness and the appreciation in sterling.

Revenue in the first half of the year increased 24% to US$526 million (2020: US$426 million), mainly driven by high order intake.

Business performance EBITDA increased 66% to US$48 million (2020: US$29 million), reflecting higher revenues, higher brownfield project contract margins and a lower overhead ratio. EBITDA also benefited from higher income from associates as a result of a gain of US$2.5m on revaluation of lease receivables due to a lease extension on one of the floating production assets.

EPS' business performance effective tax rate was 16.7% (2020: 25.6%).

Business performance net profit attributable to Petrofac Limited shareholders increased 100% to US$34 million (2020: US$17 million), with business performance net margin increasing 2.5ppts to 6.5% (2020: 4.0%).

New awards

EPS secured US$0.4 billion of awards and extensions in the first half of the year (2020: US$0.6 billion), broadly maintaining backlog since the year end despite tight market conditions:

- In Projects, EPS secured a material project delivery contract with PDO in Oman
- In Operations, EPS secured a number of operations and maintenance contract renewals in the UK
- In new energies, EPS expanded its track record by securing a range of engineering studies and FEED contracts across carbon capture and storage, waste-to-value, hydrogen, and offshore wind

EPS backlog was US$ 1.7 billion at 30 June 2021 (31 December 2020: US$1.7 billion) reflecting good order intake during the first quarter of the year.

Headcount

EPS headcount increased by 5% to 4,330 at 30 June 2021 (31 December 2020: 4,135).

Integrated Energy Services

Integrated Energy Services (IES) is Petrofac's upstream oil and gas business. Following the divestment of the Group's remaining Mexico operations in November 2020, Block PM304, offshore Malaysia, is the sole asset in the portfolio.

Results

IES' financial performance in the first half was driven by a strong recovery in oil prices and lower depreciation offsetting lower production following an unplanned outage in the main Cendor field. First oil was achieved on the East Cendor development in June 2021 and peak production is expected to be achieved by the end of the year.

Revenue in the first half of the year decreased 75% to US$15 million (2020: US$61 million), driven by the disposal of the Group's Mexican operations in the second half of 2020, and lower equity production in PM304 of 0.2 mmboe (2020: 0.5 mmboe in PM304). On an underlying like-for-like basis, excluding 2020 revenues from the Group's Mexican operations, revenue was down 34% on the prior year. This was partly offset by an 88% increase in the average realised price to US$70/boe (H1 2020: US$37/boe).

Business performance EBITDA decreased 82% to US$4 million (2020: US$22 million), reflecting lower revenues and an increase in operating and other costs. Like-for-like business performance EBITDA (excluding 2020 results from the Group's Mexican operations), declined 70%.

IES' business performance effective tax rate was 42.9% (2020: 30.0%).

The business performance net loss decreased to US$4 million (2020: US$10 million; 2020 like-for-like excluding Mexican operations: US$5 million net loss), reflecting lower depreciation and finance costs.

Headcount

IES headcount was 255 at 30 June 2021 (31 December 2020: 254).

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, which are described in note 2 of the financial statements.

Based on this comprehensive assessment, including the expectation that shareholder approval will be obtained for the equity fundraising, the directors concluded that the continued use of the going concern basis of accounting in preparing the Group's interim financial statements for the six-month period ended 30 June 2021 remained appropriate, notwithstanding this material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly, these accounts do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

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 2020 Annual Report and Accounts (pages 60 to 62 and 94 to 101). These risks are reviewed on a quarterly basis by the Group Risk Committee and the Audit Committee.

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.

In 2021, the assessment methodology of the financial impact of Principal Risks has been calibrated to reflect changes in our business volume and profitability. Accordingly, the impact level of some principal risks has been increased, in some cases despite reduction in absolute levels of risk.

The COVID-19 pandemic continues to have a major influence on our principal risks. Our principal risks and corresponding changes in 2021 (since the annual report) are detailed in the table below.

The Audit Committee has considered the impact of the Section 7 guilty plea in relation to the Serious Fraud Office investigation and concluded that no changes are required to the principal risks.

	Principal Risk	Change in 2021	Details
1	Adverse geo-political and macroeconomic changes in key geographies	Increased	Increase in risk severity is due to recalibration of financial impact thresholds. Despite the pace of vaccine rollout, more aggressive COVID-19 variants may still prove resistant to current vaccines further affecting countries whose economies are heavily dependent on the oil & gas sector.
2	Low order intake	Increased	We see increased investment appetite in the oil & gas sector; however, the risk has increased as a result of recalibration of financial impact thresholds and reduced access to some of our key markets.
3	Failure to deliver strategic initiatives	No change	Our response to energy transition has been formalised and being acted on with establishment of "New Energy Services" division. Associated emerging risk is being reported now as a separate principal risk.
4	Poor operational and project performance	Increased	The pandemic continues to cause disruptions to our projects across divisions, however the increase in risk severity is mainly due to recalibration of financial impact thresholds.
5	HSE incidents	Reduced	The health and well-being of our people, suppliers and communities is and remains our top priority. Reduction in our HSE performance in 2020 has been contained by improved controls and our Safety-back to basics initiative thereby reducing the risk level.
6	Insufficient IT resilience	No change	Information security risks originating from hybrid working conditions are addressed by new or enhanced controls.
7	Loss of financial capacity	No change	The pandemic continues to have a negative impact on access to capital especially for oil & gas and related sectors. Consequently, the risk of loss of financial capacity has not changed.
8	Misstatement of financial information	No change	Financial controls are being further improved with new modules being integrated into our ERP program.
9	Historic or future breaches of laws, regulations and ethical standards	No change	Compliance controls have been enhanced during the first half of 2021.
10	Inadequate leadership and talent management	No change	Despite the increase in turnover across the industry the risk has been contained by our succession plans, recent key hires, and other responsive controls.

Outlook

While market conditions remain challenging, we expect the full year net margin in E&C to be in line with 2020. In EPS, strong performance has led to an increase in full-year net margin guidance to 5.0-6.0%.

Petrofac has an attractive $46 billion bidding pipeline, which includes US$7 billion opportunities in new energies, and contract awards are expected to accelerate in 2022.

In E&C, while we are prudently assuming that capital discipline by clients will continue to delay awards in 2021, there is a healthy pipeline of US$32 billion scheduled for award by the end of 2022. This consists of US$10 billion in our addressable core MENA markets, where we are particularly well positioned as well as significant opportunities in growth geographies including India, Russia and Libya.

EPS is expected to continue to deliver strong order intake in the current year with a book-to-bill for the full year of at least 1.0x. Awards in the second half are expected to be driven by contract extensions in the West and brownfield projects in the East, where we have already secured material contracts in Malaysia and Bahrain post period end.

We remain confident that the actions we have taken to maximise our cost competitiveness through structurally reducing costs, simplifying the organisation and driving digitalisation will best position us in both business units for the anticipated multi-year recovery in our traditional markets.

In new energies, near-term awards and revenues will continue to be dominated by offshore wind, with three EPC projects currently in execution and US$3.4 billion of opportunities in the pipeline to 2022. Furthermore, there has been strong growth in other new energy sectors with US$3.5 billion of opportunities in the pipeline, supported by the accelerating number of early-stage awards and strategic partnerships secured in carbon capture & storage, waste-to-value and hydrogen.

We have confidence in Petrofac's competitive position and the Group is focused in its pursuit of growth with a strengthened financial position and a clear strategy. Our medium-term performance framework targets $4-5 billion revenue, including c.$1 billion from new energies, with a sector leading 6-8% EBIT margin ambition and a return to a net cash position. These medium-term objectives will deliver significant value to Petrofac shareholders.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	Notes to the interim condensed consolidated financial statements	**Business performance (1) US$m**	**Separately disclosed items US$m**	**Reported six months ended 30 June 2021 Unaudited US$m**	Business performance (1), (2) US$m	Separately disclosed items US$m	Reported six months ended 30 June 2020 Unaudited/ unreviewed US$m
Revenue	3	**1,595**	**–**	**1,595**	2,103	–	2,103
Cost of sales		**(1,488)**	**–**	**(1,488)**	(1,937)	–	(1,937)
Gross profit		**107**	**–**	**107**	166	–	166
Selling, general and administration expenses		**(82)**	**–**	**(82)**	(81)	–	(81)
Separately disclosed items	5	**–**	**(124)**	**(124)**	–	(95)	(95)
Expected credit loss allowance	6	**18**	**–**	**18**	(2)	–	(2)
Other operating income		**3**	**–**	**3**	15	–	15
Other operating expense		**(4)**	**–**	**(4)**	(39)	–	(39)
Operating profit/(loss)		**42**	**(124)**	**(82)**	59	(95)	(36)
Finance income		**3**	**–**	**3**	7	–	7
Finance expense		**(17)**	**–**	**(17)**	(22)	–	(22)
Share of net profit of associates and joint ventures		**5**	**–**	**5**	3	–	3
Profit/(loss) before tax		**33**	**(124)**	**(91)**	47	(95)	(48)
Income tax credit/(expense)	7	**6**	**(1)**	**5**	(29)	(4)	(33)
Net profit/(loss)		**39**	**(125)**	**(86)**	18	(99)	(81)
Attributable to:							
Petrofac Limited shareholders		**39**	**(125)**	**(86)**	21	(99)	(78)
Non-controlling interests		**–**	**–**	**–**	(3)	–	(3)
		39	**(125)**	**(86)**	18	(99)	(81)
Earnings/(loss) per share (US cents)							
Basic	8	**11.5**	**(36.9)**	**(25.4)**	6.2	(29.4)	(23.2)
Diluted	8	**11.5**	**(36.9)**	**(25.4)**	6.2	(29.4)	(23.2)

Notes:

(1) Business performance is shown by the Group as a means of measuring underlying business performance, see note 2 on page 21 and Appendix A on page 37.

(2) Expected credit loss allowance of US$2m for the six months ended 30 June 2020, previously reported within selling, general and administration expenses, was reclassified to the expected credit loss allowance line item of the interim condensed consolidated income statement, to achieve a consistent presentation with the current period and the 2020 annual financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes to the interim condensed consolidated financial statements	**Six months ended 30 June 2021 Unaudited US$m**	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported net loss		**(86)**	(81)
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	14	**1**	(1)
Foreign currency translation gains	14	**1**	25
Other comprehensive income to be reclassified to the interim condensed consolidated income statement in subsequent periods		**2**	24
Other comprehensive income/(loss) reclassified to the interim condensed consolidated income statement			
Foreign currency translation losses reclassified to the interim condensed consolidated income statement	14	**8**	–
Net losses on maturity of cash flow hedges recycled in the period	14	**(2)**	(1)
Other comprehensive income/(loss) reclassified to the interim condensed consolidated income statement		**6**	(1)
Total comprehensive loss for the period		**(78)**	(58)
Attributable to:			
Petrofac Limited shareholders		**(78)**	(55)
Non-controlling interests		**–**	(3)
		(78)	(58)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2021

	Notes to the interim condensed consolidated financial statements	30 June 2021 Unaudited US$m	31 December 2020 US$m
Assets			
Non-current assets			
Property, plant and equipment	9	**308**	288
Goodwill		**101**	101
Intangible assets		**77**	81
Investments in associates and joint ventures		**35**	35
Other financial assets	10	**228**	202
Deferred consideration		**55**	55
Deferred tax assets		**68**	61
		872	823
Current assets			
Inventories		**10**	8
Trade and other receivables	11	**930**	876
Contract assets	12	**1,663**	1,652
Related party receivables	20	**5**	1
Other financial assets	10	**142**	148
Income tax receivable		**17**	9
Cash and short-term deposits	13	**716**	684
		3,483	3,378
Total assets		**4,355**	4,201
Equity and liabilities			
Equity			
Share capital		**7**	7
Share premium		**4**	4
Capital redemption reserve		**11**	11
Employee Benefit Trust shares		**(72)**	(88)
Other reserves	14	**43**	45
Retained earnings		**366**	454
Equity attributable to Petrofac Limited shareholders		**359**	433
Non-controlling interests		**7**	7
Total equity		**366**	440
Non-current liabilities			
Interest-bearing loans and borrowings	15	**50**	50
Other financial liabilities	10	**217**	166
Provisions	16	**158**	171
Deferred tax liabilities		**38**	38
		463	425
Current liabilities			
Trade and other payables	17	**1,164**	887
Contract liabilities	18	**151**	120
Interest-bearing loans and borrowings	15	**854**	750
Other financial liabilities	10	**97**	179
Income tax payable		**185**	191
Accrued contract expenses	19	**1,017**	1,134
Provisions	16	**58**	75
		3,526	3,336
Total liabilities		**3,989**	3,761
Total equity and liabilities		**4,355**	4,201

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes to the interim condensed consolidated financial statements	**Six months ended June 30 2021 Unaudited US$m**	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Operating activities			
Reported loss before tax		**(91)**	(48)
Separately disclosed items		**124**	95
Business performance profit before tax and separately disclosed items		**33**	47
Adjustments to reconcile profit before tax and separately disclosed items to net cash flows:			
Adjustments for non-cash items:			
Depreciation, amortisation, impairment and write-offs		**35**	67
Net movement to current provisions		**(7)**	8
Expected credit loss allowance recognised during the period		**(18)**	2
Difference between other long-term employment benefits paid and amounts recognised in the interim condensed consolidated income statement		**(20)**	(8)
Net other non-cash items		**(1)**	12
Share of net profit of associates and joint ventures		**(5)**	(3)
Net finance expense		**14**	15
Share-based payments		**4**	7
		35	147
Working capital adjustments:			
Inventories		**(2)**	3
Trade and other receivables		**(53)**	(35)
Contract assets		**4**	191
Due from related parties		**1**	–
Other current financial assets		**(58)**	(50)
Assets and liabilities held for sale		**–**	55
Trade and other payables		**160**	58
Contract liabilities		**31**	(72)
Accrued contract expenses		**(117)**	(207)
Net working capital adjustments		**(34)**	(57)
		1	90
Net other non-current items		**–**	1
Cash generated from operations		**1**	91
Restructuring, redundancy and other separately disclosed items paid		**(6)**	(17)
Net income taxes paid		**(16)**	(52)
Net cash flows (used in)/generated from operating activities		**(21)**	22
Investing activities			
Purchase of property, plant and equipment		**(19)**	(14)
Payments for intangible assets		**(10)**	(12)
Dividend received from associates and joint ventures		**1**	2
Contingent consideration paid	10	**–**	(3)
Loans paid to associates and joint ventures		**–**	(1)
Proceeds from disposal of a subsidiary		**9**	13
Disposal costs paid		**(1)**	(1)
Interest received		**1**	2
Net cash flows used in investing activities		**(19)**	(14)
Financing activities			
Interest-bearing loans and borrowings, net of debt acquisition cost		**567**	471
Repayment of interest-bearing loans, borrowings and lease liabilities		**(447)**	(556)
Interest paid		**(11)**	(21)
Purchase of Company's shares by Employee Benefit Trust		**–**	(10)
Net cash flows generated from/(used in) financing activities		**109**	(116)
Net increase/(decrease) in cash and cash equivalents		**69**	(108)
Net foreign exchange difference		**–**	4
Cash and cash equivalents at 1 January		**639**	914
Cash and cash equivalents at end of the reporting period	13	**708**	810

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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$m (note 14)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2021	7	4	11	(88)	45	454	433	7	440
Reported net loss	–	–	–	–	–	(86)	(86)	–	(86)
Other comprehensive income	–	–	–	–	8	–	8	–	8
Total comprehensive income	**–**	**–**	**–**	**–**	**8**	**(86)**	**(78)**	**–**	**(78)**
Issue of Company's shares by Employee Benefit Trust	–	–	–	16	(14)	(2)	–	–	–
Credit to equity for share-based payments charge	–	–	–	–	4	–	4	–	4
Balance at 30 June 2021 (unaudited)	**7**	**4**	**11**	**(72)**	**43**	**366**	**359**	**7**	**366**

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$m (note 14)	Retained earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance at 1 January 2020	7	4	11	(110)	84	637	633	281	914
Reported net loss	–	–	–	–	–	(78)	(78)	(3)	(81)
Other comprehensive income	–	–	–	–	23	–	23	–	23
Total comprehensive income/(loss)	–	–	–	–	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	–	–	–	–	7	–	7	–	7
Balance at 30 June 2020 (unaudited/unreviewed)	7	4	11	(92)	94	555	579	278	857

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 ultimate holding company for the international group of Petrofac subsidiaries. The Company and its subsidiaries at 30 June 2021 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 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 26 October 2021.

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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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 financial statements for the year ended 31 December 2020. The annual financial statements for the year ending 31 December 2021 will be prepared under International Financial Reporting Standards as issued by the IASB.

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.

The financial information for the six months ended 30 June 2021 has been reviewed by the Group's external auditor. The comparative financial information for the six months ended 30 June 2020, was unaudited and unreviewed by Group's external auditor, as a result of a board of directors' decision in May 2020.

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 separately disclosed items which impact upon IFRS measures or, by defining new measures, to aid the understanding of the Group's financial performance, financial position and cash flows (see note 5 on page 27 and Appendix A on page 37 for details).

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 2020, except for the adoption of new standards effective as of 1 January 2021. 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 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

2.4 Going concern

The directors have performed a robust going concern assessment for the period to 31 October 2022.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 62 to 67 of the Group's annual report and accounts for the year ended 31 December 2020 to validate the continued application of the going concern basis in the preparation of the interim financial statements of the Group.

The directors evaluated the Group's funding position, liquidity and financial covenant profile to ensure it will have sufficient access to liquidity and covenant headroom for the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing the Group's interim financial statements on 26 October 2021.The going concern assessment period is from 26 October 2021 to 31 October 2022 (the "Assessment Period").Furthermore, and in accordance with the Financial Reporting Council's guidance, the directors considered events or conditions that may cast significant doubt on the Group's ability to continue as a going concern in the period beyond the Assessment Period. The directors concluded that the disclosures contained herein sufficiently address relevant events and conditions in both the Assessment Period and the period beyond.

In evaluating whether the going concern assumption is appropriate, the directors performed the following procedures:

- reviewed the Group's forecast cash flows, liquidity, covenant compliance and borrowing requirements over the Assessment Period. Cash flow and liquidity assumptions take into account the potential impact of any continued operating restrictions resulting from the COVID-19 pandemic or lower oil prices and are based on management's best estimates of future commodity prices, new order intake, project schedules and costs, 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 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 including, but not limited to, taking measures to: reduce costs, through further headcount, salary and third-party cost reductions; preserve cash, through working capital management and a reduction of uncommitted capital expenditure; and, generate cash through acceleration of disposal proceed receipts. Under each scenario, mitigating actions are deemed to be in the control of management.
- performed a reverse stress test analysis to establish the impact on the Assessment Period of a remote mitigated downside scenario, which extended the severe but plausible downside scenario by modelling the impact of the Group securing no new orders in the Assessment Period.

The risks which forecast cash flows are most sensitive to over the Assessment Period are: (i) lower new order intake; (ii) contract cost overruns; (iii) adverse commercial settlements; and, (iv) working capital movements.

The Group forecasts that it will be able to maintain positive liquidity throughout the Assessment Period under the severe but plausible mitigated downside case, which incorporates the penalty payable following the conclusion of the SFO investigation, as set out in note 5 Separately disclosed items. However, this conclusion is contingent upon the Group successfully closing the additional equity capital raising announced on 26 October 2021. Under the refinancing plan outlined in the Business Review, the Group launched an underwritten equity capital raise of US$275 million and has entered into a series of new borrowing facilities, totalling US$730 million, with maturity dates of March 2023 or later, all of which contain conditions precedent relating to the receipt of the equity proceeds. Successful completion of the refinancing plan is forecast to enable the Group to retain positive liquidity during the Assessment Period.

Receipt of the proceeds of the equity capital raise, and therefore the effectiveness of the new borrowing facilities, remains subject to shareholder approval requiring over 50% of expressed votes in favour. The Group has received an irrevocable commitment from the beneficiary owners of Ayman Asfari and family's shareholding to vote in favour, representing 18.83% of the existing share register, and expects a sufficient proportion of the remaining shareholders to approve the equity capital raise based on sentiment from existing investors during pre-marketing, thereby enabling the success of the refinancing plan. The directors have concluded that this dependency on the shareholder approval constitutes a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, in the event that approval was not obtained, the Group would undertake a series of targeted actions to: seek to restructure its borrowing facilities, accelerate asset disposals and other commercial settlements and extend cost savings measures to preserve liquidity.

In addition, the directors also considered the following factors in their going concern assessment:

- The Group retains sufficient liquidity to support operations, and settle debt as it becomes due, throughout the Assessment Period in the mitigated severe but plausible downside scenario.
- The Group retains covenant compliance throughout the Assessment Period in the mitigated severe but plausible downside scenario.
- The Group remains liquid in the remote downside scenario of securing no new orders in the Assessment Period, as demonstrated in the mitigated reverse stress test.
- The Group has a proven track record of taking timely actions to effectively mitigate downside risks, including cutting costs, conserving cash and divesting assets.
- At 30 June 2021, the Group had cash and short term deposits of US$716 million and net debt of US$188 million.

The directors concluded, after rigorously evaluating relevant, available information, that there are no events or conditions, other than the material uncertainty in relation to the dependency of the refinancing plan on the shareholder approval for an equity capital raise disclosed above, that may cast significant doubt upon the Group's ability to continue as a going concern during the Assessment Period that require disclosure in the Group's interim financial statements for the six-month period ended 30 June 2021.

The directors also evaluated potential events and conditions during the period beyond the Assessment Period that may cast significant doubt on the going concern assessment, concluding that there were no other such events or conditions.

Based on this comprehensive assessment, including the expectation that the shareholder approval necessary for the refinancing plan to be successfully implemented will be obtained, the directors concluded that the continued use of the going concern basis of accounting in preparing the Group's interim financial statements for the six-month period ended 30 June 2021 remains appropriate, notwithstanding the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern in relation to the dependency of the refinancing plan on the shareholder approval for an equity capital raise. Accordingly, these accounts do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

2.5 Significant judgements and estimates

The ongoing COVID-19 pandemic could have an impact on Group's financial performance, financial position, cash flows and prospects in the next twelve months.

Management's significant judgements and estimates, including the continued impact of COVID-19 pandemic, 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 2021. 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.
- No new provision or contingent liability arising from COVID-19 pandemic was identified during the six months ended 30 June 2021.
- 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. At 30 June 2021, AVOs of US$322m (31 December 2020: US$305m) were recognised in the consolidated balance sheet, of which US$290m (31 December 2020: US$276m) was included within the contract assets; and US$32m (31 December 2020: US$29m) was included as an offset against contract liabilities. To the extent assessed variation orders pending customer approval are reflected in the transaction price are not resolved in the Group's favour, there could be reductions in, or reversals of, previously recognised revenue.
- 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 2021, the estimate at completion contract costs represented management's 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 the COVID-19 pandemic were also included in the estimate at completion contract costs. The continued prevalence of the COVID-19 pandemic may result in additional estimate at completion contract costs and consequently could impact financial performance and cash flows for future periods.
- Income tax: Group entities are routinely subject to tax audits and assessments, including processes whereby tax return filings are discussed and agreed with the relevant tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the uncertain tax treatments for jurisdictions where there is a probable future outflow, based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authority concerned. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach. The ultimate outcome following resolution of such audits and assessments may be materially higher or lower than the amounts recognised. The Group's subsidiaries' tax filings in different jurisdictions include deductions related to intercompany recharges and the tax authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing studies, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by taxation authorities. The carrying amount of uncertain tax treatments ("UTTs"), recognised within income tax payable line item of the consolidated balance sheet at 30 June 2021, was US$116m (31 December 2020: US$131m)
- Deferred tax assets: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that the tax assets estimated are realised and future taxable profits will be available for utilisation. This requires management to make estimates concerning future taxable profits and the recoverability of recognised deferred tax asset balances. It is considered probable based on business forecasts that such taxable profit will be available. The carrying amount of deferred tax assets at 30 June 2021 was US$68m (31 December 2020: US$61m).

The amount of deferred tax assets which are dependent on future taxable profits not arising from the reversal of existing deferred tax liabilities, and which relate to tax jurisdictions where the Group has suffered a loss in the current or preceding year was US$49m at 30 June 2021 (31 December 2020: US$43m).

- Fair value of contingent consideration amounts receivable ("contingent consideration"): The carrying amount of contingent consideration receivable from Perenco associated with the 100% disposal of the Group's ownership interest at 30 June 2021 was US$36m (31 December 2020: US$41m). Management considers there to be significant estimation uncertainty inherent in determining the fair value of this contingent consideration recognised in the consolidated balance sheet. The sources of estimation uncertainty pertained to: (i) the final determination of the completion consideration amount; and (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico. Management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable to account for this uncertainty in determining the fair value of the contingent consideration. Determining these risk factors required significant judgements and assumptions concerning the outcome of future events and negotiations. These matters constituted a significant accounting estimate by management to determine the fair value of the contingent consideration at 30 June 2021. A fair value gain or loss will be recognised in the consolidated income statement, in the next reporting period or in the longer term, if the outcome of the uncertain future events are more or less favourable, respectively, than the current estimate (see note 10).
- Recoverable amount of the deferred consideration relating to disposal of JSD6000 installation vessel (the "vessel"): the deferred consideration relating to disposal of the vessel, representing a contractual right to the Group, was recognised as a non-current asset in the consolidated balance sheet. The deferred consideration was initially measured and recognised at fair value and will be subsequently measured at fair value through profit or loss. 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. 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 estimate to assess the ability of the Group's partner to complete the construction and commissioning of the vessel and under such circumstances that may impair the Group's partner's ability to complete these activities, a fair value loss would be recognised in the consolidated income statement, in the next reporting period or in the longer-term. At 30 June 2021, management's analysis supported the carrying amount associated with the disposal of JSD6000 installation vessel amounts to US$55m (31 December 2020: US$55m) of the deferred consideration at the end of the reporting period and consequently no fair value adjustment was recognised for the six months ended 30 June 2021 (six months ended 30 June 2020: US$3m) as a separately disclosed item in the Engineering & Construction operating segment. A further 10% decrease in the valuation of the vessel would result in an additional negative fair value change of US$6m.
- Significant judgements associated with the preparation of interim condensed consolidated financial statements on a going concern basis: management is required to make a fundamental decision whether to prepare the Group's financial statements on a going concern basis. A higher degree of judgement was required at period end due to the general economic uncertainty arising from the COVID-19 pandemic and Group specific circumstances, for details see note 2.4.

3 Revenue from contracts with customers

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Rendering of services	**1,581**	2,063
Sale of crude oil and gas	**14**	40
	1,595	2,103

Revenues from rendering of services include "pass-through" revenues with zero or low margins amounting to US$85m (six months ended 30 June 2020: US$53m) in the Engineering & Construction operating segment and US$41m (six months ended 30 June 2020: US$49m) in the Engineering & Production Services operating segment.

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

	Six months ended 30 June 2021 (unaudited)				Six months ended 30 June 2020 (unaudited/unreviewed)			
	Engineering & Construction US$m	**Engineering & Production Services US$m**	**Integrated Energy Services US$m**	**Six months ended 30 June 2021 US$m**	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Six months ended 30 June 2020 US$m
Geographical markets								
United Kingdom	–	265	–	265	56	226	–	282
Oman	217	6	–	223	447	6	–	453
Thailand	199	8	–	207	272	8	–	280
Algeria	209	–	–	209	288	–	–	288
Kuwait	158	1	–	159	177	6	–	183
Netherlands	114	8	–	122	36	–	–	36
Russia	98	1	–	99	98	2	–	100
Iraq	29	58	–	87	66	86	–	152
United Arab Emirates	50	19	–	69	144	26	–	170
Bahrain	–	31	–	31	–	1	–	1
United States of America	–	20	–	20	–	18	–	18
India	18	–	–	18	43	–	–	43
Kazakhstan	–	16	–	16	–	6	–	6
Singapore	–	–	14	14	–	–	6	6
Malaysia	2	9	1	12	8	6	16	30
Turkey	6	2	–	8	21	1	–	22
Germany	6	–	–	6	12	–	–	12
Saudi Arabia	5	–	–	5	(50)	–	–	(50)
Mexico	–	–	–	–	–	–	39	39
Others	–	25	–	25	15	17	–	32
Total revenue from contracts with customers	**1,111**	**469**	**15**	**1,595**	1,633	409	61	2,103
Type of goods or service								
Fixed-price	986	60	–	1,046	1,552	91	–	1,643
Reimbursable	125	409	1	535	81	318	21	420
Sale of crude oil and gas	–	–	14	14	–	–	40	40
Total revenue from contracts with customers	**1,111**	**469**	**15**	**1,595**	1,633	409	61	2,103
Customer type								
Government	738	106	–	844	1,066	80	39	1,185
Non-government	373	363	15	751	567	329	22	918
Total revenue from contracts with customers	**1,111**	**469**	**15**	**1,595**	1,633	409	61	2,103
Timing of revenue recognition								
Services transferred over time	1,111	469	1	1,581	1,633	409	21	2,063
Goods transferred at a point in time	–	–	14	14	–	–	40	40
Total revenue from contracts with customers	**1,111**	**469**	**15**	**1,595**	1,633	409	61	2,103

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 separately disclosed items 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 5 on page 27 and appendix A on page 37 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 2021 and the comparative information for the six months ended 30 June 2020:

Six months ended 30 June 2021 (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	Separately disclosed items US$m	Reported US$m
Revenue								
External sales	1,111	469	15	–	–	1,595	–	1,595
Inter-segment sales	2	57	–	–	(59)	–	–	–
Total revenue	**1,113**	**526**	**15**	**–**	**(59)**	**1,595**	**–**	**1,595**
Operating profit/(loss)	20	38	(6)	(10)	–	42	(124)	(82)
Finance income	–	–	2	1	–	3	–	3
Finance expense	(1)	(1)	(3)	(12)	–	(17)	–	(17)
Share of net profit of associates and joint ventures	–	5	–	–	–	5	–	5
Profit/(loss) before tax	19	42	(7)	(21)	–	33	(124)	(91)
Income tax credit/(expense)	9	(7)	3	1	–	6	(1)	5
Net profit/(loss)	28	35	(4)	(20)	–	39	(125)	(86)
Attributable to:								
Petrofac Limited shareholders	29	34	(4)	(20)	–	39	(125)	(86)
Non-controlling interests	(1)	1	–	–	–	–	–	–
	28	**35**	**(4)**	**(20)**	**–**	**39**	**(125)**	**(86)**
EBITDA (1), (2)	**34**	**48**	**4**	**(4)**	**–**	**82**		

Notes:
(1) Earnings before interest, tax, depreciation and amortisation;
(2) See Appendix A3

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Total US$m
Other segment information					
Depreciation	**(14)**	**(4)**	**(10)**	**(1)**	**(29)**
Amortisation	**–**	**(1)**	**–**	**(5)**	**(6)**
Separately disclosed items (charge)/credit, pre-tax (note 5)	**(1)**	**(6)**	**(5)**	**(112)**	**(124)**
Expected credit loss allowance credit	**15**	**1**	**2**	**–**	**18**
Other long-term employment benefits	**(2)**	**(1)**	**–**	**(1)**	**(4)**
Share-based payments	**(2)**	**(1)**	**–**	**(1)**	**(4)**

4 Segment information continued

Six months ended 30 June 2020 (unaudited/unreviewed)

	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	Separately disclosed items 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)
Attributable to:								
Petrofac Limited shareholders	35	17	(10)	(21)	–	21	(99)	(78)
Non-controlling interests	–	1	(4)	–	–	(3)	–	(3)
	35	18	(14)	(21)	–	18	(99)	(81)
EBITDA (1), (2)	83	29	22	(5)	–	129		

Notes:
(1) Earnings before interest, tax, depreciation and amortisation;
(2) See Appendix A3

	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Corporate & others US$m	Total US$m
Other segment information					
Depreciation	(18)	(5)	(19)	(1)	(43)
Amortisation, business performance impairment and write off	–	(1)	(21)	(2)	(24)
Separately disclosed items, pre-tax (note 5)	(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)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5 Separately disclosed items

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
UK Serious Fraud Office proceedings	**(106)**	-
Impairment charge of assets	**(2)**	(67)
Fair value re-measurements (note 10)	**(6)**	(12)
Group reorganisation and redundancy costs	**(1)**	(8)
Other separately disclosed items	**(9)**	(8)
	(124)	(95)
Deferred tax on separately disclosed items	**-**	(3)
Foreign exchange translation loss on deferred tax balance	**(1)**	(1)
	(1)	(4)
Interim condensed consolidated income statement credit/(charge) for the period	**(125)**	(99)

See note 2 on page 21 and appendix A on page 37 for further details on APMs.

UK Serious Fraud Office proceedings
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. The Company entered guilty pleas in respect of charges of failing to prevent former Petrofac Group employees from offering or making payments to agents in relation to projects in Iraq, Saudi Arabia and the United Arab Emirates. As a result, on 4th October 2021 the Southwark Crown Court ordered the Company to pay a penalty of £77.0m. This comprises a confiscation order of £22.8m payable by 3rdJanuary 2022; a fine of £47.2m, and SFO costs of £7.0m, both payable on 14th February 2022. At 30 June 2021, management has recorded a liability for a full amount payable at the period end exchange rate (US$106m); (note 17).

Impairment charge on assets
At 30 June 2021, management identified impairment indicators for one of the Group's subsidiaries in the United Kingdom and as a result reviewed the carrying amount of property, plant and equipment including right-of-use assets relating to that subsidiary using the value-in-use basis. The value-in-use was calculated using the latest approved cash flow forecasts for 2021, 2022 and 2023 and a 3.5% annual increase in cash flows for the period 2024 and beyond. This review resulted in a pre-tax impairment charge of US$2m (post-tax US$2m) in the Engineering & Production Services operating segment (six months ended 30 June 2020: US$3m, post-tax US$3m) relating to the right-of-use asset associated with a facility having a carrying amount of US$4m and a recoverable amount of US$2m.

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. 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.

Fair value re-measurements
At 30 June 2021, management reviewed the carrying amount of the contingent consideration payable associated with the acquisition of W&W Energy Services Inc ("W&W"), following a change to the contingent consideration pay-out terms during the period. This resulted in a negative fair value adjustment of US$1m (post-tax US$1m) being recognised in the Engineering & Production Services operating segment (six months ended 30 June 2020: positive fair value adjustment of US$8m, post-tax US$8m). At the end of the reporting period, the fair value of contingent consideration payable was calculated using an expected value pay-out approach (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 remaining evaluation period i.e. 2021, 2022 and 2023.

At 30 June 2021, management reviewed the carrying amount of the contingent consideration amounts receivable from the 2020 disposal of the Group's operations in Mexico. As a result of this review, the Group recognised a downward fair value adjustment of US$5m (post-tax US$5m) in the Integrated Energy Services operating segment (six months ended 30 June 2020: US$nil, post-tax US$nil). The downwards fair value reduction was as a result of reassessing the recoverable amount of contingent consideration due from the acquirer.

5 Separately disclosed items continued

Group reorganisation and redundancy costs
Due to a lack of new orders in the Engineering & Construction operating segment, further cost reduction measures were taken by management which resulted in incremental redundancy costs of US$1m (post-tax US$1m) recognised in the Engineering & Construction operating segment (six months ended 30 June 2020: US$8m of which US$3m (post-tax US$3m) was recognised in the Engineering & Construction operating segment; US$4m (post-tax US$4m) was recognised in Engineering & Production Services operating segment; and US$1m (post-tax US$1m) was recognised in the Integrated Energy Services operating segment).

Other separately disclosed items
Other separately disclosed items comprised US$5m (post-tax US$5m) of professional services fees relating to Corporate reporting segment (six months ended 30 June 2020: US$3m, post-tax US$3m); and a loss on disposal of US$4m (post-tax US$4m) in the Engineering & Production Services operating segment that related to the disposal of the Group's survival and marine, health and safety, fire and major emergency management capability and facilities in Scotland (six months ended 30 June 2020: US$nil, post-tax US$nil).

Foreign exchange translation loss on deferred tax balance
A foreign exchange loss of US$1m relating to the translation of deferred tax balances denominated in Malaysia Ringgits was recognised during the period in respect of the Group's assets in Malaysia, relating to the Integrated Energy Services operating segment, due to an approximate 3% weakening in the Malaysian Ringgit against the United States dollar (six months ended 30 June 2020: US$1m).

6 Expected credit loss ("ECL") allowance

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
ECL on trade receivables (note 11)	**1**	4
ECL on contract assets (note 12)	**16**	(4)
ECL on other financial assets (note 10)	**1**	(2)
ECL credit/(charge)	**18**	(2)

The reduction in ECL is mainly due to Group's reassessment of reduction in the probability of default from a customer in the Engineering and Construction Operating segment. The probability of default was reassessed based on current negotiations, ongoing collections and a payment plan agreed with the customer. This probability of default represents management's best estimate of the percentage of outstanding receivables that may not be recovered.

7 Income tax

	Business Performance (1) US$m	**Separately disclosed items US$m**	**Reported six months ended 30 June 2021 Unaudited US$m**	Business performance (1) US$m	Separately disclosed items US$m	Reported six months ended 30 June 2020 Unaudited/ unreviewed US$m
Current income tax						
Current income tax expense	**(18)**	**–**	**(18)**	(34)	–	(34)
Adjustments in respect of previous periods	**16**	**–**	**16**	–	–	–
Deferred tax						
Relating to origination and reversal of temporary differences	**7**	**(1)**	**6**	5	(4)	1
Adjustments in respect of deferred tax of previous years	**1**	**–**	**1**	–	–	–
Income tax credit/(expense) reported in the interim condensed consolidated income statement	**6**	**(1)**	**5**	(29)	(4)	(33)

Note: (1) This measurement is shown by the Group as a means of measuring underlying business performance, see note 2 on page 21 and appendix A on page 37.

The Group's business performance effective tax rate for the six months ended 30 June 2021 was negative 18.2% (six months ended 30 June 2020: positive 61.7%) and reported effective tax rate was positive 5.5% (six months ended 30 June 2020: negative 68.8%). The change from the prior period was mainly due to the US$17.4m release of uncertain tax treatment items in the current six months ended 30 June 2021 and the non-recurring prior year impact of the Jazan commercial settlement for which no tax relief was available.

The adjustments in respect of previous periods line item for the six months ended 30 June 2021 contains $5m in relation to the release of an uncertain tax treatment provision that should have been recognised in the prior period. In the directors' judgement, this amount is not considered material, so the prior period amounts have not been restated.

8 Earnings/(loss) 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 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Business performance net profit attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**39**	21
Reported net loss attributable to Petrofac Limited shareholders for basic and diluted earnings per share	**(86)**	(78)

	At 30 June 2021 Shares Unaudited Million	At 30 June 2020 Shares Unaudited/ unreviewed Million
Weighted average number of ordinary shares for basic earnings per share (1)	**338**	337
Effect of dilutive potential ordinary shares granted under share-based payment plans (2)	**1**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**339**	337

	Six months ended 30 June 2021 Unaudited US cents	Six months ended 30 June 2020 Unaudited/ unreviewed US cents
Basic earnings per share		
Business performance	**11.5**	6.2
Reported	**(25.4)**	(23.2)
Diluted earnings per share (2)		
Business performance	**11.5**	6.2
Reported	**(25.4)**	(23.2)

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.

9 Property, plant and equipment

The increase in property, plant and equipment of US$20m was mainly due to additions of US$22m to oil and gas assets relating to Block PM304 in Malaysia; and additions of US$9m to right-of-use assets associated with oil and gas facilities relating to Block PM304 in Malaysia as a result of a significant lease extension being agreed in April 2021 for a mobile offshore production unit. This increase was partly offset by a depreciation charge for the six months ended 30 June 2021 of US$29m.

10 Other financial assets and other financial liabilities

Other financial assets	Classification	At 30 June 2021 Unaudited US$m	At 31 December 2020 US$m
Non-current			
Receivable from joint operation partners for leases	Amortised cost	**108**	80
Deferred consideration receivable from Ithaca Energy UK Ltd	Amortised cost	**51**	48
Advances relating to provision for decommissioning	Amortised cost	**28**	28
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	**36**	41
		228	202
Current			
Receivable from joint operation partners for leases	Amortised cost	**50**	97
Restricted cash	Amortised cost	**90**	44
Forward currency contracts not designated as hedges	Fair value through profit and loss	**1**	3
Forward currency contracts designated as cash flow hedges	Designated as cash flow hedges	**1**	4
		142	148
Other financial liabilities			
Non-current			
Lease liabilities	Loans and borrowings	**214**	163
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	Fair value through profit and loss	**3**	3
		217	166
Current			
Lease liabilities	Loans and borrowings	**85**	150
Contingent consideration payable arising from acquisition of W&W Energy Services Inc	Fair value through profit and loss	**2**	1
Interest payable	Loans and borrowings	**5**	2
Forward currency contracts not designated as hedges	Fair value through profit and loss	**3**	17
Forward currency contracts designated as cash flow hedges	Designated as cash flow hedges	**2**	9
		97	179

Receivable from joint operation partners for leases

The current and non-current receivable from joint operation partners represented 70% of the lease liability in respect of oil and gas facilities, office building and transportation in Malaysia that are recognised at 100% in the consolidated balance sheet. This treatment is necessary to reflect the legal position of the Group as the contracting counterparty for such leases. The Group's share of this liability at 30 June 2021 was US$73m (31 December 2020: US$76m). At 30 June 2021, 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 for cash calls by the joint arrangement partners is fully recoverable through a recourse available to the non-defaulting partner under the joint operating agreement which includes a transfer or an assignment of the defaulting partner's equity interest.

Deferred consideration receivable from Ithaca Energy UK Ltd

The deferred consideration receivable from Ithaca Energy UK Ltd relating to the disposal of Petrofac GSA Holdings Limited, is measured at amortised cost using a discount rate of 8.4%. Unwinding of the discount on the deferred consideration of US$2m (six months ended 30 June 2020: US$2m) was recognised during the six months ended 30 June 2021, within the finance income line item of the interim condensed consolidated income statement. A decrease in the credit risk for this financial asset at 30 June 2021, resulted in a reduction in the expected credit loss allowance of US$1m for the six months ended 30 June 2021 (six months ended 30 June 2020: a charge of US$2m).

	At 30 June 2021 Unaudited US$m	At 31 December 2020 US$m
Opening balance (non-current and current)	**48**	64
Unwinding of discount	**2**	5
Expected credit loss allowance credit/(charge)	**1**	(2)
Loss on early settlement (note 6)	**–**	(6)
Receipts	**–**	(13)
As at end of the reporting period	**51**	48

10 Other financial assets and other financial liabilities continued

Advances relating to provision for decommissioning
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 arising from the disposal of the Group's operations in Mexico
At 30 June 2021, the fair value of contingent consideration receivable arising from the disposal of the Group's operations in Mexico was US$36m (31 December 2020: US$41m) following a fair value reduction of US$5m which was recognised during the period (note 5). The contingent consideration was initially recognised at fair value and any subsequent fair value gain or loss will be recognised in the consolidated income statement. The estimation of the fair value of the contingent consideration reflects management's expectations of (i) the final determination of the completion consideration amount; and (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico. To determine the fair value of the contingent consideration management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable.

The table below provides a sensitivity analysis of possible changes to the risk factors selected (a Level 3 input in the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') on the fair value of the contingent consideration:

	10% increase in risk-factor US$m	20% increase in risk-factor US$m
Risk factor associated with the final determination of the completion consideration amount	(5)	(9)
Risk factor relating to proceeds associated with a ruling by the Tax Administration Service in Mexico	(5)	(10)
Total	**(10)**	**(19)**

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.

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 2021 Unaudited US$m	At 31 December 2020 US$m
Opening balance	4	15
Fair value loss/(gain) (note 5)	1	(8)
Payments	–	(3)
As at end of the reporting period	**5**	4

10 Other financial assets and other financial liabilities continued

Fair value measurement

The following financial instruments in comparison to the carrying amounts are measured at fair value using the hierarchy below:

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

	Level	Carrying amount		Fair value	
		30 June 2021 Unaudited US$m	31 December 2020 US$m	**30 June 2021 Unaudited US$m**	31 December 2020 US$m
Financial assets					
Measured at amortised cost					
Restricted cash	Level 2	**90**	44	**90**	44
Receivable from joint operation partners for leases	Level 2	**158**	177	**158**	177
Deferred consideration receivable from Ithaca Energy UK Ltd	Level 2	**51**	48	**51**	48
Receivable from Shanghai Zhenhua Heavy Industries Co Ltd	Level 2	**5**	5	**5**	5
Advances relating to provision for decommissioning	Level 2	**28**	28	**28**	28
Measured at fair value through profit and loss					
Contingent consideration arising from the disposal of the Group's operations in Mexico	Level 3	**36**	41	**36**	41
Forward currency contracts – undesignated	Level 2	**1**	3	**1**	3
Designated as cash flow hedges					
Forward currency contracts	Level 2	**1**	4	**1**	4
Financial liabilities					
Measured at amortised cost					
Interest-bearing loans and borrowings					
Term loans	Level 2	**140**	250	**140**	250
CCFF	Level 2	**414**	–	**414**	–
Revolving Credit Facility	Level 2	**350**	505	**350**	505
Bank overdrafts	Level 2	**8**	45	**8**	45
Lease liabilities	Level 2	**299**	313	**299**	313
Interest payable	Level 2	**5**	2	**5**	2
Measured at fair value through profit and loss					
Contingent consideration payable	Level 3	**5**	4	**5**	4
Forward currency contracts – undesignated	Level 2	**3**	17	**3**	17
Designated as cash flow hedges					
Forward currency contracts	Level 2	**2**	9	**2**	9

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

- The fair value of the contingent consideration arising from the disposal of the Group's operations in Mexico at 30 June 2021 amounted to US$36m (31 December 2020: US$41m). The estimation of the fair value of the contingent consideration reflects management's expectation of (i) the final determination of the completion consideration amount; and (ii) proceeds associated with a ruling by the Tax Administration Service in Mexico. To determine the fair value of the contingent consideration management applied risk factors (a Level 3 measurement of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement') to the maximum contingent consideration amounts receivable.
- The fair value of deferred consideration receivable from Ithaca Energy UK Ltd is equivalent to its amortised cost determined as the present value of discounted future cash flows using the discount rate of 8.4%.
- 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.
- The contingent consideration payable of US$5m arising from acquisition of W&W Energy Services Inc, 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'), represented management's best estimate based on the expected financial performance targets that will be achieved by W&W over the remaining evaluation period.

11 Trade and other receivables

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Trade receivables	**580**	550
Advances to vendors and sub-contractors	**226**	197
Prepayments and deposits	**29**	32
Receivables from joint operation partners	**42**	44
Other receivables	**53**	53
	930	876

The increase in trade receivables of US$30m was mainly due to a net increase in trade receivables of U$35m relating to two contracts in the Engineering & Construction operating segment. At 30 June 2021, the Group had an expected credit loss allowance of US$23m (31 December 2020: US$24m) against a total trade receivable balance of US$603m (31 December 2020: US$574m).

The increase in advances to vendors and sub-contractors of $29m was mainly due an advance of US$34m paid to a subcontractor relating to a contract in the Engineering & Construction operating segment.

12 Contract assets

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Work in progress	**1,404**	1,414
Retention receivables	**237**	215
Accrued income	**22**	23
	1,663	1,652

At 30 June 2021, work in progress included variation orders pending customer's approval of US$290m (31 December 2020: US$276m). At 30 June 2021, the Group had an expected credit loss allowance of US$8m (31 December 2020: US$9m) against a work in progress balance of US$1,412m (31 December 2020: US$1,423m).

The increase in retention receivables of US$22m was mainly due to amounts retained by a customer of US$5m relating to a contract and US$14m reversal of the expected credit losses (note 6) in the Engineering & Construction operating segment. At 30 June 2021, the Group had an expected credit loss allowance of US$31m (31 December 2020: US$35m) and US$2m (31 December 2020: US$3m) against a retention receivable balance of US$258m (31 December 2020: US$250m) and an accrued income balance of US$24m (31 December 2020: US$26m) respectively.

13 Cash and short-term deposits

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Cash at bank and in hand	**513**	556
Short-term deposits	**204**	129
ECL allowance	**(1)**	(1)
Cash and short-term deposits	**716**	684

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

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Cash and short-term deposits	**716**	684
Bank overdrafts (note 15)	**(8)**	(45)
Cash and cash equivalents	**708**	639

14 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 2020	11	(14)	87	84
Net changes in fair value of derivatives and financial assets designated as cash	(15)	–	–	(15)
Foreign currency translation	–	(16)	–	(16)
Foreign currency translation losses reclassified to the consolidated income statement	–	3	–	3
Issue of Company's shares by Employee Benefit Trust (1)	–	–	(30)	(30)
Transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares (2)	–	–	4	4
Credit to equity for share-based payments charge (3)	–	–	15	15
Balance at 31 December 2020	(4)	(27)	76	45
Attributable to:				
Petrofac Limited shareholders	(4)	(27)	76	45
Non-controlling interests	–	–	–	–
Balance at 31 December 2020	(4)	(27)	76	45
Balance at 1 January 2021	(4)	(27)	76	45
Net losses on maturity of cash flow hedges recycled in the period	(2)	–	–	(2)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	1	–	–	1
Foreign currency translation	–	1	–	1
Foreign currency translation losses reclassified to the consolidated comprehensive income	–	8	–	8
Issue of Company's shares by Employee Benefit Trust	–	–	(14)	(14)
Credit to equity for share-based payments charge	–	–	4	4
Balance at 30 June 2021 (unaudited)	**(5)**	**(18)**	**66**	**43**
Attributable to:				
Petrofac Limited shareholders	(5)	(18)	66	43
Non-controlling interests	–	–	–	–
Balance at 30 June 2021 (unaudited)	**(5)**	**(18)**	**66**	**43**

Notes:
(1) Included US$24m relating to issue of Company's shares by Employee Benefit Trust during the six months ended 30 June 2020.
(2) Included US$4m relating to transfer to share-based payments reserve for Deferred Bonus Share Plan Invested Shares during the six months ended 30 June 2020.
(3) Included US$7m relating to credit to equity for share-based payments charge for the six months ended 30 June 2020.

15 Interest-bearing loans and borrowings

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Non-current		
Term loans	**50**	50
Current		
Revolving Credit Facility	**350**	505
UK Government's COVID Corporate Financing Facility	**414**	–
Term loans	**90**	200
Bank overdrafts	**8**	45
	862	750
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments	**(8)**	–
	854	750
Total interest-bearing loans and borrowings	**904**	800

15 Interest-bearing loans and borrowings continued

Details of the Group's interest-bearing loans and borrowings as at 30 June 2021 are as follows:

Term loans
At 30 June 2021, the Group had in place two bilateral term loans with a combined total of US$140m (31 December 2020: three bilateral term loans with a combined total of US$250m). At 30 June 2021, US$140m was drawn under these facilities, of which US$90m is scheduled to mature in April 2022 and US$50m in November 2023.

Revolving Credit Facility ("RCF")
The Group has a US$610m committed RCF with a syndicate of international banks, which is available for general corporate purposes. The facility is due to mature in June 2022. At 30 June 2021, US$350m was drawn under this facility (31 December 2020: US$505m). Interest is payable on the drawn balance of the facility and in addition utilisation fees are payable depending on the level of utilisation.

UK Government's Covid Corporate Financing Facility ("CCFF")
In February 2021, the Company issued £300m, equivalent to US$414m at 30 June 2021, in commercial paper with a maturity of 12 months under the UK Government's Covid Corporate Financing Facility ("CCFF"), which is available for general corporate purposes.

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

Compliance with covenants
The RCF and the term loans (together, the "Senior Loans") are subject to two financial covenants relating to leverage and interest cover. These covenants are tested on a quarterly basis at 31 March, 30 June, 30 September 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 must 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 must not be less than 3:1. The RCF also includes an additional minimum liquidity covenant of US$100 million that must be maintained at all times. The Group was compliant with these covenants at 30 June 2021.

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

On 26 October 2021, after the end of reporting period, the Company entered into new banking facilities of US$730m. The banking facilities comprise a US$500m bridge loan facility to October 2022, with an option - at the discretion of the Company - to extend to April 2023, a US$180m revolving credit facility to October 2023 with options to extend(1) and a US$50m bilateral term loan facility to October 2023. All banking facilities retain the same leverage and interest cover covenants(2) which will remain in place and be tested on a quarterly basis until such time as the bridge loan facility is cancelled, after which they will be tested semi-annually (unless the RCF is drawn by 33% or more, in which case they will be tested quarterly).

(1) The options to extend, by an incremental six months to April 2024 and October 2024, are subject to the approval of lenders.
(2) Leverage and interest cover covenants are calculated in the same way as existing covenants, subject to the removal of cash over which there are exchange control restrictions from the net debt calculation and debt acquisition cost amortisation from the net interest expense calculation. The ratio for the leverage covenant ranges from 3.5:1 to 4.1:1 and the ratio for the interest cover covenant ranges from 2.0:1 to 3.0:1 over the period of the RCF.

16 Provisions

Non-current
The decrease in non-current provisions of US$13m was mainly due to a long-term employment benefit provision of US$24m paid during the six months ended 30 June 2021 (six months ended 30 June 2020: US$20m). This decrease was partly offset by long-term employment benefit provision of US$4m recognised for the six months ended 30 June 2021 (six months ended 30 June 2020: US$11m); and additions to provision for decommissioning relating to Block PM304 in Malaysia during the six months ended 30 June 2021 of US$6m (six months ended 30 June 2020: US$nil).

Current
The decrease in current provisions of US$17m was mainly due to a net utilisation of an onerous contract provision relating to a contract in the Engineering & Construction operating segment of US$8m (six months ended 30 June 2020: net onerous contract provision recognised of US$10m). Furthermore, the provision has reduced by US$10m (six months ended 30 June 2020: US$nil) due to a payment to the UAE Federal Tax Authority in relation to consortium of Petrofac Emirates LLC and Daewoo Shipbuilding & Marine Engineering Co Ltd. The matter remains under appeal in the UAE courts.

17 Trade and other payables

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Trade payables	**599**	443
Accrued expenses	**305**	293
Other taxes payable	**23**	20
Other payables	**237**	131
	1,164	887

The increase in trade payables of US$156m was primarily due to an increase of US$113m in the Engineering & Construction operating segment mainly arising from an increase in construction activity for late life contracts.

Other payables as at 30 June 2021 include the Court penalty of US$106m (note 5).

18 Contract liabilities

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Billings in excess of costs and estimated earnings	**106**	74
Advances received from customers	**45**	46
	151	120

At 30 June 2021, billings in excess of costs and estimated earnings included an offset for assessed variation orders pending customer approval of US$32m (31 December 2020: US$29m).

An increase in billings in excess of costs and estimated earnings of US$32m was mainly due to an advance billing to a customer of US$28m relating to a contract in the Engineering & Construction operating segment.

19 Accrued contract expenses

Accrued contract expenses represent contract cost accruals associated with the Group's fixed-price engineering, procurement and construction contracts. The decrease in accrued contract expenses of US$117m was mainly due to higher payment milestones relating to vendors and subcontractors achieved during the period in the Engineering & Construction operating segment.

20 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 2021 Unaudited US$m**	31 December 2020 US$m
Associates	**5**	1
	5	1

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

All related party balances will be settled in cash.

Other Directors' interests included market-rate services of US$95,000 (six months ended 30 June 2020: US$181,000), incurred in the ordinary course of business by the Engineering & Production Services operating segment. One of the Group's non-executive directors who is also a significant shareholder of the Company is a beneficiary of a trust which had invested in a fund that has an equity interest in the company which provided the services.

21 Commitments and contingent liabilities

Capital commitments
At 30 June 2021 the Group had capital commitments of US$17m (31 December 2020: US$15m):

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Block PM304 in Malaysia	**10**	3
Commitments in respect of development of the Group's cloud-based Enterprise Resource Planning ("ERP"), digital systems and other information technology equipment	**7**	12

Contingent liabilities
National Insurance Contributions to workers in the UK Continental Shelf
A Group subsidiary is subject to challenges by HM Revenue and Customs ("HMRC") on the historical application of National Insurance Contributions ("NICs") to workers in the UK Continental Shelf. In October 2020, a decision was issued by HMRC against Petrofac Facilities Management Limited ("PFML") in respect of the historical application of NICs. PFML has appealed against the decision and no payment is due to HMRC pending the outcome of the appeal to the First-tier Tribunal (Tax). Management, taking into consideration advice from independent legal and tax specialist, believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and accordingly, no provision has been recognised. The maximum potential exposure to PFML should it be unsuccessful in defending its position is approximately £124m, equivalent to US$170m.

PFML also has a recourse available, in accordance with the contractual indemnity contained in some customer contracts, where it can possibly recover a portion of NICs and interest from its customers in the event it is unsuccessful in its appeal. The possible recoverability of the amounts receivable from the customers, should PFML be unsuccessful in defending its position, may be subject to further negotiations with the customers.

APPENDICES

For the six months ended 30 June 2021

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.

<table>
<tr><th>APM</th><th>Description</th><th>Closest equivalent IFRS measure</th><th>Adjustments to reconcile to primary statements</th><th>Rationale for adjustments</th></tr>
<tr><td>Group's business performance net profit attributable to Petrofac Limited shareholders (note A1)</td><td>Measures net profitability</td><td>Group's net profit/(loss)</td><td rowspan="2">Petrofac presents business performance APM in the 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 fees, material deferred tax movements arising due to foreign exchange differences in jurisdictions where tax is computed based on the functional currency of the country</td><td rowspan="2">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</td></tr>
<tr><td>Business performance basic and diluted earnings per share attributable to Petrofac Limited shareholders (note A2)</td><td>Measures net profitability</td><td>Basic and diluted earnings per share</td></tr>
<tr><td>Business performance earnings before interest, tax, depreciation and amortisation ("EBITDA") (note A3)</td><td>Measures operating profitability</td><td>Operating profit/(loss)</td><td>Excludes separately disclosed items, depreciation, amortisation, business performance impairment and write off and includes share of net profits from associates and joint ventures</td><td>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</td></tr>
<tr><td>Business performance effective tax rate ('ETR') (note A4)</td><td>Measures tax charge</td><td>Income tax expense</td><td>Excludes income tax credit related to separately disclosed items</td><td>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</td></tr>
<tr><td>Capital expenditure (note A5)</td><td>Measures net cash cost of capital investment</td><td>Net cash flows used in investing activities</td><td>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</td><td>Excludes items not considered relevant to capital investment</td></tr>
<tr><td>Free cash flow (note A6)</td><td>Measures net cash generated after operating and investing activities to finance returns to shareholders</td><td>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</td><td>n/a</td><td>n/a</td></tr>
</table>

APPENDICES

For the six months ended 30 June 2021

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
New order intake (note A12)	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 2021

A1. Business performance net profit attributable to Petrofac Limited shareholders

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported net loss (A)	**(86)**	(81)
Adjustments – separately disclosed items (note 5):		
The court penalty under UK Serious Fraud Office proceedings (note 5)	**106**	-
Impairment of charge on assets	**2**	67
Fair value re-measurements	**1**	12
Group reorganisation and redundancy costs	**1**	8
Other separately disclosed items	**14**	8
Pre-tax separately disclosed items (B)	**124**	95
Deferred tax on separately disclosed items	**-**	3
Foreign exchange translation loss on deferred tax balance	**1**	1
Separately disclosed tax items (C)	**1**	4
Post-tax separately disclosed items (D = B + C)	**125**	99
Group's business performance net profit (A + D)	**39**	18
Profit attributable to non-controlling interest	**–**	3
Business performance net profit attributable to Petrofac Limited shareholders	**39**	21

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

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported net profit/(loss) attributable to Petrofac Limited shareholders (E)	**(86)**	(78)
Add: post-tax separately disclosed items (appendix A note A1)	**125**	99
Business performance net profit attributable to Petrofac Limited shareholders (E_1)	**39**	21

	30 June 2021 Unaudited shares Million	30 June 2020 Unaudited/ unreviewed shares Million
Weighted average number of ordinary shares for basic earnings per share [(1)] (F) (note 8)	**338**	337
Weighted average number of ordinary shares for diluted earnings per share [(2)] (F_1) (note 8)	**339**	337

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Basic earnings/(loss) per share		
Business performance (E_1 / F x 100)	**11.5**	6.2
Reported (E / F x 100)	**(25.4)**	(23.2)
Diluted earnings/(loss) per share [(2)]		
Business performance (E_1 / F_1 x 100)	**11.5**	6.2
Reported (E / F_1 x 100)	**(25.4)**	(23.2)

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.

APPENDICES

For the six months ended 30 June 2021

A3. Business performance EBITDA

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported operating loss	**(82)**	(36)
Adjustments:		
Pre-tax separately disclosed items (appendix A note A1)	**124**	95
Share of net profit of associates and joint ventures	**5**	3
Depreciation (note 4)	**29**	43
Amortisation, business performance impairment and write off (note 4)	**6**	24
Business performance EBITDA	**82**	129

A4. Business performance ETR

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported income tax (credit)/ expense	**(5)**	33
Add: Tax expense on separately disclosed items (appendix A note A1)	**(1)**	(4)
Business performance income tax (credit)/ expense (G)	**(6)**	29
Business performance net profit (appendix A note A1)	**39**	18
Business performance net profit before tax (H)	**33**	47
Business performance ETR (G / H x 100)	**(18.2%)**	61.7%

A5. Capital expenditure

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Net cash flows used in investing activities	**19**	14
Adjustments:		
Dividend received from associates and joint ventures	**1**	2
Contingent consideration paid	**–**	(3)
Loans paid to associates and joint ventures	**–**	(1)
Proceeds from disposal of a subsidiary	**9**	13
Disposal costs paid	**(1)**	(1)
Interest received	**1**	2
Capital expenditure	**29**	26

A6. Free cash flow

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Net cash flows (used in)/generated from operating activities	**(21)**	22
Net cash flows used in investing activities	**(19)**	(14)
Interest paid	**(11)**	(21)
Free cash flow	**(51)**	(13)

A7. Working capital

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Inventories	**10**	8
Trade and other receivables (note 11)	**930**	876
Contract assets (note 12)	**1,663**	1,652
Current Assets (I)	**2,603**	2,536
Trade and other payables (note 17)	**1,164**	887
Contract liabilities (note 18)	**151**	120
Accrued contract expenses	**1,017**	1,134
Current Liabilities (J)	**2,332**	2,141
Working capital (I - J)	**271**	395

A8. Return on capital employed

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Reported operating loss (12 months)	**(194)**	(19)
Adjustments:		
Pre-tax separately disclosed items (12 months)	**258**	269
Share of profits from associates and joint ventures (12 months)	**7**	7
Amortisation (12 months)	**11**	4
Business performance EBITA (12 months) (K)	**82**	261
Total assets opening balance	**5,460**	5,976
Less: lease adjustment relating to Block PM304 in Malaysia	**(221)**	(259)
Adjusted total assets opening balance (L)	**5,239**	5,717
Total assets closing balance	**4,355**	5,460
Less: lease adjustment relating to Block PM304 in Malaysia (note A10)	**(158)**	(221)
Adjusted total assets closing balance (M)	**4,197**	5,239
Average total assets (N = (L + M) / 2)	**4,718**	5,478
Current liabilities opening balance	**3,420**	3,922
Less: lease adjustment relating to Block PM304 in Malaysia (note A10)	**(125)**	(89)
Adjusted current liabilities opening balance (O)	**3,295**	3,833
Current liabilities closing balance	**3,526**	3,420
Less: lease adjustment relating to Block PM304 in Malaysia (note A10)	**(50)**	(125)
Adjusted current liabilities closing balance (P)	**3,476**	3,295
Average current liabilities (Q = (O + P) / 2)	**3,386**	3,564
Capital employed (R = N – Q)	**1,332**	1,914
Return on capital employed (K / R x 100)	**6.2%**	13.6%

A9. Cash conversion

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Cash generated from operations (S)	**1**	91
Business performance EBITDA (T)	**82**	129
Cash conversion (S / T x 100)	**1.2%**	70.5%

APPENDICES

For the six months ended 30 June 2021

A10. Net lease liabilities

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Non-current liability for leases (note 10)	**214**	163
Current liability for leases (note 10)	**85**	150
Total gross liability for leases	**299**	313
Gross up on non-current liability for leases relating to Block PM304 in Malaysia (note 10)	**108**	80
Gross up on current liability for leases relating to Block PM304 in Malaysia (note 10)	**50**	97
Gross up on total liability for leases relating to Block PM304 in Malaysia	**158**	177
Net non-current liability for leases	**106**	83
Net current liability for leases	**35**	53
Net liability for leases	**141**	136

A11. Net debt

	30 June 2021 Unaudited US$m	31 December 2020 US$m
Interest-bearing loans and borrowings (U) (note 15)	**904**	800
Less: Cash and short-term deposits (V) (note 13)	**(716)**	(684)
Net debt (U – V)	**188**	116

A12. New order intake

	Six months ended 30 June 2021 Unaudited US$m	Six months ended 30 June 2020 Unaudited/ unreviewed US$m
Engineering & Construction operating segment		
New awards	**107**	314
Net variation orders	**(32)**	89
	75	403
Engineering & Production Services operating segment		
New awards	**454**	621
Net variation orders	**(17)**	22
	437	643
New order intake	**512**	1,046

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that, to the best of their knowledge, the interim condensed consolidated financial statements on pages 16 to 36 have been prepared in accordance with IAS 34 'Interim Financial Reporting', and that the interim management report on pages 3 to 14 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 on the Company's website https://www.petrofac.com/who-we-are/board-of-directors/.

By the order of the Board

Sami Iskander
Chief Executive Officer
26 October 2021

Afonso Reis e Sousa
Chief Financial Officer
26 October 2021

INDEPENDENT REVIEW REPORT TO PETROFAC LIMITED

Conclusion

We have been engaged by Petrofac Limited (the "Company") to review the interim condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated balance sheet, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity and the related explanatory notes 1 to 21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed consolidated financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the ability of the Company to continue as a going concern is subject to a material uncertainty in relation to the success of the Company's planned equity capital raise, which is conditional on shareholder approval. As stated in note 2, this represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland) *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the Company will be prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The interim condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the interim condensed consolidated financial statements in the half-yearly financial report. Our conclusion, based on procedures that are less extensive than audit procedures, is described in the Conclusion section of this report.

Other matter

The comparative interim condensed consolidated financial statements for the six months ended 30 June 2020 are unreviewed.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
26 October 2021

SHAREHOLDER INFORMATION
At 30 June 2021

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

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Canary Wharf
London E14 5JP

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

Financial calendar

31 December 2021	2021 Financial year end
2 March 2022[1]	2021 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.