

Petrofac International Ltd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

6 EXCEPTIONAL ITEMS

	2016 US\$'000	2015 US\$'000
Forward rate movements in Kuwaiti Dinar forward currency contracts	35,175	-
Production Enhancement Contract migration costs	2,125	3,816
Group reorganisation costs	1,624	2,254
Provision against trade receivables	531	3,321
Impairment of trade investment	-	5,100
Impairment of intangible assets (note 9)	-	1,207
	<u>39,455</u>	<u>15,698</u>

Production Enhancement Contract migration costs

Costs of US\$ 2,125 thousand (2015: US\$ 3,816 thousand) relating to the Production Enhancement Contracts' (PECs) migration represent the costs incurred during the year on the ongoing process of migrating existing Mexican PECs to Production Sharing Contracts.

Group reorganisation costs

During the last quarter of 2015, the Group undertook a major review of how the future organisation should be structured and the costs relating to this exercise including staff redundancy costs amounted to US\$ 1,624 thousand, post-tax: US\$ 1,404 thousand (2015: US\$ 2,254 thousand, post-tax: US\$ 1,676 thousand).

Provision against trade receivables

Provision of US\$ 531 thousand was made against the amount receivable from a customer related to oil and gas development activities (2015: US\$ 3,321 thousand).

Impairment of trade investment

During the previous year, provision of US\$ 5,100 thousand was made against its trade investment in Egypt as this asset was no longer considered to have any commercial value.

Impairment of intangible assets

During the previous year, intangible oil and gas asset of US\$ 1,207 thousand (note 9) relating to OML119 in Nigeria was impaired.

7 INCOME TAX

a. Tax on ordinary activities

The major components of income tax expense are:

	2016 US\$'000	2015 US\$'000
<i>Current income tax</i>		
Current income tax charge	130,213	47,173
Current income tax benefit on exceptional items	(751)	(1,722)
Adjustments in respect of current income tax of previous years	10	(9,348)
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	(21,213)	30,239
Income tax expense reported in consolidated income statement	<u>108,259</u>	<u>66,342</u>

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

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

See 7c below for the impact on the movements in the year.