Petrofac International Ltd

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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Petrofac International Ltd

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Contents

Shareholder information

Directors

Ayman Asfari
Marwan Chedid
Vivek Prakash

Registered office

44 Esplanade,
St Helier,
Jersey, JE4 9WG
Registered Company Number: 50698

Company secretary

Inter Trust Corporate Services (Jersey) Limited
44 Esplanade,
St Helier,
Jersey, JE4 9WG

Auditors

Ernst & Young
P.O Box 1350
BM Towers, Office No. 2501,
Al Ittihad Street, Al Nahda,
Sharjah, United Arab Emirates

Major Banks

Abu Dhabi Commercial Bank, Dubai
Al Ahli Bank of Kuwait, Dubai and Kuwait
Arab Bank plc, Bahrain and Syria
Bank Muscat SAOG, Sultanate of Oman
Banque Audi Saradar France, Paris and Lebanon
Barclays Bank, Dubai
BNP Paribas, Dubai, Kuwait and Bahrain
Bank of Baghdad, Iraq
Banque Exterieure D'Algerie, Algeria
Banamex, Mexico
Banca Nazionale Del Lavoro S.P.A., Italy
Credit Agricole Corporate & Investment Bank, Dubai
Citi Bank NA, Dubai
Deutsche Bank, Abu Dhabi
Emirates NBD, Dubai
First Gulf Bank, Dubai
HDFC Bank, India
HSBC Bank Middle East, Dubai, Egypt, Mexico, Malaysia, Oman, Algeria, Qatar and Kuwait
ICICI Bank, India
JP Morgan, UK and Malaysia
National Bank of Kuwait, Kuwait

Shareholder information (continued)

Major Banks (continued)

Maybank, Malaysia
Mandiri Bank, Jakarta
Mashreq Bank PJSC, Dubai, Doha and Kuwait
National Bank of Abu Dhabi, Abu Dhabi
National Commercial Bank, Saudi Arabia
OCBC Bank, Malaysia
Royal Bank of Scotland, Dubai, Jersey and The Netherlands
Sahara Bank, Libya
Santander Global Banking & Markets, UK
Standard Chartered Bank plc, Dubai, Jakarta, Oman, India, Malaysia, The Netherlands and Nigeria
State Bank of Turkmenistan, Turkmenistan
Santander, Mexico
Saudi British Bank, Saudi Arabia
Trade Bank of Iraq, Iraq
Union National Bank, Dubai
United Overseas Bank, Malaysia

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PETROFAC INTERNATIONAL LIMITED

Report on the audit of the financial statements

Opinion
We have audited the consolidated financial statements of Petrofac International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and in compliance with applicable provisions of the Company's Memorandum and Articles of Association, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PETROFAC INTERNATIONAL LIMITED (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PETROFAC INTERNATIONAL LIMITED (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Ernst & Young

Joseph A. Murphy
Partner
Registration No. 492

30 March 2017

Sharjah, United Arab Emirates

Petrofac International Ltd

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	*Business performance 2016 US$'000	Exceptional items 2016 US$'000	Total 2016 US$'000	*Business performance 2015 US$ '000	Exceptional items 2015 US$ '000	Total 2015 US$ '000
Revenue							
Engineering and Construction		5,830,004	-	5,830,004	4,590,975	-	4,590,975
Engineering and Production Services		1,062,131	-	1,062,131	781,349	-	781,349
Integrated Energy Services		105,238	-	105,238	180,182	-	180,182
		6,997,373	-	6,997,373	5,552,506	-	5,552,506
Cost of sales	3a, 3d	(6,284,704)	-	(6,284,704)	(4,816,499)	-	(4,816,499)
Gross profit		712,669	-	712,669	736,007	-	736,007
Selling, general and administration expenses	3c, 3d	(131,946)	-	(131,946)	(164,942)	-	(164,942)
Other expenses	3b	(1,875)	-	(1,875)	(1,615)	-	(1,615)
Exceptional items	6	-	(39,455)	(39,455)	-	(15,698)	(15,698)
Profit from operations before tax and finance (costs) income		578,848	(39,455)	539,393	569,450	(15,698)	553,752
Finance income	4	23,776	-	23,776	23,949	-	23,949
Finance costs	5	(49,830)	-	(49,830)	(20,493)	-	(20,493)
Share of losses of joint ventures	10	(499)	-	(499)	(1,206)	-	(1,206)
PROFIT BEFORE TAX		552,295	(39,455)	512,840	571,700	(15,698)	556,002
Income tax expense	7a	(109,010)	751	(108,259)	(68,064)	1,722	(66,342)
PROFIT FOR THE YEAR		443,285	(38,704)	404,581	503,636	(13,976)	489,660
Attributable to:							
Shareholder of Petrofac International Ltd		430,594	(38,704)	391,890	499,676	(13,976)	485,700
Non-controlling interests		12,691	-	12,691	3,960	-	3,960
		443,285	(38,704)	404,581	503,636	(13,976)	489,660

*This measurement is shown by the Group as it is used as a means of measuring the underlying performance of the business, see presentation of results in note 2.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	*2016* *US$'000*	*2015* *US$'000*
PROFIT FOR THE YEAR		**404,581**	489,660
Other comprehensive income (loss):			
Exchange differences on translation of foreign operations	22	**(4,678)**	(3,865)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	22	**54,059**	(59,910)
Other comprehensive income (loss) to be reclassified to consolidated income statement in subsequent periods		**49,381**	(63,775)
Net loss on maturity of cash flow hedges recycled in the year	22	**7,300**	13,158
Other comprehensive loss reclassified to consolidated income statement		**7,300**	13,158
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**461,262**	439,043
Attributable to:			
Shareholder of Petrofac International Ltd		**440,001**	442,677
Non-controlling interests		**21,261**	(3,634)
		461,262	439,043

The attached notes 1 to 31 form part of these consolidated financial statements.

Petrofac International Ltd

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**867,278**	952,366
Goodwill	11	**32,153**	32,153
Intangible assets	9	**14,335**	16,940
Investments in joint ventures	10	**2,915**	3,414
Loans to related parties	27	**224,161**	472,484
Other financial assets	15	**37,563**	118,073
Deferred tax assets	7c	**17,720**	35,803
		1,196,125	1,631,233
Current assets			
Inventories		**4,952**	4,829
Work in progress	16	**2,202,554**	1,787,011
Trade and other receivables	17	**1,839,728**	1,617,844
Loans to related parties	27	**169,160**	132,169
Due from related parties	27	**58,115**	25,127
Other financial assets	15	**8,925**	59,034
Income tax receivable		**9,243**	49,601
Cash and short-term deposits	18	**914,545**	949,833
		5,207,222	4,625,448
Assets held for sale	12	**128,128**	-
		5,335,350	4,625,448
TOTAL ASSETS		**6,531,475**	6,256,681
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**5,000**	5,000
Other reserves	22	**14,996**	(71,188)
Retained earnings		**678,160**	630,109
Equity attributable to the shareholder of Petrofac International Ltd		**698,156**	563,921
Non-controlling interests		**25,809**	789
Total equity		**723,965**	564,710

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Non-current liabilities			
Loans from related parties	27	**622,717**	-
Provisions	24	**145,609**	252,845
Deferred tax liabilities	7c	**68,414**	107,710
Interest bearing loans and borrowings	23	-	539,999
Other financial liabilities	25	-	27,622
		836,740	928,176
Current liabilities			
Trade and other payables	26	**1,695,050**	2,097,780
Loans from related parties	27	**821,457**	982,480
Due to related parties	27	**143,215**	162,925
Other financial liabilities	25	**49,017**	59,687
Income tax payable		**184,394**	129,336
Billings in excess of cost and estimated earnings	16	**34,033**	189,013
Accrued contract expenses		**2,008,564**	1,142,574
		4,935,730	4,763,795
Liabilities associated with assets held for sale	12	**35,040**	-
		4,970,770	4,763,795
TOTAL LIABILITIES		**5,807,510**	5,691,971
TOTAL EQUITY AND LIABILITIES		**6,531,475**	6,256,681

Marwan Chedid
Director

Prakash

Vivek Prakash
Director

Petrofac International Ltd

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	*2016* *US$'000*	*2015* *US$ '000*
OPERATING ACTIVITIES			
Profit before tax excluding exceptional items		**552,295**	571,700
Exceptional items	6	**(39,455)**	(15,698)
Profit before tax		**512,840**	556,002
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and write off of property, plant and equipment	8	**76,590**	76,197
Amortisation and write off of intangible old and gas assets	9	**1,008**	1,353
Provision for end of service benefits	24	**22,762**	22,575
Provision for doubtful debts	17	**2,800**	8,321
Share-based payments	21	**15,658**	15,983
Share of losses of joint ventures	10	**499**	1,206
(Gain) loss on disposal of property, plant and equipment		**(428)**	292
Finance income	4	**(23,776)**	(23,949)
Finance costs	5	**49,830**	20,493
Other non-cash items, net		**23,164**	10,530
		680,947	689,003
Working capital adjustments:			
Work in progress		**(415,543)**	(257,712)
Inventories		**(123)**	(86)
Trade and other receivables		**(302,292)**	73,508
Due from related parties		**(32,988)**	(279,209)
Other financial assets		**183,410**	(145,859)
Other financial liabilities		**(38,292)**	(5,088)
Trade and other payables		**(389,271)**	100,146
Due to related parties		**(34,368)**	(103,329)
Billings in excess of cost and estimated earnings		**(154,980)**	(77,367)
Accrued contract expenses		**865,990**	387,409
Cash generated from operations		**362,490**	381,416
Income tax paid		**(34,056)**	(33,267)
Interest paid		**(4,311)**	(20,424)
End of service benefits paid	24	**(16,248)**	(8,111)
Net cash flows from operating activities		**307,875**	319,614
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(141,311)**	(118,831)
Proceeds from disposal of property, plant and equipment		**802**	104
Investment in joint ventures		**-**	(903)
Interest received		**15,964**	23,949
Net cash flows used in investing activities		**(124,545)**	(95,681)
FINANCING ACTIVITIES			
Financing to related parties (net)		**(320,855)**	(185,679)
Financing from related parties (net)		**114,248**	116,844
Interest bearing loans and borrowings obtained		**-**	978,145
Repayment of interest bearing loans and borrowings		**-**	(912,944)
Net cash flows used in financing activities		**(206,607)**	(3,634)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(23,277)**	220,299
Net foreign exchange difference		**(12,011)**	(7,338)
Cash and cash equivalents at 1 January	18	**949,833**	736,872
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	**914,545**	949,833

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to shareholder of Petrofac International Limited					
	Share capital US$ '000	*Other reserves US$ '000 (note 22)*	*Retained earnings US$ '000*	*Total US$ '000*	*Non-controlling interests US$ '000*	*Total equity US$ '000*
Balance at 1 January 2015	5,000	(28,165)	1,459,409	1,436,244	9,548	1,445,792
Profit for the year	-	-	485,700	485,700	3,960	489,660
Other comprehensive loss	-	(43,023)	-	(43,023)	(7,594)	(50,617)
Total comprehensive income for the year	-	(43,023)	485,700	442,677	(3,634)	439,043
Dividends (note 20)	-	-	(1,315,000)	(1,315,000)	(5,125)	(1,320,125)
Balance at 31 December 2015	5,000	(71,188)	630,109	563,921	789	564,710
Profit for the year	-	-	391,890	391,890	12,691	404,581
Other comprehensive income	-	48,111	-	48,111	8,570	56,681
Total comprehensive income for the year	-	48,111	391,890	440,001	21,261	461,262
Adjustments to non-controlling interest	-	-	(3,839)	(3,839)	3,839	-
Loan from non-controlling interest converted into equity	-	-	-	-	1,000	1,000
Shareholder contribution (note 22)	-	38,073	-	38,073	-	38,073
Dividends (note 20)	-	-	(340,000)	(340,000)	(1,080)	(341,080)
Balance at 31 December 2016	**5,000**	**14,996**	**678,160**	**698,156**	**25,809**	**723,965**

The attached notes 1 to 31 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of Petrofac International Ltd. (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 30 March 2017.

Petrofac International Ltd. is a limited liability company registered in Jersey, Channel Islands. The principal office of the Company is Petrofac House, Al Khan Road, Sharjah, United Arab Emirates. The Company is a subsidiary of Petrofac Limited (the "parent company"), which is also incorporated in Jersey, Channel Islands as a limited liability company. The principal activity of the Group is provision of services to the oil and gas production and processing industry.

Information on the Group's subsidiaries, joint ventures and joint operations is contained in note 30 to these consolidated financial statements. Information on other related party relationships of the Group is provided in note 27.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The 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 consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in United States Dollars (US$) and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of Petrofac International Ltd. and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the Petrofac International Ltd shareholder and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated income statement. Any investment retained is recognised at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Presentation of results
The Group presents its results in the consolidated income statement to identify separately the contribution of impairments, restructuring and redundancy costs, contract migration costs and material forward rate movements in Kuwaiti Dinar forward currency contracts in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business.

New standards and interpretations
The Group has adopted new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016. The nature and the impact of each new standard or amendment is described below:

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group, as there has been no interest acquired in joint operation during the year. However, they will be applied to any future transactions, when applicable.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible oil and gas assets. The amendments are applied prospectively and impact the Group's Production Enhancement Contracts (PECs) in Mexico. The application of this amendment resulted in an increase in pre-tax depreciation charge for the year of US$ 23,984 thousand (post-tax US$ 17,883 thousand).

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

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but if early adopted the amendments must be applied prospectively. These amendments will be applied in the future when applicable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS (e.g. IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 18 Transfers of Assets from Customers). Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. It is the Group's current intention to adopt IFRS 15 for the year ending 31 December 2018 and it will confirm which application it will adopt before the start of this accounting period. The Group has performed a preliminary assessment of the impact of adoption of IFRS 15 and is currently evaluating the potential impact on the Group's revenue recognition policies. Further detail analysis is ongoing. Furthermore, the Group is considering the clarification issued by IASB in April 2016 and will monitor any further developments.

The Group is primarily in the business of providing services to the oil and gas production and processing industry. The services are sold in separate identified contracts with customers.

Rendering of services
The Group provides lump-sum engineering, procurement and construction project execution services and reimbursable engineering and production services to the oil and gas industry. Currently, the Group accounts for the lump-sum engineering, procurement and construction project execution services contract as a single performance obligation and recognises service revenue by reference to the stage of completion on the overall contract (see current revenue recognition policies on page 27).

The reimbursable engineering and production services contracts are currently segregated into distinct performance obligations based on the assessment that the service is capable of being distinct both individually and within the context of the contract. Currently, the Group accounts for the reimbursable engineering and production services contracts as separate deliverables of bundled sales, allocates consideration between these deliverables using the relative fair value approach and recognises service revenue as and when the services are rendered or by reference to the stage of completion (see current revenue recognition policies on page 27).

Under IFRS 15, revenue recognition must take into account each separate performance obligation and relative stand-alone selling prices. As a result, the allocation of the consideration and, consequently, the timing of the amount of revenue recognised in relation to these services contracts may be impacted. The Group will continue its analysis during 2017.

In preparing to adopt IFRS 15 for its services contracts, the Group is considering the following:

Variable consideration
Currently, the Group recognises revenue from the rendering of services measured based on the fair value of the consideration received or receivable, net of any allowances. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint.

Warranty obligations
The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice, however further analysis is required.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Principal vs agent
IFRS 15 requires that when other parties are involved in providing goods or services to an entity's customer, the entity must determine whether its performance obligation is to provide the good or service itself (as a principal) or to arrange for another party to provide the good or service (as an agent). Currently, the Group is acting as a principal in providing goods and services to its customers for all contracts. However the Group's Engineering, Procurement and Constructions Management (EPCm) contracts in particular are currently being reviewed in line with the requirements under IFRS 15 to identify if the Group's procurement services under such contracts are provided to the customer as an agent. This may impact the amount of revenue to be recognised.

Sale of goods
In addition to services described above, the Group is also engaged in the sale of crude oil to customers. Contracts with customers in which the sale of crude oil is generally expected to be the only performance obligation are not expected to have any impact on the Group's profit or loss upon adoption of IFRS 15. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

Presentation and disclosure requirements
IFRS 15 provides presentation and disclosure requirements, which are more extensive than under current IFRS. The presentation requirements represent a significant change from current practice and increase the volume of disclosures required in Group's financial statements. The Group is in the process of assessing its current systems, internal controls, and policies and procedures, and will make the necessary changes to collect and disclose the required information.

Significant accounting judgements and estimates

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

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the Group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The Group has determined this basis of revenue recognition is the best available measure of progress on such contracts.

- Revenue recognition on consortium contracts: the Group recognises its share of revenue and backlog revenue from contracts agreed as part of a consortium. The Group uses the percentage-of-completion method based on surveys of work performed to recognise revenue for the period and then recognises their share of revenue and costs as per the agreed consortium contractual arrangement. In selecting the appropriate accounting treatment, the main considerations are:

  - Determination of whether the joint arrangement is a joint venture or joint operation (though not directly related to revenue recognition this element has a material impact on the presentation of revenue for each project)
  - At what point can the revenues, costs and margin from this type of service contract be estimated/reliably measured in accordance with IAS 11; and
  - Whether there are any other remaining features unique to the contract that are relevant to the assessment

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Judgements (continued)

In selecting the most relevant and reliable accounting policies for IES contracts the main considerations are as follows:

- Determination of whether the joint arrangement is a joint venture or joint operation; though not directly related to revenue recognition this element has a material impact on the presentation of revenue for each project
- Whether the multiple service elements under the contract should be bifurcated such as construction phase followed by an operations and maintenance stage
- Whether the Group has legal rights to the production output and therefore is able to book reserves in respect of the project
- The nature and extent, if any, of volume and price financial exposures under the terms of the contract
- The extent to which the Group's capital investment is at risk and the mechanism for recoverability under the terms of the contract
- At what point can the revenues from each type of contract be estimated/reliably measured in accordance with IAS 18
- Whether there are any other remaining features unique to the contract that are relevant to the assessment

Revenue recognition on Integrated Energy Services (IES) contracts: the Group assesses on a case by case basis the most appropriate treatment for its various commercial structures which include Production Enhancement Contracts (PECs) and Prodcustio Sharing Contracts (PSCs) (see accounting policies note on page 27 for further details).

Statement of financial position classification of Integrated Energy Services (IES) contracts:

- The Group assesses on a case by case basis the most appropriate balance sheet classification of its Production Enhancement Contracts (PECs) (see accounting policy notes on page 27)
- In selecting the most appropriate policies for IES contracts, the main judgement is as follows:
  - The Mexican PEC assets are classified as tangible oil and gas assets in the consolidated statement of financial position as they have direct exposure to variable field production levels, and indirect exposure to changes in commodity prices. These exposures impact the generation of cash from the assets and any financial return thereon, including the risk of negative financial return. We believe this classification is most appropriate due to the nature of expenditure and it is aligned with our treatment in respect of PSC type arrangements where the risk/reward profile is similar

Estimation uncertainty

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

- *Provisions for liquidated damages claims (LDs):* the Group provides for LD claims where there have been significant contract delays and it is considered probable that the customer will successfully pursue such a claim. This requires an estimate of the amount of LDs payable under a claim which involves a number of management judgements and assumptions regarding the amounts to recognise. A provision for liquidated damages of US$ 48,546 thousand was created as at 31 December 2016 (2015: US$ nil);

- *Project cost to complete estimates*: at each reporting date the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact revenues, cost of sales, work-in-progress, billings in excess of costs and estimated earnings and accrued contract expenses;

- *Recognition of contract variation orders (VOs)*: the Group recognises revenues and margins from VOs where it is considered probable that they will be awarded by the customer and this requires management to assess the likelihood of such an award being made by reference to customer communications and other forms of documentary evidence;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Estimation uncertainty (Continued)

- *Onerous contract provisions:* the Group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time. A provision for onerous contracts of US$ 4,026 thousand was outstanding at 31 December 2016 (2015: US$ 307 thousand).

- *Impairment of goodwill*: the Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was US$ 32,153 thousand (2015: US$ 32,153 thousand) (note 11).

- *Deferred tax assets*: the Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgments and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2016 was US$ 17,720 thousand (2015: US$ 35,803 thousand) (note 7c);

- *Income tax:* the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned;

- *Recoverable value of property, plant and equipment, intangible oil and gas assets and other financial assets:* the Group determines at each reporting date whether there is any evidence of indicators of impairment in the carrying value of its property, plant and equipment, intangible oil and gas assets, other intangible assets, available-for-sale investment and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated, for example by reference to quoted market values, similar arm's length transactions involving these assets or risk adjusted discounted cash flow models. For the following specific assets, certain assumptions and estimates have been made in determining recoverable amounts. Should any changes occur in these assumptions, impairment may be required in future periods:

  - In relation to impairment testing performed for the Mexican PEC assets (excluding Panuco) which have a combined carrying value of US$ 676,000 thousand at 31 December 2016 (2015: US$ 642,000 thousand), the recoverable amount is dependent upon the outcome of ongoing contractual negotiations in respect of the planned migration to PSC type arrangements. Key assumptions include the expected working interest in the PSC and financial and fiscal terms achieved upon migration. For the asset held for sale, an estimate was undertaken in respect of the future contingent consideration amount receivable when determining the recoverable amount for this asset, with key assumptions relating to the terms under which the asset will be migrated to PSC type arrangement.

    During the year, the Group has recorded a pre-tax impairment charge of US$ nil (2015: US$ 1,207 thousand) in relation to OML 119 field license cost (note 9).

  - The determination of the recoverable amount of the JSD6000 vessel under construction involved assumptions in respect of the remaining capital cost of the project, the ability to secure financial and/or operating partners, forecast long term market conditions, achievable market share and the timing of re-commencement of construction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Estimation uncertainty (Continued)

- *Units of production depreciation*: estimated proven plus probable reserves are used in determining the depreciation of oil and gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over the shorter of: life of the field or the end of the respective licence/concession period. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil and gas capital expenditure.

- *Decommissioning costs:* the recognition and measurement of decommissioning provisions involves the use of estimates and assumptions which include the existence of an obligation to dismantle and remove a facility or restore the site on which it is located, the appropriate discount and inflation rates to use in determining the net present value of the liability, the estimated costs of decommissioning based on internal and external estimates and the payment dates for expected decommissioning costs. As a result, actual costs could differ from estimated cost estimates used to provide for decommissioning obligations. The provision for decommissioning at 31 December 2016 of US$ 50,156 thousand (2015: US$ 163,906 thousand) represents management's best estimate of the present value of the future decommissioning costs required.

Investment in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated income statement and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

Any unrealised gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in its associates and joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)
After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises any loss as an exceptional item in the consolidated income statement.

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

Joint operations
The Group's interests in joint operations are recognised in relation to its interest in a joint operation's:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

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

Foreign currency translation
The Group's consolidated financial statements are presented in US dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into United States dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis, other than on oil and gas assets, at the following rates:

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

Tangible oil and gas assets are depreciated on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

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

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the consolidated income statement when the item is derecognised. Gains are not classified as revenue.

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

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in selling, general and administration expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated income statement.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

All transaction costs associated with business combinations are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

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

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

Intangible assets – non oil and gas assets
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Oil and gas assets

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas assets (continued)

Evaluation expenditures
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible oil and gas asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written-off in the income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil and gas assets. All intangible oil and gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

Development expenditures
Expenditure relating to development of assets which includes the construction, installation and completion of infrastructure facilities such as platforms, pipelines and vessels are capitalised within property, plant and equipment as oil and gas facilities. Expenditures relating to the drilling and completion of production wells are capitalised within property, plant and equipment as oil and gas assets.

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

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

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

Impairment of assets (excluding goodwill)
At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is based on the risk-adjusted discounted cash flow models and includes value attributable to contingent resources. A post-tax discount rate is used in such calculations.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Work in progress and billings in excess of cost and estimated earnings
Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

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

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

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

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

Fair value measurement
The Group measures financial instruments, such as derivatives, at fair value at each reporting date. Fair value related disclosures for financial instruments are disclosed in note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value reported in the consolidated income statement.

The fair value changes to undesignated forward currency contracts are reported within other operating income/expenses.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated income statement. This category generally applies to trade and other receivables.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)
The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in the following categories:
- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 23.

De-recognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Group's other long term employment benefits are provided in accordance with the labour laws of the countries in which the Group operates, further details of which are given in Note 24.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') of the parent company (Petrofac Limited).

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of parent company ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Engineering & Construction (E&C)
Revenues from fixed-price lump sum contracts are recognised using the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

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

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

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

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

Engineering Production Services (EPS)
Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

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

Integrated Energy Services (IES)
Production Enhancement Contracts
Revenue from production enhancement contracts is recognised based on the volume of hydrocarbons produced in the period and the agreed tariff and the reimbursement arrangement for costs incurred.

Income taxes
Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

Derivative financial instruments and hedging
The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the other comprehensive income in the net unrealised gains/(losses) on derivatives, while the ineffective portion is recognised in the consolidated income statement. Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement. The material forward rate movements in the Kuwaiti Dinar forward currency contracts are recorded as an exceptional item in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs and affects the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the other comprehensive income is immediately transferred to the consolidated income statement.

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

Dividends
Dividends proposed by the Board of Directors are not recorded in the consolidated financial statements until approved by the shareholder at the Annual General Meeting.

3 EXPENSES

a. Cost of sales

Included in cost of sales for the year ended 31 December 2016 are write off of property, plant and equipment of US$ 1,573 thousand (2015: US$ 1,761 thousand), depreciation charged on property, plant and equipment of US$ 63,004 thousand (2015: US$ 60,684 thousand) (note 8), gain on disposal of property, plant and equipment of US$ nil (2015: US$ 316 thousand), amortisation of intangible oil and gas assets of US$ 1,008 thousand (2015: US$ 926 thousand) and cost of inventory of US$ 1,629 thousand (2015: US$ 2,216 thousand).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and losses on undesignated derivatives of US$ 3,560 thousand (2015: US$ 3,171 thousand gain). These amounts are an economic hedge of foreign exchange risk but do not meet the criteria within IAS 39 to be designated for hedge accounting and are most appropriately recorded in cost of sales.

b. Other expenses

	2016 *US$'000*	*2015* *US$'000*
Foreign exchange (losses) gains (net)	**(2,328)**	9
Gain on disposal of property, plant and equipment	**428**	24
Others	**25**	(1,648)
	(1,875)	(1,615)

3 EXPENSES (continued)

c. Selling, general and administration expenses

	2016 US$'000	*2015 US$'000*
Staff costs	**77,331**	76,757
Corporate overhead	**25,694**	31,545
Depreciation (note 8)	**12,013**	13,752
Provision for doubtful debts	**2,269**	5,000
Office costs	**1,482**	3,417
Amortisation and write off of intangible assets (note 9)	**-**	427
Other operating expenses	**13,157**	34,044
	131,946	164,942

Other operating expenses consist mainly of travel costs, management fees, business development and marketing, and legal and professional fees.

d. Staff costs

	2016 US$'000	*2015 US$'000*
Total staff costs:		
Wages and salaries	**657,107**	704,032
Other long term employee benefit costs (note 24)	**22,762**	22,575
Expense of share based payments (note 21)	**15,658**	15,983
Social security costs	**7,214**	5,210
Other staff costs	**12,249**	10,148
	714,990	757,948

Of the US$ 714,990 thousand (2015: US$ 757,948 thousand) of staff costs shown above, US$ 637,659 thousand (2015: US$ 681,191 thousand) are included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of payrolled staff employed by the Group during the year was 9,273 (2015: 10,258 employees).

4 FINANCE INCOME

	2016 US$'000	*2015 US$'000*
Bank interest	**1,881**	564
Interest on loans to related parties (note 27)	**21,895**	23,385
	23,776	23,949

5 FINANCE COSTS

	2016 US$'000	*2015 US$'000*
Interest on interest bearing loans and borrowings (note 23)	**3,246**	10,758
Interest on loans from related parties (note 27)	**29,169**	7,274
Unwinding of discount on provisions (note 24)	**4,920**	1,281
Unwinding of discount on loan from related parties (note 27)	**9,519**	-
Other interest	**2,976**	1,180
	49,830	20,493

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
	39,455	15,698

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*
Current income tax		
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)
Deferred tax		
Relating to origination and reversal of temporary differences	**(21,213)**	30,239
Income tax expense reported in consolidated income statement	**108,259**	66,342

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.

7 INCOME TAX (continued)

b. Reconciliation of total tax charge

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

	2016 US$'000	*2015 US$'000*
Accounting profit before tax	**512,840**	556,002
At Jersey's domestic tax rate of 0% (2015: 0%)	**-**	-
Expected tax charge in higher rate jurisdictions	**91,188**	67,019
Adjustments in respect of previous years	**10**	(9,348)
Expenditure not allowable for income tax purposes	**13,096**	2,646
Adjustments in respect of losses not previously recognised/derecognised	**203**	5,069
Other permanent differences	**3,762**	-
Unrecognised tax losses	**-**	956
	108,259	66,342

The Group's effective tax rate for the year ended 31 December 2016 is 21.11% (2015: 11.93%). The Group's effective tax rate, excluding the impact of exceptional items, for the year ended 31 December 2016 is 19.74% (2015: 11.93%).

A number of factors have impacted the effective tax rate, with key drivers being; mix of profits in the jurisdictions in which profits are earned and disallowance of expenditure which is not deductible for tax purposes.

c. Deferred tax

Deferred tax relates to the following:

	Consolidated Statement of Financial Position		*Consolidated Income Statement*	
	2016 US$'000	*2015 US$'000*	*2016 US$'000*	*2015 US$'000*
Deferred tax liabilities				
Profit recognition	**68,414**	107,710	**(39,297)**	51,810
Gross deferred tax liabilities	**68,414**	107,710		
Deferred tax assets				
Losses available for offset	**1,660**	4,080	**2,420**	5,100
Profit/(loss) recognition	**16,060**	30,574	**14,514**	(26,592)
Other temporary differences	**-**	1,149	**1,150**	(79)
Gross deferred tax assets	**17,720**	35,803		
Deferred tax (credit) charge			**(21,213)**	30,239

d. Unrecognised tax losses and tax credits

Deferred tax assets are recognised for tax loss carry forwards and tax credits to the extent that the realisation of the related tax benefit through offset against future taxable profits is probable. The Group did not recognise deferred tax assets of US$ 123,000 thousand (2015: US$ 54,849 thousand) which has no expiration date.

8 PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets US$'000	*Land, buildings and leasehold improvements US$'000*	*Plant and equipment US$'000*	*Vehicles US$'000*	*Office furniture and equipment US$'000*	*Assets under construction US$'000*	*Total US$'000*
Cost:							
At 1 January 2016	692,288	334,220	27,762	22,853	120,249	289,994	1,487,366
Additions	17,239	36,917	453	1,025	4,432	81,245	141,311
Revision to decommissioning estimates	(97,089)	-	-	-	-	-	(97,089)
Adjustments/ Reclassifications	-	-	-	-	(2,373)	(2,274)	(4,647)
Transfers to assets held for sale	(85,769)	-	-	-	-	-	(85,769)
Transfer from assets under construction	-	10,390	-	-	-	(10,390)	-
Disposals	-	(35,357)	(149)	(1,072)	(634)	-	(37,212)
Write-off	-	(4,911)	-	-	-	-	(4,911)
Exchange difference	-	(131)	(306)	(383)	(879)	-	(1,699)
At 31 December 2016	**526,669**	**341,128**	**27,760**	**22,423**	**120,795**	**358,575**	**1,397,350**
Depreciation:							
At 1 January 2016	212,734	191,430	23,711	20,422	86,703	-	535,000
Charge for the year	23,972	34,135	1,220	1,539	14,151	-	75,017
Adjustments/ Reclassifications	-	-	-	-	(2,373)	-	(2,373)
Transfers to assets held for sale	(37,743)	-	-	-	-	-	(37,743)
Disposals	-	(33,236)	(149)	(1,038)	(438)	-	(34,861)
Write-off	-	(3,338)	-	-	-	-	(3,338)
Exchange difference	-	(100)	(316)	(321)	(893)	-	(1,630)
At 31 December 2016	**198,963**	**188,891**	**24,466**	**20,602**	**97,150**	-	**530,072**
Net carrying amount:							
At 31 December 2016	**327,706**	**152,237**	**3,294**	**1,821**	**23,645**	**358,575**	**867,278**

8 PROPERTY, PLANT AND EQUIPMENT (continued)

	Oil and gas assets US$'000	*Land, buildings and leasehold improvements US$'000*	*Plant and equipment US$'000*	*Vehicles US$'000*	*Office furniture and equipment US$'000*	*Assets under construction US$'000*	*Total US$'000*
Cost:							
At 1 January 2015	604,727	297,938	21,475	22,215	102,074	193,297	1,241,726
Additions	87,561	3,633	340	1,466	11,524	146,272	250,796
Reclassifications	-	-	8,245	(72)	(8,316)	143	-
Transfer from assets under construction	-	33,500	-	-	16,218	(49,718)	-
Disposals	-	(77)	(303)	(699)	(475)	-	(1,554)
Write-off	-	-	(1,995)	-	-	-	(1,995)
Exchange difference	-	(774)	-	(57)	(776)	-	(1,607)
At 31 December 2015	692,288	334,220	27,762	22,853	120,249	289,994	1,487,366
Depreciation:							
At 1 January 2015	197,176	157,157	15,417	19,066	74,181	-	462,997
Charge for the year	15,558	34,636	3,358	1,392	19,492	-	74,436
Reclassifications	-	-	5,473	448	(5,921)	-	-
Disposals	-	(43)	(303)	(441)	(371)	-	(1,158)
Write-off	-	-	(234)	-	-	-	(234)
Exchange difference	-	(320)	-	(43)	(678)	-	(1,041)
At 31 December 2015	212,734	191,430	23,711	20,422	86,703	-	535,000
Net carrying amount:							
At 31 December 2015	479,554	142,790	4,051	2,431	33,546	289,994	952,366

Additions to oil and gas assets mainly comprise Santuario, Magallanes and Arenque PECs of US$ 12,461 thousand and Panuco PEC of US$ 4,812 thousand (2015: Santuario, Magallanes and Arenque PECs of US$ 61,000 thousand and Panuco PEC of US$ 26,000 thousand). Additions to land, buildings and leasehold improvements mainly comprise of project camps and temporary facilities for Engineering and Construction projects.

Of the total charge for depreciation in the consolidated income statement, US$ 63,004 thousand (2015: US$ 60,684 thousand) is included in cost of sales and US$ 12,013 thousand (2015: US$ 13,752 thousand) in selling, general and administration expenses.

Assets under construction mainly represent expenditures incurred in relation to construction of the JSD6000 installation vessel.

Interest on loan from parent company capitalised on construction of JSD6000 installation vessel in 2016 amounted to US$ 2,839 thousand (2015: US$ 1,567 thousand) (note 27).

8 PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment includes assets held under finance lease agreements, for which net book values are as follows:

	2016 US$'000	*2015 US$'000*
Cost:		
At 1 January	**5,616**	5,616
Accumulated depreciation:		
At 1 January	**1,087**	-
Charge for the year	**278**	1,087
At 31 December	**1,365**	1,087
Net book value:		
At 31 December	**4,251**	4,529

9 INTANGIBLE ASSETS

	2016 US$'000	*2015 US$'000*
Cost:		
At 1 January	**21,969**	28,822
Transfer to assets held for sale (note 12)	**(2,251)**	-
Transfer to receivables	-	(5,557)
Impairment (note 6)	-	(1,207)
Write-off	-	(89)
At 31 December	**19,718**	21,969
Accumulated amortisation:		
At 1 January	**5,029**	3,765
Transfer to assets held for sale (note 12)	**(654)**	-
Charge for the year	**1,008**	1,282
Write-off	-	(18)
At 31 December	**5,383**	5,029
Net book value:		
At 31 December	**14,335**	16,940

Transfer to receivables in 2015 represents the earlier capitalised field development costs that were expected to be reimbursed by the customer.

During the previous year, Intangible assets of US$ 1,207 thousand was impaired and written off in respect of OML 119 field in Nigeria and the same was included under exceptional items (note 6).

Of the total charge for amortisation in the consolidated income statement of US$ 1,008 thousand (2015: US$ 1,282 thousand), US$ 1,008 thousand is included in cost of sales (2015: US$ 926 thousand) and US$ nil in selling, general and administration expenses (2015: US$ 356 thousand).

Intangible assets comprising project development expenditure is being amortised over their estimated economic useful life on a straight-line basis and related amortisation charges are included in cost of sales (note 3a).

10 INVESTMENTS IN JOINT VENTURES

	2016 *US$'000*	*2015* *US$'000*
Spie Capag – Petrofac International Limited	**2,083**	2,083
China Petroleum Petrofac Engineering Services Cooperatif U.A.	**579**	1,078
Takatuf Petrofac Oman LLC	**253**	253
	2,915	3,414

The Group has a 50% interest in Spie Capag – Petrofac International Limited (2015: 50%), 49% interest in China Petroleum Petrofac Engineering Services Cooperatif U.A (2015: 49%) and 40% in Takatuf Petrofac Oman LLC (2015: 40%). The Group's interest in the joint ventures is accounted for using equity method in the consolidated financial statements.

Summarised financial information of the joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2016 *US$'000*	*2015* *US$'000*
Revenue	-	102
Cost of sales	-	(1,682)
Gross profit	-	(1,580)
Selling, general and administration expenses	**(1,018)**	(1,171)
Income tax expense	-	(12)
Net loss	**(1,018)**	(2,763)
Group's share of loss for the year	**(499)**	(1,206)
Current assets	**7,736**	8,569
Non-current assets	**8,655**	5,531
Total assets	**16,391**	14,100
Current liabilities	**10,411**	7,113
Total liabilities	**10,411**	7,113
Net assets	**5,980**	6,987
Group's share of net assets	**2,915**	3,414

The joint ventures had no contingent liabilities or capital commitments as at 31 December 2016 and 2015. The joint ventures cannot distribute their profits until they obtain consent from the venturers.

11 GOODWILL

Goodwill was recognised on the acquisition of RNZ Integrated (M) Sdn Bhd and an additional 25% interest in Petrofac Emirates LLC during the year 2013. Goodwill as at 31 December comprises of the following:

	2016 *US$'000*	*2015* *US$'000*
Petrofac Emirates LLC	**29,358**	29,358
RNZ Integrated (M) Sdn Bhd (RNZ)	**2,795**	2,795
	32,153	32,153

Goodwill acquired through business combinations has been allocated to E&C (Engineering & Construction) segment (relating to Petrofac Emirates LLC) and EPS segment (Engineering & Production Services) (relating to RNZ) as a cash-generating unit. These represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Recoverable amounts have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management have adopted projection periods appropriate to each unit's value in use. The cash flows projections are based on financial budgets approved by senior management covering a five-year period.

The carrying amount of goodwill for RNZ is not significant in comparison with the total carrying amount of goodwill and therefore no analysis has been provided below.

Key assumptions used in value in use calculations for Engineering and Construction unit
The following key assumptions were included in the value in use calculations used to estimate the recoverable amount of Petrofac Emirates LLC. Where management has identified a reasonably possible change in any of these assumptions that would result in impairment, details have been provided below:

Discount rate: management has used a pre-tax discount rate of 11.6% per annum (2015: 11.6% per annum). The discount rate is derived from the estimated weighted average cost of capital (WACC) of the Group. A 100 basis point increase in the discount rate to 12.6% would result in no impairment charge.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past in the markets in which E&C operates.

Market share: the key assumptions relate to continuing to maintain existing levels of business and growth organically in international markets.

12 ASSETS HELD FOR SALE

During 2016, the Group signed a sale and purchase agreement (SPA) for the sale of one of its businesses in Mexico. The disposal is expected to be completed in 2017, once all the conditions precedent to completion under the SPA are satisfied. The below assets and liabilities are classified as held for sale at 31 December.

	2016 *US$'000*	*2015* *US$'000*
Assets held for sale		
Property, plant and equipment (note 8)	**48,026**	-
Intangible assets (note 9)	**1,597**	-
Trade and other receivables (note 17)	**78,505**	-
	128,128	-

12 ASSETS HELD FOR SALE (continued)

	2016 US$'000	2015 US$'000
Liabilities associated with assets held for sale		
Provision for decommissioning (note 24)	**21,581**	-
Trade and other payables (note 26)	**13,459**	-
	35,040	-

No gain or loss was recognised on the reclassification of these assets and liabilities as held for sale.

13 MATERIAL PARTY-OWNED SUBSIDIARY

Petrofac Emirates LLC is the only material partly-owned subsidiary in the Group and the proportion of the nominal value of issued shares controlled by the Group is disclosed in note 30.

Movement of non-controlling interest in Petrofac Emirates LLC

	2016 US$'000	2015 US$'000
At January	**4,729**	13,127
Profit for the year	**12,941**	4,321
Net unrealised losses on derivative financial instruments	**8,570**	(7,594)
Dividend paid	**(1,080)**	(5,125)
	25,160	4,729

The balance of non-controlling interests relate to other partly-owned subsidiaries that are not material to the Group.

Financial information of Petrofac Emirates LLC that has material non-controlling interests is provided below:

Summarised income statement

	2016 US$'000	2015 US$'000
Revenues	**1,193,965**	1,320,232
Cost of sales	**(1,084,595)**	(1,242,473)
Gross profit	**109,370**	77,759
Share of loss of associates	**(10,550)**	(7,586)
Other income	**470**	-
Selling, general and administration expenses	**(5,544)**	(13,513)
Finance income	**(6,083)**	965
Management fees	**(35,899)**	(40,343)
	51,764	17,282
Attributable to non-controlling interest	**12,941**	4,321
Unrealised losses on derivatives		
Unrealised losses on derivatives at 1 January	**(82,416)**	(52,043)
Other comprehensive income (loss) during the year	**34,270**	(30,373)
Unrealised losses on derivatives at 31 December	**(48,146)**	(82,416)

13 MATERIAL PARTY-OWNED SUBSIDIARY (continued)

	2016 *US$'000*	*2015* *US$'000*
Unrealised losses on derivatives attributable to non-controlling interest (note 22)	**(12,113)**	(20,683)
Total comprehensive income (loss) attributable to non-controlling interest	**21,529**	(3,634)
Summarised statement of financial position		
Current assets	**733,948**	526,585
Non-current assets	**218,974**	240,457
Total assets	**952,922**	767,042
Current liabilities	**848,780**	737,991
Non-current liabilities	**3,501**	10,135
Total liabilities	**852,281**	748,126
Total equity	**100,641**	18,916
Attributable to non-controlling interest	**25,160**	4,729
Summarised cash flow information		
Operating	**73,404**	49,211
Investing	**(4,883)**	(24,721)

Dividends of US$ 4,321 thousand were declared during 2016 (2015: US$ 20,501 thousand), of which US$ 1,080 thousand was attributable to non-controlling interest (2015: US$ 5,125 thousand). These dividends were adjusted against related party balances in the standalone books.

14 FAIR VALUE MEASUREMENT

Fair value hierarchy

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

Level 1:	Unadjusted quoted prices in active markets for identical financial assets or liabilities
Level 2:	Other valuation techniques where the inputs are based on significant observable factors
Level 3:	Other valuation techniques where the inputs are based on significant unobservable market data

14 FAIR VALUE MEASUREMENT (continued)

Assets measured at fair value

Year ended 31 December 2016

		Carrying amount US$'000	*Fair value US$'000*
Financial assets			
Forward currency contracts-designated as cash flow hedges	**Level 2**	**361**	**361**
Forward currency contracts-undesignated	**Level 2**	**287**	**287**
Cash and short-term deposits	**Level 2**	**914,545**	**914,545**
Restricted cash	**Level 2**	**45,824**	**45,824**
Financial liabilities			
Forward currency contracts-designated as cash flow hedges	**Level 2**	**44,456**	**44,456**

Year ended 31 December 2015

		Carrying amount US$'000	*Fair value US$'000*
Financial assets			
Forward currency contracts-designated as cash flow hedges	Level 2	101,140	101,140
Forward currency contracts-undesignated	Level 2	6	6
Cash and short-term deposits	Level 2	949,833	949,833
Restricted cash	Level 2	75,945	75,945
Financial liabilities			
Forward currency contracts-designated as cash flow hedges	Level 2	81,441	81,441
Interest bearings loans and borrowings	Level 2	539,999	539,999

The Group considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities (other than forward currency contracts) approximate their fair values and are, therefore, excluded from the above table.

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

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

- the Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are the foreign exchange forward contracts.
- the fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate.

15 OTHER FINANCIAL ASSETS

	Classification	*2016 US$'000*	*2015 US$'000*
Non-current			
Forward currency contracts -designated as hedges (note 29)	Designated as cash flow hedges	-	78,073
Restricted cash (note 29)	Loans and receivables	**37,563**	40,000
		37,563	118,073
Current			
Forward currency contracts -designated as hedges (note 29)	Designated as cash flow hedges	**648**	23,073
Restricted cash (note 29)	Loans and receivables	**8,261**	35,945
Interest receivable	Loans and receivables	**16**	16
		8,925	59,034

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

16 WORK IN PROGRESS AND BILLINGS IN EXCESS OF COST AND ESTIMATED EARNINGS

	2016 US$'000	*2015 US$'000*
Cost and estimated earnings	**25,183,549**	19,509,248
Less: billings	**(22,980,995)**	(17,722,237)
Work in progress	**2,202,554**	1,787,011
Billings	**276,922**	1,566,542
Less: cost and estimated earnings	**(242,889)**	(1,377,529)
Billings in excess of cost and estimated earnings	**34,033**	189,013
Total cost and estimated earnings	**25,426,438**	20,886,777
Total billings	**23,257,917**	19,288,779

17 TRADE AND OTHER RECEIVABLES

	2016 US$'000	*2015 US$'000*
Trade receivables	**1,146,186**	900,414
Retention receivables	**279,746**	304,439
Advances	**258,681**	260,316
Prepayments and deposits	**22,123**	26,199
Other receivables	**132,992**	126,476
	1,839,728	1,617,844

17 TRADE AND OTHER RECEIVABLES (continued)

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movement in the provision for impairment against trade receivables totalling US$ 8,243 thousand (2015: US$ 8,321 thousand) is as follows:

	2016 US$'000	*2015 US$'000*
At 1 January	**8,321**	-
Charge for the year	**2,800**	8,321
Written off	**(2,878)**	-
At 31 December	**8,243**	8,321

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

			Past due but not impaired					
	Total US$'000	*Neither past due nor impaired US$'000*	*<30 US$'000*	*30-60 US$'000*	*61-90 US$'000*	*91-120 US$'000*	*121-360* US$'000*	*> 360* US$'000*
2016	**1,146,186**	**857,606**	**56,415**	**53,068**	**20,032**	**24,511**	**66,490**	**68,064**
2015	900,414	463,632	224,428	121,300	9,604	9,902	34,445	37,103

* included within these aged trade receivables are US$ 122,673 thousand in the Engineering & Construction segment which will be recovered from the customers as part of the final settlement on the projects. The management has reviewed the recoverability of these receivables and concluded that these will be recovered in full and no impairment provision is necessary as of 31 December 2016.

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

Other receivables mainly consist of Value Added Tax recoverable of US$ 23,517 thousand (2015: US$ 60,105 thousand) and amounts receivable from joint venture partners of US$ 30,863 thousand (2015: US$ 14,677 thousand)

As at 31 December 2016, trade and other receivables of US$ 78,505 thousand (2015: nil) were reclassified to assets held for sale (note 12).

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

All trade and other receivables are expected to be settled in cash.

Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the Group, and will be largely paid in Sterling, Euros and Kuwaiti Dinars.

18 CASH AND SHORT-TERM DEPOSITS

	2016 US$'000	*2015 US$'000*
Cash at bank and in hand	**789,721**	893,139
Short-term deposits	**124,824**	56,694
Total cash and bank balances	**914,545**	949,833

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$ 914,545 thousand (2015: US$ 949,833 thousand).

19 SHARE CAPITAL

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

	2016	*2015*
	US$'000	*US$'000*
Authorised, issued and fully paid:		
5,000,000 (2015: 5,000,000) ordinary shares of US$ 1 each	**5,000**	5,000

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

20 DIVIDENDS

The Company declared a dividend of US$ 68 per share totalling to US$ 340,000 thousand for the year 2016 (2015: US$ 263 per share totalling to US$ 1,315,000 thousand) and it was adjusted against balance payable to the parent company.

21 SHARE-BASED PAYMENT PLANS

Performance Share Plan (PSP)
Under the PSP of the parent company, share awards are granted to Executive Directors and a restricted number of other senior executives of the Group. The shares vest at the end of three years subject to continued employment and the achievement of certain pre-defined market and non-market-based performance conditions. The 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the Parent company compared with an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

	2016 Awards US$'000	*2015 Awards US$ '000*	*2014 Awards US$ '000*	*22 March 2013 Awards US$ '000*	*18 April 2013 Awards US$ '000*	*24 May 2013 Awards US$ '000*
Expected share price volatility (based on median of comparator Group's three-year volatilities)	**31.9%**	28.5%	32.7%	34.6%	34.7%	33.9%
Share price correlation with comparator Group	**28.9%**	26.4%	40.4%	44.0%	44.3%	42.0%
Risk-free interest rate	**0.6%**	0.7%	1.2%	0.4%	0.4%	0.5%
Expected life of share award	**3 years**	3 years	3 years	3 years	3 years	3 years
Fair value of TSR portion	**747p**	562p	827p	692p	492p	571p

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving between 0.0% and 7.5% earnings per share (EPS) growth targets over a three-year period by the Parent company. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated, based on the quoted closing market price per Parent company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan. At 31 December 2016, the vesting conditions attached to PSP are not expected to be met, therefore the vesting rate is assumed to be 0.0%.

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

At the year end, the values of the bonuses settled by shares cannot be determined until the Remuneration Committee of the Parent company has approved the portion of the employee bonuses to be settled in shares. Once the portion of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the Matching Shares are recognised over the corresponding vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant with the charge adjusted to reflect the expected vesting rate of the plan.

21 SHARE-BASED PAYMENT PLANS (continued)

Restricted Share Plan (RSP)
Under the RSP, selected employees are made grants of shares on an ad hoc basis. The RSP is used primarily, but not exclusively, to make awards to individuals who join the Group part way through the year, having left accrued benefits with a previous employer. The fair values of the awards granted under the RSP at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period.

Value Creation Plan (VCP)
During 2012, the Parent company introduced a one-off Value Creation Plan (VCP) which is a share option scheme for Executive Directors and key senior executives within the Parent company. VCP is a premium priced share option scheme with options granted with an exercise price set at a 10% premium to the grant date price. Options will only vest to the extent of satisfying Group and divisional profit after tax targets, together with various other performance underpins and risk/malus provisions that can be imposed at the discretion of the Remuneration Committee of the Parent company. The share options would vest in equal tranches on the fourth, fifth and sixth anniversaries of the original grant date but may be exercised up to eight years from the date of grant. During 2016, the vesting conditions attached to VCP were not met, therefore all outstanding shares under the plan were forfeited.

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

			PSP (EPS portion)							
	6 Mar/22 March		*18 April*		*6 October/24 May*		*DBSP*		*RSP*	
	Fair value per share	*Assumed vesting rate*	*Fair value per share*	*Assumed vesting rate*	*Fair value per share*	*Assumed vesting rate*	*Fair value per share*	*Assumed vesting rate*	*Fair value per share*	*Assumed vesting rate*
2016 awards	**982p**	**0.0%**	-	-	**911p**	**0.0%**	**982p**	**93.2%**	**859p**	**95.0%**
2015 awards	890p	0.0%	-	-	-	-	890p	87.4%	927p	95.0%
2014 awards	1,376p	0.0%	-	-	-	-	1,376p	80.1%	1,157p	76.5%
2013 awards	1,446p	0.0%	1,266p	0.0%	1,340p	0.0%	1,446p	78.4%	1,366p	87.0%

21 SHARE-BASED PAYMENT PLANS (continued)

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

	PSP		*DBSP*		*RSP*		*VCP*		*Total*	
	2016 Number	*2015 Number*	***2016 Number***	*2015 Number*	***2016 Number***	*2015 Number*	***2016 Number***	*2015 Number*	***2016 Number***	*2015 Number*
Outstanding at 1 January	**393,106**	299,604	**3,864,686**	2,360,254	**166,269**	167,261	**465,303**	650,805	**4,889,364**	3,477,924
Granted during the year	**276,162**	203,054	**2,120,560**	2,549,386	**133,439**	67,719	-	-	**2,530,161**	2,820,159
Shares transferred to companies under common control of parent	-	-	**(7,866)**	(3,336)	-	-	-	-	**(7,866)**	(3,336)
Vested during the year	-	-	**(1,676,603)**	(853,403)	**(81,932)**	(67,952)	-	-	**(1,758,535)**	(921,355)
Forfeited during the year	**(132,327)**	(109,552)	**(243,529)**	(188,215)	**(13,028)**	(759)	**(465,303)**	(185,502)	**(854,187)**	(484,028)
Outstanding at 31 December	**536,941**	393,106	**4,057,248**	3,864,686	**204,748**	166,269	-	465,303	**4,798,937**	4,889,364

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

	PSP		**DBSP*		*RSP*		*VCP*		*Total*	
	2016 US$'000	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*
2016 awards	**251,754**	-	**1,961,948**	-	**133,439**	-	-	-	**2,347,141**	-
2015 awards	**194,075**	203,054	**1,430,212**	2,437,530	**45,154**	67,719	-	-	**1,669,441**	2,708,303
2014 awards	**91,112**	95,528	**665,088**	940,968	**26,155**	48,654	-	-	**782,355**	1,085,150
2013 awards	-	94,524	-	486,188	-	49,628	-	-	-	630,340
2012 awards	-	-	-	-	-	268	-	465,303	-	465,571
Total	**536,941**	393,106	**4,057,248**	3,864,686	**204,748**	166,269	-	465,303	**4,798,937**	4,889,364

21 SHARE-BASED PAYMENT PLANS (continued)

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

	PSP		**DBSP*		*RSP*		*VCP*		*Total*	
	2016 US$'000	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*
Share based payment charge/(credit)	**804**	(29)	**13,987**	14,703	**867**	1,309	**-**	-	**15,658**	15,983

* Represents charge on Matching Shares only.

The Group has recognised a total charge of US$ 15,658 thousand (2015: US$ 15,983 thousand) in the consolidated income statement during the year relating to the above employee share-based schemes (see note 3d).

22 OTHER RESERVES

	Net unrealised (losses) gains on derivatives US$ '000	*Foreign currency translation US$ '000*	*Reserve for share-based payments US$ '000*	*Shareholder contribution US$ '000*	*Total US$ '000*
Balance at 1 January 2015	(27,377)	(13,877)	-	-	(41,254)
Foreign currency translation	-	(3,865)	-	-	(3,865)
Net loss on maturity of cash flow hedges recycled in the year	13,158	-	-	-	13,158
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	(59,910)	-	-	-	(59,910)
Share-based payments charge (note 21)	-	-	15,983	-	15,983
Funding of share-based payments (note 21)	-	-	(15,983)	-	(15,983)
Balance at 31 December 2015	(74,129)	(17,742)	-	-	(91,871)
Attributable to:					
Shareholder of Petrofac International Ltd	(53,446)	(17,742)	-	-	(71,188)
Non-controlling interests	(20,683)	-	-	-	(20,683)
Balance at 31 December 2015	(74,129)	(17,742)	-	-	(91,871)
Foreign currency translation	-	(4,678)	-	-	(4,678)
Net loss on maturity of cash flow hedges recycled in the year	7,300	-	-	-	7,300
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	54,059	-	-	-	54,059
Share-based payments charge (note 21)	-	-	15,658	-	15,658
Funding of share-based payments (note 21)	-	-	(15,658)	-	(15,658)
Capital contribution (note 27)	-	-	-	38,073	38,073
Balance at 31 December 2016	**(12,770)**	**(22,420)**	-	**38,073**	**2,883**
Attributable to:					
Shareholder of Petrofac International Ltd	**(657)**	**(22,420)**	-	**38,073**	**14,996**
Non-controlling interests	**(12,113)**	-	-	-	**(12,113)**
Balance at 31 December 2016	**(12,770)**	**(22,420)**	-	**38,073**	**2,883**

22 OTHER RESERVES (continued)

Nature and purpose of other reserves

Net unrealised gains (losses) on derivatives
The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges is included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred out of equity to the consolidated income statement. Realised net loss amounting to US$ 7,300 thousand (2015: loss of US$ 13,158 thousand) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and losses on un-designated derivatives amounting to US$ 3,560 thousand (2015: US$ 3,171 thousand gain) have been recognised in the cost of sales.

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

Reserve for share-based payments
The reserve for share-based payments is used to record the value of equity settled share-based payments awarded to employees of the Group by the parent company. Transfer out of this reserve are made over the corresponding vesting period, supported by charges from the parent company.

Shareholder contribution
Interest free long-term loan was availed from a related party based on the instruction of the Parent Company. This loan was discounted at the current market rates and capital contribution which represents discounting charge amounting to US$ 38,073 thousand was included as part of other reserves.

23 INTEREST BEARING LOANS AND BORROWINGS

As at 31 December 2015, the Group had a US$ 1.2 billion, five year committed revolving credit facility with a syndicate of international banks, which was available for general corporate purposes. During the year 2016, the facility was transferred to the parent company and hence, there was no outstanding balance as at 31 December 2016 (2015: US$ 539,999 thousand).

Interest was payable on the drawn balance of the facility at LIBOR + 0.95% and utilisation fees were payable depending on the level of utilisation.

24 PROVISIONS

2016

	Other long-term employment benefits provision US$'000	*Provision for decom-missioning US$'000*	*Total US$'000*
At 1 January	**88,939**	**163,906**	**252,845**
Additions during the year	**22,762**	**-**	**22,762**
Revision of decommissioning estimates	**-**	**(97,089)**	**(97,089)**
Transfer to assets held for sale (note 12)	**-**	**(21,581)**	**(21,581)**
Paid in the year	**(16,248)**	**-**	**(16,248)**
Unwinding of discount	**-**	**4,920**	**4,920**
At 31 December	**95,453**	**50,156**	**145,609**

24 PROVISIONS (continued)

2015

	Other long-term employment benefits provision US$ '000	*Provision for decom-missioning US$ '000*	*Total US$ '000*
At 1 January	74,475	122,687	197,162
Additions during the year	22,575	39,938	62,513
Paid in the year	(8,111)	-	(8,111)
Unwinding of discount	-	1,281	1,281
At 31 December	88,939	163,906	252,845

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

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

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

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

Provision for decommissioning
The decommissioning provision primarily relates to the Group's obligation for the removal of facilities and restoration of the sites at the Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico. Revision to decommissioning cost estimates of US$97,089 thousands were made during the year in respect of Santuario, Magallanes, Arenque and Pánuco Production Enhancement Contracts in Mexico (2015: additions of US$39,938 thousand). The liability is discounted at the rate of 6.18% (2015: 6.18%). The unwinding of the discount is classified as a finance cost (note 5). The Group estimates that the cash outflows against these provisions will arise in 2033 on Santuario and Magallanes, 2040 on Arenque and 2039 on Pánuco Production Enhancement Contracts.

25 OTHER FINANCIAL LIABILITIES

	Classification	***2016 US$'000***	*2015 US$'000*
Non-current			
Forward currency contracts-designated as hedges (note 29)	Designated as cash flow hedges	-	27,622
Current			
Forward currency contracts-designated as hedges (note 29)	Designated as cash flow hedges	**44,456**	53,819
Others – finance lease	Loans and borrowings	**4,561**	5,479
Interest payable	Fair value through profit and loss	-	389
		49,017	59,687

26 TRADE AND OTHER PAYABLES

	2016 US$'000	*2015 US$'000*
Trade payables	**478,653**	376,590
Advances received from customers	**692,170**	1,081,250
Accrued expenses	**360,568**	526,543
Other taxes payable	**17,808**	12,108
Other payables	**145,851**	101,289
	1,695,050	2,097,780

Trade payables are non-interest bearing and are normally settled on terms of between 30 and 60 days.

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

Other payables mainly consist of retentions held against subcontractors of US$ 87,575 thousand (2015: US$ 70,702 thousand) and amounts payable to joint venture partners of US$ 26,832 thousand (2015: US$ 22,093 thousand).

As at 31 December 2016, trade and other payables of US$ 13,459 thousand (2015: US$ nil) were reclassified to liabilities associated with assets held for sale (note 12).

Certain trade and other payables will be settled in currencies other than the reporting currency of the Group, mainly in Sterling, Euros and Kuwaiti Dinars.

27 RELATED PARTY TRANSACTIONS AND BALANCES

The consolidated financial statements include the financial information of Petrofac International Ltd and the subsidiaries listed in note 30.

Related parties represent parent company, associated companies, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of related party transactions are approved by the Group's management.

Balances with related parties included in the statement of financial position are as follows:

	2016 US$'000	*2015 US$'000*
Non-current:		
Loans to related parties:		
Companies under common control of the parent company	**224,161**	472,484
Loans from related parties:		
Companies under common control of the parent company	**547,776**	-
Parent company	**74,941**	-
	622,717	-

Loans to companies under common control of the parent company mainly include US$ 218,897 thousand (2015: US$ 193,832 thousand) for the purpose of financing production sharing contracts in PM304.

Loan from parent company of US$ 74,941 thousand (2015: US$ 68,293 thousand) relates to the construction of the JSD 6000 installation vessel (note 8). The loan carries an interest at LIBOR + 200 basis points per annum (2015: LIBOR + 200 basis points per annum) and is repayable by 31 December 2019.

27 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Non-current (continued)
Loan from companies under common control relates to interest free loan obtained from a related party at the instruction of the parent company. The maturity date of the loan is 31 March 2019. The loan was discounted at the current market rates and the discounting charge amounting to US$ 38,073 thousand was included as shareholder contribution in other reserves. The unwinding of discount of loan amounting to US$ 9,519 thousand for the year was recycled to the consolidated income statement.

	2016	*2015*
	US$'000	*US$'000*
Current:		
Loans to related parties:		
Companies under common control of the parent company	**169,160**	132,169
Amounts due from related parties comprise:		
Companies under common control of the parent company	**58,115**	25,127
Loans from related parties:		
Parent company	**703,379**	857,911
Companies under common control of the parent company	**118,078**	124,569
	821,457	982,480

Loans to companies under common control of the parent company include US$ 144,680 thousand (2015: US$ 93,619 thousand) advanced to related parties under Credit Facility Agreements. The balance represents short term loans to companies under common control of the parent company and have maturities from 30 June 2017 to 31 December 2017.

Loan from companies under common control are short term loans. The loan carries an interest at LIBOR + 2% (2015: LIBOR + 2%) and are repayable on demand.

	2016	*2015*
	US$'000	*US$'000*
Current:		
Amounts due to related parties comprise:		
Parent Company	**69,630**	49,849
Companies under common control of the parent company	**73,585**	113,076
	143,215	162,925

The Companies under common control of the Parent Company occasionally borrows / places surplus funds with the Group's central treasury function. Such funds bear interest at LIBOR plus 200 basis points per annum for borrowing and LIBOR for placing surplus funds.

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2016 and 2015, the Group has not recorded any impairment on amount owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions entered with related parties during the year are as follows:

	2016	*2015*
	US$'000	*US$'000*
Parent company:		
Finance cost (note 5)	**29,169**	7,274
Finance cost capitalised (note 8)	**2,839**	1,567
Share based payment expense recharged by the parent company (note 21)	**15,658**	15,983
Dividends to parent company (note 20)	**340,000**	1,315,000

27 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	2016 *US$'000*	*2015* *US$'000*
Companies under common control of the parent company:		
Revenue	**10,672**	33,547
Finance cost (note 5)	**9,519**	-
Interest income (note 4)	**21,895**	23,385
Corporate overhead expense	**25,694**	31,545
Cost of sales	**68,202**	85,859

Compensation of key management personnel of the Group

	2016 *US$'000*	*2015* *US$'000*
Short-term employee benefits	**5,523**	3,666
End-of-service benefits	**180**	134
Share based payments	**478**	506
	6,181	4,306

28 COMMITMENTS AND CONTINGENCIES

Commitments

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

At 31 December 2016, the Group had letters of credit of US$ nil (2015: US$ 7,041 thousand) and outstanding letters of guarantee, including performance of US$ 4,862,054 thousand (2015: US$ 4,973,564 thousand), against which the Group had pledged or restricted cash balances of, in aggregate, US$ 8,261 thousand (2015: US$ 35,945 thousand).

At 31 December 2016, the Group had outstanding forward exchange contracts amounting to US$ 3,188,175 thousand (2015: US$ 2,288,116 thousand). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 29).

As at 31 December 2016, the parent company has an outstanding aggregate principal amount of US$ 677,676 thousand of Senior Notes due in 2018. The parent company pays interest on the Senior Notes at an annual rate equal to 3.40% of the outstanding principal amount. Interest on the Senior Notes is payable semi-annually in arrears in April and October each year. The Notes are senior unsecured obligations of the parent company and will rank equally in right of payment with the company's other existing and future unsecured and unsubordinated indebtedness. The company and its subsidiary, Petrofac International (UAE) LLC, irrevocably and unconditionally guarantee, jointly and severally, the due and prompt payment of all amounts at any time becoming due and payable in respect of the Senior Notes. The guarantees are senior unsecured obligations of each guarantor and will rank equally in right of payment with all existing and future senior unsecured and unsubordinated obligations of each guarantor.

On 26 February 2015, the Parent Company entered into a US$ 57,950 thousand, term loan facility guaranteed by the Italian Export Credit Agency SACE. On 30 July 2015, the Parent Company entered into a US$ 108,000 thousand term loan facility guaranteed by the UK Export Credit Agency UKEF, on substantially the same terms as the SACE facility. The two facilities were linked to the procurement of certain goods and services from Italian and UK exporters, respectively, in connection with the construction of the Petrofac JSD6000 vessel. Both facilities were amended in 2016 to remove references to the JSD6000 vessel.

28 COMMITMENTS AND CONTINGENCIES (continued)

Leases

The Group has financial commitments in respect of non-cancellable operating leases for office space. These non-cancellable leases have remaining non-cancellable lease terms of between one and five years. The future minimum rental commitments under these non-cancellable leases are as follows:

	2016 *US$'000*	*2015* *US$'000*
Within one year	**10,969**	13,419
After one year but not more than five years	**6,567**	9,648
	17,536	23,067

Minimum lease payments recognised as an operating lease expense during the year amounted to US$ 40,614 thousand (2015: US$ 32,843 thousand).

Capital commitments

At 31 December 2016, the Group had capital commitments of US$ 62,861 thousand (2015: US$ 95,873 thousand) excluding the above lease commitments.

These are in respect of the following:

	2016 *US$'000*	*2015* *US$'000*
Building of Petrofac JSD6000 installation vessel	**49,830**	92,959
Commitments in respect of the construction of a new training centre in Oman	**6,200**	91
Production Enhancements Contracts in Mexico	**6,831**	2,823
	62,861	95,873

Other matter

During spring 2016, Petrofac group was subject to allegations which came to light in the media relating to the historical provision of services to the Group by Unaoil. The parent company board commissioned an immediate independent investigation to thoroughly review the allegations. The investigation was carried out by Freshfields, supported by KPMG. While the Group's investigation did not find evidence confirming the payment of bribes, the consequences of the Company's disclosures to the Serious Fraud Office will be decided by the Regulatory authorities and it is currently unclear if any further investigation involving the Group will be undertaken. Therefore, at the date of this report, no liability has been recorded in relation to this matter.

The existence of a future obligation, and the timing and amount of any future financial effect, are unable to be determined.

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk management objectives and policies

The Group's principal financial assets and liabilities, other than derivatives, comprise trade and other receivables, due from related parties, loans to related parties, other financial assets, cash and short-term deposits, trade and other payables, dues to related parties, loans from related parties, interest bearing loans and borrowings and other financial liabilities.

The Group's activities expose it to various financial risks particularly foreign currency risk on conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally forward currency contracts in line with the Group's hedging policy. The Group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the parent company has established an audit committee to help identify, evaluate and manage the significant financial risks faced by the Group.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Group's interest-bearing financial assets and liabilities.

The Group's exposure to market risk arising from changes in interest rates relates primarily to the Group's long-term variable rate debt obligations and its cash and bank balances. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's cash and bank balances are at floating rates of interest.

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

	Pre-tax profit		*Equity*	
	100 basis points increase US$ '000	*100 basis points decrease US$ '000*	*100 basis point increase US$ '000*	*100 basis point decrease US$ '000*
31 December 2016	**(116)**	**116**	-	-
31 December 2015	(1,994)	1,994	-	-

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

The following table reflects the maturity profile of these financial assets and liabilities that are subject to interest rate risk:

	Within 1 year		*1 – 2 years*		*2 – 5 years*		*Total*	
	2016 US$'000	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*
Financial assets-								
Floating rates								
Short term deposits (note 18)	**124,824**	56,694	-	-	-	-	**124,824**	56,694
Restricted cash balances (note 15)	**8,261**	35,945	**37,563**	40,000	-	-	**45,824**	75,945
Amount due to related parties (note 27)	**58,115**	25,127	-	-	-	-	**58,115**	25,127
Loans to companies under common control of parent company (note 27)	**169,160**	132,169	**224,161**	472,484	-	-	**393,321**	604,653
	360,360	249,935	**261,724**	512,484	-	-	**622,084**	762,419
Financial liability-								
Floating rates								
Due to parent company (note 27)	**69,630**	49,849	-	-	-	-	**69,630**	49,849
Due to companies under control of parent company (note 27)	**73,585**	113,076	-	-	-	-	**73,585**	113,076
Loans from companies under common control of parent company (note 27)	**118,078**	124,569	-	-	**547,776**	-	**665,854**	124,569
Loan from parent company (note 27)	**703,379**	857,911	-	-	**74,941**	-	**778,320**	857,911
Interest bearing loans and' Borrowings (note 23)	-	-	-	-	-	539,999	-	539,999
	964,672	1,145,405	-	-	**622,717**	539,999	**1,587,389**	1,685,404

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

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Foreign currency risk
The Group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The Group is also exposed to the translation of the functional currencies of its units to the US Dollar reporting currency of the Group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US Dollar terms, of the Group totals.

	2016 *% of foreign currency denominated items*	*2015* *% of foreign currency denominated items*
Revenues	**11.1%**	8.3%
Costs	**13.5%**	13.5%
Current financial assets	**16.7%**	11.9%
Current financial liabilities	**30.0%**	26.7%

The Group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the Group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis
The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction.

The following significant exchange rates applied during the year in relation to US Dollars:

	2016		*2015*	
	Average rate	***Closing rate***	*Average rate*	*Closing rate*
Sterling	**1.35**	**1.23**	1.53	1.47
Kuwaiti Dinars	**3.31**	**3.27**	3.32	3.29
Euros	**1.10**	**1.05**	1.11	1.09

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

	Pre-tax profit		*Equity*	
	+10% US Dollar rate increase US$'000	*-10% US Dollar rate decrease US$'000*	*+10% US Dollar rate increase US$'000*	*-10%US Dollar rate decrease US$'000*
31 December 2016	**(6,532)**	**6,532**	**(20,682)**	**20,682**
31 December 2015	(28,133)	28,133	34,043	(34,043)

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Foreign currency risk (continued)
At 31 December 2016, the Group had foreign exchange contracts designated as cash flow hedges with a fair value loss of US$ 12,770 thousand (2015: loss of US$ 74,129 thousand) as follows:

	Contract value		*Fair value (designated)*		*Net unrealised (loss) / gain*	
	2016 US$'000	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*
Euro purchases	**879,752**	551,915	**(23,620)**	38,522	**(288)**	(54,316)
Sterling purchases	**54,802**	88,892	**(4,267)**	(2,569)	**(14,012)**	(5,692)
Kuwaiti dinar (sales)	**(2,096,531)**	(716,804)	**(5,530)**	1,786	**23,784**	7,509
Yen purchases/(sales)	**64,626**	(2,796)	**287**	6	**(4,280)**	-
Saudi Riyal (sales)	**-**	38,375	**-**	(28)	**-**	(25)
Malaysian Ringgit purchases	**85,488**	106,393	**(10,543)**	(18,013)	**(17,816)**	(21,605)
Indian Rupee purchases	**6,974**	-	**(135)**	-	**(158)**	-
			(43,808)	19,704	**(12,770)**	(74,129)

The above foreign exchange contracts will mature and affect income between January 2017 to June 2019 (2015: January 2016 and June 2019). Derivative contracts amounting to US$ 2,277,972 thousand (2015: US$ 190,195 thousand) have been entered into with the parent company and these contract will mature between 1 January 2017 to 30 June 2019. The fair value of derivative contracts with the Parent Company as at 31 December 2016 was loss of US$ 6,482 thousand (2015: loss of US$ 10,668 thousand) which was included in amount due to/from related parties.

At 31 December 2016, the Company had cash and short-term deposits designated as cash flow hedges with net unrealised loss of US$ 1,677 thousand (2015: loss of US$ 2,544 thousand) as follows:

	Fair value		*Net unrealised loss*	
	2016 US$'000	*2015 US$'000*	***2016 US$'000***	*2015 US$'000*
Euro currency cash and short-term deposits	**16,878**	15,570	**(761)**	(2,544)
GBP currency cash and short-term deposits	**5,013**	-	**(916)**	-
Total	**21,891**	15,570	**(1,677)**	(2,544)

During 2016, changes in fair value gain of US$ 54,059 thousand (2015: losses of US$ 59,910 thousand) relating to these derivative instruments and financial assets were taken to equity and US$ 7,300 thousand of loss (2015: US$ 13,158 thousand of loss) were recycled from equity into cost of sales in the consolidated income statement. The forward points and ineffective portion of the above foreign exchange forward contracts and losses on un-designated derivatives of US$ 3,560 thousand (2015: US$ 3,171 thousand gain) was recognised in the consolidated income statement (note 3a).

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Credit risk

The Group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) have been set up by the Board of Directors to evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the BURRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow up action taken where necessary. At 31 December 2016, the Group's five largest customers accounted for 41% of outstanding trade receivables, retention receivables and work in progress (2015: 43%).

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

Liquidity risk

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

Year ended 31 December 2016

	6 months or less US$'000	*6-12 months US$'000*	*1-2 years US$'000*	*2-5 years US$'000*	*More than 5 years US$'000*	*Contractual undis-counted cash flows US$'000*	*Carrying amount US$'000*
Financial liabilities:							
Trade and other payables *(excluding advances from customers and other taxes payable)*	**982,444**	**2,628**	-	-	-	**985,072**	**985,072**
Finance lease creditors	**439**	**4,123**	-	-	-	**4,562**	**4,562**
Due to related parties	**143,215**	-	-	-	-	**143,215**	**143,215**
Loans from related parties	-	**851,350**	-	**630,898**	-	**1,482,248**	**1,482,248**
Derivative instruments	**25,705**	**18,751**	-	-	-	**44,456**	**44,456**
	1,151,803	**876,852**	-	**630,898**	-	**2,659,553**	**2,659,553**

Year ended 31 December 2015

	6 months or less US$'000	*6-12 months US$'000*	*1-2 years US$'000*	*2-5 years US$'000*	*More than 5 years US$'000*	*Contractual undis-counted cash flows US$'000*	*Carrying amount US$'000*
Financial liabilities:							
Interest bearing loans and borrowings	-	-	-	592,109	-	592,109	592,109
Trade and other payables *(excluding advances from customers and other taxes payable)*	1,004,422	-	-	-	-	1,004,422	1,004,422
Finance lease creditors	4,529	-	-	-	-	4,529	4,529
Due to related parties	162,925	-	-	-	-	162,925	200,870
Loans from related parties	1,018,232	-	-	-	-	1,018,232	944,535
Derivative instruments	41,910	11,909	20,792	6,830	-	81,441	81,441
	2,232,018	11,909	20,792	598,939	-	2,863,658	2,827,906

29 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

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

The Group seeks to optimise shareholder returns by maintaining a balance between debt and capital and monitoring the efficiency of its capital structure on a regular basis.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2016 and 31 December 2015. Equity comprises share capital, net unrealised (losses)/gains on derivatives, foreign currency translation reserve, share based payment reserve and retained earnings, and is measured at US$ 698,156 thousand as at 31 December 2016 (2015: US$ 563,921 thousand).

30 SUBSIDIARIES AND JOINT ARRANGEMENTS

At 31 December 2016, the Group had investments in the following subsidiaries and joint arrangements:

Name of company	*Country of incorporation*	*Proportion of nominal value of issued shares controlled by the Company*	
Active subsidiaries		**2016**	2015
Petrofac Algeria EURL	Algeria	***100%**	*100%
Petrofac Engineering India Private Limited	India	**100%**	*100%
Petrofac Engineering Services India Private Limited	India	***100%**	*100%
Petrofac Information Services Private Limited	India	**100%**	100%
PT. Petrofac IKPT International	Indonesia	**72%**	51%
Petrofac (JSD6000) Limited	Jersey	**100%**	100%
Petrofac E&C Sdn Bhd	Malaysia	**100%**	100%
Petrofac Engineering Services (Malaysia) Sdn. Bhd.	Malaysia	**70%**	70%
PFMAP Sdn. Bhd.	Malaysia	**100%**	100%
Petrofac Mexico SA de CV	Mexico	**100%**	100%
Petrofac Mexico Servicios SA de CV	Mexico	**100%**	100%
H&L/SPD Americas S de R.L.de CV	Mexico	**100%**	100%
Operadora de Compas del Noreste SA de CV (previously Petrofac Mexico Operanciones SA de DV)	Mexico	**100%**	100%
Petrofac Netherlands Cooperatief UA	Netherlands	**99%**	99%
PTS BV	Netherlands	**100%**	100%
Petrofac Netherlands Holding BV	Netherlands	**100%**	100%
Petrofac Kazakhstan BV	Netherlands	**100%**	100%
Petrofac Treasury BV	Netherlands	**100%**	100%
Petrofac Mexico Holdings BV	Netherlands	**100%**	100%
Petrofac Norge BV	Netherlands	**100%**	100%
Petrofac Oman BV (formerly Petrofac Russia BV)	Netherlands	**100%**	100%
Petrofac Nigeria BV	Netherlands	**100%**	100%
Petrofac Kazakhstan Ventures BV	Netherlands	**100%**	100%
Petrofac International (Nigeria) Limited	Nigeria	****40%**	**40%
Petrofac Energy Services Nigeria Limited	Nigeria	**100%**	100%
Petrofac Holding AS	Norway	**100%**	100%
Petrofac E&C Oman LLC	Oman	***100%**	*100%
Petrofac Saudi Arabia Company Limited	Saudi Arabia	***100%**	*100%
Petrofac Emirates LLC (note 12)	United Arab Emirates	**75%**	75%
Petrofac E & C International Limited	United Arab Emirates	***100%**	*100%
Petrofac FZE	United Arab Emirates	***100%**	*100%
Petrofac International (UAE) LLC	United Arab Emirates	***100%**	*100%
Petrofac International (Bahrain) S.P.C	Bahrain	**100%**	*100%
Petrofac International South Africa (Pty) Limited	South Africa	**100%**	*100%

30 SUBSIDIARIES AND JOINT ARRANGEMENTS (continued)

Name of joint arrangement	*Principal activities*	*Country of incorporation*	*Proportion of nominal value of issued shares controlled by the Company*	
			2016	2015
Joint Ventures				
Spie Capag – Petrofac International Ltd	Construction, operation and management of a training centre	Jersey	***50%**	*50%
China Petroleum Petrofac Engineering Services Cooperatief UA	Consultancy for Petroleum and chemical engineering	Netherlands	**49%**	49%
Takatuf Petrofac Oman LLC	Construction, operation and management of a training centre	Oman	**40%**	40%
Joint Operations				
PetroAlfa Services Integrados de Energia SAPI d CV	Services to oil and gas industry	Mexico	***50%**	*50%
Petro SPM Integrated Services S.A. de C.V	Production enhancement for Pánuco	Mexico	**50%#2**	50%#2
Bechtel Petrofac JV	Engineering, procurement and construction management of a project in UAE	Unincorporated	**35%#3**	35%#3
Petrofac/Daelim JV	EPC for a project in Oman	Unincorporated	**50%#3**	50%#3
Petrofac/Bonatti JV	EPC for a project in Algeria	Unincorporated	**70%#3**	70%#3
NGL-4 JV	EPC for a project in UAE	Unincorporated	**45%#3**	45%#3
Petrofac/Samsung/CB&I CFP	EPC for a project in Kuwait	Unincorporated	**47%#3**	47%#3

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

* Directly held by Petrofac International Ltd.

** Company consolidated as subsidiary on the basis of control.

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

#2 Joint arrangement classified as joint operation on the basis of contractual arrangement between the joint venturers to be jointly and severally liable for performance under Panuco ISC.

#3 The unincorporated arrangement between the venturers is a joint arrangement, as contractually, all the decisions about the relevant activities require unanimous consent by the venturers and all unincorporated joint arrangements are included in the Group's results as joint operations.

The Company's interest in joint ventures is disclosed in note 10.

31 COMPARATIVES

An amount of US$ 827,563 thousand earlier included under due to related parties in the consolidated statement of financial position has been re-classified to loans from related parties to conform with the presentation in the current year.

The above reclassification does not have any effect on the 2014 and 2015 consolidated financial statements and accordingly consolidated income statement for the year 2014 has not been presented.