

Petrofac International Ltd

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

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
	<u>32,153</u>	<u>32,153</u>

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
<i>Assets held for sale</i>		
Property, plant and equipment (note 8)	48,026	-
Intangible assets (note 9)	1,597	-
Trade and other receivables (note 17)	78,505	-
	<u>128,128</u>	<u>-</u>