Petrofac Limited (PFC)
Petrofac Limited: RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

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PETROFAC LIMITED
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

- Challenges in E&C partially offset by strong performance in Asset Solutions and IES
- Business performance EBIT loss of US$(205) million[1]
- Reported net loss of US$(310) million[2] inclusive of separately disclosed items
- Healthy total Group pipeline of US$51 billion scheduled for award in the period to June 2024
- Net debt of US$349 million[3] and liquidity of US$506 million [4] at 31 December 2022
- Bank facilities extended to October 2024
- Backlog of US$3.4 billion at 31 December 2022
- Share of €13 billion TenneT framework agreement and first contract award secured in Q1 2023

	Year ended 31 December 2022			Year ended 31 December 2021[5]		
US$m	**Business performance**	**Separately disclosed items**	**Reported**	Business performance	Separately disclosed items	Reported
Revenue	**2,591**	**n/a**	**2,591**	3,038	n/a	3,038
EBITDA	**(126)**	**(12)**	**(138)**	56	(142)	(86)
EBIT	**(205)**	**(7)**	**(212)**	(12)	(177)	(189)
Net loss[2]	**(284)**	**(26)**	**(310)**	3	(248)	(245)

Tareq Kawash, Petrofac's Group Chief Executive since 1 April 2023, commented:

"Petrofac's performance for 2022 was severely impacted by the challenges in the Group's legacy E&C portfolio, which continues to feel the direct and indirect effects of pandemic delays. We are working resolutely to put these challenges behind us, and to rebuild our backlog - such as the recent multi-year, multi-platform Framework Agreement in support of TenneT's 2GW offshore wind programme. Meanwhile, IES is performing well and Asset Solutions continues to provide us with attractive growth opportunities.

"I joined Petrofac because I see the business is a trusted project delivery partner, with significant opportunity for growth and value creation. I have known the business for many years and believe strongly in the business model and Petrofac's differentiated competitive position. We have an exceptional Engineering, Procurement, Construction and Operations capability that is well positioned to deliver and support critical energy infrastructure. In an increasingly active market, we must be selective and disciplined as we grow our order book over the coming years. I am impressed by the people at Petrofac and I'm excited to work together to deliver the Group's potential."

DIVISIONAL HIGHLIGHTS

Engineering & Construction (E&C)

2022 was another challenging year for E&C as we progressed with the completion of many of the legacy Covid-19 affected projects in the portfolio and new industry awards were further delayed. As a result, financial performance was adversely affected by unrecovered cost overruns and delays to the realisation of working capital balances.

Cost overruns related principally to two areas: the Thai Oil Clean Fuels contract and other legacy contracts completed or substantially completed in the year [6].

On the Thai Oil Clean Fuels contract, due to the scale and complexity of this project and the schedule delays suffered during the pandemic, the additional work required to complete the project and recover lost time led to additional costs. Going forward, we expect to recover a portion of these additional costs, however, in the meantime, we remain focussed on working with our client and partners to safely and successfully deliver this unique project.

In addition, in a challenging commercial environment, we have in some cases suffered adverse outcomes on commercial settlements in the remaining portfolio of contracts to release working capital.

Following the impact of these challenges, E&C reports the following financial results for the 12 months ended 31 December 2022 [1]

- Revenue down 33% to US$1.3 billion (2021 restated[5]: US$2.0 billion)

- EBIT loss of US$299 million (2021 restated[5]: US$62 million)
- EBIT margin down to (22.8)% (2021 restated[5]: (3.2)%)

Industry awards were lower than expected again in 2022, and, as a result, E&C's new order intake for the year was lower than prior years at US$0.5 billion (2021: US$1.2 billion), comprising an EPC contract in Algeria and net variation orders.

In June 2022, Petrofac and Hitachi Energy entered into a collaboration to provide joint grid integration and associated infrastructure to support the rapidly growing offshore wind market. This collaboration led, subsequent to the year end, to the award of our largest ever Framework Agreement with TenneT, in support of its 2GW offshore wind programme. Worth approximately €13 billion to the partnership, the multi-year Framework Agreement was accompanied by the first platform contract award which was added to backlog in Q1 2023.

The market outlook for the remainder of 2023 and beyond remains positive. Following a decade of underinvestment, a renewed focus in the sector on secure, affordable, sustainable energy provides a backdrop for awards in the short and medium-term. E&C's addressable pipeline remains healthy, with a potential US$40 billion in customer opportunities scheduled for award in the period to June 2024. This includes bids in the proposal process of approximately US$12 billion and a further US$1.5 billion where we remain at preferred bidder stage.

Asset Solutions

Asset Solutions delivered another robust performance in 2022, in line with guidance, with a strong book-to-bill ratio of 1.2x for the year, with each of the service lines (Asset Operations, Asset Development and Well Engineering & Decommissioning) delivering growth. We maintained our core 40% market share in the UK and renewal rate of 80% for operations and maintenance contracts. Internationally, we have expanded our operations within new and existing geographies, with awards across each service line. In particular, 2022 saw great success in driving forward our late-life asset management and decommissioning service offerings, with significant awards in Australia and the Gulf of Mexico.

Operational performance has continued to remain robust, with healthy margins, albeit reduced compared with the prior year due to the roll-off of certain historic high-margin contracts and the impact of an increased proportion of pass-through revenue.

Asset Solutions reports the following financial results for the 12 months ended 31 December 2022[1]

- Revenue up 4% to US$1.2 billion
- EBIT of US$60 million (2021: US$74 million)
- EBIT margin of 5.2% (2021: 6.7%)
- US$1.4 billion of awards (2021: US$1.0 billion), representing a book-to-bill of 1.2x

The strong momentum we have gained over the last two years in new energies continued in 2022, with a series of early-stage awards and strategic alliances with technology providers. This leaves us well positioned over the medium-term to secure engineering, procurement and construction scopes and other execution phase project work, as projects reach final investment decision.

Integrated Energy Services (IES)

IES delivered strong financial performance in the year, reflecting the increased production and higher oil prices realised. Net production reflected a full year's production from the East Cendor development, which commenced in June 2021, the reinstatement of the main Cendor field production and other well workovers. IES generated positive free cash flow in the year as a result of Block PM304 performance, as well as receiving US$98 million of consideration from the divestments of the Greater Stella Area and the Mexico operations.

IES reports the following financial results for the 12 months ended 31 December 2022[1]

- Revenue up 174% to US$137 million
  - Average realised oil price up 49% to US$112/boe
  - Net production up 97% to 1,261kboe
- EBITDA up US$88 million to US$109 million

SEPARATELY DISCLOSED ITEMS [7]

The reported net loss of US$310 million (2021 restated[5]: US$245 million) includes a net charge of US$26 million (2021: US$248 million). This predominantly related to:

- US$(5) million impairment reversal (net) primarily resulting from a review of the carrying amount of the investment in Block

PM304 in Malaysia

- US$(10) million of positive fair value re-measurements (net), primarily resulting from the improved final settlement relating to the divestment of the Group's operations in Mexico
- US$18 million financing related fair value loss associated with the embedded derivative in respect of the Revolving Credit Facility
- US$10 million of cloud ERP software implementation costs
- Other net separately disclosed items of US$13 million including: restructuring and redundancy costs, a loss on the sale of the deferred consideration in relation to the divestment of the Greater Stella Area operations, and professional service fees in the Corporate reporting segment

CASH FLOW, NET DEBT AND LIQUIDITY

Free cash outflow for the year of US$188 million principally reflected the net cash outflow used in operating activities – which included the payment of the US$104 million SFO court penalty – and higher interest payments, partially offset by higher divestment proceeds.

Net debt, excluding net finance leases, increased to US$349 million at 31 December 2022 (2021: US$144 million), driven by the free cash outflow in the year.

The Group had US$506 million of liquidity(4) available at 31 December 2022 (2021: US$705 million).

In the short term, the Group is reliant on a small number of relatively high value collections in respect of the conclusion of historical contracts, settlements and new awards. Based on the recent progress made, the Directors are confident that the expected timing and realisation of these collections are reasonable and reflect their assessment of the most likely outcome. However, as the resolution of these matters is not wholly within Petrofac's control, there remains a level of uncertainty which is disclosed within note 2.5 to the consolidated financial statements.

EXTENSION OF DEBT FACILITIES

Following the capital raise and the refinancing completed in 2021, the Group extended its banking facilities in April 2023. The Group therefore now has facilities consisting of US$600 million of senior secured notes (due 2026), a US$162 million revolving credit facility and two bilateral loan facilities totalling US$90 million all of which mature in October 2024.

DIVIDEND

The Board recognises the importance of dividends to shareholders and aims to reinstate them in due course, once the Company's performance has improved.

ORDER BACKLOG

The Group's backlog decreased 15% to US$3.4 billion at 31 December 2022 (2021 restated(5): US$4.0 billion), reflecting low new order intake in E&C due to industry delays to awards, partially offset by strong order intake in Asset Solutions.

	31 December 2022 **US$ billion**	31 December 2021 (restated) 5) US$ billion
Engineering & Construction	**1.6**	2.4
Asset Solutions	**1.8**	1.6
Group backlog	**3.4**	4.0

OUTLOOK

The outlook for new awards in E&C remains robust, supported by high energy demand and increased focus on energy security and the energy transition. E&C is well positioned on a number of other near-term prospects as evidenced by the recent multi-year, multi-platform Framework Agreement award in support of TenneT's 2GW offshore wind programme. It has US$1.5 billion of opportunities at preferred bidder stage, and a further US$3 billion of bids submitted. Bidding activity remains high, with a total pipeline scheduled for award by June 2024 of approximately US$40 billion, of which US$23 billion is scheduled for award in 2023.

E&C has secured revenue of US$0.9 billion for 2023. Approximately half of this revenue comes from contracts with no future margin contribution. Furthermore, new awards secured in 2023 are not expected to contribute to margins until next year. Coupled with the adverse operating leverage due to the small portfolio of active contracts, we expect a small EBIT loss in E&C in 2023. Our healthy pipeline and projected order intake in 2023 mean that we remain confident of delivering a return to profitability and positive cash flow in 2024 and significant growth in E&C over the medium term.

Asset Solutions has US$2.5 billion of bids submitted as part of a US$11 billion pipeline of opportunities scheduled for award by June 2024, with US$8 billion scheduled for award in 2023.

Asset Solutions has secured revenue of US$1.2 billion for 2023. The business is expected to continue to grow, with revenue growth driven by focused geographic expansion and new order intake in Well Engineering & Decommissioning in 2022. We expect a healthy EBIT in 2023 albeit lower than 2022, reflecting the further roll-off of certain high-margin contracts and a higher proportion of pass-through revenue.

IES is expected to deliver another robust production performance in 2023, with production marginally lower than 2022. At US$85/bbl oil price, EBITDA is expected to be in the range US$65 million to US$75 million, taking into account hedging.

At Group level, we expect cash flow to be broadly neutral in 2023, with upside potential depending on the progress made in unwinding working capital balances. Included in the underlying cash flows are capex of US$25-35 million, tax payments of US$70-80 million (relating to prior periods) and interest costs of US$80 million.

The near-term objectives for the Group are clear: to leverage our healthy pipeline of opportunities to increase backlog; and to release existing working capital to support liquidity. Good progress has been made in the year to date with the TenneT award, an extension of bank debt facilities and efforts to release working capital.

BOARD CHANGES

Further to the announcement made on 22 November 2022, the Company welcomed Tareq Kawash as Group Chief Executive and Executive Director, succeeding Sami Iskander, with effect from 1 April 2023.

NOTES

1. Business performance before separately disclosed items. This measurement is shown by Petrofac as a means of measuring underlying business performance (see note 4 to the consolidated financial statements).
2. Attributable to Petrofac Limited shareholders.
3. Net debt comprises interest-bearing loans and borrowings less cash and short-term deposits (i.e. excludes IFRS 16 lease liabilities).
4. Gross liquidity of US$506 million on 31 December 2022 consisted of US$450 million of gross cash and US$56 million of undrawn committed facilities. Gross cash included US$12 million held in certain countries whose exchange controls significantly restrict or delay the remittance of these amounts to foreign jurisdictions. It also included US$203 million in joint operation bank accounts which are generally available to meet the working capital requirements of those joint operations, but which can only be made available to the Group for its general corporate use with the agreement of the joint operation partners.
5. As referenced in the Trading Update on 12 April 2023, the consolidated financial statements include prior year adjustments including one relating to the Thai Oil Clean Fuels project. This adjustment reduces the 2021 EBIT comparator by US$48 million. The full details of the prior year adjustments are detailed in note 2.9 to the consolidated financial statements.
6. Completed and substantially completed contracts: contracts where (i) a Provisional Acceptance Certificate (PAC) has been issued by the client, or (ii) transfer of care and custody (TCC) to the client has taken place, or (iii) PAC or TCC are imminent, and no substantive work remains to be performed by Petrofac.
7. Further information in relation to the separately disclosed items is detailed in note 6 to the consolidated financial statements.

PRESENTATION

Our full year results presentation will be held at 8.30am today and will be webcast live via: https://broadcaster-audience.mediaplatform.com/#/event/6436bcfd9455ad2bacfa0dfc

SEGMENTAL PERFORMANCE AND FINANCIAL REVIEW

Click on, or paste the following link into your web browser, to view our Segmental performance and Financial review for the year ended 31 December 2022
https://www.petrofac.com/media/f1kpv0rs/petrofac-fy-2022-segmental-performance-financial-review.pdf

GROUP FINANCIAL STATEMENTS

Click on, or paste the following link into your web browser, to view the Group financial statements of Petrofac Limited for the year ended

31 December 2022

https://www.petrofac.com/media/zaulcl20/petrofac-fy-2022-financial-statements.pdf

The linked documents are extracts from the Group's Annual Report and Accounts for the year ended 31 December 2022. Page number references refer to the full Annual Report when available.

ENDS

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NOTES TO EDITORS

Petrofac

Petrofac is a leading international service provider to the energy industry, with a diverse client portfolio including many of the world's leading energy companies.

Petrofac designs, builds, manages and maintains oil, gas, refining, petrochemicals and renewable energy infrastructure. Our purpose is to enable our clients to meet the world's evolving energy needs. Our four values - driven, agile, respectful and open - are at the heart of everything we do.

Petrofac's core markets are in the Middle East and North Africa (MENA) region and the UK North Sea, where we have built a long and successful track record of safe, reliable and innovative execution, underpinned by a cost effective and local delivery model with a strong focus on in-country value. We operate in several other significant markets, including India, South East Asia and the United States. We have 7,950 employees based across 31 offices globally.

Petrofac is quoted on the London Stock Exchange (symbol: PFC).

For additional information, please refer to the Petrofac website at www.petrofac.com

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