

2615887

Petrofac Engineering Limited
Report and Financial Statements

31 December 2003



Petrofac Engineering Limited

Registered No: 02615887

Directors

A Asfari
M Cannavina
J M Fleming
G Grant
R Jewkes
S B Keen
T J Stacey

Secretary

T J Stacey

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers

The Royal Bank of Scotland
40 Albyn Place
Aberdeen
AB10 1YN

Solicitors

Charles Russell & Co
Buryfields House
Bury Fields
Guildford
Surrey GU2 4AZ

Registered Office

Chester House
76-86 Chertsey Road
Woking
Surrey GU21 5BJ

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2003.

Principal Activities and Review of the Business

Petrofac Engineering Limited (PEL) provides field development engineering for the hydrocarbon industry, including; consultancy, studies, conceptual engineering, front end engineering and design (FEED); detailed design, procurement support, risk, safety and environmental services. In 2003 PEL was approved by Lloyd's Register Quality Assurance to the Quality Management System standard of BS EN ISO 9001:2000.

During the year PEL undertook contracts for more than 30 customers in the hydrocarbon industry with the largest customers being Oil & Energy Industries Development (OEID), Statoil and Qatar Petroleum (QP). Engineering Services were provided to Oil Companies on projects in several countries around the world with Iran, UK, Algeria, Nigeria and Norway being the top five.

Future Developments

The directors remain committed to a strategy of providing a broad range of engineering and support services to the onshore and offshore oil and gas industry.

Petrofac group has reorganised, with effect from March 2004 Petrofac Engineering Limited becomes part of the Petrofac Engineering and Construction division.

Immediate Parent Company

The intermediate holding company is Petrofac UK Holdings Limited. Petrofac Limited remains the ultimate holding company.

Results & Dividends

Turnover for the year amounted to £10,225,834 (2002 £11,384,711). The loss for the year after tax amounted to £1,562,630 (2002 £833,983 loss), when added to the retained deficit brought forward on 1st January 2003 of £820,722, gives a total retained deficit carried forward at 31st December 2003 of £2,383,352.

The directors recommend that no dividend be paid and the loss transferred to reserves.

Events since Balance Sheet Date

On 31st March 2004 the company's ultimate parent, Petrofac Limited, assigned its interest in amounts owing from the company of £3,127,400 to Petrofac UK Holdings Limited. Immediately following the assignation, Petrofac UK Holdings Limited agreed to convert £1,625,000 of the assigned amount to an equivalent number of £1 new ordinary shares in the company. The effect of this transaction was to recapitalise the company by £1,625,000. The authorised share capital of the company was increased from £1,000,000 to £3,000,000.

Directors' report

Directors and their Interests

The present directors are listed on page 1.

A Asfari, JM Fleming, G Grant, S B Keen, TJ Stacey and JM Stacey served as directors throughout the financial year.

Changes since 1st January 2003 are as follows:

M Cannavina (appointed 1st June 2004)

R Jewkes (appointed 2nd August 2004)

JM Stacey (resigned 9th September 2004)

NJ Paton (appointed 18th September 2003) (resigned 24th March 2004)

PL Warner (resigned 2nd February 2003)

No director had an interest in the shares of the company during the year.

Political and Charitable Donations

A charitable donation of £2,000 was made during the year.

Employee Consultation

The company's policy is to consult and discuss with employees matters likely to affect employees' interests. During the year the company has maintained its obligation to develop and improve arrangements aimed at involving employees in all of its affairs in so far as they affect employees.

Auditors

Ernst & Young will continue in office as the company's auditor in accordance with the elective resolution passed by the Company under Section 386 of the Companies Act 1985.

On behalf of the Board



T J E Stacey
Director

24th September 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements and having a reasonable expectation that the company has or has access within the Petrofac Limited group to adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the accounts.

Independent auditors' report

to the members of Petrofac Engineering Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, accounting policies, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Petrofac Engineering Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name.

Ernst & Young LLP

Registered Auditor

London

24th September 2004

Profit and loss account

for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	10,225,834	11,384,711
Cost of sales		10,538,501	10,371,538
		<u>(312,667)</u>	<u>1,013,173</u>
Gross(loss)/ profit		1,739,227	1,836,770
Administrative expenses			
	3	(2,051,894)	(823,597)
Operating loss	6	-	6,354
Loss on disposal of fixed assets			
		<u>(2,051,894)</u>	<u>(829,951)</u>
Loss on ordinary activities before interest & tax			
Interest receivable and similar income		-	2,397
Interest payable and similar charges	7	61,233	9,800
		<u>(2,113,127)</u>	<u>(837,354)</u>
Loss before taxation	8	(550,497)	(3,371)
Tax on ordinary activities			
		<u>(1,562,630)</u>	<u>(833,983)</u>
Retained loss for the financial year			

Statement of total recognised gains and losses

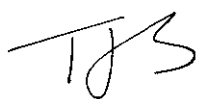
for the year ended 31 December 2003

The company has no recognised gains or losses, other than the loss of £1,562,630 for the year ended 31 December 2003 (2002 loss of £833,983)

Balance sheet

at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	9	559,780	992,907
Current assets			
Debtors	10	4,985,801	3,794,827
Cash at bank and in hand	11	215,162	385,277
		<u>5,200,963</u>	<u>4,180,104</u>
Creditors: Amounts falling due within one year	12	3,985,651	2,875,921
Net current assets		<u>1,215,321</u>	<u>1,304,183</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,775,092</u>	<u>2,297,090</u>
Creditors: Amounts falling due after more than one year	13	3,127,400	1,892,187
Provisions for Liabilities and charges	14	31,044	225,625
NET (LIABILITIES)/ASSETS		<u>(1,383,352)</u>	<u>179,278</u>
Represented by:			
Capital and reserves			
Called-up share capital	15	1,000,000	1,000,000
Profit and loss account	16	(2,383,352)	(820,722)
EQUITY SHAREHOLDERS' FUNDS	16	<u>(1,383,352)</u>	<u>179,278</u>



T J E Stacey
Director

24th September 2004

Notes to the financial statements

at 31 December 2003

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting and change in accounting policy

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Statement of cash flows

As the ultimate parent company undertaking has published a group cash flow statement in compliance with Financial Reporting Standard No.1 (Revised), a cash flow statement is not presented in these financial statements.

Fundamental accounting concept

The company is dependant on continuing finance being made available by its parent company to enable it to continue operating and to meet its liabilities as they fall due.

The parent company has agreed to provide sufficient funds to the company for these purposes; it has also agreed not to recall the amounts advanced to the company which as at 31 December 2003 amounted to £3,127,400 (see note 13) until all other creditors have been met. The directors believe that it is therefore appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Revenues from fixed-price contracts are recognised using the percentage completion method or earned value.

Revenues from reimbursable hourly and daily rate contracts are recognised in the period in which the services are being provided and is based on the agreed contract schedule of rates.

Revenues from UK Governmental grants are recognised when earned.

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Recognition of revenues from fixed-price contracts is detailed above. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Group Accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 228(1) of the Companies Act 1985. The result of subsidiary undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, Petrofac Limited, a company registered in Jersey. The accounts present information about the company as individual undertaking and not about the group.

Notes to the financial statements

at 31 December 2003

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value of each asset, evenly over its expected useful life, as follows:

Leasehold improvements	over the lease term
Motor vehicles	over 4 years
Computer software	in the year of purchase
Furniture	over 4 years
Office equipment	over 3 years

Operating leases

The company has entered its various operating leases, the payments under which are treated as rentals and charged to the profit and loss account on a straight-line basis over the lease.

Comparative figures

Certain prior year figures have been restated to conform with 2003 presentation.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacements assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the financial statements

at 31 December 2003

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Turnover

Turnover which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of long-term contracts is calculated on percentage completion of the project.

The Company operates in two principle areas of activity, the provision of engineering and construction services to the oil and gas industry and the provision of management services to other companies in the Petrofac group.

	2003	2002
	£	£
Engineering Services	7,948,866	10,166,512
Management services	2,276,968	1,218,199
	<u>10,225,834</u>	<u>11,384,711</u>

An analysis of turnover by geographical market is given below:

	2003	2002
	£	£
Africa	470,717	1,229,729
Europe	3,760,104	2,414,977
Former Soviet Union	-	1,756,868
Middle East	5,581,274	5,843,953
North America	413,739	139,184
	<u>10,225,834</u>	<u>11,384,711</u>

Turnover attributable to Group Companies amounted to £5,226,866 (2002 - £4,216,132)

Turnover from UK Governmental grants amounted to £147,150 (2002 £Nil)

Notes to the financial statements

at 31 December 2003

3. Operating loss

Operating loss is stated after charging:

	2003	2002
	£	£
Depreciation of owned fixed assets	386,755	453,171
Auditors' remuneration - audit fees	21,500	19,100
- fees for other services	1,650	-
Operating lease rentals		
- land and buildings	397,500	622,833
- other	8,579	27,994
Foreign exchange (gains)/losses	(221,462)	30,636
	<u> </u>	<u> </u>

4. Directors' remuneration

	2003	2002
	£	£
Emoluments	608,716	531,670
	<u> </u>	<u> </u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2003	2002
	£	£
Emoluments	133,333	160,000
	<u> </u>	<u> </u>

5. Staff costs

	2003	2002
	£	£
Wages and salaries for employees	4,185,631	4,530,317
Social security costs	504,992	480,485
	<u> </u>	<u> </u>
	4,690,623	5,010,802
	<u> </u>	<u> </u>

Average number of employees during the year

The average number of employees (including executive directors) was:

	2003	2002
	No.	No.
Administration	13	12
Operations	60	63
Sales	1	5
	<u> </u>	<u> </u>
	74	80
	<u> </u>	<u> </u>

Average number of consultants during the year

The average number of consultants was:

	2003	2002
	No.	No.
Consultants	17	28
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2003

6. Exceptional Items

There are no exceptional items in 2003 (2002 £6,354 loss on disposal of furniture).

7. Interest payable and similar charges

	2003 £	2002 £
Bank loans	3,373	-
Overdrafts	57,860	9,800
	<u>61,233</u>	<u>9,800</u>

8. Taxation

(a) Tax on profit on ordinary activities

	2003 £	2002 £
Current tax:		
Group relief receivable	(570,040)	-
Adjustments in respect of previous periods	-	(3,371)
Foreign taxation	19,543	-
Total current tax (note 8(b))	<u>(550,497)</u>	<u>(3,371)</u>

(b) Factors affecting the tax charge for period

	2003 £	2002 £
(Loss)/profit on ordinary activities before tax	<u>(2,113,127)</u>	<u>(837,354)</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	(633,938)	(251,206)
Permanent differences:		
Expenses not deductible for tax purposes	1,018	33,097
Group relief surrendered/(received) without payment	-	-
Foreign tax credits	19,543	-
Timing differences		
Capital allowances for period in excess of depreciation	62,880	(1,877)
Tax losses not recognised	-	150,735
Losses carried back	-	69,251
Adjustments to tax charge in respect of previous periods	-	(3,371)
Total current tax credit for the year	<u>(550,497)</u>	<u>(3,371)</u>

Deferred tax asset not recognised (including capital allowances in excess of depreciation and losses) amounts to £238,858 at 31st December 2003 (2002-£193,800). This asset will be recognised should it become more likely than not that taxable profits or timing differences against which they may be deducted arise.

Notes to the financial statements

at 31 December 2003

9. Tangible fixed assets

	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Computer Software</i>	<i>Furniture & office equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost:					
At 1 January 2003	511,754	53,811	685,577	659,249	1,910,391
Additions	-	-	40,711	12,628	53,339
Disposals	(204,037)	(24,524)	(444,269)	(211,265)	(884,095)
At 31 December 2003	307,717	29,287	282,019	460,612	1,079,635
Depreciation:					
At 1 January 2003	117,449	33,574	435,818	330,643	917,484
Disposals	(123,556)	(22,191)	(444,110)	(194,527)	(784,384)
Charge for Year	37,273	11,528	174,149	163,805	386,755
At 31 December 2003	31,166	22,911	165,857	299,921	519,855
Net book value:					
At 31 December 2003	276,551	6,376	116,162	160,691	559,780
At 31 December 2002	394,305	20,237	249,759	328,606	992,907

10. Debtors

	2003 £	2002 £
Trade debtors	1,444,073	834,715
Amounts owed by parent and fellow subsidiary	2,718,617	514,939
Amounts recoverable under long-term contracts	600,404	2,049,043
Other debtors	50,000	90,000
Prepayments and accrued income	154,166	171,592
Corporate tax	-	1,792
Other taxation	18,541	132,746
	4,985,801	3,794,827

Notes to the financial statements

at 31 December 2003

11. Cash at bank and in hand

	2003	2002
	£	£
Cash at bank	<u>215,162</u>	<u>385,277</u>

12. Creditors: amounts falling due within one year

	2003	2002
	£	£
Bank overdraft	1,293,088	1,045,621
Loans	1,062,537	-
Trade creditors	426,627	738,114
Amounts owed to parent and fellow subsidiary	-	33,794
Other taxes and social security costs	144,209	411,261
Other creditors	15,060	-
Accruals	464,078	506,632
Deferred Income on long-term contracts	580,052	140,499
	<u>3,985,651</u>	<u>2,875,921</u>

Petrofac Engineering Limited has entered into an Invoice Discount Facility with The Royal Bank of Scotland Commercial Services. This facility enables Petrofac Engineering Limited to borrow against its eligible Trade Debtors, up to a maximum of £2,000,000, the charge for this facility is 1.5% above base. At the 31st December 2003 the value securitised amounted to £1,436,110.

13. Creditors: amounts falling due after more than one year

	2003	2002
	£	£
Amounts owed to group undertakings	<u>3,127,400</u>	<u>1,892,187</u>

Amounts owed to group undertakings are non interest bearing and there is no fixed repayment date, although confirmation has been received that repayment will not be sought for at least one year.

Notes to the financial statements

at 31 December 2003

14. Provisions for liabilities and charges

Movements in provisions for foreseeable losses on long-term contracts in the current year are as follows:

	£
At 1 January 2003	225,625
Utilised in year	(225,625)
Charged to income	31,044
At 31 December 2003	31,044

15. Called-up share capital

	2003 £	2002 £
<i>Authorised</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
<i>Allotted, called-up and fully-paid</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000

16. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Profit and loss account £	Total £
At 1 January 2002	1,000,000	13,261	1,013,261
Loss for year	-	(833,983)	(833,983)
At 31 December 2002	1,000,000	(820,722)	179,278
At 1 January 2003	1,000,000	(820,722)	179,278
Loss for year	-	(1,562,630)	(1,562,630)
At 31 December 2003	1,000,000	(2,383,352)	(1,383,352)

Notes to the financial statements

at 31 December 2003

17. Reconciliation of movements in shareholders' interest

	2003 £	2002 £
Loss for the year	<u>(1,562,630)</u>	<u>(833,983)</u>
Net decrease in shareholders interest	<u>(1,562,630)</u>	<u>(833,983)</u>
Shareholders interest at 1 st January	179,278	1,013,261
Shareholders interest at 31 st December	<u>(1,383,352)</u>	<u>179,278</u>

18. Commitments under operating leases

At 31st December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land & Buildings 2003 £</i>	<i>Other 2003 £</i>	<i>Total £</i>
Expiry date:			
- within one year	-	4,833	4,833
- within two to five years	-	19,795	19,795
- in over five years	397,500	517	398,017
	<u>397,500</u>	<u>25,145</u>	<u>422,645</u>

19. Related party transactions

As a subsidiary the company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Petrofac Limited.

20. Investments

Petrofac Engineering Limited holds an investment in Petrofac Pars, a company registered in Iran. Petrofac Engineering Limited holds 480 shares amounting to 48% of the company. The remaining shares are bearer shares of which PEL is bearer. The directors therefore deem PEL's effective ownership of Petrofac Pars to be 99%. The nominal value is nil.

21. Post balance sheet events

On 31st March 2004 the company's ultimate parent, Petrofac Limited, assigned its interest in amounts owing from the company of £3,127,400 to Petrofac UK Holdings Limited. Immediately following the assignation, Petrofac UK Holdings Limited agreed to convert £1,625,000 of the assigned amount to an equivalent number of £1 new ordinary shares in Petrofac Engineering Limited. The effect of this transaction was to recapitalise the company by £1,625,000. The authorised share capital of the company was increased from £1,000,000 to £3,000,000.

Notes to the financial statements

at 31 December 2003

22. Ultimate parent company

The company's immediate parent undertaking is Petrofac UK Holdings Limited. It has included the company in its group financial statements.

Petrofac Limited, the ultimate holding company and controlling party, is a company incorporated in Jersey, and heads the largest group in which the results of the company are consolidated.

23. Other Commitments

Authorised and contracted future expenditure is estimated at £309,373 (2002 £Nil).

24. Contingent Liabilities

The Company has issued a performance guarantee to Statoil ASA relating to the Zagros project in Iran for the total amount of EURO 109,593 expiring on 31 December 2004.

The Company has also issued a bid bond in the amount of \$250,000 to BP Exploration (in Amenas) Limited in connection with the bid for gas gathering system.