# Petrofac Engineering Limited

## Report and Financial Statements

31 December 2006



Registered No 02615887

Petrofac Engineering Limited

### Directors
M Cannavina
G Grant
G Jack
R Jewkes
S Keen
R Smith
R Verma

### Secretary
R Smith

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

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

Bank of Scotland
3-5 Albyn Place
Aberdeen AB10 1PY

### 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 2006

## Results and dividends

Turnover for the year amounted to £69,808,157 (2005 – £39,399,399) The profit for the year after tax amounted to £2,645,181 (2005 - £1,216,462 profit) When deducted from the accumulated deficit brought forward on 1 January 2006 of £1,559,990 this gives a total accumulated profit carried forward at 31 December 2006 of £1,085,191

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

## Principal activities and review of the business

Petrofac Engineering Limited (PEL) provides field development engineering for the oil and gas industry, including consultancy, studies, conceptual engineering, front end engineering and design (FEED), detailed design, procurement support, risk, safety and environmental services

During the year PEL undertook contracts for more than 50 customers in the oil and gas industry Engineering services were provided to oil companies on projects in several countries around the world with Algeria, Iran, Kazakhstan, Russia and Tunisia being the top five

## Principal risks and uncertainties

PEL aims to protect its results from events that hinder the achievement of its objectives

- Financial risk

  PEL typically hedges each contract awarded in a foreign currency above a value of approximately £0 5 million

- Price risk

  PEL operates in a competitive market and is subject to the pressures of price movements Projects are typically shorter than one year and, where this is not the case, mechanisms are often introduced in contracts to allow for changes in prices during the course of projects

- Cash flow risk

  As far as possible, the timing of cash generated from projects is matched to the cash spent on delivering those projects

## 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 & gas industry

## Immediate parent company

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

# Directors' report (continued)

## Directors and their interests

The present directors are listed on page 1

The directors at 31 December 2006 were as follows

A Asfari (resigned 28 February 2007)

M Cannavina

G Grant

R Jewkes

S Keen

M Semaan (resigned 28 February 2007)

Under Section 2 of Schedule 7 of the Companies Act 1985, the interests of directors in the shares of Petrofac Limited are not required to be notified to the company and, accordingly, are not disclosed in these financial statements

No director had an interest in the shares of PEL during the year and no director had any interest in the share or debentures of subsidiary undertakings of Petrofac Ltd during the year

R Verma, G Jack and R Smith were appointed directors on 28 February 2007

## Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

## Political and charitable donations

A charitable donation of £3,864 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 LLP 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

By order of the Board

R Smith

Company Secretary

19 October 2007

# Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

# Independent auditors' report

**to the members of Petrofac Engineering Limited**

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet 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 applicable United Kingdom law and accounting standards

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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

In addition we report to you if, in our opinion, 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 International Standards on Auditing (UK and Ireland) 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 judgements 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

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
22 October 2007

# Profit and loss account

**for the year ended 31 December 2006**

| | *Notes* | *2006* £ | *2005* £ |
|---|---|---|---|
| ***Turnover*** | 2 | 69,808,157 | 39,399,399 |
| Cost of sales | | 61,804,755 | 34,055,157 |
| ***Gross profit*** | | 8,003,402 | 5,344,242 |
| Administrative expenses | | 3,398,591 | 2,864,376 |
| ***Operating profit*** | 3 | 4,604,811 | 2,479,866 |
| Other income | 6 | 396 | 3,223 |
| ***Profit on ordinary activities before interest and tax*** | | 4,605,207 | 2,483,089 |
| Interest receivable and similar income | | 52,015 | 10,619 |
| Interest payable and similar charges | 7 | 184,193 | 89,656 |
| ***Profit before taxation*** | | 4,473,029 | 2,404,052 |
| Tax on profit on ordinary activities | 8 | 1,827,848 | 1,187,590 |
| ***Profit retained for the financial year*** | | 2,645,181 | 1,216,462 |

# Statement of total recognised gains and losses

**for the year ended 31 December 2006**

The company has no recognised gains or losses, other than the profit of £2,645,181 for the year ended 31 December 2006 (2005 – profit of £1,216,462)

Petrofac Engineering Limited

# Balance sheet

**at 31 December 2006**

| | Notes | 2006 £ | 2005 £ |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Tangible assets | 9 | 3,490,648 | 596,428 |
| ***Current assets*** | | | |
| Debtors | 10 | 13,686,417 | 7,045,415 |
| Cash at bank and in hand | 11 | 850,717 | 1,552 |
| | | 14,537,134 | 7,046,967 |
| ***Creditors***: amounts falling due within one year | 12 | 11,924,840 | 5,146,129 |
| ***Net current assets*** | | 2,612,294 | 1,900,838 |
| ***Total assets less current liabilities*** | | 6,102,942 | 2,497,266 |
| ***Creditors***: amounts falling due after more than one year | 13 | 1,721,121 | 802,238 |
| ***Provisions for liabilities and charges*** | 14 | 71,630 | 30,018 |
| ***Net assets*** | | 4,310,191 | 1,665,010 |
| ***Capital and reserves*** | | | |
| Called-up share capital | 15 | 3,225,000 | 3,225,000 |
| Profit and loss account | 16 | 1,085,191 | (1,559,990) |
| ***Equity shareholder's funds*** | 16 | 4,310,191 | 1,665,010 |

R Jewkes

Director

19 October 2007

# Notes to the financial statements

**at 31 December 2006**

## 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***

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 parent company has agreed not to recall the amounts advanced to the company which as at 31 December 2006 amounted to £802,238 (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***

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

Revenues from fixed-price and modified fixed-price contracts are recognised on the percentage-of-completion method, based on surveys of work performed This method is used because management considers it to be the best available measure of progress on these contracts 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

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

Incentive payments are included in revenue when the contract is sufficiently advanced 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

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

***Group financial statements***

Group financial statements 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 results of subsidiary undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking

***Trade debtors***

Trade debtors are recognised and carried at original invoice amounts less an allowance for any amounts estimated to be uncollectable An estimate for doubtful debts is made when collection of the full amount is no longer probable Bad debts are written off when identified

***Joint arrangement***

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own The company includes its share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of the arrangement

# Notes to the financial statements

**at 31 December 2006**

## 1. Accounting policies (continued)

***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 |
| Computer software | over 1 to 3 years |
| Furniture | over 4 years |
| Office equipment | over 3 years |

***Operating leases***

The company has entered into 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

***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 substantively 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 tax, or a right to pay less or 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

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

***Derivative financial instruments and hedging***

The Company uses derivative financial instruments in the form of forward currency contracts to hedge its risks associated with foreign currency fluctuations When the forward currency contracts are matched against a particular project, the values of the receivables arising from that project are recorded at the exchange rate specified in the matching forward contract When the forward currency contracts are used to hedge existing assets, the gain or loss on the contract is recognised in the profit and loss account at maturity

# Notes to the financial statements

**at 31 December 2006**

## 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

An analysis of turnover by geographical market is given below

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Africa | 14,233,482 | 17,379,480 |
| Europe | 37,536,929 | 17,547,321 |
| Former Soviet Union and Asia | 14,247,729 | 2,748,302 |
| Middle East | 3,048,199 | 1,685,144 |
| North America | 588,889 | 39,152 |
| Australasia | 152,929 | - |
| | 69,808,157 | 39,399,399 |

Turnover attributable to group undertakings amounted to £17,349,259 (2005 – £3,877,580)

## 3. Operating profit

Operating profit is stated after charging/(crediting)

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Depreciation of owned fixed assets | 783,066 | 443,420 |
| Auditors' remuneration | | |
| - audit services | 54,291 | 37,000 |
| - fees for other services | - | 2,000 |
| Operating leases | | |
| - land and buildings | 528,775 | 397,500 |
| - other | 12,846 | 4,952 |
| Foreign exchange (gains)/losses | 152,220 | (86,548) |

# Notes to the financial statements

**at 31 December 2006**

## 4. Staff costs

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Wages and salaries | 7,617,635 | 5,364,772 |
| Social security costs | 927,605 | 626,949 |
| | 8,545,240 | 5,991,721 |

The average number of employees (including executive directors) was as follows

| | *2006* | *2005* |
|---|---|---|
| | *No* | *No* |
| Administration | 25 | 20 |
| Operations | 80 | 60 |
| Sales | 6 | 4 |
| | 111 | 84 |

The average number of consultants was as follows

| | *2006* | *2005* |
|---|---|---|
| | *No* | *No* |
| Consultants | 108 | 73 |

## 5. Directors' emoluments

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Emoluments | 544,895 | 694,254 |

*Highest paid director*

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

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Emoluments | 175,718 | 180,454 |

# Notes to the financial statements

**at 31 December 2006**

## 6. Other income

An adjustment to an amount due of £396 (2005 - £3,223) from a former subsidiary undertaking of the Company on completion of a project performed by that undertaking was recognised as other income

## 7. Interest payable and similar charges

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Group loans | 61,629 | - |
| Overdraft | 122,564 | 89,656 |
| | 184,193 | 89,656 |

## 8. Taxation

(a) Tax on profit on ordinary activities

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Current tax | | |
| UK corporation tax at 30% for the period | 1,140,883 | 436,790 |
| Adjustments in respect of prior periods | - | 115,165 |
| | 1,140,883 | 551,955 |
| Double taxation relief | - | (62,494) |
| | 1,140,883 | 489,461 |
| Foreign tax on income for the period | 575,321 | 1,018,617 |
| Total current tax | 1,716,204 | 1,508,078 |
| Deferred tax | 111,644 | (320,488) |
| Total tax on profit on ordinary activities | 1,827,848 | 1,187,590 |

(b) Factors affecting the tax charge for period

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Profit on ordinary activities before tax | 4,473,029 | 2,404,052 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 – 30%) | 1,341,909 | 721,215 |
| Adjustments to tax charge in respect of previous periods | - | 115,165 |
| Expenses not deductible for tax purposes | 22,611 | 17,164 |
| Foreign tax cost | 575,321 | 1,018,617 |
| Foreign tax credits | - | (62,494) |
| Capital allowances for period (more than)/less than depreciation | (123,114) | 41,884 |
| Unrelieved overseas taxation | (100,523) | (186,109) |
| Profit relieved by losses brought forward | - | (157,364) |
| Total current tax charge for the year | 1,716,204 | 1,508,078 |

# Notes to the financial statements

**at 31 December 2006**

## 8. Taxation (continued)

(c) Deferred tax provided in the accounts is as follows

| | *2006* £ | *2005* £ |
|---|---|---|
| Accelerated capital allowances | 176,579 | (120,379) |
| On withholding tax to be suffered | (73,941) | (191,103) |
| Other timing differences | 9,006 | (9,006) |
| Total current tax charge/(credit) for the year | 111,644 | (320,488) |
| Deferred tax provided at 1 January | (320,488) | - |
| Debit/(credit) to profit and loss account | 111,644 | (320,488) |
| Deferred tax provided at 31 December | (208,844) | (320,488) |

## 9. Tangible fixed assets

| | *Leasehold Improvement* £ | *Computer software* £ | *Furniture and office equipment* £ | *Total* £ |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2006 | 356,798 | 192,703 | 485,843 | 1,035,344 |
| Additions | 233,585 | 1,278,544 | 2,165,157 | 3,677,286 |
| Disposals | - | (138,952) | - | (138,952) |
| At 31 December 2006 | 590,383 | 1,332,295 | 2,651,000 | 4,573,678 |
| Depreciation | | | | |
| At 1 January 2006 | 83,462 | 123,718 | 231,736 | 438,916 |
| Charge for year | 83,412 | 363,554 | 336,095 | 783,066 |
| Disposals | - | (138,952) | - | (138,952) |
| At 31 December 2006 | 166,879 | 348,320 | 567,831 | 1,083,030 |
| Net book value | | | | |
| At 31 December 2006 | 423,504 | 983,975 | 2,083,169 | 3,490,648 |
| At 31 December 2005 | 273,336 | 68,985 | 254,107 | 596,428 |

# Notes to the financial statements

**at 31 December 2006**

## 10. Debtors

| | 2006 £ | 2005 £ |
|---|---|---|
| Trade debtors | 4,345,827 | 2,203,480 |
| Amounts owed by parent and fellow subsidiary undertakings | 6,519,923 | 2,783,882 |
| Amounts recoverable under long-term contracts | 1,052,371 | 1,210,273 |
| Other debtors | 3,392 | 13,839 |
| Prepayments and accrued income | 405,659 | 283,343 |
| Deferred taxation | 208,844 | 320,488 |
| Other taxation | 1,150,401 | 230,110 |
| | 13,686,417 | 7,045,415 |

## 11. Cash at bank and in hand

| | 2006 £ | 2005 £ |
|---|---|---|
| Cash at bank | 850,717 | 1,552 |

## 12. Creditors amounts falling due within one year

| | 2006 £ | 2005 £ |
|---|---|---|
| Bank overdraft | - | 518,322 |
| Trade creditors | 3,255,604 | 805,263 |
| Amounts owed to parent and fellow subsidiary undertakings | 1,292,463 | 232,062 |
| Corporation tax | 1,750,319 | 1,261,724 |
| Other taxes and social security costs | 254,710 | 180,358 |
| Accruals | 2,924,762 | 1,421,670 |
| Deferred income on long-term contracts | 2,446,982 | 726,730 |
| | 11,924,840 | 5,146,129 |

Petrofac Limited, the company's ultimate parent company, has group facilities with The Royal Bank of Scotland and Bank of Scotland As part of these facilities, the company has access to an overdraft facility and a bond and guarantee facility The overdraft facility carries an interest rate of UK LIBOR plus 0 875% In addition, the company has cross-guaranteed the US$ 170 million debt facilities agreement between Petrofac Limited, The Royal Bank of Scotland and Bank of Scotland Under the Facilities Agreement a term loan facility, revolving credit facilities, overdraft facility and a bond and guarantee facility have been made available to the Petrofac Limited group

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

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| Amounts owed to group undertakings | 1,721,121 | 802,238 |

Amounts owed to group undertakings comprise a US$ 1 8 million loan at the interest rate of US$ LIBOR + 2% and a non interest-bearing loan of £802,238 There is no fixed repayment dates for the loans

## 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 2006 | 30,018 |
| Additional provision during year | 41,612 |
| At 31 December 2006 | 71,630 |

## 15. Share capital

| | *2006* | *2005* |
|---|---|---|
| | *£* | *£* |
| *Authorised* | | |
| Ordinary shares of £1 each | 3,225,000 | 3,225,000 |
| *Allotted, called up and fully paid* | | |
| Ordinary shares of £1 each | 3,225,000 | 3,225,000 |

# Notes to the financial statements

**at 31 December 2006**

## 16. Reconciliation of shareholder's funds and movements on reserves

| | *Share capital* £ | *Profit and loss account* £ | *Total* £ |
|---|---|---|---|
| At 1 January 2006 | 3,225,000 | (1,559,990) | 1,665,010 |
| Profit for year | - | 2,645,181 | 2,645,181 |
| At 31 December 2006 | 3,225,000 | 1,085,191 | 4,310,191 |

## 17. Reconciliation of movements in shareholder's funds

| | *2006* £ | *2005* £ |
|---|---|---|
| Profit/(loss) for the year | 2,645,181 | 1,216,462 |
| Net increase in shareholder's funds | 2,645,181 | 1,216,462 |
| Shareholder's funds at 1 January | 1,665,010 | 448,548 |
| Shareholder's funds at 31 December | 4,310,191 | 1,665,010 |

## 18. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below

| | *Land and buildings 2006* £ | *Other 2006* £ | *Total 2006* £ | *Land and buildings 2005* £ | *Other 2005* £ | *Total 2005* £ |
|---|---|---|---|---|---|---|
| Expiry date | | | | | | |
| – within one year | - | 2,056 | 2,056 | - | - | - |
| – within two to five years | 284,472 | 35,464 | 319,936 | - | - | - |
| – over five years | 397,500 | - | 397,500 | 397,500 | - | 397,500 |
| | 681,972 | 37,520 | 719,492 | 397,500 | - | 397,500 |

## 19. Other commitments

Authorised and contracted future expenditure is estimated at £634,000 (2005 - nil)

## 20. Contingent liabilities

The Company has cross-guaranteed a US$ 170 million debt facilities agreement (see note 12).

The Company has issued a bid bond in the amount of US$ 301,031 to BP Exploration (In Amenas) Limited in connection with a bid for a gas gathering system

The Company has also issued a performance bond for £270,140 in favour of OMV Austria Exploration and Production GmBH in connection with the Front End Engineering Design of Strasshof Field Development Central Processing Plant and Related Facilities

## 21. Related party transactions

As a subsidiary the company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related Party Disclosures" relating to the disclosure of transactions with other members of the group headed by Petrofac Limited

In 2006, the company made no sales to related parties (2005 - £27,335 in which were joint ventures involving a member of the group headed by Petrofac Limited)

Details of transactions with directors are disclosed in note 5

## 22. Hedge transactions

The Company entered into forward foreign currency transactions during 2006 At 31 December 2006, the following positions were held

Forward exchange contract commitments to sell US$ 3 016 million (2005 - US$ 4 14 million) and buy £1 589 million (2005 - £2 36 million) between 22 January 2007 and 15 November 2007 (2005 - between 20 January 2006 and 22 January 2007) The mark-to-market profit on these contracts at 31 December 2006 was £52,983 (2005 - £40,088 loss), this has not been recognised in the accounts

## 23. Share-based payment plans

On 13 September 2005, Petrofac Limited established three share schemes for the benefit of employees of the group, being a Performance Share Plan, a Deferred Bonus Share Plan and an approved Share Incentive Plan A further share scheme, the Restricted Share Plan, was established during the year All of these share schemes are equity settled award schemes These share schemes are described below

**Performance Share Plan**

Under the Performance Share Plan of Petrofac Limited, share awards are granted to a restricted number of senior executives of the group The shares cliff vest at the end of three years subject to continued employment from the date of the award and on achieving certain pre-defined non-market and market based performance conditions The non-market based condition, representing 50% of the total performance Share Plan, is subject to achieving between 15% and 25% earnings per share (EPS) growth targets over a three year period The fair value of the equity-settled award relating to the EPS part of the scheme was estimated based on the quoted closing market price of 353p per Company share at the date of grant with an assumed vesting rate of 97% per annum (subsequently trued up for the year ending 31 December 2006 to 100% based on the actual leaver rate during the period from award date to year end) over the three year vesting period of the plan The remaining 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the group compared to an index composed of selected relevant companies

# Notes to the financial statements

**at 31 December 2006**

## 23. Share-based payment plans (continued)

The shares vesting under this portion of the award were fair valued at 234p per share 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

| | |
|---|---|
| Expected share price volatility | 28 0% |
| (based on median or comparator group's three year volatilities) | |
| Share price correlation with comparator group | 10 0% |
| Risk-free interest rate | 4 6% |
| Expected life of share award | three years |

The number of ordinary shares awarded in the year to Petrofac Engineering Limited employees in relation to PSP was 38,551 and all of these awards were still outstanding but not exercisable at 31 December 2006

**Deferred Bonus Share Plan (DBSP)**

Selected employees of the Petrofac Group are eligible to participate under this scheme Participants may be invited to elect or in some cases, be required, to receive a proportion of any bonus in ordinary shares of the Company ("Invested Awards") Following such award, Petrofac Limited will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of his or her invested shares ("Matching Shares") The awards vest over a period of three years from the grant date provided that the participant does not leave the group's employment, subject to a limited number of exceptions The invested awards are fully recognised as an expense in the period to which the bonuses relate At the year end the values of the bonuses settled by shares cannot be determined until all employees have confirmed the voluntary portion of their bonus they wish to be settled by shares rather than cash and until the Remuneration Committee has approved the mandatory portion of the employee bonuses to be settled in shares Once the voluntary and mandatory portions of the bonus to be settled in shares 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 three year period The fair value of the equity-settled matching shares granted during the year in respect of the plan was estimated based on the quoted closing market price of 353p per Petrofac Limited share at the date of grant with an assumed vesting rate of 97% per annum (subsequently trued up at 31 December 2006 to 93% based on the actual leaver rate during the period from award date to year end) over the three year vesting period of the plan During the year 48,581 shares as invested awards and 48,581 matching shares were granted to the Petrofac Engineering Limited participants in the scheme and 93,424 of these share awards were outstanding but not exercisable at 31 December 2006 The charge recognised in the year in relation to matching share awards amounted to £40,476

**Share Incentive Plan (SIP)**

All UK employees, including UK resident directors, are eligible to participate in the scheme Employees may invest up to £1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares in Petrofac Limited There is no holding period for these shares

The Company has recognised a total charge of £40,476 in the income statement during the year relating to the above employee share-based schemes

## 24. Ultimate parent company

The Company's immediate parent undertaking is Petrofac UK Holdings Limited, a company incorporated in England

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