

# **Petrofac Engineering Limited**

## **Report and Financial Statements**

31 December 2007



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 plc  
Queens Cross Branch  
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 report and financial statements for the year ended 31 December 2007

### Results and dividends

The profit for the year after taxation amounted to £4,926,443 (2006 – £2,645,181)

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

Comparative figures have been restated for turnover (decreased by £33,731,000 to £36,077,157), cost of sales (decreased by £32,280,000 to £29,524,755) and other operating income (increased by £1,451,000). This is to reflect a change in the treatment of Brownfield division's sales and costs, part of which were accounted for through PEL in the 2006 financial statements, which have now been accounted for in full by a fellow subsidiary. There is no impact on profit before or after tax or on the balance sheet at 31 December 2006 as a result of this adjustment.

### Principal activities and review of the business

The company 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 40 customers in the oil and gas industry. Engineering services were provided to oil companies on projects in several countries around the world with Algeria, Egypt, Kazakhstan, Russia and Tunisia being the top five.

### Principal risks and uncertainties

The company's key risks and uncertainties are described below

- Health and Safety

The company conducts its operations within a strict health and safety regime. Failure to comply with the relevant regulations could adversely affect its reputation and future revenues. The culture of health and safety within the company is a key element of its operational and business activities. Effective health and safety management is vital to the system of business management and is integral to the delivery of quality and business excellence.

- Ability to attract and retain skilled personnel

One of the largest challenges facing the oil & gas industry is the availability of skilled personnel. Buoyant market conditions have resulted in an increased demand for personnel. The company is confident that its efforts to promote and reward on merit, its growing employee share ownership, its training programmes and recruitment strategies, its involvement in world-class projects and its exciting prospects will enable it to retain and attract the necessary skilled personnel to achieve its growth targets.

- Financial risk

The company operates in a competitive market and is subject to the pressure 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. Additionally, 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 and gas industry.

### Employee involvement

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.

## Petrofac Engineering Limited

### Directors' report (continued)

#### Directors and their interests

The directors who served the company during the year were as follows

A Asfari (resigned 28 February 2007)  
M Cannavina  
G Grant  
G Jack (appointed 28 February 2007)  
R Jewkes  
S Keen  
M Semaan (resigned 28 February 2007)  
R Smith (appointed 28 February 2007)  
R Verma (appointed 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

#### Creditor payment policy

The company's current policy concerning the payment of the majority of its trade creditors is to

- (a) agree the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) ensure that those suppliers are made aware of the terms of payment whenever possible, and
- (c) pay in accordance with its contractual and other legal obligations where possible

At the balance sheet date, the company's trade creditors were paid after an average of 60 days

#### Political and charitable donations

Charitable donations of £4,411 were made during the year

#### 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

#### 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

On behalf of the board

R Smith

  
Company Secretary

7 October 2008

## **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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Independent auditors' report**

## **to the members of Petrofac Engineering Limited**

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. 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**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the directors' report is 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**

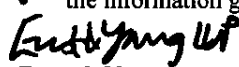
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 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  
Registered Auditor  
London

14 October 2008

# Petrofac Engineering Limited

## Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
<b>Turnover</b>	2	80,296,075	36,077,157
Cost of sales		68,003,973	29,524,755
<b>Gross profit</b>		12,292,102	6,552,402
Other operating income		1,207,000	1,451,000
Administrative expenses		5,339,445	3,398,591
<b>Operating profit</b>	3	8,159,657	4,604,811
Other income		-	396
<b>Profit on ordinary activities before interest and tax</b>		8,159,657	4,605,207
Interest receivable and similar income		53,455	52,015
Interest payable and similar charges	6	342,449	184,193
<b>Profit before taxation</b>		7,870,663	4,473,029
Tax on profit on ordinary activities	7	2,944,220	1,827,848
<b>Profit retained for the financial year</b>		4,926,443	2,645,181

## Statement of total recognised gains and losses

for the year ended 31 December 2007

The company has no recognised gains or losses, other than the profit of £4,926,443 for the year ended 31 December 2007 (2006 – profit of £2,645,181)

Petrofac Engineering Limited

# Balance sheet

at 31 December 2007

	Notes	2007 £	2006 £
<b>Fixed assets</b>			
Tangible assets	8	4,091,193	3,490,648
Investment	9	1	-
		<u>4,091,194</u>	<u>3,490,648</u>
<b>Current assets</b>			
Debtors	10	21,422,549	13,686,417
Cash at bank and in hand		1,464,129	850,717
		<u>22,886,678</u>	<u>14,537,134</u>
<b>Creditors</b> , amounts falling due within one year	11	16,503,708	11,924,840
		<u>6,382,970</u>	<u>2,612,294</u>
<b>Net current assets</b>			
		<u>10,474,164</u>	<u>6,102,942</u>
<b>Total assets less current liabilities</b>			
<b>Creditors</b> , amounts falling due after more than one year	12	802,238	1,721,121
<b>Provisions for liabilities and charges</b>	13	435,292	71,630
		<u>9,236,634</u>	<u>4,310,191</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Share capital	14	3,225,000	3,225,000
Profit and loss account	15	6,011,634	1,085,191
		<u>9,236,634</u>	<u>4,310,191</u>
<b>Equity shareholder's funds</b>	15		
		<u>9,236,634</u>	<u>4,310,191</u>



R Jewkes

Director

7 October 2008



## Notes to the financial statements

at 31 December 2007

### 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 preparation***

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

Comparative figures have been restated for turnover (decreased by £33,731,000 to £36,077,157), cost of sales (decreased by £32,280,000 to £29,524,755) and other operating income (increased by £1,451,000). This is to reflect a change in the treatment of Brownfield division's sales and costs, part of which were accounted for through PEL in the 2006 financial statements, which have now been accounted for in full by a fellow subsidiary. There is no impact on profit before or after tax or on the balance sheet at 31 December 2006 as a result of this adjustment.

#### ***Consolidation***

The company is exempt from the requirement to prepare and deliver group accounts by virtue of section 228 of the Companies Act 1985, and accordingly the accounts present information about the company as an individual undertaking and not about its group.

#### ***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 lump-sum contracts are recognised on 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.

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 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.

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

#### ***Cash flow statement***

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

#### ***Related party transactions***

The company is a wholly owned subsidiary of Petrofac Limited, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in Financial Reporting Standard No 8 from disclosing transactions with members or investors of the Petrofac Limited group where the group controls 90% of the voting rights.

## Notes to the financial statements

at 31 December 2007

### 1. Accounting policies (continued)

#### *Fundamental accounting concept*

The parent company has agreed not to recall the amounts advanced to the company which as at 31 December 2007 amounted to £802,238 (see note 12) 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.

#### *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 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 uncollectable.

#### *Fixed assets*

All fixed assets are initially recorded at cost.

#### *Depreciation*

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

Leasehold improvements	over the lease term or life of project if shorter
Computer software	over 1 to 3 years or life of project if shorter
Furniture	over 4 years or life of project if shorter
Office equipment	over 3 years or life of project if shorter

#### *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 replacement 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.

## Notes to the financial statements

at 31 December 2007

### 1. Accounting policies (continued)

#### *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.

#### *Operating leases agreements*

Rental payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

#### *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.

#### *Joint arrangements*

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 on 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.

### 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.

	2007 £	2006 £
Africa	27,467,375	14,233,482
Australasia	210,732	152,929
Europe	4,785,740	3,805,929
Former Soviet Union and Asia	45,587,873	14,247,729
Middle East	2,228,105	3,048,199
South America	16,250	588,889
	<hr/>	<hr/>
	80,296,075	36,077,157
	<hr/>	<hr/>

Turnover attributable to group undertakings amounted to £59,592,770 (2006 – £17,349,259)

## Notes to the financial statements

at 31 December 2007

### 3. Operating profit

Operating profit is stated after charging/(crediting)

	2007 £	2006 £
Depreciation of owned fixed assets	3,859,256	783,066
Auditors' remuneration		
- audit services	43,502	54,291
Operating leases		
- land and buildings	1,221,807	528,775
- other	63,792	12,846
Foreign exchange (gains)/losses	(414,166)	152,220
Other operating income	(1,207,000)	(1,451,000)
	<hr/>	<hr/>

### 4. Staff costs

	2007 £	2006 £
Wages and salaries	12,316,233	7,617,635
Social security costs	1,380,342	927,605
	<hr/>	<hr/>
	13,696,575	8,545,240
	<hr/>	<hr/>

The monthly average number of employees during the year was as follows

	2007 No	2006 No
Administration	32	25
Operations	138	80
Sales	3	6
	<hr/>	<hr/>
	173	111
	<hr/>	<hr/>

## Notes to the financial statements

at 31 December 2007

The monthly average number of consultants during the year was as follows

	2007 <i>No</i>	2006 <i>No</i>
Consultants	266	108

### 5. Directors' emoluments

	2007 <i>£</i>	2006 <i>£</i>
Emoluments	851,718	544,895

#### *Highest paid director*

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

	2007 <i>£</i>	2006 <i>£</i>
Emoluments	279,648	175,718

### 6. Interest payable and similar charges

	2007 <i>£</i>	2006 <i>£</i>
Group loans	129,338	61,629
Overdraft	213,111	122,564
	342,449	184,193

## Notes to the financial statements

at 31 December 2007

### 7. Taxation

#### (a) Tax on profit on ordinary activities

	2007 £	2006 £
Current tax		
UK corporation tax at 30% for the period	2,984,625	1,140,883
Adjustments in respect of prior periods	56,304	-
	<hr/>	<hr/>
Foreign tax on income for the period	3,040,929 663,963	1,140,883 575,321
	<hr/>	<hr/>
Total current tax	3,704,892	1,716,204
Deferred tax	(760,672)	111,644
	<hr/>	<hr/>
Total tax on profit on ordinary activities	2,944,220	1,827,848
	<hr/>	<hr/>

#### (b) Factors affecting the tax charge for period

	2007 £	2006 £
Profit on ordinary activities before tax	7,870,663	4,473,029
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 – 30%)	2,361,199	1,341,909
Adjustments to tax charge in respect of previous periods	56,304	-
Expenses not deductible for tax purposes	293,464	22,611
Foreign tax cost	663,963	575,321
Capital allowances for period (more than)/less than depreciation	517,773	(123,114)
Unrelieved overseas taxation	(187,811)	(100,523)
	<hr/>	<hr/>
Total current tax charge for the year	3,704,892	1,716,204
	<hr/>	<hr/>

Petrofac Engineering Limited

# Notes to the financial statements

at 31 December 2007

## 7. Taxation (continued)

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

	2007 £	2006 £
Accelerated capital allowances	(536,993)	176,579
On withholding tax to be suffered	10,006	(73,941)
Other timing differences	(233,685)	9,006
	<hr/>	<hr/>
Total current tax charge/(credit) for the year	(760,672)	111,644
	<hr/>	<hr/>
Deferred tax provided at 1 January	(208,844)	(320,488)
Debit/(credit) to profit and loss account	(760,672)	111,644
	<hr/>	<hr/>
Deferred tax provided at 31 December	(969,516)	(208,844)
	<hr/>	<hr/>

## 8. Tangible fixed assets

	<i>Leasehold Improvement</i> £	<i>Computer software</i> £	<i>Furniture and office equipment</i> £	<i>Total</i> £
Cost				
At 1 January 2007	590,383	1,332,295	2,651,000	4,573,678
Additions	120,691	2,272,810	2,066,300	4,459,801
Disposals	-	(99,361)	(192,600)	(291,961)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	711,074	3,505,744	4,524,700	8,741,518
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 2007	166,879	348,320	567,831	1,083,030
Charge for year	147,575	2,124,366	1,587,315	3,859,256
Disposals	-	(99,361)	(192,600)	(291,961)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	314,454	2,373,325	1,962,546	4,650,325
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2007	396,620	1,132,419	2,562,154	4,091,193
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	423,504	983,975	2,083,169	3,490,648
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the financial statements

at 31 December 2007

### 9. Investments

	<i>Shares in group companies £</i>
Cost and net book value	
At 1 January 2007 & 31 December 2007	<u>1</u>

The company has investment in the following subsidiary undertaking

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Description of shares held</i>	<i>Holding</i>	<i>Principal activity</i>
Petrofac Russia Limited	England	Ordinary £1 shares	100%	Dormant

Since the balance sheet date Petrofac Russia Limited has changed its name to Petrofac Kazakhstan Limited and it is expected to start trading in 2008

### 10. Debtors

	<i>2007 £</i>	<i>2006 £</i>
Trade debtors	2,412,024	4,345,827
Amounts owed by parent and fellow subsidiary undertakings	12,712,074	6,519,923
Amounts recoverable under long-term contracts	2,123,450	1,052,371
Other debtors	2,049	3,392
Prepayments and accrued income	791,939	405,659
Deferred taxation	969,516	208,844
Other taxation	2,411,497	1,150,401
	<u>21,422,549</u>	<u>13,686,417</u>

### 11. Creditors amounts falling due within one year

	<i>2007 £</i>	<i>2006 £</i>
Trade creditors	2,794,330	3,255,604
Amounts owed to parent and fellow subsidiary undertakings	526,245	1,292,463
Corporation tax	3,519,581	1,750,319
Other taxes and social security costs	384,264	254,710
Other creditors	5,927	-
Accruals	7,952,498	2,924,762
Deferred income on long-term contracts	1,320,863	2,446,982
	<u>16,503,708</u>	<u>11,924,840</u>



## Notes to the financial statements

at 31 December 2007

### 11. Creditors amounts falling due within one year (continued)

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.

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

	2007 £	2006 £
Amounts owed to group undertakings	802,238	1,721,121

### 13. Provisions for liabilities and charges

	<i>Costs to complete provisions</i> £	<i>Onerous contract provisions</i> £	<i>Total</i> £
At 1 January 2007	-	71,630	71,630
Additional provision during year	358,965	76,327	435,292
Unused amounts reversed	-	(71,630)	(71,630)
At 31 December 2007	358,965	76,327	435,292

Costs to complete provisions comprise provision for liquidated damages of £183,965 for one project and provision for costs to complete of £175,000 for another project.

Onerous contract provisions comprise provision for one project of £5,330 and provision for another project of £70,997. Both projects are expected to make overall losses.

### 14. Share capital

	2007 £	2006 £
<i>Authorised</i>		
Ordinary shares of £1 each	3,225,000	3,225,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	3,225,000	3,225,000

**Notes to the financial statements**

at 31 December 2007

**15. Reconciliation of shareholder's funds and movements on reserves**

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 2006	3,225,000	(1,559,990)	1,665,010
Profit for year	-	2,645,181	2,645,181
As 31 December 2006	3,225,000	1,085,191	4,310,191
Profit for year	-	4,926,443	4,926,443
At 31 December 2007	3,225,000	6,011,634	9,236,634

**16. Commitments under operating leases**

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

	<i>Land and buildings 2007 £</i>	<i>Other 2007 £</i>	<i>Total 2007 £</i>	<i>Land and buildings 2006 £</i>	<i>Other 2006 £</i>	<i>Total 2006 £</i>
Expiry date						
- within one year	340,644	1,222	341,866	-	2,056	2,056
- within two to five years	284,472	100,283	384,755	284,472	35,464	319,936
- over five years	397,500	-	397,500	397,500	-	397,500
	<u>1,022,616</u>	<u>101,505</u>	<u>1,124,121</u>	<u>681,972</u>	<u>37,520</u>	<u>719,492</u>

**17. Other commitments**

Authorised and contracted future expenditure is estimated at £190,666 (2006 - £634,000)

**18. Contingent liabilities**

The Company has cross-guaranteed a US\$170 million debt facilities agreement (see note 11)

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

## Notes to the financial statements

at 31 December 2007

### 19. 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 2007, the company made no sales to related parties (2006 – Nil)

Details of transactions with directors are disclosed in note 5

### 20. Hedge transactions

The Company entered into forward foreign currency transactions during 2007 At 31 December 2007, the following positions were held

Forward exchange contract commitments to sell US\$4.5 million (2006 - US\$3.016 million) and buy £2.223 million (2006 - £1.589 million) between 29 January 2008 and 29 May 2008 (2006 - between 22 January 2007 and 15 November 2007) The mark-to-market loss on these contracts at 31 December 2007 was £26,466 (2006 - £52,983 profit), this has not been recognised in the accounts

### 21. Share-based payment plans

#### 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 and the achievement of certain pre-defined non-market and market based performance conditions The non-market based condition governing the vesting of 50% of the total award, is subject to achieving between 15% and 25% earnings per share (EPS) growth targets over a three-year period 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 Petrofac Limited 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 The fair value and assumed vesting rates of the EPS part of the scheme are shown below

	<i>Fair value per share</i>	<i>Trued up vesting rate</i>
2007 awards	415p	98.6%
2006 awards	353p	97.7%

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 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

	<i>2007 awards</i>	<i>2006 awards</i>
Expected share price volatility (based on median of comparator group's three year volatilities)	29.0%	28.0%
Share price correlation with comparator group	17.0%	10.0%
Risk-free interest rate	5.2%	4.6%
Expected life of share award	3 years	3 years
Fair value of TSR portion	245p	234p

The number of ordinary shares awarded in the year to Petrofac Engineering Limited employees in relation to PSP was 25,094 (2006 – 38,551) 63,645 (2006 – 38,551) of the 2006 and 2007 awards were still outstanding but not exercisable at 31 December 2007 The charge recognised in the current year amounted to £67,026 (2006 – nil)

## Notes to the financial statements

at 31 December 2007

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

#### Deferred Bonus Share Plan (DBSP)

Selected employees of the Petrofac Group are eligible to participate in 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 Petrofac Limited ("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 2006 awards vest on the third anniversary of the grant date provided that the participant did not leave the group's employment, subject to a limited number of exceptions. However, a change in the rules of the DBSP scheme was approved by shareholders at the Annual General Meeting of Petrofac Limited on 11 May 2007 such that for the March 2007 share awards and for any awards made thereafter, the invested and matching shares would, unless the Remuneration Committee of the Board of Directors of Petrofac Limited determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% after year two and the final 33.34% of the award after the end of year three.

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 are 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 relevant 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 adjusted for the true-up percentage vesting rate of the plan. For details of the fair values and assumed vesting rates of the DBSP scheme see table below.

	<i>Fair value per share</i>	<i>True-up vesting rate</i>
2007 awards	415p	94.7%
2006 awards	353p	92.4%

During the year 63,225 (2006 – 48,590) Invested Awards and 63,225 (2006 – 48,590) Matching Shares were granted to the Petrofac Engineering Limited participants in the scheme and 91,106 of the original 2006 awards and 124,052 of the 2007 awards (2006 awards – 93,424) were outstanding but not exercisable at 31 December 2007. The charge recognised in the 2007 profit and loss account in relation to matching share awards amounted to £72,609 in respect of 2007 awards and £103,562 in respect of the second year of the 2006 awards (2006 year one awards charge – £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 £243,197 (2006 – £40,476) in the profit and loss account during the year relating to the above employee share-based schemes.

### 22. Ultimate parent company

The Company is an immediate subsidiary undertaking of 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.

Copies of the Petrofac UK Holding Limited financial statements can be obtained from the Registrar of Companies, and copies of the Petrofac Limited financial statements can be obtained from the Petrofac Limited Registered Office, Whiteley Chambers, Don Street, St Helier, Jersey.