

Petrofac Engineering Limited

Report and Financial Statements

31 December 2009

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COMPANIES HOUSE

Registered No 2615887

Petrofac Engineering Limited

Directors

M Cannavina
M Daniels
G Grant
G Jack
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 2009

Results and dividends

The loss for the year after taxation amounted to £446,189 (2008 – profit £1,151,770)

Principal activities and review of the business

Petrofac Engineering Limited (the Company) provides field development engineering for the oil & 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 the Company undertook contracts for more than 40 customers in the oil & gas industry. Engineering services were provided to oil companies on projects in several countries around the world with Algeria, Gabon, Kazakhstan, Russia and United Arab Emirates being the top five

The Company's key financial and other performance indicators performance during the year were as follows

	2009 £	2008 £	Change (%)
Turnover	35,484,695	90,285,295	-61%
Operating profit/(loss)	(617,056)	2,371,999	-126%
Profit/(loss) after tax	(446,189)	1,151,770	-139%
Equity shareholders' funds	9,943,371	10,389,250	-4%
Current assets as % of current liabilities ('quick ratio')	2.98	1.98	+51%
Average number of employees	214	224	-4%

There was a mood of caution around investments in oil and gas assets. Consequently, demand for our services to provide FEED and other engineering services was adversely impacted in 2009 and turnover fell 61%. This had an impact upon the results of the business in the year. However, our balance sheet remained strong with over £13m of net current assets and a 'quick ratio' of 2.98 at 31 December 2009.

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.

Directors' report

Principal risks and uncertainties (continued)

- Demand for services

There has been a mood of caution around investments in oil and gas assets. Consequently, demand for our services to provide FEED and other engineering services has been adversely impacted. It is hoped that sentiment will improve in 2010 and have a positive impact on our activity.

- 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.

Research and development

We continue to develop novel ideas and solutions for the oil and gas industry.

Foreign branches

The Company has an active branch in Italy and a branch in Australia which ceased trading in September 2009.

Future developments

The directors remain committed to a strategy of providing a broad range of engineering and project management services to the onshore and offshore oil & 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.

Going concern

The Company has sufficient financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Political and charitable donations

Charitable donations of £22,742 were made during the year.

Directors' report

Directors and their interests

The directors who served the Company during the year and to the date of these accounts were as follows

M Cannavina

M Daniels (appointed 17 June 2009)

G Grant

G Jack

R Jewkes (resigned 6 January 2009)

S Keen (resigned 23 April 2009)

R Smith

R Verma

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

Directors' indemnity

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006

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 86 days

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.

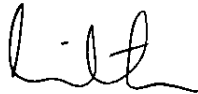
Petrofac Engineering Limited

Directors' report

Auditors

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the Company's auditor for the next year

On behalf of the board



R Smith

Company Secretary

28th May 2010

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 2006. 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 financial statements of Petrofac Engineering Ltd for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 21. The financial framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities as set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or

Independent auditors' report

to the members of Petrofac Engineering Limited (continued)

- the company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Justine Belton

Senior Statutory Auditor

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

Date *28 May* 2010

Petrofac Engineering Limited

Profit and loss account
for the year ended 31 December 2009

	<i>Notes</i>	2009 £	2008 £
Turnover	2	35,484,695	90,285,295
Cost of sales		29,505,757	80,396,831
Gross profit		5,978,938	9,888,464
Other operating income		-	150,700
Administrative expenses		6,595,994	7,667,264
Operating profit/(loss)	3	(617,056)	2,371,900
Other income		273,439	239,569
Profit/(loss) on ordinary activities before interest and tax		(343,617)	2,611,469
Interest receivable and similar income		49,612	87,063
Interest payable and similar charges	6	12,726	212,543
Profit/(loss) before taxation		(306,731)	2,485,989
Tax on profit on ordinary activities	7	139,458	1,334,219
Profit/(loss) retained for the financial year		(446,189)	1,151,770

The Company's results are derived from continuing activities

Petrofac Engineering Limited

Statement of total recognised gains and losses
for the year ended 31 December 2009

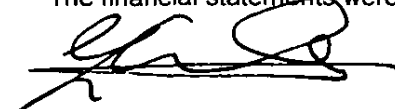
	2009	2008
	£	£
Profit/(loss) for the year	(446,189)	1,151,770
Currency translation differences	310	846
Total recognised gains & losses for the year	<u>(445,879)</u>	<u>1,152,616</u>

Petrofac Engineering Limited

Balance sheet
as at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	8	1,067,164	2,263,802
		<u>1,067,164</u>	<u>2,263,802</u>
Current assets			
Debtors	9	12,972,306	20,179,463
Cash at bank and in hand		7,715,413	10,669,473
		<u>20,687,719</u>	<u>30,848,936</u>
Creditors: amounts falling due within one year	10	6,949,184	15,565,431
Net current assets		<u>13,738,535</u>	<u>15,283,505</u>
Total assets less current liabilities		14,805,699	17,547,307
Provisions for liabilities and charges	11	4,862,328	7,158,057
Net assets		<u>9,943,371</u>	<u>10,389,250</u>
Capital and reserves			
Share capital	12	3,225,000	3,225,000
Profit and loss account	13	6,718,371	7,164,250
Equity shareholder's funds	13	<u>9,943,371</u>	<u>10,389,250</u>

The financial statements were approved by the board on 28 May 2010


M Cannavina
Director
28 May 2010

Notes to the financial statements

as at 31 December 2009

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.

Consolidation

The Company is exempt from the requirement to prepare and deliver group accounts by virtue of section 400 (1) of the Companies Act 2006, 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

as at 31 December 2009

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

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as a finance cost.

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.

Notes to the financial statements

as at 31 December 2009

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

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.

Share-based payment transactions

Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions') of the parent entity, Petrofac Limited.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement.

Notes to the financial statements

as at 31 December 2009

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

	2009 £	2008 £
Africa	9,110,372	21,579,612
Australasia	162,118	253,741
Europe	2,823,279	2,022,896
Former Soviet Union and Asia	15,779,263	60,488,057
Middle East	7,609,663	5,940,989
	<u>35,484,695</u>	<u>90,285,295</u>

Turnover attributable to group undertakings amounted to £12,419,194
(2008 - £76,223,449)

3. Operating profit

Operating profit is stated after charging/(crediting)

	2009 £	2008 £
Depreciation of owned fixed assets	1,916,471	3,528,511
Auditors' remuneration		
- audit services	78,419	68,152
Operating leases		
- land and buildings	1,639,336	2,059,232
- other	120,859	218,185
Foreign exchange (gains)/losses	(543,759)	(640,488)
Other operating income	<u>-</u>	<u>(150,700)</u>

Notes to the financial statements

as at 31 December 2009

4. Staff costs

	2009 £	2008 £
Wages and salaries	12,371,372	14,950,461
Social security costs	1,925,478	1,880,858
	<u>14,296,850</u>	<u>16,831,319</u>

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

	2009 No	2008 No
Administration	49	59
Operations	160	160
Sales	5	5
	<u>214</u>	<u>224</u>

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

	2009 No	2008 No
Consultants	<u>121</u>	<u>343</u>

5. Directors' emoluments

	2009 £	2008 £
Emoluments	<u>1,015,550</u>	<u>1,219,420</u>

Highest paid director

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

	2009 £	2008 £
Emoluments	<u>287,764</u>	<u>364,716</u>

Notes to the financial statements

as at 31 December 2009

6. Interest payable and similar charges

	2009 £	2008 £
Overdraft	10,577	212,543
Other interest payments	2,149	-
	<u>12,726</u>	<u>212,543</u>

7. Taxation

(a) Tax on profit on ordinary activities

	2009 £	2008 £
Current tax		
UK corporation tax for the period	-	2,833,160
Trading loss carried back under section 393A of ICTA	(992,664)	
Adjustments in respect of prior periods	135,703	(135,047)
	<u>(856,961)</u>	<u>2,698,113</u>
Foreign tax on income for the period	357,847	764,235
	<u>(499,114)</u>	<u>3,462,348</u>
Total current tax	(499,114)	3,462,348
Deferred tax for the period	772,538	(2,004,394)
Deferred tax in respect of prior periods	(133,966)	(123,735)
	<u>139,458</u>	<u>1,334,219</u>
Total tax on profit on ordinary activities	139,458	1,334,219

(b) Factors affecting the tax charge for period

	2009 £	2008 £
Profit/(loss) on ordinary activities before tax	(306,731)	2,485,989
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 28.5%)	(85,884)	708,507
Adjustments to tax charge in respect of previous periods	135,703	(135,047)
Expenses/(credits) not deductible for tax purposes	(592,987)	1,897,568
Foreign tax cost	357,847	764,235
Depreciation in excess of capital allowances	28,992	491,571
Double taxation relief	(342,785)	(264,486)
	<u>(499,114)</u>	<u>3,462,348</u>
Total current tax charge for the year	(499,114)	3,462,348

Notes to the financial statements

as at 31 December 2009

7. Taxation (continued)

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

	2009 £	2008 £
Accelerated capital allowances	(28,992)	(487,973)
On withholding tax to be suffered	320,973	(82,938)
Other timing differences	480,557	(1,433,483)
Adjustment in respect of prior periods	(133,966)	(123,735)
Total deferred tax charge/(credit) for the year	638,572	(2,128,129)
Deferred tax provided at 1 January	(3,097,645)	(969,516)
Debit/(credit) to profit and loss account	638,572	(2,128,129)
Deferred tax provided at 31 December	(2,459,073)	(3,097,645)

8. Tangible fixed assets

	Leasehold Improvement £	Computer software £	Furniture and office equipment £	Total £
Cost				
At 1 January 2009	988,902	4,540,314	4,913,262	10,442,478
Exchange adjustment	-	-	(3,077)	(3,077)
Additions	118,611	574,535	44,176	737,322
Disposals	-	(385,482)	(222,009)	(607,491)
At 31 December 2009	1,107,513	4,729,367	4,732,352	10,569,232
Depreciation				
At 1 January 2009	467,186	4,213,083	3,498,407	8,178,676
Exchange adjustment	-	-	(769)	(769)
Charge for year	180,547	734,127	1,001,797	1,916,471
Disposals	-	(385,482)	(206,828)	(592,310)
At 31 December 2009	647,733	4,561,728	4,292,607	9,502,068
Net book value				
At 31 December 2009	459,780	167,639	439,745	1,067,164
At 31 December 2008	521,716	327,231	1,414,855	2,263,802

Petrofac Engineering Limited

Notes to the financial statements

as at 31 December 2009

9. Debtors

	2009 £	2008 £
Trade debtors	2,540,181	3,233,798
Amounts owed by parent and fellow subsidiary undertakings	4,411,655	10,379,514
Amounts recoverable under long-term contracts	1,527,659	1,288,021
Other debtors	294,270	358,741
Prepayments and rent deposits	1,053,549	1,176,810
Corporation tax	539,952	-
Deferred taxation	2,459,073	3,097,645
Other taxation	145,967	644,934
	<u>12,972,306</u>	<u>20,179,463</u>

10. Creditors: amounts falling due within one year

	2009 £	2008 £
Trade creditors	760,716	1,918,594
Amounts owed to parent and fellow subsidiary undertakings	1,675,661	3,175,505
Corporation tax	-	2,973,159
Foreign tax	353,791	-
Other taxes and social security costs	412,472	469,743
Other creditors	510,315	1,103,992
Accruals	3,026,790	5,732,896
Deferred income on long-term contracts	209,439	191,542
	<u>6,949,184</u>	<u>15,565,431</u>

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\$137 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.

Notes to the financial statements

as at 31 December 2009

11. Provisions for liabilities and charges

	<i>Costs to complete provisions £</i>	<i>Onerous contract provisions £</i>	<i>Total £</i>
At 1 January 2009	5,076,490	2,081,567	7,158,057
Additional provision during year	1,035,792	-	1,035,792
Utilised during the year	-	(556,951)	(556,951)
Provisions no longer required	(2,774,570)	-	(2,774,570)
At 31 December 2009	<u>3,337,712</u>	<u>1,524,616</u>	<u>4,862,328</u>

Costs to complete provisions represent anticipated costs to complete where warranties on contracts are still outstanding

Onerous contract provisions comprise provision for dilapidations of £288,000 and provision for office space of £1,236,616

12. Share capital

	<i>2009 £</i>	<i>2008 £</i>
<i>Authorised</i>		
Ordinary shares of £1 each	<u>3,225,000</u>	<u>3,225,000</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>3,225,000</u>	<u>3,225,000</u>

Notes to the financial statements

as at 31 December 2009

13. 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 2008	3,225,000	6,011,634	9,236,634
Profit for year	-	1,151,770	1,151,770
Currency translation differences	-	846	846
Share based payment expenses	-	841,790	841,790
Funding of share based payment expense	-	(841,790)	(841,790)
As 31 December 2008	3,225,000	7,164,250	10,389,250
Loss for year	-	(446,189)	(446,189)
Currency translation differences	-	310	310
Share based payment expenses	-	810,603	810,603
Funding of share based payment expense	-	(810,603)	(810,603)
At 31 December 2009	3,225,000	6,718,371	9,943,371

14. Commitments under operating leases

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

	<i>Land and buildings</i> 2009 £	<i>Other</i> 2009 £	<i>Total</i> 2009 £	<i>Land and buildings</i> 2008 £	<i>Other</i> 2008 £	<i>Total</i> 2008 £
Expiry Date:						
Within one year	130,383	34,940	165,323	194,801	53,629	248,430
Within two to five years	137,560	19,095	156,655	279,796	55,031	334,827
Over five years	1,254,530	1,580	1,256,110	1,254,530	-	1,254,530
	1,522,473	55,615	1,578,088	1,729,127	108,660	1,837,787

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15. Other commitments

Authorised and contracted future expenditure is estimated at £46,690 (2008 - £130,656)

16. Contingent liabilities

The Company has cross-guaranteed a US\$137 million debt facilities agreement (see note 10)

The Company has issued a bid bond in the amount of TND 82,350 for a project in Tunisia

17. 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

18. Hedge transactions

The Company entered into forward foreign currency transactions during 2009. There was no outstanding position at 31 December 2009.

As at 31 December 2009, forward exchange contract commitments to sell nil (2008 - US\$4 871 million) and buy nil (2008 - £2 721 million between 2 January 2009 and 1 October 2009). The mark-to-market loss on these contracts at 31 December 2009 was nil (2008 - £615,977 loss).

19. Share-based payment plans

Performance Share Plan (PSP)

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>
2009 awards	545p	100.0%
2008 awards	522p	91.3%
2007 awards	415p	94.9%
2006 awards	353p	91.7%

Notes to the financial statements

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19. Share-based payment plans (continued)

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

	2009 awards	2008 awards	2007 awards	2006 awards
Expected share price volatility (based on median of comparator group's three year volatilities)	49.0%	32.0%	29.0%	28.0%
Share price correlation with comparator group	36.0%	22.0%	17.0%	10.0%
Risk-free interest rate	2.10%	3.79%	5.20%	4.60%
Expected life of share award	3 years	3 years	3 years	3 years
Fair value of TSR portion	456p	287p	245p	234p

The following shows the movement in the number of shares held under the PSP scheme outstanding but not exercisable

	2009 Number	2008 Number
Outstanding at 1 January	82,054	63,645
Shares transferred to sister entities	(82,054)	-
Granted during the period	-	18,409
Vested during the period	-	-
Forfeited during the period	-	-
Outstanding at 31 December	-	82,054

The number of awards to Petrofac Engineering Limited employees still outstanding but not exercisable at 31 December 2009 was nil (2008 - 82,054) and was made up of nil in respect of 2009 awards (2008 - nil), nil in respect of 2008 awards (2008 - 18,409), nil in respect of 2007 awards (2008 - 25,094) and nil in respect of 2006 awards (2008 - 38,551). The charge recognised in the current year was nil (2008 - £80,341).

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 of a number of shares bearing a specified ratio to the number of his or her invested shares ("Matching Shares").

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19. Share-based payment plans (continued)

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 the 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% on the second anniversary of the date of grant and the final 33.34% of the award on the third anniversary of the date of grant.

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. The details of the fair values and assumed vesting rates of the DBSP scheme are below.

	<i>Weighted average fair value per share</i>	<i>Trued up vesting rate</i>
2009 awards	545p	98.2%
2008 awards	522p	92.9%
2007 awards	415p	90.7%
2006 awards	353p	85.5%

The following shows the movement in the number of shares held under the DBSP scheme outstanding but not exercisable

	2009 Number *	2008 Number *
Outstanding at 1 January	308,904	215,298
Shares transferred from sister entities	748	-
Shares transferred to sister entities	(120,446)	-
Granted during the period	141,582	162,636
Vested during the period	(88,382)	(41,344)
Forfeited during the period	(17,192)	(27,686)
Outstanding at 31 December	225,214	308,904

* Includes invested and matching shares

The number of awards still outstanding but not exercisable at 31 December 2009 is made up of 134,232 in respect of 2009 awards (2008 - nil), 68,716 in respect of 2008 awards (2008 - 151,746), 22,266 in respect of 2007 awards (2008 - 75,684) and nil for 2006 awards (2008 - 81,474).

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19. Share-based payment plans (continued)

The charge recognised in the current year amounted to £769,166 (2008 – £754,904)

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 lower, 10% of salary) to purchase ordinary shares in Petrofac Limited. There is no holding period for these shares.

Restricted Share Plan (RSP)

Under the Restricted Share Plan scheme, employees are granted shares in Petrofac Limited over a discretionary vesting period which may or may not be at the direction of the Remuneration Committee of Board of Directors of Petrofac Limited, subject to the satisfaction of performance conditions. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair values of the awards granted under the plan at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period. For details of the fair values and assumed vesting rate of the RSP scheme, see below.

	<i>Weighted average fair value per share</i>	<i>Trued up vesting rate</i>
2009 awards	400p	100.0%
2008 awards	416p	91.1%

The following shows the movement in the number of shares held under the RSP scheme outstanding but not exercisable:

	2009 Number	2008 Number
Outstanding at 1 January	24,250	-
Granted during the period	8,347	24,250
Vested during the period	-	-
Forfeited during the period	-	-
Outstanding at 31 December	32,597	24,250

The number of awards still outstanding but not exercisable at 31 December 2009 is made up of 8,347 in respect of 2009 (2008 - nil) and 24,250 in respect of 2008 awards (2008 - 24,250).

The charge recognised in the current year amounted to £41,437 (2008 - £6,545).

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20. 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 in which the results of the Company are finally 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

21. Post balance sheet event

On 19 April 2010, the Company received the final acceptance certificate for a project against which it held a provision. Following receipt, this provision has been released in 2010.