

Petrofac Engineering Limited

Report and Financial Statements

31 December 2013

TUESDAY



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COMPANIES HOUSE

Registered No. 2615887

Petrofac Engineering Limited

Directors

M Barnes

U Darr

J Scott

R Smith

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

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GU21 5BJ

Strategic Report

The directors present their Strategic report for the year ended 31 December 2013.

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 30 customers in the oil & gas industry. Engineering services were provided to oil companies on projects in several countries around the world with Iraq, Saudi Arabia, Turkmenistan, United Arab Emirates and the United Kingdom being the top five.

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

	2013 £	2012 £	Change (%)
Turnover	118,501,543	126,616,814	(6)%
Operating profit	1,411,971	2,782,328	(49)%
Profit after tax	1,939,992	2,155,822	(10)%
Equity shareholders' funds	18,545,868	16,671,528	11%
Current assets as % of current liabilities ('quick ratio')	1.55	2.17	(28)%
Average number of employees	205	169	21%

The Company's revenue is earned from contracts which can range significantly in value. In 2013, the Company continued executing the work under a contract awarded in 2011 by a fellow subsidiary undertaking for a substantial value and was awarded few other contracts of similar nature by another fellow subsidiary. The Company decided that a large portion of the scope of these contracts should be sub-contracted in order to maintain a manageable workload which matched the Company's capacity and the resources available to it. The reduction in profit after tax is mainly driven by the reduction in revenue.

Our balance sheet remains strong with over £16m of net current assets and a 'quick ratio' of 1.55 at 31 December 2013.

Principal risks and uncertainties

The Company's key risks and uncertainties are described below. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems to be immaterial, may also impact on the performance of the business.

- 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.

Strategic report (continued)

Principal risks and uncertainties (continued)

- Ability to attract and retain skilled personnel

The availability of skilled personnel remains a significant challenge facing the oil and gas industry. The Company remains confident that its efforts to promote and reward on merit, its growing employee share ownership in the shares of the ultimate parent company, management and technician training programmes and recruitment strategies, 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. Foreign currency projects are usually hedged to minimise the exchange movement risk if the project value is significant.

- Credit risk

The Company trades ideally with recognised, creditworthy third parties, and intercompany customers which are predominately wholly owned subsidiaries of the Petrofac consolidated group (except where disclosed in note 18). For external customers, management will evaluate the creditworthiness of each individual third party at the time of entering into new contracts, where possible, or seek an advance payment if credit risk is considered high. Limits have been placed on the approval authority of the various levels of management when entering into new contracts. For intercompany customers, credit is provided generally on the same terms as third parties however payments may be deferred for overall group working capital purposes, which may negatively impact on the working capital of the Company. Receivable balances are monitored on an ongoing basis with appropriate follow up action taken where necessary.

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. From August 2014 onwards, part of the trade of KW Ltd, which is a 100% owned subsidiary within Petrofac Ltd Group will be transferred to the Company.

On behalf of the board



Robert Smith

Director

8 August 2014

Director's report

The directors present their report and financial statements for the year ended 31 December 2013.

Results and dividends

The profit for the year after taxation amounted to £1,939,992 (2012 - £2,155,822).

No dividends were declared or paid during the year (2012 - nil). The directors do not propose the payment of a final dividend.

Research and development

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

Foreign branches

The Company has active branches in Italy and Mexico. The Mexico branch was registered and started trading in 2013.

Future developments

Information related to future developments is provided under the Strategic Report due to its Strategic importance.

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.

Charitable donations

Charitable donations of £14,042 were made during the year (2012 - £33,653). Accruals made during 2012 of £18,838 were not utilised and released at the end of 2013 led to a net credit of £4,796 in the profit and loss account.

Directors and their interests

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

M Barnes

M Daniels (resigned 1 July 2013)

U Darr (appointed 2 January 2014)

G Grant (resigned 2 January 2014)

J Scott (appointed 2 January 2014)

R Smith

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

Director's report (continued)

Directors' indemnity

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

Going concern

Petrofac Limited, the ultimate holding company, has undertaken to provide sufficient funds to the company to enable it to continue operating and to meet its obligations as they fall due. As a consequence, the directors believe that the Company is well in placed to manage its business risks successfully. The directors therefore have a reasonable expectation that the company has adequate resources to continue its operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the report and financial statements.

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 25 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.

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



Robert Smith

Company Secretary

8 August 2014

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing 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 are sufficient to show and explain the company's transactions and 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.

The directors confirm that they have complied with those requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

Independent auditors' report to the members of Petrofac Engineering Limited

We have audited the financial statements of Petrofac Engineering Limited for the year ended 31 December 2013 which comprises the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 22. The financial reporting 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 Chapter 3 of Part 16 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 auditor's 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 Directors' Responsibilities Statement 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board'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. In addition, we read all the financial and non-financial information in the Directors' Report and Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 and of its profit 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Petrofac Engineering Limited

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
- the 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

William Binns (Senior Statutory Auditor)

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

London

Date: 13-8-14

Petrofac Engineering Limited

Profit and Loss account
for the year ended 31 December 2013

	<i>Notes</i>	2013 £	2012 £
Turnover	2	118,501,543	126,616,814
Cost of sales		<u>107,055,911</u>	<u>116,284,805</u>
Gross profit		11,445,632	10,332,009
Administrative expenses		<u>10,033,661</u>	<u>7,549,681</u>
Operating profit	3	1,411,971	2,782,328
Other income		<u>1,207,051</u>	<u>464,102</u>
Profit on ordinary activities before interest and tax		2,619,022	3,246,430
Interest receivable and similar income	6	7,177	59,287
Interest payable and similar charges	7	<u>187,256</u>	<u>-</u>
Profit before taxation		2,438,943	3,305,717
Tax expense on profit on ordinary activities	8	<u>498,951</u>	<u>1,149,895</u>
Profit after taxation		<u>1,939,992</u>	<u>2,155,822</u>

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 2013

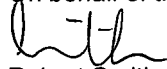
	2013	2012
	£	£
Profit for the year	1,939,992	2,155,822
Currency translation differences	(65,652)	(857)
Total recognised gains & losses for the year	<u>1,874,340</u>	<u>2,154,965</u>

Balance Sheet

as at 31 December 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	9	2,316,382	1,803,843
		<u>2,316,382</u>	<u>1,803,843</u>
Current assets			
Debtors	10	46,579,036	29,870,832
		<u>46,579,036</u>	<u>29,870,832</u>
Creditors: amounts falling due within one year	11	21,525,881	12,832,575
Bank overdraft		8,497,679	935,334
		<u>30,023,560</u>	<u>13,767,909</u>
Net current assets		16,555,476	16,102,923
Total assets less current liabilities		18,871,858	17,906,766
Provisions for liabilities and charges	12	325,990	1,235,238
Net assets		<u>18,545,868</u>	<u>16,671,528</u>
Capital and reserves			
Share capital	13	3,225,000	3,225,000
Profit and loss account	14	15,320,868	13,446,528
Equity shareholder's funds	14	<u>18,545,868</u>	<u>16,671,528</u>

On behalf of the Board



Robert Smith
Director
8 August 2014

Notes to the Financial Statements

as at 31 December 2013

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.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the Company 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 100% of the voting rights.

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.

Notes to the Financial Statements

as at 31 December 2013

1. Accounting policies (continued)

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.

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

as at 31 December 2013

1. Accounting policies (continued)

Foreign currencies

Assets and liabilities of foreign currency branches are translated into sterling at rates of exchange ruling at the balance sheet date. The profit and loss account is translated into sterling using average rates of exchange. Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into sterling are taken directly to reserves and reported in the statement of total recognised gains and losses.

All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit or loss for the year.

Operating lease 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 2013

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and fellow subsidiaries, 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:

	2013 £	2012 £
Africa	10,481,124	10,695,564
Americas	8,717,549	204,654
Europe	34,601,955	28,750,708
Former Soviet Union and Asia	8,928,366	83,284,832
Middle East	55,772,549	3,681,056
	<u>118,501,543</u>	<u>126,616,814</u>

Turnover attributable to group undertakings amounted to £103,669,397 (2012 - £107,734,788).

3. Operating profit

Operating profit is stated after charging:

	2013 £	2012 £
Depreciation of owned fixed assets	1,431,347	1,075,940
Auditors' remuneration		
- audit services	117,441	79,480
Operating leases		
- land and buildings	1,578,317	1,445,937
- other	13,586	1,580
Foreign exchange losses	<u>186,280</u>	<u>357,764</u>

Notes to the Financial Statements

as at 31 December 2013

4. Staff costs

	2013 £	2012 £
Wages and salaries	15,619,482	15,002,048
Social security costs	1,962,309	1,885,941
	<u>17,581,791</u>	<u>16,887,989</u>

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

	2013 No	2012 No
Administration	28	38
Operations	169	126
Sales	8	5
	<u>205</u>	<u>169</u>

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

	2013 No	2012 No
Consultants	<u>186</u>	<u>192</u>

5. Directors' emoluments

	2013 £	2012 £
Emoluments	<u>766,235</u>	<u>963,758</u>

Highest paid director

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

	2013 £	2012 £
Emoluments	<u>287,637</u>	<u>261,200</u>

Notes to the Financial Statements

as at 31 December 2013

6. Interest receivable and similar income

	2013 £	2012 £
On surplus cash	5,803	59,287
Other interest receipts	1,374	-
	<u>7,177</u>	<u>59,287</u>

7. Interest payable and similar charges

	2013 £	2012 £
Overdraft	187,256	-
	<u>187,256</u>	<u>-</u>

8. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2013 £	2012 £
Current tax:		
UK corporation tax for the period	287,442	611,334
Adjustments in respect of prior periods	(776,903)	(228,083)
	<u>(489,461)</u>	<u>383,251</u>
Foreign tax on income for the period	746,467	639,209
	<u>257,006</u>	<u>1,022,460</u>
Total current tax charge/(credit) (note 8 (b))	257,006	1,022,460
Deferred tax for the period (note 8 (d))	241,945	127,438
Deferred tax in respect of prior periods (note 8 (d))	-	(3)
	<u>498,951</u>	<u>1,149,895</u>
Total tax on profit on ordinary activities		

Notes to the Financial Statements

as at 31 December 2013

8. Taxation (continued)

(b) Factors affecting the current tax expense for the year

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are explained below:

	2013 £	2012 £
Profit on ordinary activities before tax	2,438,943	3,305,717
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	567,054	809,901
Adjustments to tax charge in respect of previous periods	(776,903)	(228,083)
Income not chargeable for tax purposes	(277,697)	(151,842)
Foreign tax cost	746,467	639,209
Depreciation in excess of capital allowances	(1,915)	(46,725)
Total current tax charge/(credit) for the year (note 8 (a))	257,006	1,022,460

(c) Factors that may affect the future tax charges

The main rate of corporation tax in the UK changes from 23% to 21% from 1 April 2014, and will reduce to 20% from 1 April 2015.

(d) Deferred tax provided in the accounts is as follows:

	2013 £	2012 £
Accelerated capital allowances	1,915	46,725
Other timing differences	129,365	(15,894)
Impact of tax rate changes	110,665	96,607
Adjustment in respect of prior periods	-	(3)
Total deferred tax charge for the year (note 8 (a))	241,945	127,435
Deferred tax (asset) provided at 1 January	(1,103,739)	(1,231,174)
Debit to profit and loss account	241,945	127,435
Exchange Adjustment	5,916	-
Deferred tax (asset) provided at 31 December	(855,878)	(1,103,739)

The deferred tax asset/liability is valued at 20% (2012 – 23%). The reduction in the tax rate to 20% was substantially enacted on 2nd July 2013.

The change in the UK rate to 20% was substantively enacted as at the reporting date and the impact of the change has been included above.

Notes to the Financial Statements

as at 31 December 2013

9. Tangible assets

	<i>Leasehold Improvement</i> £	<i>Computer software</i> £	<i>Furniture and office equipment</i> £	<i>Total</i> £
Cost:				
At 1 January 2013	1,486,077	1,798,540	1,764,705	5,049,322
Exchange adjustment	-	-	2,604	2,604
Additions	124,407	714,421	1,103,801	1,942,629
At 31 December 2013	1,610,484	2,512,961	2,871,110	6,994,555
Depreciation:				
At 1 January 2013	821,026	1,603,298	821,155	3,245,479
Exchange adjustment	-	-	1,347	1,347
Charge for year	234,720	639,294	557,333	1,431,347
At 31 December 2013	1,055,746	2,242,592	1,379,835	4,678,173
Net book value:				
At 31 December 2013	554,738	270,369	1,491,275	2,316,382
At 31 December 2012	665,051	195,242	943,550	1,803,843

10. Debtors

	2013 £	2012 £
Trade debtors	2,961,201	3,772,951
Amounts owed by parent and fellow subsidiary undertakings	39,036,863	20,467,289
Unbilled Revenue	1,623,301	3,724,757
Advances to suppliers	914,153	-
Prepayments and rent deposits	769,183	802,096
Deferred tax asset	855,878	1,103,739
UK VAT recoverable	418,457	-
	<u>46,579,036</u>	<u>29,870,832</u>

Notes to the Financial Statements

as at 31 December 2013

11. Creditors: amounts falling due within one year

	2013 £	2012 £
Trade creditors	3,180,429	1,092,451
Amounts owed to parent and fellow subsidiary undertakings	11,197,713	2,796,540
Deferred income	301,763	80,022
Foreign tax	751,832	534,802
Other taxes and social security costs	652,498	516,676
Other creditors	17,530	16,679
Accruals	4,330,454	6,170,190
Corporation tax	953,600	1,426,897
UK VAT Payable	-	198,318
Mexico VAT payable	140,062	-
	<u>21,525,881</u>	<u>12,832,575</u>

Petrofac Limited, the Company's ultimate parent company, has group facilities with The Royal Bank of Scotland and the Bank of Scotland. As part of these facilities, the Company has access to an overdraft facility which carries an interest rate of 1.5% per annum above LIBOR. In addition, the Company has cross-guaranteed the US\$57 million debt outstanding under these facilities as at 31 December 2013. Under the Facilities Agreement a term loan facility, overdraft facility and a bond and guarantee facility have been made available to the Petrofac Limited group.

12. Provisions for liabilities and charges

	Provision for warranties £	Dilapidation provision £	Total £
At 1 January 2013	866,405	368,833	1,235,238
Provisions no longer required	(866,405)	(42,843)	(909,248)
At 31 December 2013	<u>-</u>	<u>325,990</u>	<u>325,990</u>

13. Share capital

	2013 £	2012 £
<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 2013

14. Reconciliation of shareholder's funds and movements on reserves

	<i>Share capital</i> £	<i>Profit and loss</i> <i>account</i> £	<i>Total</i> £
As 1 January 2012	3,225,000	11,291,563	14,516,563
Profit for year	-	2,155,822	2,155,822
Currency translation differences	-	(857)	(857)
Share based payment expenses	-	617,899	617,899
Funding of share based payment expense	-	(617,899)	(617,899)
As 31 December 2012	3,225,000	13,446,528	16,671,528
Profit for year	-	1,939,992	1,939,992
Currency translation differences	-	(65,652)	(65,652)
Share based payment expenses	-	763,816	763,816
Funding of share based payment expense	-	(763,816)	(763,816)
At 31 December 2013	<u>3,225,000</u>	<u>15,320,868</u>	<u>18,545,868</u>

15. Commitments under operating leases

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

	<i>Land and</i> <i>buildings</i> 2013 £	<i>Other</i> 2013 £	<i>Total</i> 2013 £	<i>Land and</i> <i>buildings</i> 2012 £	<i>Other</i> 2012 £	<i>Total</i> 2012 £
Expiry Date:						
Within one year	141,865	973	142,838	130,515	-	130,515
Within two to five years	397,500	1,580	399,080	397,500	1,580	399,080
Over five years	857,030	10,818	867,848	857,030	-	857,030
	<u>1,396,395</u>	<u>13,371</u>	<u>1,409,766</u>	<u>1,385,045</u>	<u>1,580</u>	<u>1,386,625</u>

Notes to the Financial Statements

as at 31 December 2013

16. Other commitments

Authorised and contracted future expenditure is estimated at £37,797 (2012-£74,115).

17. Contingent liabilities

The Company has cross-guaranteed a US\$57 million debt facilities agreement (see note 11).

18. 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 members or investors of the Petrofac Limited group where the group controls 100% of the voting rights.

Sales and costs that are related to the transactions with associated companies for which the Petrofac Limited Group controls less than 100% of the voting rights are below.

These transactions mainly comprise sales and purchase of goods and services in the ordinary course of business.

	2013 £	2012 £
Charges to:		
Petrofac Emirates LLC	6,430,604	422,925
	<u>6,430,604</u>	<u>422,925</u>
Charges from:		
SPD LLC	-	113,451
	<u>-</u>	<u>113,451</u>

The balances outstanding at 31 December in respect of the above transactions were as follows:

	2013 £	2012 £
Amount due from:		
Petrofac Emirates LLC	3,135,923	76,709
	<u>3,135,923</u>	<u>76,709</u>
Amount due to:		
SPD LLC	2,500	2,500
	<u>2,500</u>	<u>2,500</u>

Notes to the Financial Statements

as at 31 December 2013

19. Related party transactions (continued)

Petrofac Emirates LLC is a 49% owned joint venture of Petrofac International Ltd which is a 100% owned subsidiary within the Petrofac Ltd group. From 1 January 2013, the Petrofac Group increased its economic interest in Petrofac Emirates LLC by an additional 25%. The financial position and performance of this entity was consolidated into the Group financial statements from 1 January 2013.

SPD LLC is a 49% owned joint venture of SPD Group Ltd which is a 100% owned subsidiary within the Petrofac Ltd group

19. Hedge transactions

The Company entered into forward foreign currency transactions during 2013. There were no outstanding positions at 31 December 2013.

20. Share-based payment plans

On 13 September 2005, Petrofac Limited established three share schemes for the benefit of employees, 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 2006 for UK subsidiary companies. All of these share schemes are equity settled award schemes and are described below.

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 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of Petrofac Limited, compared with 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:

	2013 awards	2012 awards	2011 awards	2010 awards
Expected share price volatility (based on median of comparator group's three year volatilities)	34.6%	38.0%	51.0%	50.0%
Share price correlation with comparator group	44.0%	46.0%	43.0%	39.0%
Risk-free interest rate	0.40%	0.40%	1.70%	1.50%
Expected life of share award	3 years	3 years	3 years	3 years
Fair value of TSR portion	<u>692p</u>	<u>1,103p</u>	<u>788p</u>	<u>743p</u>

The non-market-based condition governing the vesting of the remaining 50% of the total award is subject to achieving 10% and 20% 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.

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as at 31 December 2013

20. Share-based payment plans (continued)

Performance Share Plan (PSP) (continued)

	<i>Fair value per share</i>	<i>Trued up vesting rate</i>
2013 awards	1,446p	3.1.%
2012 awards	1,705p	0.0%
2011 awards	1,426p	16.60%
2010 awards	1,103p	93.80%

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

	2013 Number	2012 Number
Outstanding at 1 January	3,751	1,402
Shares transferred to sister entities	-	-
Granted during the period	3,269	2,349
Vested during the period	-	-
Forfeited during the period	-	-
Outstanding at 31 December	7,020	3,751

The number of awards to Petrofac Engineering Limited employees still outstanding but not exercisable at 31 December 2013 is made up of 3,269 in respect of 2013 (2012 -nil), 2,349 in respect of 2012 (2012 – 2,349) and 1,402 in respect of 2011 (2012 – 1,402). The charge recognised in the current year was £2,084 (2012 -£12,184).

Deferred Bonus Share Plan (DBSP)

Selected employees of the Petrofac Group are eligible to participate in this scheme. Participants are required, or in some cases invited, to receive a proportion of any bonus in ordinary shares of Petrofac Limited ("Invested Awards"). Following such an 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").

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. 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 trued up percentage

Notes to the Financial Statements

as at 31 December 2013

20. Share-based payment plans (continued)

Deferred Bonus Share Plan (DBSP) (continued)

vesting rate of the plan. 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 charged by Petrofac Limited, the ultimate holding company to the Company. 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>
2013 awards	1,446p	91.40%
2012 awards	1,705p	85.50%
2011 awards	1,426p	87.90%
2010 awards	<u>1,185p</u>	<u>88.90%</u>

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

	2013 Number *	2012 Number *
Outstanding at 1 January	62,606	77,594
Shares transferred from sister entities	258	7,702
Shares transferred to sister entities	-	(42,006)
Granted during the period	52,838	42,914
Vested during the period	(26,116)	(21,344)
Forfeited during the period	(6,826)	(2,254)
Outstanding at 31 December	<u>82,760</u>	<u>62,606</u>

* Includes invested and matching shares

The number of awards still outstanding but not exercisable at 31 December 2013 is made up of 49,976 in respect of 2013 awards (2012 – nil), 25,736 in respect of 2012 awards (2012 – 41,726), 7,048 in respect of 2011 awards (2012 – 13,856) and nil in respect of 2010 awards (2012 – 7,024).

The charge recognised in the current year amounted to £704,361 (2012 – £586,024).

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.

Notes to the Financial Statements

as at 31 December 2013

20. Share-based payment plans (continued)

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>
2013 awards	1,366p	96.70%
2012 awards	1,555p	87.40%
2011 awards	1,463p	67.30%

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

	2013 Number	2012 Number
Outstanding at 1 January	3,131	13,042
Granted during the period	10,619	-
Vested during the period	(1,631)	(9,911)
Forfeited during the period	-	-
Outstanding at 31 December	12,119	3,131

The number of awards still outstanding but not exercisable at 31 December 2013 is made up of 10,619 in respect of 2013 (2012 – nil) and 1,500 in respect of 2011 (2012 – 3,131).

The charge recognised in the current year amounted to £57,371 (2012 - £19,691).

21. Post balance sheet events

From August 2014 onwards, part of the trade of KW Ltd, which is a 100% owned subsidiary within Petrofac Ltd Group will be transferred to the Company.

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 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, Ogier House, The Esplanade, St Helier, Jersey.