

2615887

Petrofac Engineering Limited

(Formerly Petrofac UK Limited)

Report and Financial Statements

31 December 2002



Petrofac Engineering Limited

Registered No: 02615887

Directors

A Asfari
J M Fleming
G Grant
S B Keen
J M Stacey
T J Stacey
P L Warner

Secretary

T J Stacey

Auditors

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London
SE1 7EU

Bankers

National Westminster Bank
25 Shepherd's Bush Green
London
W12 8PR

Solicitors

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

Registered Office

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

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2002.

Principal Activities and Review of the Business

Petrofac Engineering provides professional engineering services to the oil, gas and petrochemical industries.

The company's principal activities comprise field development planning, conceptual engineering and feasibility studies, front end engineering and design (FEED), process, risk safety and environmental engineering (RSE) and consultancy and project management. Its geographic focus is worldwide.

During 2002, the business grew considerably, staff numbers almost doubled during the year, and completed a move to larger offices in Woking, UK. In the short time that Petrofac Engineering has been in operation, it has already achieved a strong reputation for consulting and a presence in the offshore market. Petrofac Engineering's potential customer base is broad and includes the oil majors, the national oil companies and the independents, both large and small. During 2002, Petrofac Engineering obtained work from key target clients such as Statoil, TotalFinaElf, ExxonMobil and BP. In addition, Petrofac Engineering provided significant support to the Petrofac group of companies in terms of supporting the sale of integrated solutions and provision of technical expertise to Petrofac International and Petrofac Resources.

Key projects undertaken during 2002 included the following:

Qatar Petroleum, Qatar - The Rich Associated Gas Utilisation revamp project, a \$2.5 million FEED to minimise onshore and offshore flaring and increase NGL production.

Oil Energy Industries Development Co, Iran - Zagros Fields Development Planning for 9 onshore fields from feasibility through to master development plan, a \$9.5 million contract in association with local partner JTG and reservoir engineering specialists, ECL.

Severtok, Russia - \$2 million basic engineering contract for the development of the South Shapino field inside the Arctic circle.

On 14th February 2003 the company changed its name from Petrofac UK Limited to Petrofac Engineering Limited.

Future Developments

The directors remain committed to a strategy of providing a broad range of engineering and support services to the UK onshore and offshore oil and gas industry and consider the company is well placed to offer the services required by these independent oil companies as well as those required by the majors.

Immediate Parent Company

On 31 December the company was sold by its then parent, Petrofac Limited, to a new intermediate holding company, Petrofac UK Holdings Limited. Petrofac Limited remains the ultimate holding company.

Results & Dividends

Turnover for the year amounted to £11,384,711 (2001 £5,016,003) and the loss for the year after tax amounted to £833,983 (2001 £13,261 profit)

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

Directors' report

Directors and their Interests

The directors who served during the year were as follows:

A Asfari	
J M Fleming	
G Grant	(appointed in 2003)
S B Keen	(appointed 21 st March 2002)
J M Stacey	
TJ Stacey	(appointed 21 st March 2002)
P L Warner	(resigned 2 nd February 2003)

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

Political and Charitable Donations

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

Employee Consultation

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

Auditors

Arthur Soares & Co. resigned as auditors on 23rd October 2002 and Ernst & Young LLP were appointed in their place. The directors will place a resolution before the Annual General Meeting to re-appoint Ernst & Young LLP as auditors to the company.

On behalf of the Board



T J E Stacey
Director

31 July 2003

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

Independent auditors' report

to the members of Petrofac Engineering Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

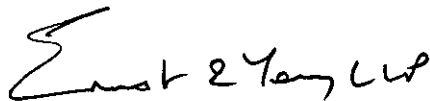
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report

to the members of Petrofac Engineering Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London
Date

31.7.2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	11,384,711	5,016,003
Cost of sales		10,371,538	3,413,644
		<u>1,013,173</u>	<u>1,602,359</u>
Gross profit			
Administrative expenses		1,836,770	1,585,302
		<u>(823,597)</u>	<u>17,057</u>
Operating(loss)/ profit	3		
Loss on disposal of fixed assets	6	6,354	-
		<u>(829,951)</u>	<u>17,057</u>
(Loss)/profit on ordinary activities before interest & tax			
Interest receivable and similar income		2,397	686
Interest payable and similar charges	7	9,800	4,482
		<u>(837,354)</u>	<u>13,261</u>
(Loss)/profit before taxation			
Tax on ordinary activities	8	(3,371)	-
		<u>(833,983)</u>	<u>13,261</u>
Retained (loss)/profit for the financial year			

Statement of total recognised gains and losses

for the year ended 31 December 2002

The company has no recognised gains or losses, other than the loss of £833,983 for the year ended 31 December 2002 (2001 profit of £13,261)

Balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible assets	9	992,907	436,959
Current assets			
Debtors	10	3,794,827	1,882,756
Cash at bank and in hand	11	-	164,526
		<u>3,794,827</u>	<u>2,047,282</u>
Creditors: Amounts falling due within one year	12	2,490,644	720,980
		<u>1,304,183</u>	<u>1,326,302</u>
Net current assets			
		<u>2,297,090</u>	<u>1,763,261</u>
Total assets less current liabilities			
Creditors: Amounts falling due after more than one year	13	1,892,187	750,000
Provisions for Liabilities and charges	14	225,625	-
		<u>179,278</u>	<u>1,013,261</u>
Net assets			
		<u>179,278</u>	<u>1,013,261</u>
Capital and reserves			
Called-up share capital	15	1,000,000	1,000,000
Profit and loss account	16	(820,722)	13,261
		<u>179,278</u>	<u>1,013,261</u>
Equity shareholders' funds	16		
		<u>179,278</u>	<u>1,013,261</u>



T J E Stacey
Director

31 July 2003

Notes to the financial statements

at 31 December 2002

1. Accounting policies

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

Basis of accounting and change in accounting policy

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

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

The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. The change in accounting policy has not resulted in a restatement of prior year balances.

Fundamental accounting concept

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

The parent company has agreed to provide sufficient funds to the company for these purposes; it has also agreed not to recall the amounts advanced to the company which as at 31 December 2002 amounted to £1,892,187 (see note 13) until all other creditors has been met. The directors believe that it is therefore appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Revenues from fixed-price contracts are recognised on the percent-of-completion method, measured by milestones completed or earned value.

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

Long-term contracts

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

Tangible fixed assets

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

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

Notes to the financial statements

at 31 December 2002

Finance and operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Comparative figures

Certain prior year figures have been restated to conform with 2002 presentation.

Foreign currencies

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

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

All differences are taken to the profit and loss account.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Balances are measured on a non-discounted 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.

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.

2. Turnover

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

Turnover is attributable to one continuing activity, providing engineering services to the oil and gas industry, in the following geographical markets:

	2002	2001
	£	£
Africa	1,229,729	809,537
Europe	2,414,977	354,412
Far East	-	25,572
Former Soviet Union	1,756,868	1,472,679
Middle East	5,843,953	2,283,878
North America	139,184	69,925
	<u>11,384,711</u>	<u>5,016,003</u>

Notes to the financial statements

at 31 December 2002

3. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2002	2001
	£	£
Depreciation of owned fixed assets	453,171	323,019
Auditors' remuneration	19,100	3,000
Operating lease rentals		
- land and buildings	622,833	442,000
- other	27,994	22,660

Remuneration of the company's auditors for provision on non-audit services to the company and its UK subsidiary undertakings, was £Nil (2001 - £Nil).

4. Directors' remuneration

	2002	2001
	£	£
Emoluments	531,670	364,380

Highest paid director

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

	2002	2001
	£	£
Emoluments	160,000	137,690

5. Staff costs

	2002	2001
	£	£
Wages and salaries for employees	4,530,317	2,128,637
Social security costs	480,485	229,814
	5,010,802	2,358,451

Average number of employees during the year

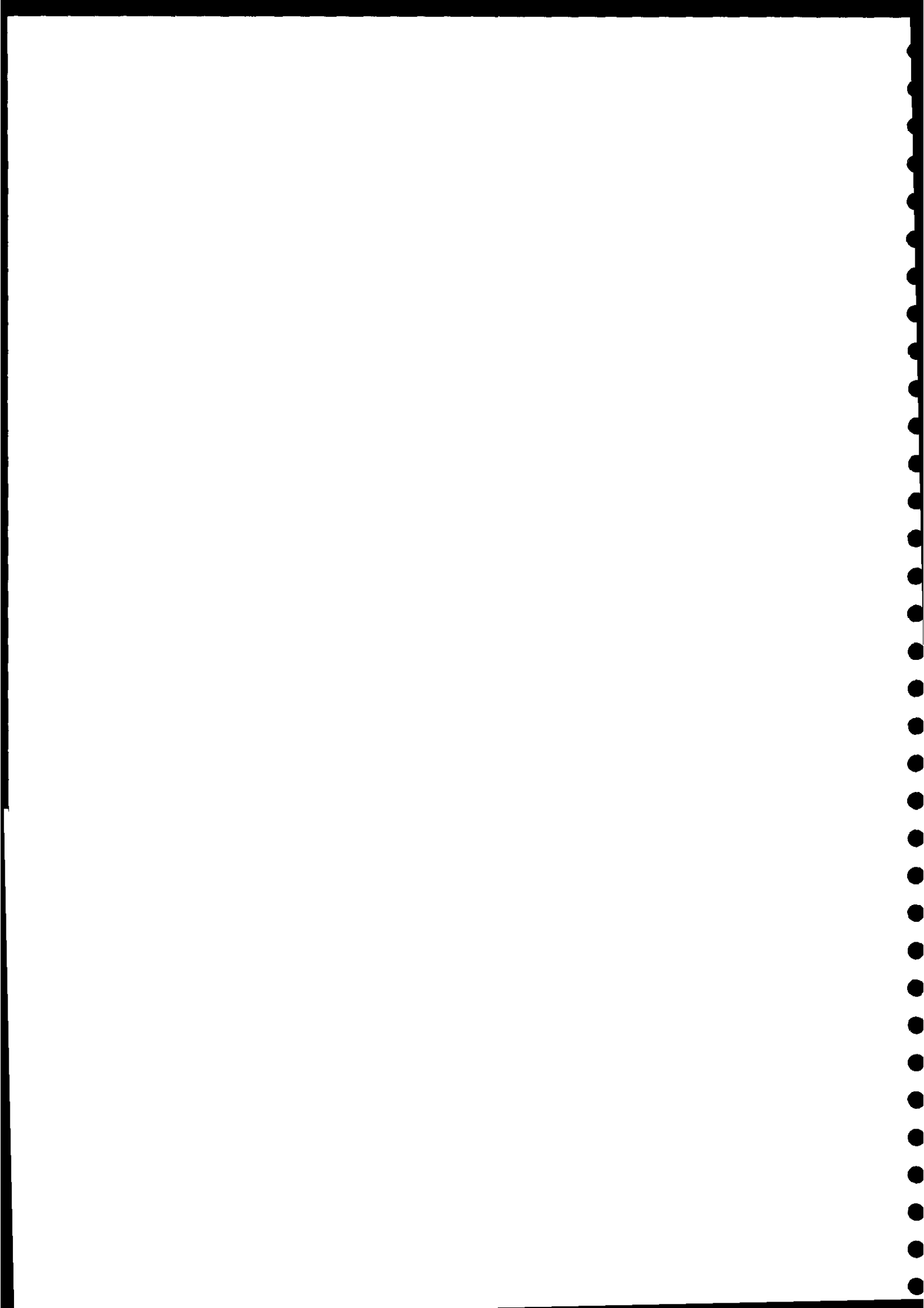
The average number of employees (including executive directors) was:

	2002	2001
	No.	No.
Administration	12	7
Operations	63	24
Sales	5	4
	80	35

Average number of consultants during the year

The average number of consultants was:

	2002	2001
	No.	No.
Consultants	28	15



Notes to the financial statements

at 31 December 2002

6. Exceptional Items

Exceptional items comprise the loss on disposal of furniture and office equipment of £6,354 as part of an office relocation.

7. Interest payable and similar charges

	2002 £	2001 £
Bank loans and overdrafts	9,800	318
Other loans	-	4,164
	<u>9,800</u>	<u>4,482</u>

8. Taxation

(a) Tax on profit on ordinary activities

	2002	2001
<i>Current tax:</i>		
Adjustments in respect of previous periods	(3,371)	-
Total current tax (note 8(b))	<u>(3,371)</u>	<u>-</u>

(b) Factors affecting the tax charge for period

	2002 £	2001 £
(Loss)/profit on ordinary activities before tax	<u>(837,354)</u>	<u>13,261</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	(251,206)	3,978
Permanent differences:		
Expenses not deductible for tax purposes	33,097	43,629
Tax losses not recognised	150,736	-
Timing differences		
Capital allowances for period in excess of depreciation	(1,877)	(47,607)
Losses carried back	69,251	-
Current tax charge-current year	-	-
Adjustments to tax charge in respect of previous periods	(3,371)	-
Total current tax credit for the year	<u>(3,371)</u>	<u>-</u>

Notes to the financial statements

at 31 December 2002

Deferred taxation not recognised in respect of tax losses and other timing differences amounts to £193,800 for 2002 (2001-£45,600). These assets will be recognised should it become more likely than not that taxable profits or timing differences against which they may be deducted arise.

9. Tangible fixed assets

	<i>Leasehold Improvements</i>	<i>Motor Vehicles</i>	<i>Computer Software</i>	<i>Furniture & office equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost:					
At 1 January 2002	204,037	53,811	211,821	442,482	912,151
Additions	307,717	-	473,756	243,554	1,025,027
Disposals	-	-	-	(26,787)	(26,787)
At 31 December 2002	511,754	53,811	685,577	659,249	1,910,391
Depreciation:					
At 1 January 2002	95,217	20,122	211,821	148,032	475,192
Additions	22,232	13,452	223,997	193,490	453,171
Disposals	-	-	-	(10,879)	(10,879)
At 31 December 2002	117,449	33,574	435,818	330,643	917,484
Net book value:					
At 31 December 2002	394,305	20,237	249,759	328,606	992,907
At 31 December 2001	108,820	33,689	-	294,450	436,959

During the year the company relocated, therefore depreciation was accelerated on certain office equipment to match the revised lease terms.

Notes to the financial statements

at 31 December 2002

10. Debtors

	2002 £	2001 £
Trade debtors	834,715	534,893
Amounts owed by group undertakings	514,939	859,305
Amounts recoverable under long-term contracts	2,049,043	-
Other debtors	222,746	265,761
Prepayments and accrued income	171,592	222,797
Corporate tax	1,792	-
	<u>3,794,827</u>	<u>1,882,756</u>

11. Cash at bank and in hand

	2002 £	2001 £
Cash at bank	-	164,526

12. Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	738,114	286,513
Amounts owed to group undertakings	33,794	-
Corporate tax	-	2,285
Other taxes and social security costs	411,261	194,354
Other creditors	-	11,046
Accruals	506,632	226,782
Deferred income on long-term contracts	140,499	-
Bank overdraft	660,344	-
	<u>2,490,644</u>	<u>720,980</u>

Petrofac Engineering Limited has a £1,250,000 credit facility with its bankers, guaranteed by its ultimate holding company, Petrofac Limited.

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

	2002 £	2001 £
Amounts owed to group undertakings	<u>1,892,187</u>	<u>750,000</u>

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

Notes to the financial statements

at 31 December 2002

14. Provisions for liabilities and charges

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

	£
At 1 January 2002	-
Charged to income	225,625
	<u>225,625</u>
At 31 December 2002	<u>225,625</u>

15. Called-up share capital

	2002 £	2001 £
<i>Authorised</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>

16. Reconciliation of shareholders' funds and movement in share capital

	Share capital £	Profit and loss account £	Total £
At 1 January 2001	100,000	257,176	357,175
Profit for year	-	13,261	13,261
Shares issued	900,000	-	900,000
Opening reserves capitalised	-	(257,176)	(257,176)
	<u>1,000,000</u>	<u>13,261</u>	<u>1,013,261</u>
At 31 December 2001	1,000,000	13,261	1,013,261
	<u>1,000,000</u>	<u>13,261</u>	<u>1,013,261</u>
At 1 January 2002	1,000,000	13,261	1,013,261
Profit for year	-	(833,983)	(833,983)
Shares issued	-	-	-
Opening reserves capitalised	-	-	-
	<u>1,000,000</u>	<u>(820,722)</u>	<u>179,278</u>
At 31 December 2002	1,000,000	(820,722)	179,278
	<u>1,000,000</u>	<u>(820,722)</u>	<u>179,278</u>

Notes to the financial statements

at 31 December 2002

17. Other financial commitments

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

	<i>Land & Buildings 2002 £</i>	<i>Land & Buildings 2001 £</i>
Expiry date:		
- within one year	44,428	-
- within two to five years	-	-
- in over five years	544,860	147,360
	<u>589,288</u>	<u>147,360</u>

18. Related party transactions

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

19. Ultimate parent company

Petrofac Engineering Limited was previously owned by Petrofac Corporation Limited. As part of a corporate reorganisation Petrofac Corporation Limited merged with Petrofac Limited in January 2002. On 31 December 2002 Petrofac Limited sold its interest in the company to Petrofac UK Holdings Limited.

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.