Petrofac

Passionate about delivering

Annual report and accounts 2006

Passionate about delivering results

+26%
Revenue
US$1,864m
2005 US$1,485m

+29%
Backlog
US$4,173m
2005 US$3,244m

+73%
EBIDTA
US$199.6m
2005 US$115.6m

+58%
Earnings per share (diluted)
35.3 cents per share
2005 22.4 cents per share

+62%
Net profit
US$121.9m
2005 US$75.4m

47.5%
Return on capital employed
2005 32.5%

Results are based on continuing operations; see operating and financial review (page 13) for basis of measurement

2 Chairman's statement
4 Group Chief Executive's review
8 Petrofac at a glance
10 Operating and financial review
12 Operating review
27 Financial review
31 Corporate social responsibility
34 Board of directors
36 Corporate governance report
40 Directors' remuneration report
46 Statement of directors' responsibilities
47 Independent auditors' report
48 Consolidated income statement
49 Consolidated balance sheet
50 Consolidated cash flow statement
52 Consolidated statement of changes in equity
54 Notes to the consolidated financial statements
87 Five year summary
88 Shareholder information

Passionate about who we are

We provide vital services to the oil & gas industry, helping international and national oil companies develop, maintain and manage their resources. We are present at almost every stage in the life cycle of an asset: co-investing in projects, building facilities, operating sites and providing global training programmes.

There are numerous dimensions to the work of Petrofac. On one level we are an Engineering & Construction company, using the latest technologies to build facilities and enable the flow of energy: from wellhead to finished, refined product. On another level, we are an operating and management team, running hydrocarbon production and processing assets. There is a third side to our service, our Resources division, which targets and invests in opportunities and projects alongside our customers.

Increasingly these business areas work together to add value and offer our customers a total, cost-effective solution. Through these operational synergies, we are able to tackle complex projects and deliver a more pro-active and productive service. In recent years our work on the Cendor project, undertaking Brownfield modifications in the North Sea, and the construction of a new gas plant in Oman are compelling examples of the way we work.

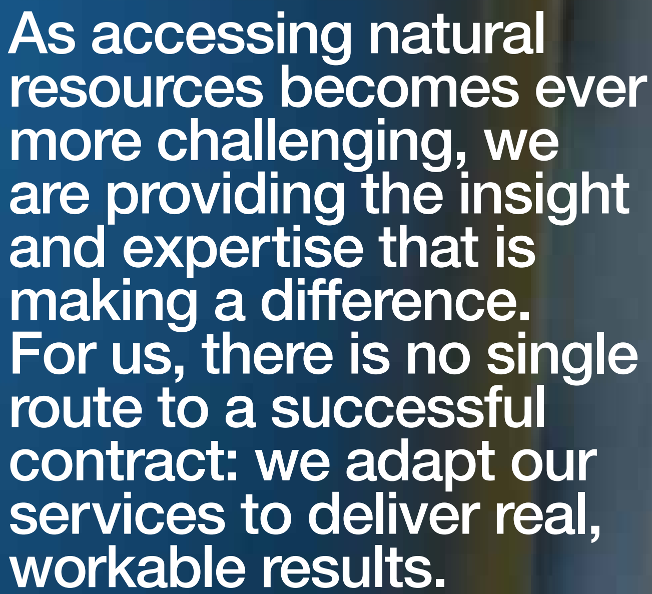
These synergies are more than purely operational. Our teams also share an enterprising outlook, a fresh way of thinking and a set of values: a belief in safety, being ethical, responsive, cost-conscious and innovative. Behind this is the relentless pursuit of results. Throughout this report we have highlighted examples of this passion in action. For us, it is not just about saying, it is about doing.

North Sea platforms, Kazakhstan oil & gas fields, Omani deserts, the Caspian Sea, Russian Arctic and oceans of the Asia Pacific. The work of Petrofac touches almost every corner of the globe, employing a workforce of approaching 8,000 skilled people.

As the demand for energy grows, our service expands. Every second of every day, our people are at work in offices and sites all over the world. We are a truly multi-cultural company with key operating centres in London, Woking, Aberdeen, Sharjah and Mumbai. This global spread enables us to deliver a highly responsive and cost-efficient service to our customers – the world's leading integrated, independent and national oil companies.

Our success stems from a commitment to partnership. Whether it is a new build project, the ongoing maintenance of an asset, a training programme for a multi-national workforce or a new investment and financing plan, it all starts with understanding. From these foundations we are able to provide a service that matches the challenges ahead – and does so in the most efficient way possible. Once we have developed a solution, we deliver on our promises.

Over the past 25 years, Petrofac has developed a strong base of customers and business partners. In the North Sea, we currently hold a number of Duty Holder agreements, taking full responsibility for the safe and efficient running of platforms. We are engaged in a five-year contract in Kuwait, to deliver full maintenance services to the North and West of the country. We are also a leading provider of technical and safety training solutions supporting many of the world's major oil companies.



As accessing natural resources becomes ever more challenging, we are providing the insight and expertise that is making a difference. For us, there is no single route to a successful contract: we adapt our services to deliver real, workable results.

We may use advanced technologies, but our people remain at the heart of our achievements. From the moment we started, as a small business, we knew we had to offer our customers an innovative service, go the extra mile and take full responsibility for every project. We believe this focus still makes us stand out in our market.

To understand our innovative approach, and the benefits it brings, you need only look at some recent projects. The Cendor development project in Malaysia took just 16 months from the initial Field Development Plan to the production of first oil, thanks in part to the development of the first mobile offshore production unit in Malaysian waters. In the North Sea, our Brownfield team has rapidly grown to become a leading specialist in this expanding market. Our work carrying out front-end engineering and design (FEED) for the development of the Hasdrubal field in Tunisia is a good example of our innovative thinking in action; smart design at the initial stages of this multiphase pipeline project enabled the costs to be reduced whilst still achieving the project scope. Alongside our drive for results is a total commitment to safety. Around the world, our teams maintain the highest professional standards and attention to detail. Our record in this area is comparable with the best in the oil & gas industry. As we extend the boundaries of our service, these values will continue to guide our growth.

Passionate about our goal to be the world's leading oil & gas facilities and infrastructure provider

Rodney Chase
Chairman

It has been a very good year for Petrofac. At the heart of this success lies the continued drive, dedication and passion of all our people.

It has been a very good year for Petrofac. We have strengthened our position from 2005, continued to grow and enjoyed some significant achievements along the way. We increased revenue by 26%[1] to US$1,864 million and net profit[2] by 62% to US$121.9 million. In our first full year as a listed company, these are impressive results.

Market overview

The past year has seen continuing strong demand for oil & gas and, as a result, commodity prices have remained high. Brent oil has averaged US$65 per barrel and the Henry Hub Gas price has averaged US$7 per million British thermal units.

Although speculation remains concerning trends in the energy market, the mid- to long-term prospects for oil & gas production remain solid. Demand is continuing to increase while, in areas with large, ageing oil fields, supply is beginning to decline. This is unquestionably an opportunity for Petrofac to help companies extend the life of their assets, improve the efficiency of production and develop resources in new, more challenging environments.

We are well positioned strategically and geographically to take advantage of opportunities as they arise. Over the past year we have extended our global reach with a new office in Chennai, India, entered into Egypt and Tunisia and strengthened our position in Kazakhstan.

Petrofac's progress

There have been many highlights over the past year. There have been new beginnings, for example the award of our service operator contract with the Dubai Petroleum Establishment (DPE), wholly owned by the Government of Dubai, is an exciting opportunity, and we believe the first time that a national oil company has chosen to contract directly in this way. At the same time we have had some successful ongoing projects such as the completion of work on the challenging Baku to Ceyhan pipeline.

After 25 years in business, Petrofac has clearly come a long way. Yet at the heart of our success there remains the continued drive, dedication and passion of the management team, and of all our people. It is important we maintain this entrepreneurial spirit as we expand our team and broaden our services.

Dividends

The Board is recommending a final dividend of 6.43 cents per ordinary share with an equivalent of 3.30 pence per ordinary share which, if approved, will be paid on 17 May 2007 to eligible shareholders on the register at 20 April 2007. Together with the interim dividend of 2.40 cents per ordinary share, this gives a total dividend for the year of 8.83 cents per ordinary share.

Corporate governance

As a large and growing company, it is essential we meet our responsibilities to our people, the communities where we work and the environment. To us this is not simply a duty, it is an important aspect of our long-term success. We have taken numerous steps in this area over the past year including conducting a major review of our Code of Conduct to make sure all our people understand their ethical and legal commitments. We are launching a "Give As You Earn" scheme in the UK and we are making environmental recommendations to partners and customers on new developments. As the Company grows, I will continue to ensure we maintain this good corporate governance.

Over the past year we did experience one major incident when one of our employees tragically died in the Morecambe Bay helicopter accident. I would like to take this opportunity to express my deepest sympathies to his family, friends and colleagues.

Our people

Although we work with advanced technology and machinery, we are, unquestionably, a people business. Over the year the dedication of our employees has been demonstrated in numerous ways, from their unerring attention to detail to those moments when they have gone the extra mile. We are delighted that over 1,000 of our employees are participating in our employee share plans.

Changes to the Board

During 2006 there were no changes to report. However, subject to shareholder agreement, we look forward to welcoming two additional members to the Board, Rijnhard van Tets and Amjad Bseisu.

Outlook

The capital programmes and associated operating expenditure required to address increasing global energy demand and the depletion of existing production, together with the limited capacity of the oil services industry to support such programmes, should ensure that demand for the group's services remains strong for the foreseeable future.

The current financial year has started well and, with the group's backlog at record levels, continuing focus on execution and strong demand for its services, the Board believes the group is well positioned to continue its growth during the current year and beyond.

Finally, I would like to thank all our people for their hard work throughout 2006. It has been a year of exciting developments and new opportunities, and with our continued focus, energy and drive I am confident 2007 will bring many more successes.

Rodney Chase
Chairman

1 Unless otherwise stated, results on pages 1 to 30 are on continuing operations.
2 Profit for the year from continuing operations.

Ayman Asfari
Group Chief Executive

We want to be world leaders in what we do. That means being able to engineer, build and operate world-class upstream and downstream facilities.

How do you see the oil & gas markets evolving in the coming years?
We continue to see oil & gas as the world's main energy source for many years. But there will be changes. We're seeing national oil companies take a more active role in the development of reserves and, I believe, this will lead them to consider new commercial arrangements with service companies. For those companies, like Petrofac, who have the right capabilities, this will provide exciting new opportunities.

Will limitations in natural resources be a pressing issue?
As the era of comparatively easy oil reserves comes to a close, the challenge to develop reserves in more remote, difficult areas and address declining production from existing reserves is significant but it is also an opportunity for us. We can help customers with the redevelopment of their existing infrastructure, extend the life of their assets through efficient operations management and play an important part in assisting with the development of reserves in new areas.

What makes Petrofac particularly well positioned for these challenges?
We can provide services to a customer across the life cycle of an asset from early conceptual design, through engineering, construction, operations and maintenance and we can selectively invest. We're also a multi-cultural organisation and have always sought to deliver world-class services whilst working with local resources.

What do you think differentiates Petrofac?
Our people. I believe all our people genuinely live the Petrofac values. We're truly passionate about what we do: we're safe, ethical, cost-conscious, innovative and relentlessly focused on delivering results. Our responsiveness to customers, wherever they are in the world, is a key part of this service.

The last year has been very successful. What has been behind this success?
At our heart, we're a people business and, with the number of our employees now approaching 8,000, continuing to live our values remains key to our success. This transcends any one year and, whilst our market is particularly strong at the moment and we believe it will remain so for the foreseeable future, only a relentless focus on delivering results will ensure this success continues.

How does Petrofac intend to change to address the challenges of the future?
Whilst we have demonstrable expertise across the services we currently provide and there is considerable potential for continued growth in these areas, I believe we can achieve further success through delivering a broader range of capabilities, in particular through accessing deeper offshore areas and providing services to support the increasing infrastructure for liquefied natural gas. We'd also like to broaden our geographical footprint to places like West Africa, Asia and Norway.

One area where we see tremendous growth is the whole area of integrity management for facilities. The challenge in many hydrocarbon provinces is to keep the existing assets producing safely for as long as possible. We can help extend the life span of facilities and do so safely through our expertise in integrity management. We are planning to hold a safety workshop in 2007 to explore this issue in more detail.

Do you think customers are increasingly looking for an integrated service?
The breadth of our service capability allows us to offer our customers an integrated "solutions" based approach. We can engineer and build, then offer operational services and training for the people who will run our customers' infrastructure. This breadth of capability allows us to add value – having built the plant we can provide a better operational service through managing the operation, we can identify where further engineering might be beneficial and, by investing alongside our customers, we achieve complete alignment. We believe that, increasingly, the value this approach brings is being recognised but, above all, being flexible is key to meeting our customers' requirements.

What was the greatest challenge you faced last year?
Demand for our services continued to be strong and, perhaps, the greatest challenge has been to ensure that, in an increasingly competitive market for skilled personnel, we maintain the ability to attract, train and retain the highest quality people to deliver on our existing business and capture opportunities for growth without compromising our strong focus on delivery.

We're truly passionate about what we do: we're safe, ethical, cost-conscious, innovative and relentlessly focused on delivering results.

The breadth of our service capability allows us to offer customers an integrated "solutions" based approach.

The continuing delivery of a high quality of service, right across our business, has been our foremost achievement.

We want to achieve leadership in all areas and, if we continue focusing on our values and attracting the right people, I'm confident we will.

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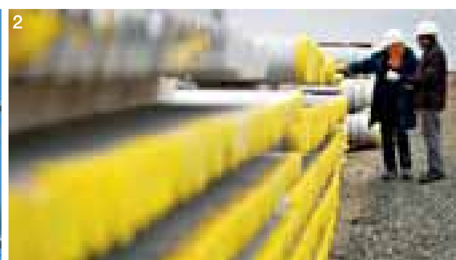
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How has being a listed company made a difference to Petrofac?
In many ways it remains business as usual although the listing has enabled us to offer more flexible share-based incentive schemes to more of our employees. I believe this will be an important factor in attracting and retaining the right sort of people and, with the management and employees having a significant stake in the business, we are continually looking to ensure sustainability and growth in value of the business.

What would you say were the main highlights of 2006?
The continuing delivery of a high quality of service, right across our business, has been our foremost achievement although, in terms of new business development, there were a number of events that merit particular attention.

For Operations Services, securing the opportunity to manage the operation of Dubai's entire offshore oil & gas assets was a major success and the culmination of several years' close co-operation with the Government of Dubai. The award represents the first time a national oil company has sub-contracted the management of its production to a service contractor and we hope it will have an impact on the way business is done in the future.

For our Resources division, the successful development of the Cendor field, offshore Malaysia, demonstrates the benefits of the integrated approach whereby we provided an innovative development solution and the necessary engineering and operations capability. Our co-investment means this success will continue to contribute to our financial performance for some years to come.

Our Engineering & Construction division secured significant awards in Egypt and Tunisia with both markets offering long-term potential for the group's wider service capability. Our focus on the Caspian region, in particular on Kazakhstan, has also proved very rewarding with ongoing work on the Kashagan development and a significant role in the Karachaganak development.

Do you think there will be other opportunities like the DPE contract?
We certainly hope so. We see a number of opportunities, particularly with mature assets as they reach the end of their economic lives. But first we must deliver results in Dubai. We officially take control in April 2007 and need to demonstrate the effectiveness of our approach and the value of our service.

What do you think Petrofac will look like in five years time?
We want to be world leaders in all that we do. That means being able to engineer, build and operate world-class upstream and downstream facilities. We are already world leaders in areas such as training and outsourced operations management but we want to achieve leadership in all areas and, if we continue focusing on our values and attracting the right people, I'm confident we will.

Ayman Asfari
Group Chief Executive

1 Dubai Petroleum

2 Kashagan development, Kazakhstan

3 Cendor field, offshore Malaysia

Passionate about what we offer

Petrofac works around the globe helping independent, integrated and national oil companies access and harness energy resources. Our core focus is on the UK Continental Shelf, Middle East, Commonwealth of Independent States (CIS) and the Asia Pacific region. We have 20 offices worldwide and approaching 8,000 employees.

Total facilities solutions
Our services are delivered through three divisions: Engineering & Construction, Operations Services and Resources. These divisions work together to deliver a complete solution throughout the life cycle of oil & gas assets.

Engineering & Construction

Provides our customers with a complete range of engineering and construction services in both greenfield and brownfield developments.

Our front-end services cover concept, feasibility and commerciality studies with full front-end engineering and design (FEED) capabilities for the oil & gas industry:

- Feasibility and planning
- Consultancy, design and engineering
- Project services and cost estimating

Our engineering procurement and construction (EPC) services include:

- Extended basic and detailed engineering
- Procurement, inspection, testing, expediting, transport and clearance of equipment and materials
- On-site installation and construction
- Pre-commissioning, commissioning, performance testing and start-up services

Locations

Sharjah, UAE
Chennai, India
Mumbai, India
Woking, England

Operations Services

Is comprised of Petrofac Facilities Management and Petrofac Training.

Petrofac Facilities Management provides a full range of operations and maintenance services to the oil & gas industry:

- Operations management – on our service operator contracts, we take sole responsibility for the safety and efficiency of a plant, which in the UK can include adopting full Duty Holder status with the Heath and Safety Executive
- Operations support – we provide skilled crews and specialist manpower to provide operations, maintenance, modifications and project management services
- Brownfield engineering – our Petrofac Brownfield business provides maintenance and modifications engineering services

Petrofac Training provides training and consultancy to help develop safe, efficient and multi-skilled workforces, in the areas of safety, technical, operations and production, and emergency response and crisis management.

Locations

Aberdeen, Scotland
Sharjah, UAE

Resources

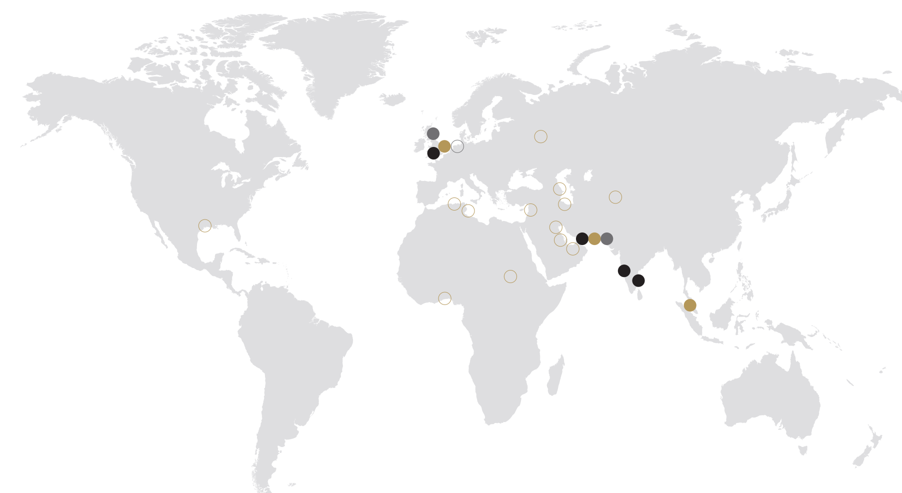
Delivers investment support on upstream and infrastructure projects where we are providing engineering, construction or operations services.

We have a highly skilled team of asset managers and commercial analysts, backed by strong financial resources. This team invests selectively alongside our customers, developing financing solutions, managing development risks and sharing in the value we help to create.

We invest in development projects where we can add value by containing or reducing design, construction or operational costs, and to create alignment with our customers.

Locations

London, England
Sharjah, UAE
Kuala Lumpur, Malaysia



Petrofac Country Offices

Abu Dhabi, UAE
Algiers, Algeria
Baku, Azerbaijan
Tehran, Iran
Ahmadi, Kuwait
Bishkek, Kyrgyzstan
Lagos, Nigeria
Doha, Qatar
Moscow, Russia
Khartoum, Sudan
Damascus, Syria
Tunis, Tunisia
Houston, USA

Petrofac Corporate Services

London, England

In the following operating and financial review we look at the past year's achievements in more detail: the market trends, highlights, and financial results. We also explore the story behind three key projects, explaining the challenges, understanding the processes and talking to the people who make a difference. In a year of numerous successes, these are a few examples which illustrate our continued passion and drive to deliver.

Petrofac

Operating review

Description of operations

Through its three divisions, Engineering & Construction, Operations Services and Resources, Petrofac (the Company or group) designs and builds oil & gas facilities; operates or manages facilities and trains personnel; and, where synergies are identified, co-invests to provide further alignment with its partners.

Petrofac's range of services provides a total solution to meeting customers' needs across the full life cycle of oil & gas assets. Petrofac's successful track record spans 25 years and several hundred projects. This success is firmly based on a partnership approach, a total commitment to health and safety and respect and responsibility for the communities where the group operates.

Strategy and objectives

Petrofac aims to generate sustainable growth in value for its shareholders by being the global oil & gas industry's premier facilities and infrastructure provider, admired by customers and employees for consistently delivering and rewarding excellence. This means:

- Working to world-class standards
- Focusing always on customer satisfaction
- Respecting the environment and being sensitive to the communities in which the group works
- Promoting and rewarding on merit

Petrofac aims to achieve this goal by:

- Maintaining and improving on high safety standards
- Attracting and retaining recognised specialists and key personnel/managing succession issues
- Assisting customers in achieving their local content goals by increasing the use of local resources and improving the competence and technical skills of national workforces
- Focusing on regions with major hydrocarbon reserves where significant capital and operational expenditures are expected
- Ensuring a diversified and complementary business model
- Leveraging customer relationships by providing a range of services across the life cycle of an asset
- Expanding Petrofac's established service offering into new countries and regions
- Identifying, acquiring, integrating and developing complementary businesses, where appropriate

These initiatives set the context for the review of the group's performance in 2006 and its outlook for 2007 and beyond.

Key performance indicators

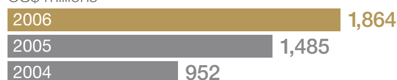
To help the group assess progress, the Petrofac Board and executive management consider a range of key performance indicators (KPIs). With the exception of the group's Return on Capital Employed, which is reported on a six-monthly basis, the KPIs presented on the following page are reported on a monthly basis in the group's management accounts.

The Board sets annual KPI targets and monitors and assesses performance against these benchmarks throughout the year. In the operating and financial review, performance is assessed with reference to these KPIs.

Revenue

Measures the level of operating activity and growth of the business

US$ millions

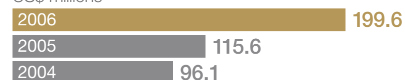


Revenue for the year on continuing operations as reported in the consolidated income statement.

EBITDA

EBITDA means earnings before interest, tax, depreciation and amortisation and provides a measure of the operating profitability of the business

US$ millions

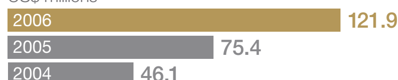


EBITDA is calculated as profit from continuing operations before tax and net finance income/(cost) (as per the consolidated income statement) adjusted to add back charges for depreciation, amortisation and impairment (as per note 3 to the financial statements).

Net profit

Provides a measure of the net profitability of the business, that is, profits available for distribution (before taking into account minority interests)

US$ millions



Profit for the year from continuing operations as reported in the consolidated income statement.

Return on capital employed (ROCE)

ROCE is a measure of the efficiency with which the group is generating operating profits from its capital

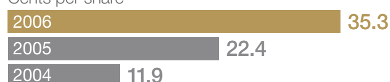
%

ROCE is calculated as EBITA (earnings before interest, tax and amortisation, being EBITDA less depreciation per note 3 to the financial statements) divided by average capital employed (being total equity and non-current liabilities per the consolidated balance sheet).

Earnings per share (diluted) (EPS)

EPS provides a measure of net profitability of the group taking into account changes in the capital structure, for example, the issuance of additional share capital

Cents per share

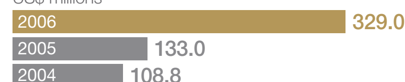


As reported on continuing operations in the consolidated income statement and calculated in accordance with note 8 to the financial statements.

Cash generated from operations and cash conversion

These KPIs measure both the absolute amount of cash flow generated from operations and the conversion of EBITDA to cash

US$ millions



%

Cash generated from operations is based on continuing activities and is measured as cash generated from operations less those from discontinued operations as per the consolidated cash flow statement; cash conversion is cash from continuing operations divided by EBITDA.

Lost time injury and recordable injury frequency rates

Provides a measure of the safety performance of the group, including partners

Lost time injury (rates per 200,000 man hours)

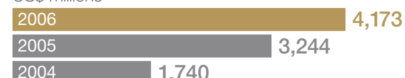
Recordable injury (rates per 200,000 man hours)

Lost time injury (LTI) and recordable injury (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners expressed as a frequency rate per 200,000 man hours.

Backlog

The group uses this KPI as a measure of the visibility of future earnings

US$ millions



Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering services and facilities management contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and, in the case of life-of-field facilities management contracts, five years. Backlog is not an audited measure. Other companies in the oil & gas industry may calculate this measure differently.

Key risks and uncertainties

There are a number of risks and uncertainties which may have an impact on the accuracy of forward looking statements and the financial performance of the group and its share price. These key risks and uncertainties are explained below, along with the approach to managing the risk or uncertainty. This list does not purport to be exhaustive. There may be other risks and uncertainties, not presently known to the group or that the group currently deems to be immaterial, that could affect the performance of the business. The group's risk management framework is discussed further in the corporate governance report on page 38.

Health and safety performance is crucial to the group's reputation and future success

Petrofac's strong culture of health and safety is a key part of its operational and business management activities and integral to its delivery of quality and business excellence. The group's health and safety performance during 2006 is reviewed in the corporate social responsibility section of the operating and financial review on page 31.

Demand for the group's services is linked to expenditure in the oil & gas industry, which can be difficult to predict

The capital programmes and associated operating expenditures required to address increasing global energy demand and the depletion of existing production together with the limited capacity of the oil services industry to support such programmes should ensure that demand for the group's services remains strong for the foreseeable future.

The group may be unable to attract and retain sufficient skilled personnel to meet its operational requirements

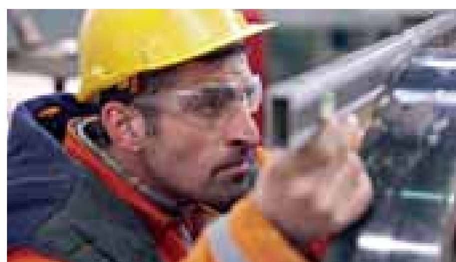
The availability of skilled personnel is one of the most significant challenges currently facing the oil & gas industry. Strong demand for services has resulted in an increased need for skilled personnel while at the same time the ageing demographic profile of the industry's workforce, in particular in OECD countries, has resulted in a shortage. The group is confident that its efforts to promote and reward on merit, its growing employee share ownership, management and technician training programmes and recruitment strategies, access to international labour markets, in particular the Middle East, Indian subcontinent and Asia, its involvement in world-class projects and its exciting prospects for continued growth will enable it to attract and retain the necessary skilled personnel.

The group's overall financial performance, is dependent on a relatively small number of contracts at any given time

The group's Engineering & Construction division, which contributes the majority of the group's net profit, is dependent upon the performance of a relatively small number of large contracts which are typically priced on a lump-sum basis. The financial performance of the division in any given financial period is determined by the stage of completion of projects in hand and the costs expected at that time to complete those projects. The group's accounting policies are such that profit is not recognised in the early stages of a contract when the outcome of the contract cannot be estimated reliably and the group maintains contingencies to cover unforeseen costs.

The group may not estimate accurately the costs of, or execute within budget, its lump-sum contracts or may fail to complete contracts on time

The group has a strong track record of successful project execution which reflects its rigorous approach to risk identification and mitigation, from project tender through to contract completion. For example, conditional on the award of a major contract, the group will typically enter into commitments to procure equipment and/or arrangements with key subcontractors on back-to-back terms, thereby partly mitigating the group's financial exposure to cost inflation. Additionally, the group does not recognise profits in the early stages of a contract and maintains contingencies to cover unforeseen cost increases.



The trend for owners of oil & gas assets to outsource the management of those assets may not continue or may be reversed

The outsourcing of operations management is in its relatively early stages in many of the markets in which the group operates and the contract award with the Dubai Petroleum Establishment is an example of a national oil company's willingness to outsource production operations directly to a service company. In circumstances where customers currently outsource operations management there is, however, a risk that this strategy may change upon a change of ownership.

The group is subject to the complexity of running a business with a wide geographic spread, which may be susceptible to political, social and economic instability

Petrofac and its predecessor companies have over 25 years' experience of working in international markets. A detailed risk review process is undertaken when assessing whether the group should enter into a new contract or country, which is designed to ensure that key risks are identified and monitored and appropriate mitigating actions taken. The group considers its procedures, systems and infrastructure to be appropriate to ensure effective communication and co-ordination of its activities.

The group is exposed to foreign exchange risk

While the group operates in a number of diverse geographical locations, the majority of the group's revenues are denominated in US dollars. In contracts priced in US dollars where the group is procuring equipment or incurring costs in other currencies these exposures are actively managed at a project level, using forward currency contracts. The bulk of the Operations Services division's revenues and costs are denominated in Sterling, however, as a policy, the group does not hedge the Sterling profits generated by these activities since they are partially matched by Sterling group overhead costs.

While the group reports its results in US dollars, its share price is quoted in Sterling. The share price may therefore be impacted by fluctuations in the US dollar to Sterling exchange rate.

Operating environment

Steady growth in demand is forecast to continue for oil & gas in the medium to long term (forecast at an average growth rate of 1.4% per annum for oil and 2.4% per annum for natural gas for the period to 2030[1]). The majority of this growth in demand is expected to be generated by economic growth in non-OECD Asia, including China and India, though strong growth is also expected in North America.

In mature markets, rates of decline for large, ageing oil & gas fields are increasing. In order to be able to satisfy the growing demand for oil & gas, these rates of decline need to be addressed through technological improvements and operational efficiencies, which aim to increase recovery rates from existing mature fields, the development of resources in new, more challenging environments, and from increasing production and refining capacity in areas such as the Middle East, the Commonwealth of Independent States, West Africa and South America.

Growing demand and the challenges associated with increasing supply are expected to sustain a favourable pricing environment for hydrocarbons for the foreseeable future. Such an environment should help encourage the investment required to increase production and refining capacity. Petrofac is well placed, both in its technical capabilities and geographical reach, to participate in planned medium and long-term programmes of capital expenditure.

With a favourable prevailing pricing environment and improving technologies, the economic development of more marginal fields or late-life assets becomes more likely. Consequently, there is increasing scope for Petrofac to provide engineering and operations services to all owners of hydrocarbon assets, both to small oil companies, who may not have the capability or desire to operate, and to the larger oil companies where they choose to deploy their resources on the development of other assets in their portfolios, and to national oil companies, either in conjunction with the private sector or directly.

The group remains confident that strong demand for its services will continue in the medium to long term.

1 International Energy Outlook 2006, Energy Information Administration of the US Department of Energy.

Review of operations
Engineering & Construction

In the early part of 2006, with a significant value of lump-sum contracts awarded towards the end of 2005, the focus of the Engineering & Construction division was on the mobilisation of these new contracts and on the execution of other projects in hand.

Middle East

Over two-thirds of the division's revenue in 2006 was generated from lump-sum engineering, procurement and construction (EPC) contracts, many awarded in late 2005, in the Middle East region:

- The northern oil export system for Kuwait Oil Company (KOC) was substantially completed during the year, as were, following an extended commissioning period, the flare mitigation works for Qatar Petroleum
- Good progress was made on both the facilities upgrade project for KOC, where the scope, particularly in piping and civils, has increased, and with the EPC of the Kauther gas plant for the Ministry of Oil & Gas in Oman, albeit against a challenging schedule
- Satisfactory progress has been made on the Harweel Cluster Development project for Petroleum Development Oman (PDO) with significant technical re-design work meaning the expected completion of the project will be later than planned but in line with PDO's expectations

Commonwealth of Independent States (CIS)

The Engineering & Construction division continues to see a high level of principally reimbursable activity in the CIS, particularly in Kazakhstan and Russia:

- In Kazakhstan, the Kashagan engineering and procurement contract is substantially complete, while the related construction management contract, awarded in January 2006, is still in its early stages as scheduled; the front-end engineering and design (FEED) study for the fourth oil processing train for Karachaganak Petroleum Operating B.V. (KPO), a BG Group and ENI led consortium, was substantially completed by the end of 2006 and, as referred to below, has been followed by the award of the engineering, procurement and construction management for the fourth train
- In Russia, substantial progress was made in particular with the Kovykta project management contract and, building on our recently established engineering presence in Moscow, with various engineering services projects for other customers
- The BTC/SCP project, which became a reimbursable contract at the beginning of 2006, was successfully completed in the second half of the year

A number of significant EPC and consultancy and engineering services contracts were secured during 2006 and in early 2007.

Hasdrubal Gas Plant, Tunisia

In November 2006, following on from the FEED study awarded late in 2005, the division was awarded a US$400 million lump-sum turnkey project by BG Tunisia Limited, a BG Group (BG) subsidiary, and Entreprise Tunisienne d'Activités Pétrolières (ETAP) to build the new Hasdrubal onshore gas processing facility and liquefied petroleum gas (LPG) production facility.

The project scope covers project management, detailed design, procurement, construction, pre-commissioning, commissioning, start-up and performance testing of the new gas plant. Petrofac will draw on the capabilities and expertise of Pireco, a local construction and fabrication company, as its main construction subcontractor for the project. The award represents further progress in developing the group's growing business relationship with BG.

Salam Gas Plant, Egypt

In November 2006, the division was awarded a US$200 million lump-sum EPC contract by Khalda Petroleum Company (KPC) to build a new gas processing train. In December 2006, KPC awarded the division a further lump-sum EPC contract for an additional gas processing train, increasing the value of the overall project to US$375 million. KPC is adding these third and fourth gas processing trains to its existing facilities in the Salam area to process the gas produced from its new discoveries. KPC is a joint venture between Apache Corporation and the state-owned Egyptian General Petroleum Corporation.

The project is scheduled for completion before the end of 2008 and will utilise the capabilities and expertise of local construction and fabrication company, Petrojet. The project scope includes project management, detailed design, procurement, construction, pre-commissioning, commissioning, start-up, performance testing and initial operations.

Passionate about delivering success in Kauther

Operations at Kauther gas plant in Oman

Passionate about delivering success in Kauther

In July 2005, Petrofac secured a contract managed by Petroleum Development Oman (PDO) on behalf of the Government of Oman, to build a new gas plant in the Kauther field in north Oman. It was a project that brought with it significant challenges, the largest of which was the tough 107 week schedule. To transform a barren desert into a fully functioning gas plant in such a short space of time demands a special combination of skills, and a relentless desire to succeed.

From the outset, the Petrofac team had to be alert to developments that would impact on time, and take the correct decisions, fast. Project Director, Brian Dinsmore, has been working on the front line of this project, leading the team from the outset.

"At the heart of our business is this idea of delivery – delivering hydrocarbon facilities to our customers on time. So we are driven by dates and we have to find ways to overcome problems that may jeopardise these," explained Brian.

One example of this focus involved the fabrication of critical high pressure vessels. "We have a number of vessels with high wall thicknesses which were being fabricated in India. The German steel mill manufacturing the plates was a supplier to the vessel fabricators and as such had no direct contract with us. However, the plates for five major vessels failed tests and had to be re-formed or repaired, potentially delaying delivery of the project."

Rather than standing by and letting the schedule slip, the team seized the initiative. "We first got to the root of the problems, negotiating technical solutions with the parties involved, and then decided to air freight each of the replacement plates from Germany to Delhi and Mumbai. This involved arranging 17 separate cargo flights for 29 individual plates weighing a total of 488 tonnes – a massive series of air lifts."

The overall time saving was four weeks, but perhaps more importantly it showed our customer the lengths that Petrofac was prepared to go to in meeting its objectives. As Brian explains, "This kind of decision inspires people to overcome what might otherwise be thought of as insurmountable obstacles and provides the customer with tremendous confidence in our commitment."

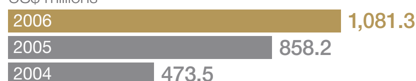
Throughout the Kauther project, Petrofac has built a strong relationship with its customer, PDO. It is a relationship founded on mutual trust and understanding. Although the main challenge has been to meet a tough schedule, the Petrofac team has never lost sight of the bigger picture: the importance of long-term customer relationships.

Whilst working on the Kauther project, the Petrofac team has also formed a strong bond. "We have a very united project team. We all share a common goal and there is a genuine desire to deliver results, to a satisfied customer and a satisfied Petrofac Board. 18 months ago, we walked onto a barren desert site, with not a living thing for miles around. In September this year, we are aiming to deliver a fully operational gas plant with potential for 17 million standard cubic feet per day (mmscfd) dry gas and approximately 85,000 barrels per day (bpd) of stabilised condensate produced for the Omani economy."

To achieve this, the Petrofac team remains 100% dedicated and committed to the task, no matter how difficult it becomes. This, in essence, is a core Petrofac value.

Engineering & Construction revenue

US$ millions



Engineering & Construction net margin

%

Engineering & Construction backlog

US$ millions

Strasshof Development FEED, Austria

In late 2006, the division was awarded a US$5 million contract by OMV Austria Exploration & Production GmbH (OMV Austria), to carry out two parallel FEED studies for the development of the Strasshof gas field near Vienna, Austria. The project is due for completion in early 2007 and represents the first time that Petrofac has carried out FEED work on behalf of OMV Austria.

Karachaganak 4th train, Kazakhstan

In January 2007, the division announced the award of the engineering, procurement, construction management and commissioning support of the Karachaganak fourth train. The project, scheduled for completion in mid 2009, will be executed on a part lump-sum and part reimbursable basis.

El Gassi field, Algeria

In February 2007, the division was awarded a US$16 million contract by SonaHess, a joint venture of Sonatrach and Amerada Hess, to engineer, procure and manage the construction and commissioning of new facilities on an existing production site at the El Gassi field in Algeria. This project follows on from other recent work in Algeria and consolidates the group's position in the North African market.

Results

The division's strong operational performance has increased revenue by 26.0% to US$1,081.3 million (2005: US$858.2 million) and net profit by 73.2% to US$95.4 million (2005: US$55.1 million), representing a net margin of 8.8% (2005: 6.4%). The majority of revenue in 2006 came from further progress on contract awards secured in 2005, in particular the KOC facilities upgrade project and the Harweel and Kauther projects in Oman. The significant growth in net profit and net margin was driven by the timing of profit recognition (profits are typically not recognised in the early stages of lump-sum contracts and, therefore, profits lag revenue recognition) on lump-sum EPC contracts and increased profitability through the division's ongoing strong execution performance. In 2006, the main divisional profit drivers were the Kashagan engineering and procurement contract, the KOC facilities upgrade and Kauther gas plant projects.

Engineering & Construction increased its number of employees[1] from approximately 2,400 at 31 December 2005 to 2,700 at 31 December 2006. Much of the increase was in the division's operating centres in the Middle East and India. The group is currently building a new office tower in Sharjah, UAE, which will be able to accommodate approximately 1,800 employees and is establishing a new office in Chennai which expects to have around 200 employees by the end of 2007.

The division's backlog increased to US$2,228 million at 31 December 2006 (31 December 2005: US$2,121 million) principally due to the Hasdrubal and Salam gas plant awards towards the end of the year.

1 In the operating and financial review, employee numbers include agency and contract staff but exclude employees of joint ventures.

Operations Services

During the year, the facilities management and training businesses continued to perform strongly in a buoyant oil & gas market and secured a number of significant contract wins, renewals and extensions.

The European facilities management business continues to be the largest contributor to the division and achieved strong growth during the year. During 2006, Petrofac Facilities Management Europe secured a further 12-month renewal with Maersk Oil for the Gryphon, Janice and Global Producer III assets and an extension of the contract with Sea Production for the Northern Producer, a floating production installation located on the Galley field, operated by Talisman Energy.

Petrofac Facilities Management Europe extended its range of service operator contracts in November 2006 by taking on duty holder responsibility from BHP Billiton for the Irish Sea Pioneer, a mobile, self-elevating operations support vessel in the Liverpool Bay area of the Irish Sea. Petrofac was also awarded a small life-of-field duty holder contract by Helix Energy Solutions for a normally unmanned installation on the Camelot field. New operations support contracts, as referred to in the 2005 annual report, were signed during the year with CNR International and Marathon.

A key operational highlight in 2006 was the performance of Petrofac Brownfield, which provides maintenance and modifications engineering services, primarily to the UK Continental Shelf (UKCS) market. This business has achieved exceptional growth since inception in 2004 and now employs over 600 staff. Petrofac Brownfield has projects underway for a variety of customers including Lundin Petroleum, Marathon, Venture Production and Talisman Energy. In September 2006, Lundin Petroleum awarded Petrofac Brownfield a two-year contract extension to provide engineering support and construction services to both the Heather and Thistle North Sea installations. During the year, Petrofac Brownfield safely and successfully installed the Wood and Gas Export (WaGE) module onto Talisman Energy's Montrose platform. Associated gas from the Montrose platform, which is currently being flared, will, in the future, be compressed and exported using the new facilities. In November 2006, Talisman awarded the division a concept and optional FEED study for the Claymore platform compression upgrade project and in February 2007, following the findings of the conceptual study, Talisman awarded the division the FEED study. The additional facilities represent a significant undertaking in the future of the Claymore production platform. In September 2006, the division completed, safely and a month ahead of schedule, the tie-back from the Venture Production-owned Goosander field to the Kittiwake installation, through a subsea flow-line providing production, gas lift and water injection facilities.

Internationally, the facilities management business continues to perform in line with expectations, supporting national oil companies and their subsidiaries, directly and in consortia, in Kuwait, Sudan and Iran and working with Marathon in Equatorial Guinea.

The division's most significant contract win during the year was a major service operator contract with Dubai Petroleum Establishment, wholly owned by the Government of Dubai, for the provision of well and facilities management services to Dubai's offshore oil & gas assets. The transition process from the existing operator commenced in the second half of 2006 and the group will take full responsibility for these operations in April 2007. The award of this major contract was the result of significant investment over a number of years in our international business development activities and represents a material increase in scale for the international Operations Services business. The contract covers four offshore oilfields, with approximately 70 platforms, currently run by around 1,100 personnel. Some 600 staff will be employed by Petrofac from April 2007, the remainder being contractors.

In January 2007, the division extended its capabilities with the acquisition of a majority interest in SPD Group Limited (SPD), a specialist provider of well operations services. Based in Dubai and Aberdeen, SPD's main areas of expertise are well project management, well engineering optimisation, well engineering studies and consultancy services. SPD, which was already providing services in the Dubai fields, was recently awarded a new contract to provide well operations management services in support of the Dubai Petroleum contract.

Passionate about delivering advantage in the North Sea

Operations on board the Kittiwake platform in the UK North Sea

Passionate about delivering advantage in the North Sea

In the North Sea, the Petrofac team is providing Operations Support and Brownfield engineering services to numerous oil & gas customers. Over the past year, we have continued to offer a safe, expert and professional service. In the Brownfield area, our team has rapidly grown to become a leading player, supporting our operations activities and extending the life of ageing infrastructure.

The facilities management team provides customers with the safe and efficient running of their plant, delivering production, safety and environmental support. Alongside this team, the specialist Brownfield business works to modify live facilities ranging from small upgrades to new offshore modules and subsea tiebacks.

A prime example of this work was the project for Venture on the Goosander field, a sub-sea tie-back to the Kittiwake platform. During 2006, Petrofac Brownfield safely delivered the major topside modifications including, among other things, installing three new risers together with chemical injection and support utilities. Just as important as the technical side has been the approach.

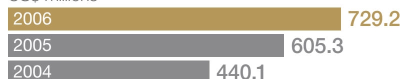
As John Methven, operations director for Petrofac Facilities Management Europe explains, “This is an example of two parts of our business working hand in hand, showing the strength of the combined engineering construction, operations and maintenance delivery. Much of the success of this project stemmed from a strong alignment between the work of Petrofac and the customer.”

Bill Bayliss, director of Petrofac Brownfield added, “We think this project is industry-leading in terms of the speed of the implementation, and it is testament to the close working relationship we have with Venture. They gave us the responsibility to deliver and we completed the project safely, on time and under budget.”

Once the Brownfield team had delivered, the operations team made sure the facility was ready to produce – as a result the process flowed very smoothly. Petrofac’s work in the North Sea demonstrates the value of this integrated approach. Our teams are currently active at 45 installations, 13 of these as Duty Holder. The reason for Petrofac’s success in this area comes down to delivering on promises: the team listens, develops a solution, then puts it into action.

Operations Services revenue

US$ millions

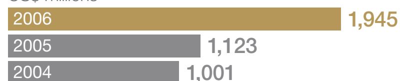


Operations Services net margin

%

Operations Services backlog

US$ millions



The training business continues to perform well in the UK and its range of services was further strengthened during the year with the opening of Rubicon Response's integrated Emergency Response Service Centre (ERSC) in Aberdeen, the first integrated ERSC in the UKCS. The ERSC is located in close proximity to the emergency services and is the first point of contact for a number of North Sea installations, providing them with an immediate and effective response in emergency situations. Good progress has been made internationally with awards in the Gulf of Mexico from BP, to design, establish and implement a world-class training function across BP's deepwater activities in the United States, and with Shell, for a multi-year contract which includes the provision of water survival and helicopter underwater egress training (HUET). In April 2006, the group acquired PPS Process Control and Instrumentation Services Limited (PPS) which provides operations and maintenance training in Sakhalin, Russia (and process control and instrumentation services in Singapore, Malaysia and Indonesia). In January 2007, the business secured a further contract with Sakhalin Energy to provide operations and maintenance training at the Sakhalin Technical Training Centre. In late 2006, Petrofac Training, in conjunction with joint venture partner TTE International, was awarded a two-year extension to its management and operations contract for BP's technical training centre in Baku, Azerbaijan.

Results

Divisional revenue for the period increased by 20.5% to US$729.2 million (2005: US$605.3 million) reflecting new business and an increased level of pass-through revenue[1]. Net profit increased to US$18.1 million (2005: US$15.6 million), representing a net margin of 2.5% (2005: 2.6%). Net of pass-through revenue, net margin increased by 0.2%, reflecting an improvement in the division's operational performance.

Operations Services' employee numbers grew from 4,700 at 31 December 2005 to over 4,900 at 31 December 2006 principally due to the growth in Petrofac Brownfield.

The division's backlog increased to a record US$1,945 million at 31 December 2006 (2005: US$1,123 million) as a result of a successful year of new contract awards, including the Dubai Petroleum contract, and existing contract renewals and extensions.

Resources

The division increased its portfolio of producing assets in the latter part of the year with the commencement of oil production from the Cendor field, offshore Peninsular Malaysia in Block PM304. Petrofac, as operator, working alongside its partners, developed an innovative and low-cost solution for the development of the field, which delivered first oil in September 2006, ahead of schedule and within budget. The division's other producing assets, Ohanet and the Kyrgyz Petroleum Company refinery, continued to perform strongly and in line with expectations during 2006.

Under the terms of the Cendor production sharing contract (PSC), by way of which the division owns a 30% share in the field, the division will receive revenues based on the market value of crude oil sales until its development and operating costs are recovered, which is expected to be during 2007. Subsequently, the division will be entitled to its share of production at an index-linked price which is currently below market price. Following a gradual ramp-up in production, the field averaged 12,100 bpd for the month of December 2006. Current production levels, uptime and reservoir performance are in excess of the project investment case. The division is undertaking detailed analysis of the reservoir to re-evaluate the extent of estimated reserves.

Ohanet production was marginally lower than during 2005 at, on average, approximately 14.6 million cubic metres per day (m^3/d) (2005: 15.5 million m^3/d) of gas for export, approximately 24,240 bpd (2005: 28,000 bpd) of condensate and approximately 2,770 tonnes per day (2005: 2,230 tonnes per day) of liquefied petroleum gas (a combined oil equivalent of 138,500 bpd; 2005: 151,700 bpd). On average, the division earned its share of the monthly liquids production by the 11th day of the month reflecting the prevailing oil price (2005: 9th). At the division's current base case production profiles and current oil price forecasts, it is likely that it will earn its defined return within the target eight-year period ending November 2011.

Resources owns a 50% share in Kyrgyz Petroleum Company which is engaged in the production and refining of crude oil and marketing the sale of oil products from the refinery. The Operations Services division runs the refinery on behalf of the joint venture

1 Pass-through revenue refers to the revenue recognised from low or zero-margin third-party procurement services provided to customers.

partners on a reimbursable basis. During 2006, the refinery produced an average of approximately 1,700 bpd (2005: 1,700 bpd) of principally gasoline, diesel and fuel oil. Finding a steady supply of feedstock remains a challenge, although increased product prices during 2006 resulted in an improved financial performance.

The division's portfolio of development assets in the UKCS was extended in 2006 and early 2007:

- In December 2006, the division acquired a 60% interest in part of Block 211/18a containing the Don Southwest discovery with the 40% partner being Valiant Petroleum
- During 2006 Petrofac (50%) and Valiant Petroleum (50%) were successful in securing Block 211/18c, adjoining the West Don field, in the UK's 23rd licensing round. In February 2007, Petrofac (50%) and Valiant (50%) secured Block 211/17 in the 24th licensing round. These awards are an important development in the strategy to build a core area of operations in the "greater Don area" and seek opportunities in neighbouring blocks
- The division increased its interest in Block 9/28a part B (containing the Crawford Field) from 5.58% to 29% in February 2006, assuming operatorship of the field. The group's partners are Fairfield Acer (52%) and Stratic (19%)
- In early 2007, Petrofac was awarded a 100% equity interest in Block 28/3b in the 24th licensing round. The group already owns 100% equity in Block 28/3a, containing the Elke field

The three divisions of the Petrofac group are working together towards submission of field development plans for these assets.

In November 2006, the division agreed to acquire, subject to approval by the relevant government authorities, a 45% interest in the Chergui concession, Tunisia, for a consideration of approximately US$30 million from Entreprise Tunisienne d'Activitiés Pétrolières, the Tunisian state oil company, which holds the remaining 55% interest. The transaction was legally completed in February 2007 (see note 33 to the financial statements). Petrofac will be operator of the newly acquired concession. In addition to the initial consideration of US$30 million, Petrofac will incur a share of the costs to complete the central production facilities and pipeline to shore, amounting to approximately US$20 million. Production is expected to start at the field in late 2007, with plateau rates expected to be maintained for around four years with a further eight years of operation beyond that. Produced gas is to be sold to Société Tunisienne d'Electricité et Gaz under the gas pricing formula fixed by existing law, in which the price of gas is linked to FOB Med (free on board Mediterranean) fuel oil prices. The return on the investment will depend upon fuel oil prices, the performance of the reservoir and managing, in conjunction with the Engineering & Construction division, the completion of the central processing facilities and pipeline.

Results

Divisional revenue increased by 34.1% to US$62.1 million (2005: US$46.3 million) due predominantly to commencement of production from the Cendor field and subsequent cargo liftings. Net profit for the period was US$14.4 million (2005: US$18.3 million). The net profit in 2005 included recognition of a deferred tax asset of US$8.9 million in respect of Cendor pre-trading losses. Following commencement of production in late 2006, the UK deferred tax asset was written down to recognise the future availability of Malaysian double tax credits against UK tax, whilst a Malaysian deferred tax asset was set up to reflect the anticipated utilisation of carried forward losses against Malaysian tax at 38%; this resulted in an overall recognition of a further tax credit of US$0.6 million in the year. Net of Cendor tax credits the division's net profit increased from US$9.4 million in 2005 to US$13.8 million in 2006.

Resources EBITDA
US$ millions

Year	Value
2006	40.1
2005	32.6
2004	32.3

Resources net income before tax credits
US$ millions

Year	Value
2006	13.8
2005	9.4
2004	7.0

Passionate about delivering innovation in Cendor

Helideck on Cendor MOPU

Passionate about delivering innovation in Cendor

Set 140km off the Malaysian coast, the Cendor field is a compelling example of Petrofac's integrated approach and passion to deliver results. The first oil was produced on 23 September 2006 and it is now a fully functioning, productive operation. When the field was first discovered in the 1970s it was considered by many to be a marginal undertaking.

Whilst two successful appraisal wells had demonstrated the commerciality of the field, the reservoir structure was nonetheless not straightforward and there was limited time to get production underway – selection of the right development concept was critical. Petrofac's innovative approach to the facilities design ensured we met these challenges, combining a flexible, low cost solution with rigorous project management.

To access the oil, Petrofac pioneered the use of a mobile offshore production unit (MOPU) in the region. This was paired with an 80 metre span of unsupported conductor to the MOPU deck, it connected the MOPU with the seabed. Since the completion of this project, two other similar units have been used in the region, following Petrofac's lead.

This innovative approach continued into the sub-surface area as operations manager, Keith Collins, explains, "We used hi-tech seismic analysis techniques to identify where the 'sweet spots' were in the reservoir. It meant that when we drilled the seven wells they all came in as expected, or significantly better."

All three divisions of Petrofac were involved in the project. The group has a 30% stake in the field through Petrofac Resources. Engineering & Construction were involved at the project development stage, and Operations Services has provided ongoing support for the operation. Throughout the project, these divisions combined to deliver results many believed were ambitious, to say the least. As Keith explains, "Throughout the project, the team has been motivated to achieve things that they initially thought were impossible. We've even convinced our contractors to do things that they believed were beyond them."

Overall, the project has been a striking example of the success of Petrofac working together. As Richard Hall, general manager for Petrofac Malaysia said, "By collaborating, we were able to complete this project in near record time, from signing the contract to accessing the first oil. The facility was completed on time, under budget and with an impressive safety record."

Financial review

Revenue
US$ millions

Year	Value
2006	1,863.9
2005	1,485.5
2004	951.5

Operating profit
US$ millions

Year	Value
2006	171.1
2005	88.6
2004	68.3

Net profit
US$ millions

Year	Value
2006	121.9
2005	75.4
2004	46.1

Net profit margin
%

Year	Value
2006	6.5
2005	5.1
2004	4.8

Group revenue increased by 25.5% to US$1,863.9 million (2005: US$1,485.5 million) reflecting strong growth across all three divisions, though the increase is principally driven by the Engineering & Construction and Operations Services divisions which contribute 97% of the group's revenue. The revenue increase in Engineering & Construction was primarily as a result of construction progress made on contracts awarded in late 2005 and in Operations Services was primarily due to new contract awards and increased pass-through revenue.

Operating profit increased by 93.1% from US$88.6 million in 2005 to US$171.1 million in 2006, with all three divisions showing growth. Operating margins increased to 9.2% (2005: 6.0%), reflecting strong growth in margins in Engineering & Construction, a slight decline in Operations Services due to increased levels of pass-through revenue, a slight increase in Resources operating margins and US$6.3 million of one off IPO costs in 2005. The increased margin in the Engineering & Construction division reflects the stage of completion, and, therefore, timing of profit recognition, and residual risk profile of major projects and continuing good execution. Net of pass-through revenues, the Operations Services division generated an increased operating margin as a result of additional margins earned on new contracts awarded during 2006. Operating margins were marginally higher in the Resources division due largely to the commencement of production from the Cendor field in September 2006.

Net profit attributable to the shareholders of Petrofac Limited from the group's continuing business activities increased by 61.7% to US$121.9 million (2005: US$75.4 million). The net margin increased to 6.5% (2005: 5.1%) due primarily to the 3.2% increase in the group's operating margin, net finance income of US$2.1 million (as compared to net finance cost of US$5.3 million in 2005, reflecting a combination of higher average cash balances held by the group during the year offset slightly by higher prevailing interest rates on the group's debt), partially offset by a significant increase in the group's effective tax rate (see note 6 to the financial statements).

EBITDA increased by 72.7% to US$199.6 million (2005: US$115.6 million), representing 10.7% (2005: 7.8%) of revenue. The increase in the group EBITDA margin was driven by the Engineering & Construction division's strong operational performance. This improvement was partly offset by a decrease in Resources' EBITDA margin brought about by lower than divisional average EBITDA margin contribution from the Cendor asset.

The significant revenue and EBITDA margin growth achieved in 2006 by the Engineering & Construction division diluted the proportion of EBITDA contributed by the Operations Services and Resources divisions relative to 2005. Taken as a percentage of EBITDA, excluding the effect of corporate costs, consolidation and elimination adjustments, Engineering & Construction accounted for 63.5% (2005: 51.4%) of group EBITDA, Operations Services 16.5% (2005: 22.2%) and Resources 20.0% (2005: 26.4%).

Segment results for the year from continuing operations

	Revenue		Operating profit[1]		Net profit[2]		EBITDA	
US$'000	2006	2005	2006	2005	2006	2005	2006	2005
Engineering & Construction	**1,081,279**	858,206	**117,209**	52,592	**95,380**	55,063	**127,258**	63,540
Operations Services	**729,240**	605,331	**29,100**	25,250	**18,103**	15,578	**32,923**	27,466
Resources	**62,125**	46,331	**25,065**	18,495	**14,365**	18,321	**40,107**	32,594
Corporate, consolidation & elimination[3]	**(8,771)**	(24,396)	**(255)**	(7,734)	**(5,941)**	(13,565)	**(657)**	(7,966)
Total	**1,863,873**	1,485,472	**171,119**	88,603	**121,907**	75,397	**199,631**	115,634

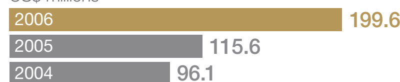
	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis	2006	2005	2006	2005	2006	2005	2006	2005
Engineering & Construction	**26.0%**	81.3%	**10.8%**	6.1%	**8.8%**	6.4%	**11.8%**	7.4%
Operations Services	**20.5%**	37.5%	**4.0%**	4.2%	**2.5%**	2.6%	**4.5%**	4.5%
Resources	**34.1%**	2.9%	**40.3%**	39.9%	**23.1%**	39.5%	**64.6%**	70.4%
Total	**25.5%**	56.1%	**9.2%**	6.0%	**6.5%**	5.1%	**10.7%**	7.8%

1 Profit from continuing operations before tax and finance income/(costs).
2 Attributable to Petrofac Limited shareholders.
3 2005 figures for operating profit, net profit and EBITDA include US$6.3 million of expenses relating to the IPO.

Financial review (continued)

EBITDA

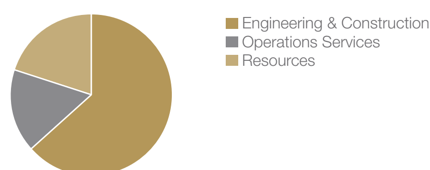
US$ millions



EBITDA margin

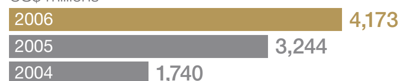
%

EBITDA by division



Backlog

US$ millions



At the close of 2006 the combined backlog of the Engineering & Construction and Operations Services divisions was US$4,173 million (2005: US$3,244 million), representing an increase of 28.6% on the comparative figure at 31 December 2005. A significant proportion of the Operations Services division backlog is denominated in Sterling and has therefore benefited from the depreciation of the US$ against Sterling over the year. On a constant currency basis, group backlog increased 23.4% compared to 31 December 2005.

Petrofac's functional currency for financial reporting purposes is US dollars. Although during 2006, there was a significant change in the year-end US$ to Sterling exchange rates, there was only a marginal change in the average exchange rate compared to 2005, and therefore the year-on-year impact of currency fluctuation on the group's UK trading activities was not significant. The table below sets out the average and year-end exchange rates for US dollar and Sterling for the years ended 31 December 2006 and 2005 as used by Petrofac for its financial reporting.

Discontinued operations

Net losses from the group's discontinued operation in the US, Petrofac Inc, were US$1.6 million (2005: US$0.8 million). The loss incurred in the year includes an impairment provision against the remaining property in Tyler, Texas, and current and projected costs in relation to the arbitration of a claim against a customer for the recovery of project-related costs. While the group is confident of a favourable outcome to the arbitration process, no revenue from the claims which are subject to arbitration has been recognised to date.

Interest and taxation

Net interest receivable for the year on continuing operations was US$2.1 million (2005: net interest payable of US$5.3 million). The reduction in net interest payable was largely attributable to the group's higher average cash balances during 2006. These arose principally from the significant increase in contract advance payments from Engineering & Construction division customers and the impact of strong conversion of earnings into operating cash flows.

An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge on continuing operations as a percentage of profit before tax in 2006 was 29.6% (2005: 9.5%). The increase in the effective tax rate for 2006 is largely attributable to the following factors:

- During 2006, the Engineering & Construction division generated the majority of its profits from higher taxable jurisdictions
- The Resources division's effective tax rate in 2005 included recognition of a deferred tax asset of US$8.9 million in respect of Cendor pre-trading losses. Following commencement of production in late 2006, the UK deferred tax asset was written down to recognise the future availability of Malaysian double tax credits against UK tax, whilst a Malaysian deferred tax asset was set up to reflect the anticipated utilisation of carried forward losses against Malaysian tax at 38%; this resulted in an overall recognition of a further tax credit of US$0.6 million in the period
- The group had unrecognised tax losses of US$1.8 million at 31 December 2006 (2005: US$1.5 million less utilisation of tax losses of US$3.1 million)

Financial reporting exchange rates

US$ to Sterling	**2006**	2005
Average rate for the year	**1.85**	1.81
Year-end rate	**1.96**	1.72

Gearing ratio

US$'000 (unless otherwise stated)	**2006**	2005
Interest-bearing loans and borrowings (A)	**117,180**	106,870
Cash and short-term deposits (B)	**457,848**	208,896
Net cash (C = B – A)	**340,668**	102,026
Total net assets (D)	**324,904**	195,127
Gross gearing ratio (A/D)	**36.1%**	54.8%
Net gearing ratio (C/D)	**Net cash position**	Net cash position

Earnings per share (diluted)

US cents

Year	Value
2006	35.3
2005	22.4
2004	11.9

Cash generated from operations

US$ millions

Year	Value
2006	329.0
2005	133.0
2004	108.8

EBITDA to cash conversion

%

Year	Value
2006	164.8
2005	115.1
2004	113.2

Adjusting for the Cendor tax credits and net project tax losses utilised/(unrecognised) the underlying effective tax rate was 28.9% for 2006 (2005: 22.1%), as set out in the table below.

Earnings per share

Diluted earnings per share from continuing operations increased by 57.6% in 2006 to 35.32 cents per share (2005: 22.41 cents per share, after adjusting for the 40:1 share split in October 2005), reflecting the group's improved profitability.

Operating cash flow and liquidity

Net cash generated from operations was US$329.0 million compared with US$133.0 million in 2005, representing 164.8% of EBITDA (2005: 115.1%). The increase in net cash inflows was principally as a result of increased operating profit and a decrease in the utilisation of net working capital. The favourable net working capital movement arose principally from short-term timing differences at the year end in respect of the customer billing and supplier payment positions on long-term engineering and construction contracts and from the impact of significant cash advances received on certain major engineering and construction contracts.

The group maintained a broadly comparable level of interest-bearing loans and borrowings at US$117.2 million (2005: US$106.9 million) on an increased equity base, resulting in a decrease in the group's gross gearing ratio to 36.1% at 31 December 2006 (2005: 54.8%).

The group's total gross borrowings before associated debt acquisition costs at the end of 2006 were US$119.0 million (2005: US$108.3 million), of which 38.1% was denominated in US dollars (2005: 49.5%), 56.0% was denominated in Sterling (2005: 44.7%) with the majority of the balance, 5.9%, denominated in Kuwaiti Dinars (2005: 5.8%).

The group maintained a balanced borrowing profile with 22.3% of borrowings maturing within one year, 40.6% maturing between one and five years and the remaining 37.1% maturing in more than five years (2005: 28.3%, 56.1% and 15.6% respectively). The increase in the average duration of borrowings reflects the renegotiation in December 2006 of the group's facilities with the Royal Bank of Scotland/Halifax Bank of Scotland. The borrowings repayable within one year include US$20.4 million of bank overdrafts and revolving credit facilities (representing 17.2% of total gross borrowings), which are expected to be renewed during 2007 in the normal course of business (2005: US$15.0 million and 13.8% of total gross borrowings).

The group's policy is to hedge between 60% and 80% of variable interest rate loans and borrowings. At 31 December 2006, 64.8% of the group's term interest-bearing loans and borrowings were hedged (2005: 84.7%). An analysis of the derivative instruments used by the group to hedge this exposure and an analysis of the group's risk management objectives and policies is contained in note 32 to the financial statements.

With the exception of Petrofac International Ltd, which undertakes the majority of Petrofac's lump-sum EPC contracts and which, under its existing banking covenants, is restricted from making upstream cash payments in excess of 70% of its net profit in any one year, none of the Company's subsidiaries is subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

Interest cover

US$'000 (unless otherwise stated)	2006	2005
Operating profit from continuing operations (A)	**171,119**	88,603
Net interest cost (B)	**n/a – net interest receivable**	5,255
Interest cover (A/B)	**n/a**	16.9 times

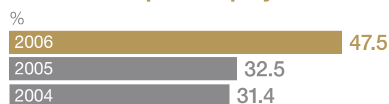
Effective tax rate

	2006		2005*	
	US$'000	**%**	US$'000	%
Reported tax charge	**51,340**	**29.6 %**	7,951	9.5%
Tax credit re Cendor	**609**	**0.4 %**	8,943	10.7%
Net project tax losses utilised/(unrecognised)	**(1,797)**	**(1.1)%**	1,538	1.9%
	50,152	**28.9 %**	18,432	22.1%

*As restated.

Financial review (continued)

Return on capital employed



Capital expenditure

Capital expenditure on property, plant and equipment during 2006 was US$59.4 million (2005: US$17.6 million). The main elements were the purchase of freehold land and other capital expenditure in relation to the construction of the group's new office building in Sharjah, UAE, amounting to US$15.0 million and US$17.6 million of development expenditure on Resources' oil & gas assets. Other capital expenditure included the cost of plant, equipment and office furniture to support the growth in the Engineering & Construction and Operations Services divisions.

Capital expenditure on intangible oil & gas assets totalled US$12.9 million (2005: US$4.8 million) principally in relation to the Crawford and Don Southwest acquisitions.

Shareholders' funds

Total equity increased from US$195.1 million at 31 December 2005 to US$324.9 million at 31 December 2006. The primary elements of the increase were the retained profits for the year of US$105.7 million, the favourable movement in the group's unrealised position on derivative instruments and foreign currency translation of US$30.4 million, partially offset by the cost of additional treasury shares purchased by the Company in relation to employee share schemes of US$8.1 million.

Return on capital employed

The group's ROCE for 2006 was 47.5% (2005: 32.5%). The increase reflects the increased profitability of the group, albeit on an expanding capital base as the group continues to grow.

Dividends

The Company proposes a final dividend of 6.43 cents per share for the year ended 31 December 2006 (2005: 1.87 cents). The level of the final dividend in 2005 reflected the fact that the Company was listed for approximately three months of the 2005 financial year and the final dividend was therefore approximately half the level that would have been declared as a final dividend had Petrofac been listed for the whole of the 2005 financial year, having taken account of the intention to pay two-thirds of the full year dividend as a final dividend.

Basis of preparation

The operating and financial review (OFR) contains forward looking statements with respect to the financial condition, results, and operations of the group. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward looking statements contained in the OFR regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Petrofac Limited undertakes no obligation to update the forward looking statements contained in this review or any other forward looking statements made.

Corporate social responsibility

The Board recognises that it must win and retain the support of a variety of stakeholders in order to safeguard the Company's reputation and maximise long-term shareholder value. Such stakeholders include shareholders, customers, suppliers, employees and communities where Petrofac works. The Board therefore believes that the Company's Corporate Social Responsibility (CSR) activities are essential in order to strengthen relationships with stakeholders. The Company has made good progress during the year in building on its earlier CSR work, particularly with the establishment of a CSR working group, an Environmental Committee and the adoption of a revised Code of Business Conduct. This report outlines the group's progress in 2006.

Petrofac – the business

Petrofac's employees are guided by the Company's vision – to be the global oil & gas industry's premier facilities and infrastructure provider, admired by customers and employees for consistently delivering and rewarding excellence. Essential to achieving this is that the group works to world-class standards, always focuses on customer satisfaction, respects the environment, is sensitive to the communities in which it works and promotes and rewards on merit. The Company's values of being safe, ethical, cost-conscious, innovative, responsive to customers and results-driven are embodied within the Company's approach to CSR in health, safety and security, people, environment and society.

Health, safety and security

The group has a well established safety management strategy, which is part of an overall business management system. Managers are accountable for ensuring that health, safety, security and environmental risks are properly assessed and as far as possible mitigated. Petrofac places great emphasis on the integrity of its facilities and the competence of its personnel. During the year, the Company organised a number of small safety work shops at divisional level in addition to a safety work shop for senior client and subcontractors at group level. The Company intends to run further safety work shops in 2007, including a further work shop organised at group level, the main focus of which will be asset integrity management. Management closely monitors safety performance through the setting and monitoring of Key Performance Indicators. In 2006, the KPIs were extended to include measures which aim to increase management's proactivity in relation to the management of the Company's health and safety systems. The Board continued to review health and safety performance regularly at board meetings, receiving progress reports in relation to a programme of work previously agreed by the Board.

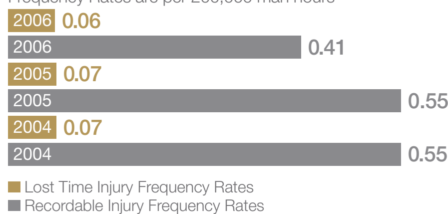
During 2006, approximately 38 million man-hours were worked across the group's operations (2005: 38 million). During the year, the group experienced 78 Recordable Injuries (RIs) (2005: 107), a RI frequency rate (RIFR) of 0.41 per 200,000 man-hours (2005: 0.55) and 10 Lost Time Injuries (LTIs) (2005: 13), a LTI frequency rate (LTIFR) of 0.06 per 200,000 man hours (2005: 0.07). This performance is comparable with the best in the oil & gas industry. Despite meeting these important targets, the Board deeply regrets that one of our employees suffered a fatal helicopter accident in the UK in December 2006. Initial investigations into the incident suggest that the helicopter, which had been chartered by a customer and was independently operated, suffered a catastrophic failure.

Although the Company can demonstrate through injury frequency rates a good health and safety performance, it recognises that this is only one element of safety management. The integrity of Petrofac's assets and facilities is fundamental to business efficiency and reflects the "overall" safety of its operations. In 2007, a programme of asset integrity management currently operated by Petrofac's Operations Services division will be developed further and adopted across the whole group. The objective is to ensure that the likelihood of a major hazard arising as a result of Petrofac's design, construction or operation is minimised as far as is reasonably practicable.

In 2006, the Board approved increased measures in relation to the Company's Health Management Programme. The monitoring of the health of selected employees will be extended to encompass a wider range of employees and the standard of Company approved medical practitioners will be reviewed. It is considered this service will be beneficial to both the Company and employees, who will be able to make better informed choices regarding lifestyle and general well-being.

Health and safety performance

Lost Time Injury Frequency Rates and Recordable Injury Frequency Rates are per 200,000 man hours



Corporate social responsibility (continued)

In 2006, the Board recognised the increased risk in security as the Company's operations expanded into new and challenging environments and approved a new policy for security as part of the group's Code of Business Conduct. A Group Security function is now operational supporting the group's activities.

Petrofac people

The Company's employees are our most important asset and the Company believes that our employees should reflect the diverse communities in which the group operates. As such, the Company is committed to employing, training and developing local staff and leaders for its operations in more than 15 countries. The Company's continuing expansion throughout 2006 has seen an increase in employees to approaching 8,000, from approximately 7,200 at 31 December 2005. The ability to recruit and develop staff is the basis for the Company's long-term success and in 2006 we recruited over 100 graduates from the Middle East, Europe and Asia. The Company offers development and learning opportunities to its employees through a combination of on and off-the-job training.

To enhance the potential leadership capability, 2006 saw the launch of the Petrofac Academy, an in-house training programme designed to develop Petrofac managers and leaders of the future. The programme was launched in Aberdeen and Sharjah and will be refined and validated, before being made available to the wider Petrofac workforce. The Company has a policy of equal opportunity where decisions on recruitment, career development, promotion, training and reward are based solely on an individual's merit.

The Company continues to promote share ownership amongst employees through its four share incentive schemes. In particular, there has been a good response to the UK employee Share Incentive Plan with 24% of eligible employees choosing to participate.

Communication and involvement with staff is essential, especially as they work in many locations around the world. The Company publishes a quarterly in-house magazine called "Petrofacts", maintains several local intranet sites for employees and uses Company announcements, targeted e-mails, management presentations and team briefings to facilitate the involvement and awareness of employees.

The Company continues to emphasise the importance of doing business ethically and in 2006 a major review of the Code of Business Conduct was carried out. The updated policies are designed to ensure that all employees understand and comply with both legal requirements and our own standards. The Code was launched through a major group-wide communication initiative and circulated to all employees. The Code defines what Petrofac expects of its employees, encapsulating in a single document the Company's standard for employee conduct. As part of the Code, the Company has a clear anti-corruption policy. If an employee is found to have acted in breach of this policy, the individual will be subject to disciplinary action which may result in dismissal.

The Company has decided to begin a regular survey of staff satisfaction and attitudes, the purpose of which will be to gather feedback on staff perceptions on a range of issues in order to help the Company develop effective communication programmes for employees.

The environment

The Company promotes a culture in which all employees share a commitment to minimise the Company's adverse environmental impact. The Board approved an environmental policy during the year and furthermore, formed an Environmental Committee chaired by the Chairman of the Board, Rodney Chase. Other members of the committee are drawn from the Company's executive management team. The policy provides the framework for the development of environmental programmes for all activities. The committee's remit is to review the Company's environmental policy and effectiveness of the Company's environmental management systems, environmental targets and KPIs. The committee agreed that during 2007 each division should seek to establish baselines in respect of waste, power generation and carbon emissions and other environmental impacts as a precursor to establishing specific environmental programmes after 2007, which will identify opportunities for reduction and where future targets and KPIs can be set. During 2007 the Company will continue the process with independent certifying authorities to work towards certification to ISO 14001:1996 for all its business operations.

During the year, the Group Chief Executive, Ayman Asfari, attended the Clinton Global Initiative. He gave an undertaking that the

Company would seek to make a meaningful reduction in its use of power and carbon emissions once it had established its current baselines and evaluated its available options.

In the meantime, the Company has already adopted a number of simple but nevertheless effective measures, often at the instigation of our employees: recycling materials, using alternative materials; photocopying double sided rather than single sided; switching off PCs at night; and using crockery rather than paper or plastic cups.

Society

Petrofac is mindful of its responsibilities to the communities in which it operates and endeavours to ensure that relationships with non-governmental organisations, customers, suppliers, communities and governments are founded on the basis of mutual respect. The Company has undertaken that it will formulate a specific community relations strategy for each major project, taking into account particular long-term local needs. To assist and improve group-wide co-ordination of activities, a working group has been established to review current activities and future initiatives, particularly focusing on ways of developing the Company's longstanding interest in education, learning and training.

The Company strongly supports the involvement of Petrofac staff in initiatives and is launching a "Give As You Earn" scheme in the United Kingdom. All employees who are paid through the UK's Pay As You Earn (PAYE) taxation system can give on a regular basis to charity in a tax-efficient and easily managed way. To encourage participation, the Company will be matching 50% of the total of these donations, capped at US$100,000 per year with the matching Petrofac donation going to a Petrofac Charity Fund. The contents of the fund will be distributed to a number of charitable organisations which have yet to be determined.

In the UK, Petrofac's Community Involvement Group (CIG) continues to provide targeted support to a number of local charities, groups and individuals, whilst emphasising the engagement of Petrofac staff in their support. For the past four years CIG has named Cornerstone Community Care as its charity of the year. Cornerstone aims to offer services and support to people with learning disabilities and to their families. Petrofac supports the charity both through direct financial giving and a variety of fundraising events. CIG continues to support wheelchair athlete Kenny Herriot, a relationship that started in 2001, following an accident in 2000 which left him paralysed. CIG also sponsors the Streetfootball initiative, run in conjunction with Grampian Police and Robert Gordon University. Streetfootball aims to engage young people and encourage positive behaviour through sport. Petrofac has provided financial contributions and a number of employees have volunteered to assist in running Streetfootball.

Petrofac continues to be a principal sponsor of the Aberdeen International Youth Festival, which showcases the musical, dancing and acting talents of young people from around the world; and TechFest, a festival of science, technology and engineering in Aberdeen visited by over 10,000 school pupils each year.

The Company has also maintained its long-standing education-industry partnership with the Kincorth Academy in Aberdeen. The partnership encourages pupils' greater knowledge of life at work, in addition to the practical application of skills and knowledge gained through education in a work environment. Petrofac employees also benefit through the new perspectives and challenges gained.

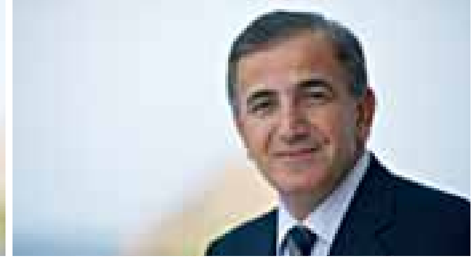
In accordance with the focus on education and interest in contributing to the areas in which the Company operates, a US$2 million donation was made during the year to the American University in Sharjah of which Maroun Semaan is a trustee. The proceeds from the endowment will be distributed as Petrofac scholarships to students in the School of Engineering many of whom are from countries in which the group currently operates. The Company has also established scholarships in India, through the Mumbai office, for ten engineering students for the duration of their four year university course. In addition, the Mumbai office has initiated relationships with a local secondary school and two higher education institutes and is developing programmes, which will include providing financial support; sponsoring science fairs; annual prizes and work experience.

The Company has a policy of not making political donations.

1 American University, Sharjah

2 Kincorth Academy, Aberdeen

Board of directors



1	2
3	4
5	6
7	

1 Rodney Chase [3 4]
Non-executive Chairman

Rodney Chase was appointed non-executive Chairman of Petrofac in June 2005. Rodney spent 38 years at BP plc, of which 11 were served on its board. He was deputy group CEO on his retirement from the BP group in May 2003. He also spent time as CEO of the exploration and production, and marketing and refining divisions. He continues to serve as non-executive deputy chairman of Tesco plc; non-executive director of Computer Sciences Corporation; non-executive director of Nalco Company; and senior adviser to Lehman Brothers. In May 2006, Rodney joined the board of Tesoro Corporation, a US company which specialises in the refining and marketing of petroleum products. He has previously held positions as a board member of BOC plc and Diageo plc. Age 63.

2 Ayman Asfari [3]
Group Chief Executive

Ayman Asfari joined Petrofac in 1991 to establish Petrofac International. Ayman has more than 25 years' experience in the oil & gas industry and served as Chief Executive Officer of Petrofac International until his appointment as Group Chief Executive of Petrofac Limited in January 2002. Ayman previously worked as the managing director of a major civil and mechanical construction business based in Oman. Age 48.

3 Keith Roberts
Chief Financial Officer

Keith Roberts joined Petrofac in March 2002 as Chief Financial Officer having spent most of his working life as an investment banker based in the city of London. After positions in commercial banking with Standard Chartered Bank and then with County Bank, the merchant banking subsidiary of National Westminster Bank, Keith moved into corporate finance with Hawkpoint Partners where he was a managing director and a member of the operating committee. Keith served as a non-executive director of The Peacock Group plc until the company was taken private in early 2006. Age 50.

4 Maroun Semaan [4]
Chief Executive, Engineering & Construction

Maroun Semaan joined Petrofac in 1991 to establish Petrofac International. From 1977 to 1991, Maroun held various project positions with Consolidated Contractors International Co., based in the Middle East, where he was involved in the management of oil and gas pipeline, process facilities and civil works construction contracts in Oman and Bahrain. He was appointed Chief Executive of Petrofac Engineering & Construction in April 2004. Age 51.

5 Kjell Almskog [1 2 3]
Non-executive Director

Kjell Almskog was appointed to the Petrofac Board in March 2005. After starting his professional career in brand management, with Proctor & Gamble, Kjell subsequently spent some 25 years in various senior executive positions. During 13 years in the ABB group, Kjell was country manager in Norway while in parallel, developing a substantial and highly successful international oil and gas activity, ultimately becoming group executive vice-president and head of ABB Oil, Gas and Petrochemicals. In 1998, he moved to Kvaerner as chief executive with responsibility for executing a major turnaround of that business until its acquisition by Aker in 2001. Presently, Kjell is senior adviser and non-executive director of several international companies, including Orkla, a large listed Norwegian group involved in branded consumer goods, chemicals and financial investments and KITRON ASA, a listed Norwegian group specialising in electronics manufacturing. He is also deputy chairman of the Kverneland Group, a Norwegian listed international supplier of agricultural machinery and senior advisor of the Taylor Group, a US management consulting group. Age 66.

6 Bernard de Combret [1 2 3]
Non-executive Director

Bernard de Combret was appointed to the Petrofac Board in November 2003. Bernard is an international consultant and was deputy chairman of Total's executive committee until his retirement in 2002. Following senior positions in both the French Ministry of Foreign Affairs and Ministry of Finance, he spent 24 years with Elf and subsequently Total and held various senior executive positions, including CEO of refining marketing; CEO for gas, power and new energies; and CEO for trading and shipping. He is currently a director of AXA-RE; Madagascar Oil; Winstar Resources Ltd; and a member of the international advisory board of Banco Santander. He has previously held positions as a board member of Renault VI, CEPSA and Banco Central Hispano. Age 64.

7 Michael Press [1 2 3]
Senior Independent Director,
Non-executive Director

Michael Press was appointed to the Petrofac Board in April 2002, having previously held senior executive positions for the Standard Oil Company Inc and BP and as a main board director of Amerada Hess. Between 1997 and 2001, Michael held various posts at KBC Advanced Technologies including non-executive director, executive chairman, and chief executive. He is currently also a non-executive of ABARTA Inc; T3EnergyServices; Chart Industries and a member of the advisory board of Pharmadule Emtunga. Age 59.

The Board recommends that the following two individuals be appointed at the annual general meeting subject to shareholder approval:

Amjad Bseisu
Chief Executive, Resources

Amjad Bseisu joined Petrofac in 1998 and founded the Resources' business. Amjad previously served on the Petrofac Board for several years before stepping down prior to the Company's admission to listing on the London Stock Exchange. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO) starting his career as senior engineer in the drilling and production division and moving to the position of vice-president, Arco Petroleum Ventures, with responsibility for operations and commercial activities in the Middle East and North Africa and ultimately, in 1996, as head of International Marketing, Negotiations and Business Development and president of ARCO Petroleum Ventures and ARCO Crude Trading, Inc. Age 43.

Rijnhard van Tets
Proposed to be appointed as a non-executive director

Rijnhard van Tets is an adviser to the managing board of ABN AMRO, having previously served as a member of the managing board from 1990 to 2002. Rijnhard occupied a number of very senior executive positions at ABN AMRO, most latterly as chairman of ABN AMRO's Wholesale Clients and Investment Banking Group between 1996 and 2002. Under Rijnhard's leadership, ABN AMRO grew its investment banking division into one of the world's leading providers of debt and equity capital markets; structured finance and M&A advisory services. Prior to joining ABN AMRO in 1983, Rijnhard worked for a number of other investment banks. He is currently also non-executive chairman of the boards of Wegener N.V.; Arcadis N.V.; Euronext Amsterdam N.V. and Equity Trust Holdings SARL. In addition, he is a non-executive director of Euronext N.V.; IFF Europe; Stichting Administratiekantoor Bührmann N.V.; and a number of charitable organisations. Age 59.

1 Member of the Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nominations Committee
4 Member of the Environmental Committee

Corporate governance report

The Company is incorporated in Jersey, where there is no formal Code relating to corporate governance. The Board is strongly committed to the principles of corporate governance contained in the 2003 Combined Code on Corporate Governance (the Code) annexed to the Listing Rules of the Financial Services Authority (FSA) and for which the Board is accountable to shareholders. The Code seeks to ensure that the Company is run in a manner whereby the interests of shareholders are protected and as such the Code sets out principles of good governance together with specific provisions.

Statement of compliance with the provisions of good governance

The directors consider that throughout 2006 and up to the date hereof, the Company has applied the principles and fully complied with the provisions of the Code.

Role of the Board

The Board is responsible to shareholders for the leadership of the group and for safeguarding the Company's reputation. The Board has a formal schedule of matters reserved to itself for decision, including, but not limited to, matters of a strategic nature; approval of the annual budget; approval of major acquisitions, investments and disposals; major changes to the group's capital structure; the preparation of financial statements; the recommendation or declaration of dividends; the entry into contracts which are deemed to be material strategically or by reason of size; succession planning and appointments to the Board; executive remuneration; ensuring the maintenance of a sound system of internal controls; reviewing its own and its committees' performance and reviewing the group's overall corporate governance arrangements.

Board membership, attendance and independence

The current membership of the Board and the significant commitments of the directors are stated on pages 34 and 35, which record the names of the Chairman, the Group Chief Executive and the Senior Independent Director. The names of the chairmen and members of each of the Nominations, Audit, Environmental and Remuneration Committees are stated in the reports of those committees.

The Board met ten times during the year of which six meetings had been scheduled well in advance. Specific business which had arisen due to the commercial demands of the group, and which needed to be addressed between scheduled board meetings, was dealt with at four special board meetings conducted by conference telephone. The agenda for each scheduled board meeting allows the Chairman and non-executive directors to meet without executives present. The agenda and appropriate supporting board papers are distributed by the Secretary to the Board on a timely basis, usually a week in advance of each board meeting. In addition, the Board attended a strategy and business planning day with members of senior management.

Attendance by the directors at the meetings of the Board and its committees are summarised in the table above.

Committee (see key below)	B[1]	N	A	E[6]	R
Total number of meetings	10	4	6	2	5
Rodney Chase Chairman	10	4 (C)	n/a	2 (C)	n/a
Kjell Almskog[2] Non-executive director	9	4	6	n/a	5
Bernard de Combret Non-executive director	10	4	6 (C)	n/a	5
Michael Press[3] Non-executive director	9	4	6	n/a	5 (C)
Ayman Asfari Group Chief Executive	10	4	n/a	n/a	n/a
Keith Roberts[4] Chief Financial Officer	9	n/a	n/a	n/a	n/a
Maroun Semaan[5] Chief Executive, Engineering & Construction	9	n/a	n/a	2	n/a

Key
B Board
C Chairman
N Nominations Committee
A Audit Committee
E Environmental Committee
R Remuneration Committee

N.B. n/a means that the specified director is not a member of the committee although he may attend meetings at the invitation of the Chairman.

1 In addition to the ten full board meetings, there were two board meetings, in March 2006 and September 2006, attended by some of the non-executive directors, for the final approval of the year-end and interim results, respectively. The results had previously been considered by the full Board.
2 Kjell Almskog missed one telephone board meeting due to a conflict in his schedule.
3 Michael Press missed one telephone board meeting due to a conflict in his schedule.
4 Keith Roberts missed one telephone board meeting due to a conflict in his schedule.
5 Maroun Semaan missed one telephone board meeting due to a conflict in his schedule.
6 The Environmental Committee membership consists of two members of the Board and two members of senior management.

The Board considers all three non-executive directors (which expression excludes the Chairman) to be independent in character and judgement and is not aware of any relationships or circumstances which are likely to affect, or could appear to affect the judgement of any of them. The extensive knowledge and experience of the non-executive directors combined with the focus and experience of the Chairman and executive directors enable the Board to lead and give direction to the group without any imbalance that may allow any individual or group of individuals to dominate its decision making. Any director having a concern in this or any other regard may raise it with the Chairman or the Senior Independent Director. Directors have access to the advice and services of the Secretary to the Board, who is responsible for ensuring that board procedures and applicable rules and regulations are observed and for advising the Board, through the Chairman, on governance matters. The directors are entitled to take independent professional advice, at the Company's expense, if required.

The Board is assisted by various committees, principally the Nominations, Audit, Environmental and Remuneration Committees. A summary of the work of the Nominations, Audit and Environmental Committees is set out below. The report of the Remuneration Committee is included in the directors' remuneration report on pages 40 to 45. The committees are constituted with appropriate written terms of reference, which are reviewed on an annual basis and are available on the Company's website. The minutes of meetings and/or reports from the chairmen of the committees are made available to the Board for its scheduled meeting next following the committee meeting in question, or as soon as practicable thereafter.

Nominations Committee

The Chairman of the Board, Rodney Chase, chairs the Nominations Committee. The other members of the committee are Kjell Almskog, Bernard de Combret, Michael Press and Ayman Asfari. The committee met four times during the year. It has a remit to:

- Consider and make recommendations to the Board on all new appointments of directors taking into account the overall balance and composition of the Board
- Consider succession planning
- Make recommendations to the Board concerning the reappointment of any director following conclusion of his specified term of office

During the year, members of the committee interviewed candidates identified by executive search consultants, for the role of non-executive director, based on a description of the skills and experience stipulated by the committee. The outcome was a recommendation by the committee in late 2006 that Rijnhard van Tets be appointed a non-executive director. At the same time, the committee considered and recommended to the Board the appointment of Amjad Bseisu, Chief Executive of Petrofac Resources, as an executive director. In early March 2007, the Board made the decision to recommend to shareholders the appointment of Rijnhard van Tets and Amjad Bseisu at the 2007 annual general meeting.

Audit Committee

The Audit Committee is chaired by Bernard de Combret and comprises Kjell Almskog and Michael Press. Both Bernard de Combret and Kjell Almskog have recent and relevant financial experience. The committee's principal roles and responsibilities include:

- Monitoring the integrity of the Company's financial statements and its interim and preliminary announcements
- Reviewing the Company's internal controls and risk management systems
- Monitoring and reviewing the effectiveness of the Company's internal audit function
- Reviewing the terms of engagement, objectivity and independence of the external auditors and to recommend to the Board of directors their appointment, reappointment or removal
- Establishing and monitoring a policy on the engagement of the external auditors to supply non-audit services
- Reporting to the Board, identifying any matters in respect of which it considers that action or other improvement is needed and making recommendations as to the steps to be taken

Attendance at committee meetings is at the invitation of the Chairman of the committee. However, the Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit and the external auditors will generally be invited to attend committee meetings. The Group Head of Internal Audit and the external auditors have the right to speak directly to the Chairman of the committee at any time and have the opportunity to meet the committee without management present at least once a year.

During the course of its six meetings in the year, the committee considered the following matters:

Financial reporting

The committee reviewed draft annual and interim reports before recommending their publication to the Board. The committee discussed with the Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements in preparing these reports.

Internal controls

In 2006, the committee developed an ongoing process for reviewing the effectiveness of the system of internal controls whereby the Internal Audit Department undertakes a review of the group's system of internal controls and risk management processes annually. The committee considered the review report and recommendations during the year, following which it agreed an internal audit plan for the rest of the year drawn up on a risk-based approach. The Group Head of Internal Audit has since provided a progress report to the committee and agreed the internal audit plan for 2007. Regular updates from the Group Head of Internal Audit will be provided in the forthcoming year.

Internal audit

The committee evaluated the performance of internal audit from the quality of reports from the Group Head of Internal Audit; feedback from management and an assessment of work planned and undertaken. The Group Head of Internal Audit recruited two individuals to the department during the year and he intends to undertake further recruitment in 2007. In addition, employees from other parts of the group will, on occasion, be temporarily seconded to the department. The committee will continue to monitor how the department is resourced.

Whistle blowing

The committee reviewed a policy and procedures for employees to raise concerns in confidence about possible improprieties in financial reporting and other potential breaches of the Company's Code of Business Conduct. The policy and procedures were implemented in late 2006 and the committee intends to monitor how concerns are investigated and followed up.

Reappointment of the external auditors

The committee recommended to the Board that the external auditors be reappointed following an assessment of the quality of service provided, including the qualifications of the external auditors; the expertise and resources made available to the group; auditors' independence and the effectiveness of the audit process. The decision was based on consideration of reports issued by the external auditors and feedback from the Chief Financial Officer and Group Financial Controller.

Auditor independence

The committee satisfied itself that the external auditors remain independent having regard to the auditors' procedures for maintaining and monitoring independence; the auditors' policy for rotation of the lead partner and key audit personnel; and the introduction of a policy, which specifies areas of non-audit services that can be carried out by the external auditors and the financial thresholds above which non-audit services require the approval of the Chairman of the committee. Any individual fees in relation to non-audit services in excess of US$200,000 and/or any excess of the aggregate fees for non-audit services above 50% of the annual audit fee require approval from the Chairman of the committee. Within these parameters, where it is considered reasonable that the external auditors undertake non-audit services for sound commercial and practical reasons without inhibiting objectivity, then engagement is permitted. Such services might include independent certification, reporting for FSA or UKLA purposes and tax advice. The cost of services provided by the external auditors during the year is detailed in note 4g to the financial statements. Most of the cost of non-audit services was associated with tax and assurance services where involvement by the external auditors was considered appropriate and in the best commercial interests of the group.

Environmental Committee

The Chairman of the Board, Rodney Chase, chairs the Environmental Committee, which was established by the Board in the second half of 2006. The other members of the committee are Amjad Bseisu, Robin Pinchbeck and Maroun Semaan who are the Chief Executives of the group's three operating divisions. Attendance at committee meetings is at the invitation of the Chairman and the Group director of Health, Safety, Security and Environment is generally invited. The Code does not require the Board to form an environmental committee. However, the Board recognises that the group's particular business activities have potentially significant implications for the environment and that these must be given proper consideration both as part of the group's risk management framework but also in the context of wider commercial considerations. The committee met twice during the year. It has a remit to:

- Advise the Board on the adoption and implementation of the group's environmental policy
- Review the group's compliance with the policy
- Review the effectiveness of the Company's environmental management systems, environmental targets and key performance indicators

During the year, the committee adopted terms of reference; reviewed the Company's vision statement and policy regarding the environment; and agreed that each business division should establish baselines in respect of their current environmental impact as a precursor to establishing specific environmental programmes.

Audit and accountability

Management has primary responsibility for developing and implementing internal control and risk management procedures and this duty extends to all aspects of the business: strategic; commercial; operational and financial. However, the Board also has a direct role to play in the development of the group's internal controls and risk management systems, which is additional to its duty to oversee controls and risk management procedures via the Audit Committee. The key elements which make up a robust system of internal control in a business may be characterised by the business' control environment; risk management system and assurance processes.

Control environment

The Board ensures that the group has a clear organisational structure for the control and monitoring of its businesses, including defined lines of responsibility and delegation of authority. The Board has approved a Code of Business Conduct in 2006, which amongst other matters, includes policies for the Company and its employees on health and safety; security; the environment; and areas of legal compliance. The group has a procedure in place to ensure that employees may raise ethical concerns in confidence.

Risk management

As the Audit Committee's report previously explained, the group has an ongoing process for identifying, evaluating and managing the significant risks faced by the group, which has been in place for the year under review and up to the date of this annual report and is in accordance with the Revised Turnbull guidance. However, management is currently reviewing the way in which it identifies, evaluates and manages risks with a view to developing a single management forum in which risks to the group are recorded and appraised. In addition, the Board is considering the method by which it reviews such risks and is currently planning to form a Risk Committee. Nevertheless, the directors are aware that its risk management systems cannot completely eliminate risks and thus there can never be an absolute assurance against the group failing to achieve its objectives or a material loss arising.

The group's current risk management systems require that, as part of the Board's regular review of the group's strategic goals, consideration is given to those risks which have been identified as potential impediments to achieving the group's strategic objectives. Each division is required to produce a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken in order to manage and mitigate those risks. The Board receives regular formal updates from management on the key risks and the related controls in relation to the group's existing business and, if appropriate, on potential new business. Management thoroughly considers risks associated with undertaking new business via divisional and group risk review committees.

Assurances

In addition to reports from the Audit Committee, the directors receive assurances from the following internal and external controls:

- Historical financial performance and revised forecasts for the full year with analyses of significant variances are regularly reported by management to the Board
- Reports from the recently established Environmental Committee
- Client audits
- External audits including management letters from the group's auditors
- Reports and presentations to the Board by senior management including the Group Head of Legal and Commercial Affairs, the Group Head of Health, Safety, Security and the Environment, the Group Head of Insurance and the Group Head of Tax
- Reports from the Group Internal Audit function

Induction, training and performance evaluation

The Board implemented a process for identifying individual training needs of directors during the year with the intention that a formal programme of training will be implemented in 2007. The Board will take care to ensure that any particular needs of the two new directors to be recommended for appointment at the forthcoming annual general meeting will be addressed.

An assessment of the Board, its members and committees was conducted by an external consultant, Strategic Resource, in 2006. This evaluation was undertaken by meetings with directors and senior management and included attendance at a board meeting. Strategic Resource reviewed the Board agenda and those areas on which the Board should focus during its meetings; the respective roles of the executive and non-executive directors; Board procedures and administration; and the operation of the Board's Nominations, Audit and Remuneration Committees. The results were considered by the Chairman at the end of 2006 and action points will be agreed with the Board. Michael Press, the Senior Independent Director, led a separate evaluation of the Chairman through a series of questionnaire led interviews with other members of the Board and senior management. Board evaluation will continue on an annual basis.

Retirement and re-election

In accordance with the Company's constitution, directors are required to submit themselves for re-election at least once every three years. Kjell Almskog, Bernard de Combret and Michael Press, being the longest serving directors, will retire and offer themselves for re-election at the forthcoming annual general meeting. The Board supports the re-election of all three directors.

Dialogue with shareholders and research analysts

The Group Chief Executive, Chief Financial Officer and Group Head of Investor Relations have regular meetings with major shareholders and research analysts. The Chairman has advised major shareholders, in writing, of his availability (along with the Senior Independent Director) should there be issues which the shareholders wish to discuss.

The Board receives regular feedback from analysts and major shareholders, compiled by the Company's brokers and financial PR consultants, in particular following presentations and meetings after the publication of financial results.

The principal method of communicating with the majority of shareholders is via the annual report and accounts and the Company's website which contains details of financial presentations to analysts and other information about the group. All shareholders have the opportunity to attend the annual general meeting. All directors were present at the 2006 annual general meeting and all (both current and to be appointed at the meeting) intend to be present at the 2007 annual general meeting to answer shareholders' questions. Details of the meeting are set out in the Notice of Meeting which is sent to shareholders, and which contains the text of resolutions to be proposed and explanatory notes, where necessary. Shareholders attending will be advised of the number of proxy votes lodged for each resolution, in the categories "for" and "against", together with the number of "votes withheld". All resolutions will be voted on by taking a poll, the results of which will be announced to the London Stock Exchange.

Significant shareholders

Interests in 3% or more of the issued share capital which have been notified to the Company, in accordance with the Articles of Association of the Company as at 12 February 2007 were as follows:

	Number of ordinary shares	Percentage of allotted share capital
Petrofac ESOP Trustees Limited	27,483,638	7.96%
Alima Trust	21,355,157	6.19%
Resolution Asset Management Limited	10,996,587	3.19%

Petrofac ESOP Trustees Limited includes certain interests of certain directors and senior employees as well as other employees. In addition to the above, Ayman Asfari and Maroun Semaan together with their respective families held significant interests, details of which are disclosed in the directors' remuneration report on page 45.

Going concern

The financial statements have been prepared on a going concern basis since the directors have reasonable expectation that, firstly, the Company's and group's activities are sustainable and, secondly, that adequate resources are available to continue in operational existence for the foreseeable future.

Directors' remuneration report

Information not subject to audit

The directors are not required under Jersey law to prepare a remuneration report but have chosen to do so. This report sets out the remuneration policy and principles under which the directors and senior managers are remunerated and details the remuneration and share interests of each director for the year ended 31 December 2006. The directors have presented this information in accordance with the Listing Rules and the United Kingdom Companies Act 1985. Shareholders will be invited to approve this report at the annual general meeting.

The committee

The Remuneration Committee is chaired by Michael Press and comprises Kjell Almskog and Bernard de Combret. None of the directors has any personal interest in the matters to be decided (other than as shareholders of the Company), any potential conflict of interest arising out of cross-directorships or any day to day involvement in the management of the group's business activities. The committee met five times during the year. It has a remit to:

- Recommend to the Board the broad policy in respect of senior executive remuneration
- Ensure that the levels of remuneration are appropriate in order to encourage enhanced performance
- Approve the design and set the targets for any annual cash bonus scheme
- Review the design of all share incentive plans before approval by the Board and shareholders and determine any performance conditions and the overall amount of such awards
- Set the remuneration of all executive directors and the Chairman

During 2006, the Group Chief Executive, Ayman Asfari, attended meetings at the invitation of the Chairman in order to provide advice on setting remuneration for other executive directors and senior management. He attended no part of a meeting at which his own remuneration was being discussed. The Group Director of Legal and Commercial Affairs, Richard Milne, also attended meetings, again at the invitation of the Chairman, to provide advice in relation to the Company's share incentive schemes. The committee has appointed Norton Rose to advise in relation to the Company's share incentive schemes and Deloitte & Touche LLP to provide independent advice on remuneration matters. Both parties provided advice throughout 2006.

Good governance

The Board and the committee consider that throughout 2006 and up to the date hereof that the Company has complied with the provisions of the Combined Code and the FSA Listing Rules.

Remuneration policy

The committee aims to establish a level of remuneration, which is sufficient to attract, retain and motivate directors and key executives of the calibre required to achieve the group's objectives; and which furthermore, reflects the size and complexity of the group's business together with an executive's individual contribution and geographical location. The committee takes advice from independent external bodies on the remuneration policies of companies whose turnover and/or business activities are similar to those of the group. Having considered this comparator group of companies, the committee generally seeks to position executives such that their overall remuneration is competitive whilst preserving the flexibility to pay above mid-market for superior results. The committee last undertook a benchmarking review in mid 2005 and intends to undertake its next review during 2007.

The committee is guided by the general principle that the overall maximum remuneration of executive directors should be split broadly equally between the following three components: basic salary; annual cash bonus; and awards under the Performance Share Plan (PSP).

Executive directors are entitled to accept up to one non-executive directorship outside and unconnected to the group provided prior permission is sought from the Board. Any fees earned from such an appointment are retained by the director.

Basic salary, cash allowances and non-cash benefits

Basic salary

Ordinarily, the committee determines an executive director's basic salary at the beginning of each year. In 2006, the rate of increase for basic salary increases for executive directors was between 5% and 7.1%.

Cash allowances

In addition to basic salary, UK resident executive directors receive a cash allowance in place of benefits including, but not limited to car allowances and pension contributions. None of the directors are eligible to receive pension contributions from the Company.

The components of executive directors' remuneration packages from 2007 will include the following elements:

Element	Purpose	Performance period	Methodology in determining award
Basic salary and cash allowances	To attract and retain	Not applicable	Role and contribution – market
Non-cash benefits	To attract and retain	Not applicable	Market standard for role and geographic location
Annual cash bonus			
• Maximum grant level of 100% of salary or 150% in exceptional circumstances	To incentivise delivery of performance goals for any financial year	One year	Award subject to achievement of financial targets and personal objectives
• Awards in respect of 2006 ranged from 100% to 150%			
Share Incentive Scheme Performance Share Plan (PSP)			
• Maximum grant level of 100% of salary or 150% in exceptional circumstances	Incentivises long-term value creation and encourages executive share ownership	Three years	50% of awards are subject to total shareholder return (TSR) ranking relative to an international peer group
• Awards made in 2006 were 75% of salary Awards made in 2007 will be 100% of salary			50% of awards are subject to an achievement of compound annual growth in Earnings Per Share (EPS)

In addition to basic salary, Maroun Semaan, as a UAE resident executive director, is required by local statute to receive a cash sum (included as part of "other long-term employment benefits" in the financial statements) from his employer on the termination of his employment within the UAE. Accordingly, the Company accrues an amount each year.

The Company introduced a cash allowance in respect of housing and transport for Maroun Semaan at the start of the year: the Company had previously paid these benefits direct on behalf of Maroun Semaan.

Non-cash benefits

All executive directors receive certain benefits-in-kind. UK resident executive directors currently receive private health insurance, life assurance and long-term disability insurance. Maroun Semaan, who is resident in the UAE, receives similar benefits as well as other benefits typical for expatriate senior executives such as education and return flights to his permanent home.

Annual cash bonus payments

The committee considers whether or not to award each executive director an annual cash bonus for the previous year in the first quarter of each year. In its deliberations, the committee considers two principal elements in determining a director's cash bonus:

- First, the extent to which the group's financial performance, and, as appropriate, the business division for which the individual director is primarily responsible, have achieved annually established budgets and targets
- Second, to what extent the individual has met personal objectives, which are agreed at the start of each year in question and which are established with the aim of achieving the group's business strategy

The committee set the maximum bonus potential at 100% of basic annual salary for achievement of corporate and personal targets but retained the ability to increase this to 150% of basic annual salary in exceptional circumstances. Cash bonus awards in respect of 2006 to executive directors ranged from 100% to 150% of salary due to exceptional performance at both group and divisional level.

Actual cash bonuses for the year are disclosed in the table set out on page 44 and taken in conjunction with awards to directors under the Company's Performance Share Plan, reflect the Remuneration Committee's assessment of each director's achievement of his objectives in 2006 and his contribution to the group's performance in the year. Details of awards to directors under the Company's Performance Share Plan are outlined on page 44 of this report.

Share incentive schemes

Deferred Bonus Share Plan (DBSP)

In 2005, executive directors and selected senior management participated in the DBSP. Under this plan, participants were invited, or in some cases required, to defer a proportion of their annual cash bonus for 2005 into Company shares although the shares were not awarded until April 2006.

It is the Company's intention that executive directors will no longer participate in the DBSP, although selected senior management will continue to do so. No awards to executive directors have been made under the plan in respect of cash bonus awards made for 2006. Details of awards to directors under the Company's DBSP are disclosed in the 2005 comparator figures in the table on page 44 of this report.

Under the plan, the shares which are acquired with a participant's cash bonus are called "Invested Shares". Following such an award, the Company will generally grant the participant an additional award over a number of shares being a specified ratio to the number of his or her invested shares and these awards are called "Matching Shares". Invested and matching share awards granted in April 2006 will vest subject to continued employment at the end of a three year period. No matching share awards were made to the executive directors in 2006, although matching shares were awarded to senior management on the basis of a 1:1 ratio.

At this year's annual general meeting, shareholders will be requested to approve a resolution to amend the DBSP rules such that, subject to approval by the Remuneration Committee, invested and matching share awards granted going forward (including any grants made in 2007 prior to the passing of the resolution) will vest one-third on the first anniversary of grant; two-thirds on the second anniversary of grant and three-thirds on the third anniversary of grant. If executive directors are considered for DBSP participation in future years, the Company undertakes not to make matching awards to directors, unless such awards are subject to suitably stretching performance conditions and a deferral period of at least three years.

Performance Share Plan

Under the PSP, executive directors and a restricted number of other senior executives may receive performance related share awards on an annual basis. Participants are granted contingent awards to receive ordinary shares in the Company which will in normal circumstances vest after three years subject to the continued employment of the participant and to the extent that performance conditions have been satisfied. Three years was selected as the performance period under the PSP, as it is considered to be an appropriate long-term time horizon for both performance measurement and retention.

The initial market value of the shares over which any such award is made to any participant in any financial year may not exceed 100% of basic annual salary or, in circumstances which the committee deems to be exceptional, 150% of basic annual salary.

The committee believes that PSP performance conditions should strike a balance between achieving alignment with ultimate shareholder returns and reward for delivery of strong underlying performance, the latter being more directly under the control of senior management.

As the Company was listed in October 2005 and the first awards were made in 2006, the committee did not deem it appropriate to review share scheme arrangements at this time.

Vesting of PSP grants made in 2006 were made subject to two performance measures:

i) Total Shareholder Return (TSR) relative to an index against a comparator group of 17 UK and international companies for 50% of the award; and
ii) Earnings Per Share (EPS) growth relative to predefined targets for 50% of the award.

The committee believes that relative TSR remains the best measure of the Company's ultimate delivery of shareholder returns and that EPS is the internal financial measure that is most closely linked to value creation in an oil & gas services business.

TSR is the percentage return in a given period to a purchaser of an

ordinary share in the Company arising from share price appreciation and reinvestment of dividends. The Company's TSR performance over a three year period, calculated in a common currency, is ranked against the TSR of the comparator group (as at the date of each grant), and vesting is in line with the following scale:

TSR relative to index of comparator group	Percentage of TSR element of award vesting
Less than index	0%
Equal to index	30%
More than index by up to 25%	Straight-line vesting between 30% and 100%
More than index by 25% or more	100%

1 Vesting is subject to achievement of EPS growth over the period of at least RPI plus 3% over the three year vesting period.
2 The companies from which the comparator index is composed are as follows: Abbot Group PLC; Aker Kvaerner ASA; AMEC PLC; Helix Energy Solutions Group, Inc (formerly Cal Dive International Inc); Chicago Bridge & Iron Co NV; Entrepose Contracting; Expro International Group PLC; Halliburton Co; JGC Corp; Saipem SpA; Schlumberger Limited; SNC-Lavalin Group Inc; Technip SA; Wood Group (John) plc; Fluor Corporation; Foster Wheeler Limited; WorleyParsons Limited and for grants made in 2007, Tecnicas Reunidas SA.
3 The committee is authorised under the rules of the PSP to make retrospective adjustments to the comparator index for any year of award in the event that one or more of the constituent companies are subject to any of the following: de-listing; merger; acquisition or other such event.

EPS is the earnings (which excludes dividends), in pence, attributable to one ordinary share. The Company's EPS performance over a three year period is calculated and vesting is in line with the following scale:

EPS compound annual growth over three year period	Percentage of EPS element of award vesting
15% or less	0%
More than 15% but less than 20%	Straight-line vesting between 0% and 30%
20%	30%
More than 20% but less than 25%	Straight-line vesting between 30% and 100%
25% or more	100%

Other senior executives, management and all-employee schemes
As part of its oversight role, the committee has considered the following two schemes.

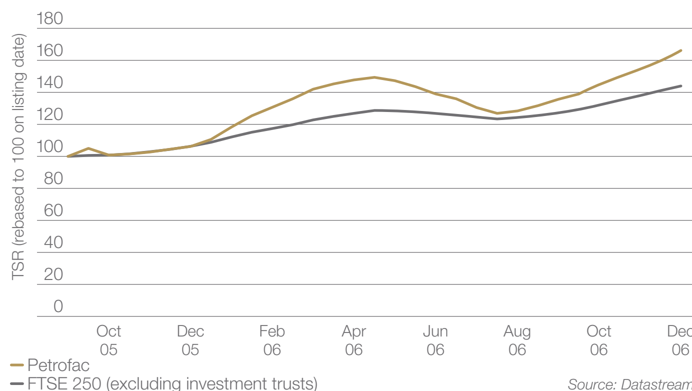
Restricted Share Plan (RSP)
During the year, the committee recommended that the Board approve the introduction of an RSP, which the Board subsequently agreed. Shareholders were not required to approve the scheme for two reasons: first, executive directors are not eligible to participate in the scheme due to the absence of performance conditions attached to the awards of shares; and second, the Company will not issue new shares to satisfy awards under this scheme. Under the RSP, selected employees are made grants of shares on an ad hoc basis throughout the year. The Board approved the adoption of the RSP in July 2006 on the recommendation of the committee. The committee intends that the scheme is used primarily but not exclusively to make awards to individuals who join the group part way through the year, having left accrued benefits with a previous employer.

The Petrofac approved Share Incentive Plan (SIP)
Under the SIP, all UK employees, including UK resident directors, may invest up to £1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares. There is no holding period for these shares.

The group operated two share participation schemes prior to the Company's admission to listing in 2005. Awards made under the two schemes vested in full either before or at the time of the Company's admission to listing on the London Stock Exchange. The schemes have now been cancelled and no further awards will be made under them.

Performance graph
The Company's TSR is defined as the Company's share price growth plus any dividends used to acquire further shares in Petrofac. For shareholders' information, the Company's TSR performance since the Company was admitted to listing on the London Stock Exchange in October 2005 is shown on the graph below compared with the performance achieved by the FTSE 250 Index, which the committee believes is the most relevant benchmark to allow a meaningful assessment of the Company's performance.

Graph showing TSR performance of Petrofac measured against the FTSE 250 Index from listing date to 31 December 2006 (three month average)



Source: Datastream

Executive directors' service contracts

Each of the executive directors has a 12 month rolling service contract with the Company and is contractually restricted to a termination payment equal to 12 months' salary and benefits. None of the executive directors is currently subject to a contractual retirement date. Details of the directors' service contracts are disclosed in the table below:

Name of executive director	Date of service contract (and date first appointed)	Last re-elected	Next due for re-election	Number of months' notice Company	Director
Ayman Asfari	13 September 2005 (11 January 2002)	2006 AGM[1]	2008 AGM	12	12
Keith Roberts	13 September 2005 (6 April 2002)	2006 AGM[1]	2008 AGM	12	12
Maroun Semaan	13 September 2005 (11 January 2002)	2006 AGM[1]	2009 AGM	12	12

1 Ayman Asfari, Keith Roberts and Maroun Semaan were appointed directors by the Board prior to the Company's admission to the London Stock Exchange. Under the Company's constitution prior to listing, directors were not required to stand for election and re-election in general meeting as a consequence of which none of the above mentioned directors had been appointed by shareholders prior to their re-election at the 2006 AGM.

Non-executive directors

Details of current individual non-executive directors' contracts for services are given in the table below. These directors are not part of any pension, bonus or share incentive scheme of the Company or group. Directors are subject to re-election at least every three years and are typically expected to serve two three year terms. None of the non-executive directors has a service contract and none is entitled to compensation on leaving the Board save that, if requested to resign, the Chairman and each non-executive director is entitled to receive prior notice or fees in lieu of notice as in the table below.

Name of director	Date of latest letter of appointment (and date first appointed)	Last re-elected	Next due for re-election	Required notice from Company (in months)
Rodney Chase	13 September 2005 (21 June 2005)	15 September 2005[1]	2008 AGM	3
Kjell Almskog	13 September 2005 (23 March 2005)	n/a[2]	2007 AGM	3
Bernard de Combret	13 September 2005 (19 November 2003)	n/a[2]	2007 AGM	3
Michael Press	13 September 2005 (30 April 2002)	n/a[2]	2007 AGM	3

1 Rodney Chase's appointment as a director was approved by shareholder resolution prior to the Company's admission to listing on the London Stock Exchange.
2 Kjell Almskog, Bernard de Combret and Michael Press were appointed directors by the Board prior to the Company's admission to the London Stock Exchange. Under the Company's constitution prior to listing, directors were not required to stand for election and re-election in general meeting as a consequence of which none of the above mentioned directors has previously been appointed by shareholders. They will submit themselves for re-election at the 2007 AGM.

During the year, with the exception of the Chairman, non-executive directors were paid a basic annual fee of £37,000 for their role on the Board and a further annual fee of £5,000 per chairmanship of a committee, if applicable. The Board as a whole is responsible for deciding non-executive directors' fees unless such fees exceed £500,000 in aggregate, in which case shareholder approval in general meeting would be sought. In early 2007, having instructed Deloitte & Touche LLP to undertake a benchmarking exercise, the Board agreed that with effect from 1 January 2007, non-executive directors would be remunerated as follows:

- A basic annual fee of £42,000
- An annual committee chairmanship fee of £6,000 per committee

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The Chairman's fee is all inclusive. During the year, the Remuneration Committee increased his annual fee from £100,000 to £105,000, having considered that his time commitment is higher than anticipated at the time of his appointment.

Information subject to audit – prepared in accordance with Schedule 7A of the UK Companies Act 1985

Amount of each director's emoluments in the relevant financial year

The remuneration of each director in 2006 (with 2005 comparison) comprised:

	Salaries and fees US$'000	Cash allowances US$'000[1]	Benefits US$'000	Cash bonus US$'000	**2006 total US$'000**	2005 total US$'000[2]
Executive directors						
Ayman Asfari	582	37	1	739	**1,359**	1,315
Amjad Bseisu[3]	–	–	–	–	**–**	467
Robin Pinchbeck[3]	–	–	–	–	**–**	423
Keith Roberts	388	28	1	388	**805**	763
Maroun Semaan	300	133	32	450	**915**	747
Mike Stacey[3]	–	–	–	–	**–**	224
Non-executive directors						
Rodney Chase	190	–	–	–	**190**	102
Kjell Almskog	69	–	–	–	**69**	43
Bernard de Combret	78	–	–	–	**78**	63
Michael Press	78	–	–	–	**78**	59
	1,685	198	34	1,577	**3,494**	4,206

1 Payment in lieu of pension allowance and other benefits for UK resident directors and other long-term employment benefits and various allowances for the UAE resident director. None of the directors is eligible to receive pension contributions from the Company.
2 Robin Pinchbeck and Keith Roberts received an award of shares under the DBSP as part of their respective bonuses for 2005. This was disclosed outside the table of directors' emoluments in the 2005 annual report but has been included within the 2005 aggregate figures disclosed here. Robin Pinchbeck received US$100,000 of invested shares and Keith Roberts received £100,000 of invested shares. The shares were awarded in April 2006. Robin Pinchbeck was awarded 17,802 shares and Keith Roberts was awarded 31,153 shares and both awards will vest in April 2009. Neither individual received any matching shares.
3 Amjad Bseisu, Robin Pinchbeck and Mike Stacey resigned from the Board on 13 September 2005. None of them served as directors during 2006.
4 UK based directors are paid in Sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts paid either as cash or share awards under the DBSP, which have been translated using the average exchange rate for the year.

Awards of shares under the PSP

Awards of shares during the year to executive directors under the PSP are disclosed in the table below:

Name of executive director	Interest in shares at 1 January 2006	Interest in shares awarded during the year[1]	**Interest in at shares 31 December 2006[2]**	End of qualifying period	Market price on date of award
Ayman Asfari	–	70,093	**70,093**	April 2009	353p
Keith Roberts	–	46,729	**46,729**	April 2009	353p
Maroun Semaan	–	37,383	**37,383**	April 2009	353p

1 The PSP was introduced in 2005. The first awards under the PSP were made in April 2006.
2 The interest shown for each director is the maximum shares which can be awarded at the end of the three year vesting period from the date of grant.
3 The performance conditions under which these awards would vest in full are explained on pages 41 and 42.
4 No shares awarded to executive directors under the PSP have either lapsed or vested during the year.
5 Awards will be made in 2007 as follows: Ayman Asfari £360,000; Keith Roberts £220,000; and Maroun Semaan US$330,000.

Sums paid to third parties in respect of executive directors' services

No sums were paid to third parties in respect of any executive director's services.

Directors’ beneficial shareholdings at 31 December 2006

Directors’ personal shareholdings, which include family interests and which are not related to their remuneration, are as follows:

	Number of shares as at 31 December 2006	Number of shares as at 31 December 2005
Executive directors		
Ayman Asfari	**69,282,114**	69,282,114
Keith Roberts	**3,120,000**	3,120,000
Maroun Semaan	**34,068,799**	34,068,799
Non-executive directors		
Rodney Chase	**1,000,000**	1,000,000
Kjell Almskog	**400,000**	400,000
Bernard de Combret	**600,000**	600,000
Michael Press	**240,000**	240,000

The Company’s share price at the end of the financial year was 403 pence and the market price during the year was in the range 235 pence to 403 pence.

Other earnings by directors

Keith Roberts received fees of £2,862 in 2006 (2005: £33,512) for his non-executive directorship of The Peacock Group plc, which he retained. Keith Roberts resigned from this board on 13 January 2006 following the de-listing of that company.

Changes since the year end

There have been no changes since the year end to the information disclosed in this report.

Annual general meeting approval

The remuneration report will be submitted for approval to the annual general meeting to be held on Friday, 11 May 2007.

On behalf of the Board

Michael Press
Chairman of the Remuneration Committee
2 March 2007

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable Jersey law and generally accepted accounting principles.

Jersey 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 these financial statements, the directors should:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- 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 enable them to ensure that the financial statements comply with the Law. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the shareholders of Petrofac Limited

We have audited the group financial statements of Petrofac Limited ("the Company") and its subsidiaries (together "the group") for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 34. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the section of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991 and the terms of our letter of engagement. 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 responsibility of directors and auditors

The directors are responsible for preparing the annual report and the group financial statements in accordance with applicable Jersey law as set out in the statement of directors' responsibilities. The directors are also responsible for the preparation of the directors' remuneration report, which they have chosen to prepare.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The Company has also instructed us to audit the section of the directors' remuneration report that has been described as audited.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We report to you our opinion as to whether the section of the directors' remuneration report that has been described as audited has been properly prepared in accordance with the basis of preparation described therein.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises the Chairman's statement, the operating and financial review, the corporate governance report and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report that has been described as audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group financial statements and the part of the directors' remuneration report to be audited 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 group financial statements and the section of the directors' remuneration report that has been described as audited.

Opinion

In our opinion:

- The group financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended
- The group financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991
- The section of the directors' remuneration report to be audited has been properly prepared in accordance with the basis of preparation as described therein

Ernst & Young LLP
Registered auditor
London

2 March 2007

1. The maintenance and integrity of the Petrofac Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2006

	Notes	2006 US$'000	2005 US$'000
Continuing operations			
Revenue	4a	**1,863,873**	1,485,472
Cost of sales	4b	**(1,593,462)**	(1,324,673)
Gross profit		**270,411**	160,799
Selling, general and administration expenses	4e	**(103,029)**	(74,928)
Other income	4c	**4,870**	5,223
Other expenses	4d	**(1,133)**	(2,491)
Profit from continuing operations before tax and finance income/(costs)		**171,119**	88,603
Finance costs	5	**(7,168)**	(8,448)
Finance income	5	**9,296**	3,193
Profit before tax		**173,247**	83,348
Income tax expense – UK		**(13,886)**	(7,106)
– Overseas		**(37,454)**	(845)
	6	**(51,340)**	(7,951)
Profit for the year from continuing operations		**121,907**	75,397
Discontinued operations			
Loss for the year from discontinued operations	7	**(1,575)**	(815)
Profit for the year		**120,332**	74,582
Attributable to:			
Petrofac Limited shareholders		**120,332**	74,582
Minority interests		**–**	–
		120,332	74,582
Earnings per share (US cents)	8		
From continuing and discontinued operations:			
Basic		**34.98**	24.52
Diluted		**34.87**	22.17
From continuing operations:			
Basic		**35.44**	24.79
Diluted		**35.32**	22.41

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated balance sheet
At 31 December 2006

	Notes	2006 US$'000	2005 US$'000
Assets			
Non-current assets			
Property, plant and equipment	10	**143,176**	120,431
Goodwill	12	**56,732**	49,183
Intangible assets	13	**17,959**	2,982
Available-for-sale financial assets	15	**1,726**	2,413
Other financial assets	16	**1,947**	680
Deferred income tax assets	6c	**2,902**	5,576
		224,442	181,265
Current assets			
Inventories	17	**1,943**	1,156
Work in progress	18	**367,869**	235,047
Trade and other receivables	19	**330,515**	325,716
Due from related parties	31	**7,725**	28,402
Other financial assets	16	**10,133**	4,501
Cash and short-term deposits	20	**457,848**	208,896
		1,176,033	803,718
Assets of discontinued operations classified as held for sale	7	**1,372**	1,667
Total assets		**1,401,847**	986,650
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	21	**8,629**	8,629
Share premium		**66,210**	66,210
Capital redemption reserve		**10,881**	10,881
Treasury shares	22	**(8,144)**	(17)
Other reserves	24	**19,611**	(12,426)
Retained earnings		**227,508**	121,850
		324,695	195,127
Minority interests		**209**	–
Total equity		**324,904**	195,127
Non-current liabilities			
Interest-bearing loans and borrowings	25	**90,705**	76,187
Provisions	26	**12,498**	8,284
Other financial liabilities	27	**7,373**	1,222
Deferred income tax liabilities	6c	**2,794**	3,121
		113,370	88,814
Current liabilities			
Trade and other payables	28	**346,706**	219,425
Due to related parties	31	**182**	1,335
Interest-bearing loans and borrowings	25	**26,475**	30,683
Other financial liabilities	27	**172**	15,810
Income tax payable		**33,045**	2,210
Billings in excess of cost and estimated earnings	18	**124,990**	69,776
Accrued contract expenses	29	**432,003**	363,470
		963,573	702,709
Total liabilities		**1,076,943**	791,523
Total equity and liabilities		**1,401,847**	986,650

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2006

	Notes	2006 US$'000	2005 US$'000
Operating activities			
Profit/(loss) before income taxes and minority interest			
Continuing operations		**173,247**	83,348
Discontinued operations	7	**(1,575)**	(815)
		171,672	82,533
Adjustments for:			
Depreciation, amortisation and impairment		**28,807**	27,281
Share-based payments	4f	**1,281**	897
Difference between other long-term employment benefits paid and amounts recognised in the income statement		**3,082**	2,372
Finance (income) costs, net		**(2,128)**	5,255
Gain on disposal of investments	4c	**(1,671)**	(2,390)
Gain on disposal of property, plant and equipment	4b, 4c	**(11,681)**	(271)
Other non-cash items, net		**1,203**	(1,815)
Operating profit before working capital changes		**190,565**	113,862
Trade and other receivables		**(2,355)**	(106,794)
Work in progress		**(132,822)**	(126,010)
Due from related parties		**20,677**	(7,513)
Inventories		**(787)**	546
Current financial assets		**983**	15,121
Trade and other payables		**129,896**	61,010
Billings in excess of cost and estimated earnings		**55,214**	(2,379)
Accrued contract expenses		**68,533**	184,462
Due to related parties		**(1,153)**	(118)
Current financial liabilities		**–**	4,261
		328,751	136,448
Other non-current items, net		**(139)**	(4,022)
Cash generated from operations		**328,612**	132,426
Interest paid		**(7,848)**	(9,097)
Income taxes paid, net		**(19,087)**	(15,085)
Net cash flows from operating activities		**301,677**	108,244
Of which discontinued operations		***(416)***	*(619)*

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated cash flow statement (continued)

For the year ended 31 December 2006

	Notes	**2006 US$'000**	2005 US$'000
Investing activities			
Purchase of property, plant and equipment		**(58,332)**	(17,556)
Acquisition of subsidiaries, net of cash acquired	11	**(3,865)**	(4,073)
Purchase of minority interest	11	**–**	(1,644)
Purchase of intangible oil & gas assets		**(6,187)**	(3,079)
Purchase of available-for-sale financial assets		**(501)**	(691)
Proceeds from disposal of property, plant and equipment		**22,823**	647
Proceeds from disposal of assets of discontinued operations classified as held for sale		**–**	1,832
Proceeds from disposal of available-for-sale financial assets		**2,250**	4,545
Net foreign exchange differences		**1,366**	(135)
Interest received		**7,927**	3,442
Net cash flows used in investing activities		**(34,519)**	(16,712)
Of which discontinued operations		**2**	*1,892*
Financing activities			
Proceeds from interest-bearing loans and borrowings		**766**	28,339
Repayment of interest-bearing loans and borrowings		**(10,361)**	(32,026)
Purchase of derivative financial instruments		**–**	(689)
Shareholders loan note transactions, net		**198**	4,968
Transactions with employee share plans, net		**–**	537
Treasury shares purchased	22	**(8,127)**	–
Exercise of option to acquire group shares	11	**–**	(2,400)
Equity dividends paid		**(15,069)**	(15,243)
Net cash flows used in financing activities		**(32,593)**	(16,514)
Of which discontinued operations		**–**	–
Net increase in cash and cash equivalents		**234,565**	75,018
Cash and cash equivalents at 1 January		**202,841**	127,823
Cash and cash equivalents at 31 December	20	**437,406**	202,841

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2006

	Attributable to shareholders of Petrofac Limited								
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Treasury shares US$'000	Other reserves (note 24) US$'000	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2006	8,629	66,210	10,881	(17)	(12,426)	121,850	195,127	–	195,127
Foreign currency translation	–	–	–	–	7,449	–	7,449	–	7,449
Net gain on maturity of cash flow hedges recognised in income statement	–	–	–	–	(2,378)	–	(2,378)	–	(2,378)
Net changes in fair value of derivatives	–	–	–	–	22,931	–	22,931	–	22,931
Realised gains on the sale of available-for-sale financial assets recognised in income statement	–	–	–	–	(1,671)	–	(1,671)	–	(1,671)
Net changes in the fair value of available-for-sale financial assets	–	–	–	–	1,062	–	1,062	–	1,062
Transfer to reserve for share-based payments	–	–	–	–	4,644	–	4,644	–	4,644
Total income and expenses for the year recognised in equity	–	–	–	–	32,037	–	32,037	–	32,037
Net profit for the year	–	–	–	–	–	120,332	120,332	–	120,332
Total income and expenses for the year	–	–	–	–	32,037	120,332	152,369	–	152,369
Treasury shares (note 22)	–	–	–	(8,127)	–	–	(8,127)	–	(8,127)
Dividends (note 9)	–	–	–	–	–	(14,674)	(14,674)	–	(14,674)
Minority interests acquired (note 11)	–	–	–	–	–	–	–	209	209
Balance at 31 December 2006	**8,629**	**66,210**	**10,881**	**(8,144)**	**19,611**	**227,508**	**324,695**	**209**	**324,904**

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2006

	Attributable to shareholders of Petrofac Limited								
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Treasury shares US$'000	Other reserves (note 24) US$'000	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2005	7,166	28,553	10,881	–	27,047	64,911	138,558	–	138,558
Foreign currency translation	–	–	–	–	(4,248)	–	(4,248)	–	(4,248)
Net gain on maturity of cash flow hedges recognised in income statement	–	–	–	–	(5,628)	–	(5,628)	–	(5,628)
Net changes in fair value of derivatives	–	–	–	–	(28,549)	–	(28,549)	–	(28,549)
Realised gains on the sale of available-for-sale financial assets recognised in income statement	–	–	–	–	(2,390)	–	(2,390)	–	(2,390)
Net changes in the fair value of available-for-sale financial assets	–	–	–	–	1,342	–	1,342	–	1,342
Total income and expenses for the year recognised in equity	–	–	–	–	(39,473)	–	(39,473)	–	(39,473)
Net profit for the year	–	–	–	–	–	74,582	74,582	–	74,582
Total income and expenses for the year	–	–	–	–	(39,473)	74,582	35,109	–	35,109
Petrofac Employee Share Ownership Plan transactions, net	65	1,398	–	(17)	–	–	1,446	–	1,446
Conversion of debt instruments	1,398	36,259	–	–	–	–	37,657	–	37,657
Exercise of option to acquire group shares (note 11)	–	–	–	–	–	(2,400)	(2,400)	–	(2,400)
Dividends (note 9)	–	–	–	–	–	(15,243)	(15,243)	–	(15,243)
Balance at 31 December 2005	8,629	66,210	10,881	(17)	(12,426)	121,850	195,127	–	195,127

The attached notes 1 to 34 form part of these consolidated financial statements.

1 Corporate information

The consolidated financial statements of Petrofac Limited (the Company) for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 2 March 2007.

Petrofac Limited is a limited liability company registered in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together "the group"). The group's principal activity is the provision of facilities solutions to the oil & gas production and processing industry.

A full listing of all group companies, including joint venture companies, is contained in note 34 to these consolidated financial statements.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The presentation currency of the consolidated financial statements is United States dollars (US$), as a significant proportion of the group's assets, liabilities, income and expenses are US$ denominated. The consolidated financial statements are presented in US$ and all values are rounded to the nearest thousand (US$'000) except where otherwise stated.

Statement of compliance

The consolidated financial statements of Petrofac Limited and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as the Company and where necessary adjustments are made to the financial statements of the group's subsidiaries to bring their accounting policies into line with those of the group.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Minority interests in subsidiaries consolidated by the group are disclosed separately from the group's equity and income statement. Losses attributable to minority in excess of minority's interest in net assets of the subsidiary are adjusted against the interest of the group unless there is a binding obligation on the part of the minority to contribute additional investment in the subsidiary.

Accounting policies

The group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IFRS 6 "Exploration for and Evaluation of Mineral Resources"

The group has adopted IFRS 6 "Exploration for and Evaluation of Mineral Resources" with effect from 1 January 2006. IFRS 6 prescribes guidelines relating to the measurement and recognition of exploration and evaluation expenditures.

The adoption of IFRS 6 does not affect the group's operating results or financial position as its policy for capitalisation of acquisition and appraisal expenditures is consistent with IFRS 6.

IFRIC 4 "Determining whether an Arrangement Contains a Lease"

The group has also adopted IFRIC 4 "Determining whether an Arrangement Contains a Lease" with effect from 1 January 2006 which did not have any impact on the current and the prior year financial position of the group.

At the date of authorisation of the financial statements, the following Standards and Interpretations, which were in issue but not yet effective, have not been applied in these financial statements:

IAS 1 Amendments – Capital disclosures
IFRS 7 Financial instruments: Disclosures
IFRS 8 Operating Segments
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
IFRIC 12 Service Concession Arrangements

The group anticipates that the adoption of the above Standards and Interpretations will not have any material impact on the financial statements of future periods as most of them do not apply to the group's business, except for additional disclosures of the group's capital management policies and financial instruments as a result of adoption of IAS 1 Amendments – Capital disclosures and IFRS 7 – Financial instruments: Disclosures, from periods beginning 1 January 2007.

Significant accounting judgements and estimates

Judgements

In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

- Petrofac Resources (Ohanet) Jersey Limited (Petrofac Ohanet): the group acquired Petrofac Ohanet on 27 May 2005. Prior to its acquisition, the group consolidated Petrofac Ohanet in its consolidated financial statements as it determined it held significant operating and financial control over the company

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the group recognises revenue on fixed price engineering, procurement and construction contracts on the percentage-of-completion method, based on surveys of work performed. The group has determined this basis of revenue recognition is the best available measure of progress on such contracts

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Project cost to complete estimates: at each balance sheet date the group is required to estimate costs to complete on fixed price contracts. Estimating costs to complete on such contracts requires the group to make estimates of future costs to be incurred, based on work to be performed beyond the balance sheet date
- Impairment of goodwill: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was US$56,732,000 (2005: US$49,183,000)
- Deferred tax assets: the group recognises deferred tax assets on unused tax losses where it is probable that future profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised as well as the timing of the future profits. The carrying amount of recognised tax losses at 31 December 2006 was US$1,851,000 (2005: US$4,235,000)

Interests in joint ventures

The group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities ("jointly controlled entities") and commercial collaborations ("jointly controlled operations"). The group's interests in jointly controlled entities are accounted for by proportionate consolidation, which involves recognising its proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Where the group collaborates with other entities in jointly controlled operations, the expenses the group incurs and its share of the revenue earned is recognised in the income statement. Assets controlled by the group and liabilities incurred by it are recognised in the balance sheet.

Where necessary, adjustments are made to the financial statements of the group's jointly controlled entities and operations to bring their accounting policies into line with those of the group.

Transactions in foreign currencies

In the accounts of individual group companies, transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. All foreign exchange gains and losses are taken to the income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the group's net investment in subsidiaries. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement.

Foreign group companies

The balance sheets of overseas subsidiaries and joint ventures are translated using the closing rate method, whereby assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. The income statements of overseas subsidiaries and joint ventures are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis at the following rates:

Oil & gas assets	unit-of-production
Oil & gas facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33% (or shorter of the lease term)
Office furniture and equipment	25% – 100%
Vehicles	20% – 33%

No depreciation is charged on land or assets under construction.

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the income statement in the period in which they are incurred.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

2 Summary of significant accounting policies (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Intangible assets

Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful economic life using a straight-line method unless a better method reflecting the pattern in which the assets future economic benefits are expected to be consumed can be determined. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Customer contracts

Customer contracts arising from acquisition are amortised over the remaining years of the contracts on a straight-line basis.

Oil & gas assets

Capitalised costs

The group's activities in relation to oil & gas assets are limited to acquisition, appraisal and development. The group does not undertake oil & gas exploration activities.

The group follows the successful efforts method of accounting for oil & gas assets, under which expenditure relating to the acquisition and appraisal of oil & gas interests, including an appropriate share of directly attributable overheads and relevant financing costs, are initially capitalised at cost as intangible assets, pending determination of commercial reserves.

Intangible oil & gas assets

Intangible oil & gas assets are carried forward, on a field-by-field basis, until declared part of a commercial development, at which point the relevant total cost is transferred to tangible oil & gas assets. All intangible oil & gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the income statement. Costs relating to unsuccessful appraisals are charged to the income statement in the period in which the determination is made.

Tangible oil & gas assets

Tangible oil & gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proved reserves, taking account of estimated future development expenditure relating to those reserves.

The group utilises proved reserves estimates in performing impairment testing on its oil & gas assets.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

Decommissioning

Provision for future decommissioning costs is made in full when the group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proved reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil & gas asset.

The unwinding of the discount of future decommissioning provisions is included as a separate financial item in the income statement under finance costs.

Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at fair value, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Impairment of assets (excluding goodwill)

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories
Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

Work in progress and billings in excess of cost and estimated earnings
Work in progress is stated at cost and estimated earnings less provision for any anticipated losses and progress payments received or receivable. Where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as billings in excess of cost and estimated earnings within current liabilities.

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

A proportion of the group's trading cycle is on average more than 12 months due to the long-term nature of the contracts undertaken. Retentions relating to contract receivables are presented as a current asset although they may not be recovered within twelve months of the balance sheet date.

Cash and cash equivalents
Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings
All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Provisions
Provisions are recognised when the group 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.

Derecognition of financial assets and liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset) is derecognised where:
- The rights to receive cash flows from the asset have expired
- The group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement
- The group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

Pensions and other long-term employment benefits
The group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

Other long-term employment benefits are provided in accordance with the labour laws of the countries in which the group operates, further details of which are given in note 26.

Share-based payment transactions
Employees (including directors) of the group 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").

2 Summary of significant accounting policies (continued)

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 date"). 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 group'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 is recognised in the income statement.

The group has taken advantage of the transitional provisions of IFRS 2 "Share-based payment" in respect of equity-settled awards and has applied IFRS 2 "Share-based payment" only to equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Employee Share Ownership Plan (ESOP)

Through Petrofac ESOP, the Company temporarily warehouses ordinary shares that are expected, in the foreseeable future, to be offered to new or existing employees (including directors). The cost of shares temporarily held by Petrofac ESOP are reflected as treasury shares and deducted from equity. Petrofac ESOP acquires shares from the Company at fair value and the Company extends an interest free loan to Petrofac ESOP to acquire these shares. The effects of share issue and repurchase transactions arising within Petrofac ESOP are taken directly to equity.

Petrofac Employee Benefit Trust

The Petrofac Employee Benefit Trust was established on 7 March 2006 to warehouse ordinary shares purchased as a result of various new share scheme awards made to the employees of the Company, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trust has been consolidated in the financial statements in accordance with SIC 12 "Special Purpose Entities". The cost of shares temporarily held by Petrofac Employee Benefit Trust are reflected as treasury shares and deducted from equity.

Leases

The group has entered into various operating leases the payments for which are recognised as an expense in the income statement on a straight-line basis over the lease terms.

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

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:

Engineering, procurement and construction services (Engineering & Construction)

Revenues from fixed-price lump-sum contracts are recognised on the percentage-of-completion method, based on surveys of work performed when 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.

Facilities management, engineering and training services (Operations Services)

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

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

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.

Oil & gas activities (Resources)

Oil & gas revenues comprise the group's share of sales from the processing or sale of hydrocarbons on an entitlement basis.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- Deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

Derivative financial instruments and hedging

The group uses derivative financial instruments such as forward currency contracts and interest rate caps and swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate cap and swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of hedging relationship, as follows:

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity.

The group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the group revokes the designation.

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

3 Segment information

The group's primary continuing operations are organised on a worldwide basis into three business segments: Engineering & Construction, Operations Services and Resources. The accounting policies of the segments are the same as those described in note 2 above. The group accounts for inter-segment sales as if the sales were to third parties, that is, at current market prices. The group evaluates the performance of its segments and allocates resources to them based on this evaluation.

The group's secondary segment reporting format is geographical. Geographical segments are based on the location of the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Business segments

The following tables present revenue and profit information and certain asset and liability information relating to the group's business segments for the years ended 31 December 2006 and 2005. Included within the corporate, consolidation and eliminations columns are certain balances, which due to their nature, are not allocated to segments.

Year ended 31 December 2006

	Continuing operations							
	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Corporate US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000	Discontinued operations US$'000	Total operations US$'000
Revenue								
External sales	1,079,236	722,850	62,125	–	(338)	1,863,873	33	1,863,906
Inter-segment sales	2,043	6,390	–	–	(8,433)	–	–	–
Total revenue	**1,081,279**	**729,240**	**62,125**	**–**	**(8,771)**	**1,863,873**	**33**	**1,863,906**
Results								
Segment operating results	117,209	29,100	25,065	–	707	172,081	(1,577)	170,504
Unallocated corporate costs	–	–	–	(962)	–	(962)	–	(962)
Profit/(loss) before tax and finance income/(costs)	117,209	29,100	25,065	(962)	707	171,119	(1,577)	169,542
Finance costs	(347)	(2,754)	(470)	(8,042)	4,445	(7,168)	–	(7,168)
Finance income	10,040	438	236	3,027	(4,445)	9,296	2	9,298
Profit/(loss) before income tax	126,902	26,784	24,831	(5,977)	707	173,247	(1,575)	171,672
Income tax (expense)/income	(31,522)	(8,681)	(10,466)	(707)	36	(51,340)	–	(51,340)
Profit/(loss) for the year	**95,380**	**18,103**	**14,365**	**(6,684)**	**743**	**121,907**	**(1,575)**	**120,332**

Year ended 31 December 2005

	Continuing operations							
	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Corporate US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000	Discontinued operations US$'000	Total operations US$'000
Revenue								
External sales	833,648	605,493	46,331	–	–	1,485,472	204	1,485,676
Inter-segment sales	24,558	(162)	–	–	(24,396)	–	–	–
Total revenue	858,206	605,331	46,331	–	(24,396)	1,485,472	204	1,485,676
Results								
Segment operating results	52,592	25,250	18,495	–	740	97,077	(875)	96,202
Unallocated corporate costs	–	–	–	(8,474)	–	(8,474)	–	(8,474)
Profit/(loss) before tax and finance income/(costs)	52,592	25,250	18,495	(8,474)	740	88,603	(875)	87,728
Finance costs	(166)	(2,043)	(986)	(7,782)	2,529	(8,448)	–	(8,448)
Finance income	4,023	82	129	1,488	(2,529)	3,193	60	3,253
Profit/(loss) before income tax	56,449	23,289	17,638	(14,768)	740	83,348	(815)	82,533
Income tax (expense)/income	(1,386)	(7,711)	683	463	–	(7,951)	–	(7,951)
Profit/(loss) for the year	55,063	15,578	18,321	(14,305)	740	75,397	(815)	74,582

Year ended 31 December 2006

	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Corporate US$'000	Discontinued operations US$'000	Consolidation adjustments & eliminations US$'000	Total operations US$'000
Assets and liabilities							
Segment assets	1,017,978	284,308	136,080	–	2,885	(66,824)	1,374,427
Inter-segment assets	(63,221)	(3,418)	–	–	(185)	66,824	–
Investments	–	–	1,726	–	–	–	1,726
	954,757	280,890	137,806	–	2,700	–	1,376,153
Unallocated assets	–	–	–	22,792	–	–	22,792
Income tax assets	3,849	628	3,679	995	–	(6,249)	2,902
Total assets	**958,606**	**281,518**	**141,485**	**23,787**	**2,700**	**(6,249)**	**1,401,847**
Segment liabilities	774,632	185,164	109,182	–	26,934	(155,622)	940,290
Inter-segment liabilities	(10,898)	(32,398)	(86,787)	–	(25,539)	155,622	–
	763,734	152,766	22,395	–	1,395	–	940,290
Unallocated liabilities	–	–	–	100,814	–	–	100,814
Income tax liabilities	30,181	8,289	2,118	500	–	(5,249)	35,839
Total liabilities	**793,915**	**161,055**	**24,513**	**101,314**	**1,395**	**(5,249)**	**1,076,943**
Other segment information							
Capital expenditures							
Property, plant and equipment	35,411	4,702	17,888	1,446	–	–	59,447
Intangible oil & gas assets	–	–	12,926	–	–	–	12,926
Other intangible assets	–	1,561	–	–	–	–	1,561
Goodwill	–	668	–	–	–	–	668
Charges							
Depreciation	10,049	3,433	15,042	402	–	(804)	28,122
Amortisation	–	390	–	–	–	–	390
Impairment losses	–	–	–	–	295	–	295
Other long-term employment benefits	3,814	430	67	(7)	–	–	4,304
Share-based payments	358	287	65	571	–	–	1,281

3 Segment information (continued)

Year ended 31 December 2005

	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Corporate US$'000	Discontinued operations US$'000	Consolidation adjustments & eliminations US$'000	Total operations US$'000
Assets and liabilities							
Segment assets	700,186	205,160	113,071	–	2,961	(45,875)	975,503
Inter-segment assets	(42,964)	(2,774)	(33)	–	(104)	45,875	–
Investments	–	–	2,413	–	–	–	2,413
	657,222	202,386	115,451	–	2,857	–	977,916
Unallocated assets	–	–	–	3,158	–	–	3,158
Income tax assets	603	736	7,750	922	–	(4,435)	5,576
Total assets	657,825	203,122	123,201	4,080	2,857	(4,435)	986,650
Segment liabilities	561,368	133,081	101,112	–	25,435	(130,157)	690,839
Inter-segment liabilities	(1,726)	(19,891)	(83,776)	–	(24,764)	130,157	–
	559,642	113,190	17,336	–	671	–	690,839
Unallocated liabilities	–	–	–	95,353	–	–	95,353
Income tax liabilities	2,142	5,610	1,861	153	–	(4,435)	5,331
Total liabilities	561,784	118,800	19,197	95,506	671	(4,435)	791,523
Other segment information							
Capital expenditures							
Property, plant and equipment	10,174	3,492	3,812	78	–	–	17,556
Intangible oil & gas assets	–	–	4,825	–	–	–	4,825
Goodwill	–	5,405	–	–	–	–	5,405
Charges							
Depreciation	10,948	2,216	14,099	141	–	(813)	26,591
Amortisation	–	–	–	440	–	–	440
Impairment losses	–	–	–	–	250	–	250
Other long-term employment benefits	2,206	636	36	25	–	–	2,903
Share-based payments	685	102	–	110	–	–	897

Geographical segments

The following tables present revenue, assets and capital expenditure by geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Middle East & Africa US$'000	Commonwealth of Independent States/Asia US$'000	Europe US$'000	Americas US$'000	Consolidated US$'000
Segment revenue					
Continuing operations	886,359	271,082	700,757	5,675	1,863,873
Discontinued operations	–	–	–	33	33
	886,359	**271,082**	**700,757**	**5,708**	**1,863,906**
Carrying amount of segment assets	945,062	147,541	302,749	6,495	1,401,847
Capital expenditure					
Property, plant and equipment	19,501	27,314	12,514	118	59,447
Intangible oil & gas assets	–	–	12,926	–	12,926
Other intangible assets	–	1,561	–	–	1,561
Goodwill	–	668	–	–	668

Year ended 31 December 2005

	Middle East & Africa US$'000	Commonwealth of Independent States/Asia US$'000	Europe US$'000	Americas US$'000	Consolidated US$'000
Segment revenue					
Continuing operations	354,326	609,270	518,175	3,701	1,485,472
Discontinued operations	–	–	–	204	204
	354,326	609,270	518,175	3,905	1,485,676
Carrying amount of segment assets	488,164	306,209	185,153	7,124	986,650
Capital expenditure					
Property, plant and equipment	3,755	9,920	3,843	38	17,556
Intangible oil & gas assets	–	2,070	2,755	–	4,825
Goodwill	–	–	5,405	–	5,405

4 Revenues and expenses

a. Revenue

	2006 US$'000	2005 US$'000
Rendering of services	**1,840,519**	1,478,187
Sale of crude oil	**15,656**	–
Sale of processed hydrocarbons	**7,698**	7,285
	1,863,873	1,485,472

Included in revenues from rendering of services are Operations Services revenues of a "pass-through" nature with zero or low margins amounting to US$221,790,000 (2005: US$152,928,000).

b. Cost of sales

Included in cost of sales for the year ended 31 December 2006 is US$11,635,000 (2005: US$252,000) gain on disposal of property, plant and equipment used to undertake various engineering and construction contracts.

c. Other income

	2006 US$'000	2005 US$'000
Gain on sale of investments	**1,671**	2,390
Foreign exchange gains	**2,201**	1,200
Gain on sale of property, plant and equipment	**46**	19
Other income	**952**	1,614
	4,870	5,223

d. Other expenses

	2006 US$'000	2005 US$'000
Foreign exchange losses	**931**	2,302
Other expenses	**202**	189
	1,133	2,491

e. Selling, general and administration expenses

	2006 US$'000	2005 US$'000
Staff costs	**57,548**	40,893
Depreciation	**3,312**	2,221
Amortisation	**390**	440
Other operating expenses	**41,779**	31,374
	103,029	74,928

In the year ended 31 December 2005, other operating expenses include US$6,311,000 of legal and professional expenses in relation to the Company's listing on the London Stock Exchange in October 2005.

4 Revenues and expenses (continued)

f. Staff costs

	2006 US$'000	2005 US$'000
Total staff costs		
Wages and salaries	**443,437**	359,860
Social security costs	**25,111**	23,494
Defined contribution pension costs	**9,160**	7,252
Other long-term employment benefit costs (note 26)	**4,304**	2,903
Expense of share-based payments (note 23)	**1,281**	897
	483,293	394,406

Of the US$483,293,000 of staff costs shown above, US$425,745,000 (2005: US$353,513,000) are included in cost of sales.

The average number of persons employed by the group during the year was 7,482 (2005: 6,598).

Equity-settled transactions

On 29 April 2005 the Company introduced a Long Term Incentive Plan (LTIP) for senior employees (including directors). Under the scheme rules, participatory interests in ordinary shares are granted to eligible employees. Unless varied by the Trustees of the scheme, 25% of the participatory interests in ordinary shares granted vest on award date with the balance vesting equally over the following three years, provided the recipients remain employees of the group. The scheme rules also stipulate participatory interests in ordinary shares will vest immediately on the occurrence of certain events, including the admission of the Company's shares to the Official List and to trading on the London Stock Exchange.

In 2005, 53,000 participatory interests in US$1.00 ordinary shares were granted under the LTIP scheme rules. The fair value of the interests granted, as determined using a net asset based formula, was US$897,000 or US$16.93 per US$1.00 ordinary share. As a result of the Company's listing on the London Stock Exchange on 7 October 2005, as governed by the LTIP scheme rules, all then unvested awards of participatory interests in ordinary shares vested immediately. Consequently, the group recognised a total expense of US$897,000 during 2005 in relation to these equity-settled transactions.

g. Auditors' remuneration (including out-of-pocket expenses)

	2006 US$'000	2005 US$'000
Audit fees	**914**	651
Fees for other services		
Assurance services related to the Company's Initial Public Offering	**–**	2,262
Tax services	**78**	154
Other	**180**	67
	1,172	3,134

5 Finance costs/(income)

	2006 US$'000	2005 US$'000
Interest payable		
Long-term borrowings	**5,166**	5,954
Other interest, including short-term loans and overdrafts	**1,595**	1,938
"A" ordinary shares	**–**	556
Unwinding of discount on deferred consideration and decommissioning provisions	**407**	–
Total finance cost	**7,168**	8,448
Interest receivable		
Bank interest	**(9,049)**	(2,952)
Other interest	**(247)**	(241)
Total finance income	**(9,296)**	(3,193)

Other interest receivable

Other interest receivable includes shareholder loan interest receivable on loans advanced to employees for the purchase of participatory interests in ordinary shares of the Company (note 16). The offer to purchase participatory interests in ordinary shares was extended through the Petrofac Limited Executive Share Scheme (ESS), which is administered by Petrofac ESOP. The rules of the ESS, unless varied by the Trustee, required a down-payment on acquisition of participatory interests with the balance structured as an interest bearing shareholder loan note, payable over three years. Shareholder loan notes bear interest at rates between 3.5% and 3.8% (2005: between 3.4% and 4.5%) dependent on the year of issue.

"A" ordinary shares

During 2005, the conditions allowing the Company to call upon 3i Group plc to convert its unsecured variable rate loan notes to equity (as "A" ordinary shares) were satisfied. Under IAS 32 "Financial Instruments: Disclosure and Presentation", the Company classified the "A" ordinary shares as a financial liability, as the then Articles of Association of the Company provided the shares with priority of dividends, including the right to an annual 5% fixed dividend. The finance cost of US$556,000 in 2005 reflects the 5% dividend accruing on the "A" ordinary shares between the date of issue on 21 June 2005 and the date the "A" ordinary shares were reclassified as ordinary shares on listing of the Company on the London Stock Exchange.

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2006 US$'000	2005 US$'000
Current income tax		
Current income tax charge	49,512	13,495
Adjustments in respect of current income tax of previous years	(364)	(590)
Deferred income tax		
Relating to origination and reversal of temporary differences	1,963	(4,929)
Adjustments in respect of deferred income tax of previous years	229	(25)
Income tax expense reported in the income statement	51,340	7,951

b. Reconciliation of total tax charge

Under Article 123A of the Income Tax (Jersey) law 1961, as amended, the Company has obtained Jersey exempt company status and is therefore exempt from Jersey income tax on non Jersey source income and bank interest (by concession). An annual exempt company fee is payable by the Company.

A reconciliation between the income tax expense and the product of accounting profit on continuing operations multiplied by the Company's domestic tax rate is as follows:

	2006 US$'000	2005 US$'000
Profit from operating activities before income tax	173,247	83,348
At Jersey's domestic income tax rate of 20% (2005: 20%)	34,649	16,670
Profits exempt from Jersey income tax	(34,649)	(16,670)
Higher income tax rates of other countries, including withholding taxes	55,083	17,212
Overhead allowances – high rate jurisdiction	(8,248)	(112)
Expenditure not allowable for income tax purposes – high rate jurisdiction	2,586	2,328
Adjustments in respect of previous periods	(135)	(615)
Tax effect of utilisation of tax losses not previously recognised	(83)	(12,030)
Unrecognised tax losses	1,797	1,549
Tax recognised on un-remitted overseas dividends	340	(381)
	51,340	7,951

The significant increase in the effective tax rate for the year ended 31 December 2006 compared to 2005 is principally due to a combination of increased profits being earned by the E&C division in higher taxable jurisdictions and the impact in 2005 of an income tax credit of US$8,943,000 relating to previously unrecognised tax losses on the Cendor project in Malaysia.

6 Income tax (continued)

c. Deferred income tax

Deferred income tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Deferred income tax liabilities				
Un-remitted overseas dividends	**–**	366	**(366)**	(378)
Fair value adjustments on acquisitions	**2,393**	1,746	**39**	–
Other timing differences	**401**	1,009	**(117)**	363
Gross deferred income tax liabilities	**2,794**	3,121		
Deferred income tax assets				
Losses available for offset	**1,851**	4,235	**2,384**	(4,235)
Tax assets utilised	**–**	33	**33**	192
	1,851	4,268		
Decelerated depreciation for tax purposes	**407**	808	**401**	(485)
Other timing differences	**644**	500	**(182)**	(411)
Gross deferred income tax assets	**2,902**	5,576		
Deferred income tax charge/(credit)			**2,192**	(4,954)

d. Unrecognised tax losses

The group has unrecognised tax assets including net operating losses (at 35%) in the US of US$12,137,000 (2005: US$11,859,000) and in the UK ring-fenced pre-trading expenses (at minimum 30%) of US$3,090,000 (2005: US$1,770,000) that are potentially available for offset against future taxable profits of the companies in which the losses arose, and a further US$603,000 (2005: US$1,549,000) of project related tax losses in various jurisdictions.

7 Discontinued operations

On 29 April 2003, the group sold certain assets of Petrofac Inc., a wholly owned subsidiary, for cash consideration. The assets sold comprised substantially all of the operating assets of Petrofac Inc. although the group retained contractual responsibility for the work in hand at the date of the sale. All physical work relating to residual projects within the business of Petrofac Inc. is complete, subject to a number of relatively minor commercial issues, principally relating to ongoing legal disputes.

The results of Petrofac Inc. are presented below:

	2006 US$'000	2005 US$'000
Revenue	**33**	204
Cost of sales	**(126)**	(375)
Gross loss	**(93)**	(171)
Selling, general and administration expenses	**(1,484)**	(784)
Other income	**–**	80
Operating loss from discontinued operations	**(1,577)**	(875)
Finance income, net	**2**	60
Pre tax loss from discontinued operations	**(1,575)**	(815)
Income tax	**–**	–
Net loss attributable to discontinued operations	**(1,575)**	(815)

Assets of discontinued operation classified as held for sale of US$1,372,000 (2005: US$1,667,000) represent freehold land and buildings valued at the lower of cost and fair value less costs to sell. An impairment provision of US$295,000 has been recognised during the year ended 31 December 2006 (2005: US$250,000) in relation to a freehold office property, reflecting its anticipated fair value, net of selling costs. This charge is included within the selling, general and administration expense of the discontinued operation. The Company expects that the asset will be disposed of in the next twelve months.

Cash flow

The cash flows of Petrofac Inc. have been disclosed on the face of the consolidated cash flow statement.

Earnings per share

The earnings per share from discontinued operations are as set out below.

	2006	2005
Earnings per share (US cents)		
Basic	**(0.46)**	(0.27)
Diluted	**(0.46)**	(0.24)

8 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adding interest relating to convertible share warrants, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive warrants, options on ordinary shares and ordinary shares granted under employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

	2006 US$'000	2005 US$'000
Continuing and discontinued operations		
Net profit attributable to ordinary shareholders for basic earnings per share	**120,332**	74,582
Income statement charge on variable rate unsecured loan notes	**–**	1,873
Net profit attributable to ordinary shareholders for diluted earnings per share	**120,332**	76,455
Continuing operations		
Add net loss for the period from discontinued operation	**1,575**	815
Net profit attributable to ordinary shareholders for diluted earnings per share	**121,907**	77,270

	2006 Number '000	2005 Number '000
Weighted average number of ordinary shares for basic earnings per share	**344,003**	304,141
Convertible share warrants	**–**	39,361
Ordinary share option	**–**	1,134
Unvested portion of LTIP shares	**–**	166
Weighted average number of ordinary shares granted under share-based payment schemes held as treasury shares	**1,117**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**345,120**	344,802

To calculate discontinued earnings per share, the weighted average number of ordinary shares for both basic and diluted is as set out above. The following reflects the loss figure used as the numerator:

	2006 US$'000	2005 US$'000
Net loss attributable to ordinary shareholders from discontinued operations for basic and diluted earnings per share	**(1,575)**	(815)

9 Dividends paid and proposed

	2006 US$'000	2005 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Final dividend for 2004: 2.30 cents per share	**–**	6,586
Final dividend for 2005: 1.87 cents per share	**6,425**	–
Interim dividend 2006: 2.40 cents per share	**8,249**	–
2005 pre-listing dividend: 3.01 cents per share	**–**	8,657
	14,674	15,243

	2006 US$'000	2005 US$'000
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2006: 6.43 cents per share (2005: 1.87 cents per share)	**22,228**	6,454

10 Property, plant and equipment

	Oil & gas assets US$'000	Oil & gas facilities US$'000	Land, buildings and leasehold improvements US$'000	Plant and equipment US$'000	Vehicles US$'000	Office furniture and equipment US$'000	Capital work in progress US$'000	Total US$'000
Cost								
At 1 January 2005	–	123,373	20,006	21,661	9,683	14,446	–	189,169
Transfers	–	–	–	(342)	55	287	–	–
Additions	2,765	1,218	937	1,620	3,940	7,076	–	17,556
Acquisition of subsidiaries	–	–	–	–	–	81	–	81
Transfers from intangible oil & gas assets	8,467	–	–	–	–	–	–	8,467
Disposals	–	–	(376)	(401)	(627)	(1,621)	–	(3,025)
Exchange difference	–	–	(1,284)	(881)	(57)	(783)	–	(3,005)
At 1 January 2006	11,232	124,591	19,283	21,657	12,994	19,486	–	209,243
Additions	17,548	149	7,258	10,130	1,127	14,160	9,075	59,447
Acquisition of subsidiaries	–	–	–	43	–	–	–	43
Disposals	–	–	(6,652)	(11,618)	(7,522)	(868)	–	(26,660)
Exchange difference	–	–	1,573	774	85	1,667	–	4,099
At 31 December 2006	**28,780**	**124,740**	**21,462**	**20,986**	**6,684**	**34,445**	**9,075**	**246,172**
Depreciation								
At 1 January 2005	–	(33,871)	(4,454)	(14,580)	(4,188)	(8,663)	–	(65,756)
Transfers	–	–	–	110	(3)	(107)	–	–
Charge for the year	–	(13,009)	(3,394)	(2,628)	(3,432)	(4,128)	–	(26,591)
Disposals	–	–	239	241	503	1,598	–	2,581
Exchange difference	–	–	137	352	26	439	–	954
At 1 January 2006	–	(46,880)	(7,472)	(16,505)	(7,094)	(10,861)	–	(88,812)
Charge for the year	(802)	(13,289)	(2,695)	(1,659)	(2,781)	(6,896)	–	(28,122)
Disposals	–	–	6,167	3,504	5,148	699	–	15,518
Exchange difference	–	–	(288)	(502)	(63)	(727)	–	(1,580)
At 31 December 2006	**(802)**	**(60,169)**	**(4,288)**	**(15,162)**	**(4,790)**	**(17,785)**	**–**	**(102,996)**
Net carrying amount: At 31 December 2006	**27,978**	**64,571**	**17,174**	**5,824**	**1,894**	**16,660**	**9,075**	**143,176**
At 31 December 2005	11,232	77,711	11,811	5,152	5,900	8,625	–	120,431

No interest has been capitalised within oil & gas facilities during the year (2005: nil) and the accumulated capitalised interest, net of depreciation at 31 December 2006, was US$2,427,000 (2005: US$2,927,000).

Included in oil & gas assets is US$990,000 (2005: nil) of capitalised decommissioning costs provided on the PM 304 asset in Malaysia and advance capital expenditure payments made on behalf of the vendor of US$2,846,000 (2005: nil) under the terms of the acquisition of a 45% interest in the Chergui concession Tunisia, which was not completed until after the balance sheet date (note 33).

Of the total charge for depreciation in the income statement for continuing operations, US$24,810,000 (2005: US$24,370,000) is included in cost of sales and US$3,312,000 (2005: US$2,221,000) in selling, general and administration expenses.

Capital work in progress comprises of expenditures incurred on the construction of a new office building in Sharjah, United Arab Emirates.

11 Business combinations

Acquisitions in 2006

PPS Process Control and Instrumentation Services Limited

On 28 April 2006, the group acquired a 100% interest in the share capital of PPS Process Control and Instrumentation Services Limited (subsequently renamed, and hereafter referred to as, Petrofac (Cyprus) Limited), a company incorporated in Cyprus which is also the holding company of the subsidiaries listed below. The Petrofac (Cyprus) Limited subsidiaries provide operations and maintenance training on Sakhalin Island, Russia, and process control and instrumentation services in Singapore, Malaysia and Indonesia. The total consideration for the acquisition inclusive of transaction costs of US$211,000 and earn-out provision of US$189,000 was US$2,000,000. The consideration of US$1,600,000 (excluding transaction costs and earn-out provision) was settled by a cash payment of US$527,000 and the extinguishment of receivables due from the vendor of US$1,073,000.

The fair values of the identifiable assets and liabilities of Petrofac (Cyprus) Limited and its subsidiaries at the date of acquisition are analysed below.

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	43	43
Intangible assets (note 13)	1,561	–
Trade and other receivables	616	616
Income tax receivable	56	56
Cash and short-term deposits	169	169
Total assets	2,445	884
Less:		
Trade and other payables	(748)	(748)
Minority interest	(209)	6
Deferred tax liability	(156)	–
Total liabilities	(1,113)	(742)
Fair value of net assets acquired	1,332	142
Goodwill arising on acquisition (note 12)	668	
Consideration	2,000	

	US$'000
Cash outflow on acquisition	
Cash acquired with subsidiary	169
Cash paid on acquisition	(527)
Legal expenses paid on acquisition	(211)
Net cash outflow on the acquisition of subsidiary	(569)

The subsidiaries of Petrofac (Cyprus) Limited acquired by the group during the period were as follows:

Name of company	Country of incorporation	% shareholding
PKT Technical Services Ltd	Russia	50%
PKT Training Services Ltd	Russia	100%
Pt PCI Indonesia	Indonesia	80%
Process Control and Instrumentation Services Pte Ltd	Singapore	100%
Process Control and Instrumentation Sendirian Berhad	Malaysia	100%
Sakhalin Technical Training Centre	Russia	80%

Intangible assets recognised on acquisition comprise customer contracts which are being amortised over their remaining economic useful life of three years on a straight-line basis.

From the date of acquisition, Petrofac (Cyprus) Limited and its subsidiaries have contributed a loss of US$3,000 to the net profit for the group. If the combination had taken place at the beginning of the year, net profit for the group for the year ended 31 December 2006 would have been US$120,362,000 and revenue from continuing operations would have been US$1,865,080,000.

The residual goodwill above comprises the fair value of expected synergies in the group's Training business arising from the acquisition.

11 Business combinations (continued)
Acquisitions in 2006 (continued)
Petrofac (Malaysia-PM304) Limited
During the year, contingent consideration of US$4,450,000 was paid in respect of the acquisition of 100% issued and outstanding shares of Petrofac (Malaysia-PM304) Limited (formally Amerada Hess (Malaysia-PM304) Limited), which the group acquired on 16 June 2004. Petrofac (Malaysia-PM304) Limited held a 40.5% interest in a Production Sharing Contract (PSC) in Block PM304 and under pre-emption rights contained within the PSC, Petrofac (Malaysia-PM304) Limited sold a 10.5% interest of the PSC to one of the partners in the PSC on the same commercial terms and conditions of the acquisition and received US$1,154,000 as contingent consideration during the year. The net cash outflow of these related transactions amounting to US$3,296,000 is shown in the consolidated cash flow statement within the acquisition of subsidiaries line.

Acquisitions in 2005
Plant Asset Management
On 20 October 2005, the group acquired the remaining 49% minority interest stake in Plant Asset Management Limited (Plant Asset Management) for a total consideration of US$1,644,000 including transaction costs of US$52,000. The consideration was settled in cash. The difference between the consideration paid and the fair value of assets acquired of US$1,644,000 has been allocated as goodwill and included in this goodwill recognised are certain intangible assets that cannot be individually separated and reliably measured due to their nature. Prior to acquisition, the group did not carry a minority interest balance in relation to Plant Asset Management as the company had net liabilities and the group had no rights of recovery against the minority shareholders.

Petrofac Ohanet
On 27 May 2005, following the group’s voluntary prepayment of non-recourse project finance provided by GE Structured Finance in relation to the Ohanet project, the group exercised its option to acquire Petrofac Resources (Ohanet) Jersey Limited (Petrofac Ohanet) for US$2,400,000. The consideration was settled in cash. The option to acquire Petrofac Ohanet was established in May 2002 as part of the group’s corporate reorganisation and the investment by 3i Group plc. Prior to exercising the option, the group consolidated the financial results of Petrofac Ohanet in its consolidated financial statements as the group held significant operating and financial control over the Company. The consideration paid to exercise the option has been taken to equity.

Rubicon Response
On 28 January 2005, the group acquired 100% of the issued and outstanding shares of Rubicon Response Limited (Rubicon Response), a leading provider of emergency response management consultancy and training services to the upstream oil & gas exploration and production markets. Total consideration for the acquisition of the shares inclusive of transaction costs of US$82,000, was US$6,326,000. The fair value of the net assets acquired was US$2,565,000. The difference of US$3,761,000 between the consideration and fair value of net assets acquired has been recognised as goodwill, which comprises the fair value of expected synergies in the group’s Training business arising from the acquisition. The cash outflow on the acquisition amounted to US$4,073,000, net of cash acquired with the subsidiary of US$2,253,000.

12 Goodwill
A summary of the movements in goodwill is presented below:

	2006 US$’000	2005 US$’000
At 1 January	**49,183**	49,653
Acquisitions during the year (note 11)	**668**	5,405
Exchange difference	**6,881**	(5,875)
At 31 December	**56,732**	49,183

Goodwill acquired through business combinations has been allocated to three groups of cash-generating units, which are reportable segments, for impairment testing as follows:
- Facilities Management (comprising Petrofac Facilities Management and Plant Asset Management)
- Training (comprising Petrofac Training, Chrysalis Learning, Rubicon Response and PPS Process Control & Instrumentation)
- Resources (comprising Petrofac Resources International Limited)

These represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

Facilities Management and Training cash-generating units
The recoverable amounts for the Facilities Management and Training units have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted a ten year projection period to assess each unit’s value in use as it considers the life of the goodwill for both the Facilities Management and Training cash-generating units to significantly exceed the five year impairment test period referred to in IAS 36. The cash flow projections are based on financial budgets approved by senior management covering a five year period, extrapolated, thereafter at a growth rate of 5% per annum. Management considers this is a conservative long-term growth rate relative to both the economic outlook for the units in their respective markets within the oil & gas industry and the growth rates experienced in the recent past by each unit.

Resources cash-generating units

The recoverable amount of the Resources unit is also determined on a value in use calculation using discounted pre-tax cash flow projections based on financial budgets and economic parameters for the unit approved by senior management and covering a five year period, as recommended under IAS 36.

Carrying amount of goodwill allocated to each group of cash-generating units

	2006 US$'000	2005 US$'000
Facilities Management unit	**30,091**	26,117
Training unit	**24,424**	20,849
Resources unit	**2,217**	2,217
At 31 December	**56,732**	49,183

Key assumptions used in value in use calculations

The calculation of value in use for both the Facilities Management and Training units is most sensitive to the following assumptions:
- Market share
- Growth rate
- Net profit margins
- Discount rate

Market share: The assumption relating to market share for the Facilities Management unit is based on the unit re-securing those existing customer contracts in the UK which are due to expire during the projection period; for the Training unit, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past by each unit. A growth rate of 5% per annum has been applied for the remaining five years of the ten year projection period.

Net profit margins: estimates are based on management's assumption of achieving a level of performance at least in line with the recent past performance of each of the units.

Discount rate: management has used a pre-tax discount rate of 8.0% (2005: 9.1%) per annum which is derived from the estimated weighted average cost of capital of the group. This discount rate has been calculated using an estimated risk free rate of return adjusted for the group's estimated equity market risk premium and the group's cost of debt.

The calculation of value in use for the Resources unit is most sensitive to the following assumptions:
- Financial returns
- Discount rate
- Oil prices

Financial returns: estimates are based on the unit achieving returns on existing investments (comprising both those that are currently cash flowing and those which are in development and which may therefore be consuming cash) at least in line with current forecast income and cost budgets during the planning period.

Discount rate: management has used an estimate of the pre-tax weighted average cost of capital of the group plus a risk premium to reflect the particular risk characteristics of each individual investment. The discount rates range between 10% and 15% (2005: 9.9% and 17.0%).

Oil prices: management has used a prudent oil price assumption of US$40 per barrel for the impairment testing of its individual oil & gas investments.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash generating units, management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the relevant unit to exceed its recoverable amount, after giving due consideration to the macro-economic outlook for the oil & gas industry and the commercial arrangements with customers underpinning the cash flow forecasts for each of the units.

13 Intangible assets

	2006 US$'000	2005 US$'000
Intangible oil & gas assets		
At 1 January	**2,982**	6,721
Additions	**12,926**	4,825
Transferred to tangible oil & gas assets	**–**	(8,467)
Exchange difference	**880**	(97)
At 31 December	**16,788**	2,982
Other intangible assets		
At 1 January	**–**	–
Additions (note 11)	**1,561**	–
Amortisation	**(390)**	–
At 31 December	**1,171**	–
Total intangible assets	**17,959**	2,982

On 9 February 2006, the group increased its interest in the Crawford field from 5.58% to 60.88% for a consideration of US$18,580,000, consisting of cash consideration of US$2,400,000 and a deferred consideration of up to US$16,180,000. The group simultaneously sold 31.88% of its interest to the existing partners in the field on the same commercial terms and conditions associated with the purchase of the field. The group has treated the purchase and sale transaction as a single investment transaction based on its substance and this forms part of the additions to intangible oil & gas assets shown above. The net consideration consists of an initial net cash payment of US$1,000,000 and a net deferred contingent payment of up to US$6,743,000 for a further 23.42% interest in the field.

On 18 December 2006, the group acquired a 60% interest in part of Block 211/18a in the UK North Sea containing the Don Southwest discovery for a consideration of US$4,431,000, including transaction costs and other capitalised costs of US$295,000.

There are cash outflows relating to capitalised costs of US$400,000 in the current year arising from pre-development activities pertaining to oil & gas reserves (2005: US$1,843,000). There are no assets other than intangible assets, liabilities, income or expenses arising from pre-development activities in the current year (2005: nil). Other intangible asset additions relate to the acquisition of interests in fields.

Other intangible assets comprise the fair values of customer contracts arising on acquisition (note 11). Customer contracts are being amortised over their remaining economic useful life of three years on a straight line basis and the related amortisation charge included in selling, general and administrative expenses (note 4e).

14 Interest in joint ventures

In the normal course of business, the group establishes jointly controlled entities and operations for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 34. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities and operations are as follows:

	2006 US$'000	2005 US$'000
Revenue	**92,800**	159,041
Cost of sales	**(71,103)**	(150,802)
Gross profit	**21,697**	8,239
Selling, general and administration expenses	**(1,140)**	(883)
Finance income, net	**45**	21
Profit before income tax	**20,602**	7,377
Income tax	**(616)**	(373)
Net profit	**19,986**	7,004
Current assets	**63,009**	96,266
Non-current assets	**4,459**	12,314
Total assets	**67,468**	108,580
Current liabilities	**40,993**	100,276
Non-current liabilities	**299**	290
Total liabilities	**41,292**	100,566
Net assets	**26,176**	8,014

15 Available-for-sale financial assets

	2006 US$'000	2005 US$'000
Shares – listed	**1,212**	2,413
Units in a mutual fund	**514**	–
	1,726	2,413

Available-for-sale financial assets consist of investments in ordinary shares and units in a mutual fund and therefore have no fixed maturity date or coupon rate.

16 Other financial assets

	2006 US$'000	2005 US$'000
Other financial assets – non-current		
Fair value of derivative instruments	**1,925**	672
Other	**22**	8
	1,947	680
Other financial assets – current		
Fair value of derivative instruments	**7,483**	461
Interest receivable	**1,479**	140
Restricted cash	**883**	1,648
Short-term notes receivable from shareholders	**216**	414
Other	**72**	1,838
	10,133	4,501

Restricted cash is comprised of deposits with financial institutions securing various guarantees and performance bonds associated with the group's trading activities.

17 Inventories

	2006 US$'000	2005 US$'000
Crude oil	**763**	–
Processed hydrocarbons	**227**	163
Stores & spares	**697**	698
Raw materials	**256**	295
	1,943	1,156

Included in the income statement are costs of inventories expensed of US$7,535,000 (2005: US$4,414,000).

18 Work in progress and billings in excess of cost and estimated earnings

	2006 US$'000	2005 US$'000
Cost and estimated earnings	**1,714,647**	1,453,455
Less: Billings	**(1,346,778)**	(1,218,408)
Work in progress	**367,869**	235,047
Billings	**359,079**	210,582
Less: Cost and estimated earnings	**(234,089)**	(140,806)
Billings in excess of cost and estimated earnings	**124,990**	69,776
Total cost and estimated earnings	**1,948,736**	1,594,261
Total billings	**1,705,857**	1,428,990

19 Trade and other receivables

	2006 US$'000	2005 US$'000
Contract trade receivables	**293,803**	290,313
Retentions receivable	**4,591**	5,408
Advances	**10,754**	18,256
Prepayments and deposits	**12,323**	9,213
Other receivables	**9,044**	2,526
	330,515	325,716

Contract receivables are non-interest bearing and are generally on 30 to 60 days' terms.

Retentions relating to contract receivables are presented as a current asset although they may not be recovered within twelve months of the balance sheet date.

Advances represent payments made to certain of the group's sub-contractors for projects in progress, on which the related work had not been performed at the balance sheet date.

Certain trade and other receivables will be settled in currencies other than the reporting currency of the group, mainly in Sterling and Kuwaiti Dinars.

20 Cash and short-term deposits

	2006 US$'000	2005 US$'000
Cash at bank and in hand	**120,003**	91,339
Short-term deposits	**337,845**	117,557
Total cash and bank balances	**457,848**	208,896

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$457,848,000 (2005: US$208,896,000).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2006 US$'000	2005 US$'000
Cash at bank and in hand	**120,003**	91,339
Short-term deposits	**337,845**	117,557
Bank overdrafts (note 25)	**(20,442)**	(6,055)
	437,406	202,841

21 Share capital

On 15 September 2005, conditional upon listing on the London Stock Exchange, the shareholders of the Company approved the reclassification of the issued "A" ordinary shares as ordinary shares and, immediately following the reclassification, a 40:1 share split for all ordinary shares then authorised such that the nominal value of ordinary shares reduced from US$1.00 per share to US$0.025 per share. The shareholders also conditionally approved the redemption of the "B" deferred share at its nominal value. On 7 October 2005 the Company's shares were admitted to the Official List and to trading on the London Stock Exchange, at which time the reclassification of the "A" ordinary shares and the subsequent share split became unconditional, and the "B" deferred share was redeemed at its nominal value.

The share capital of the Company as at 31 December was as follows:

	2006 US$'000	2005 US$'000
Authorised		
750,000,000 ordinary shares of US$0.025 each (2005: 750,000,000 ordinary shares of US$0.025 each)	**18,750**	18,750
Issued and fully paid		
345,159,920 ordinary shares of US$0.025 each (2005: 345,159,920 ordinary shares of US$0.025 each)	**8,629**	8,629

The movement in the number of issued and fully paid ordinary shares is as follows:

	Number
Ordinary shares	
Balance of ordinary shares of US$1.00 each at 1 January 2005	7,166,330
Issued in period to 7 October 2005	47,486
Reclassification of "A" ordinary shares of US$1.00 each as ordinary shares of US$1.00 each	1,397,557
Balance of ordinary shares of US$1.00 each at 7 October 2005 and immediately prior to share split	8,611,373
Balance of ordinary shares of US$0.025 each	344,454,920
Issued during the period 7 October 2005 to 31 December 2005	705,000
Balance of ordinary shares of US$0.025 each at 1 January 2006	345,159,920
Movement during the year	–
Balance of ordinary shares of US$0.025 each at 31 December 2006	**345,159,920**

"A" ordinary shares	
Balance at 1 January 2005	–
Issued during the year	1,397,557
Reclassification of ordinary shares of US$1.00 each	(1,397,557)
Balance at 31 December 2005	–
Balance at 31 December 2006	**–**

Between 21 June 2005, being the date of issue, and 7 October 2005, being the date of reclassification, the "A" ordinary shares were classified as a financial liability (see share options note below).

Petrofac ESOP

During 2005 through Petrofac ESOP, the Company temporarily warehoused ordinary shares that were expected, in the foreseeable future, to be offered to new or existing employees (including directors). There were no movements during 2006 in the warehousing of ordinary shares as noted below:

	2006 Number	2005 Number
Share transactions prior to the Company's 40:1 share split		
New issue of US$1.00 ordinary shares of the Company acquired by Petrofac ESOP	–	47,486
Existing US$1.00 ordinary shares of the Company acquired by Petrofac ESOP	–	185,989
US$1.00 ordinary shares of the Company sold by Petrofac ESOP	–	(198,100)
US$1.00 ordinary shares granted under LTIP awards by Petrofac ESOP	–	(35,375)
Share transactions after the Company's 40:1 share split		
New issue of US$0.025 ordinary shares of the Company acquired by Petrofac ESOP	–	705,000
Existing US$0.025 ordinary shares of the Company acquired by Petrofac ESOP	–	40,000
US$0.025 ordinary shares granted under LTIP awards by Petrofac ESOP	–	(705,000)

The net difference between the acquisition (including new shares issued and acquired by Petrofac ESOP) and sales cost of US$ nil (2005: US$1,398,000) has been credited to the share premium account of the Company. At 31 December 2006, Petrofac ESOP held 40,000 ordinary shares (2005: 40,000) of US$0.025 each in the Company and, in respect of which, had an indebtedness to the Company of US$17,000 (2005: US$17,000).

Share options

In 2002 the Company extended an option to a director of the Company to acquire up to 75,000 ordinary shares of US$1.00 each at US$25.00 per share. On 18 May 2005, this option agreement was cancelled.

As part of an investment agreement entered into in May 2002, 3i Group plc (3i) was issued one "B" ordinary share. The Company also granted an option to 3i to acquire shares representing 13.0% of the Company's share capital, as so enlarged (the Option Shares), subject to adjustment to 20.0% in the event of the 3i variable rate unsecured loan notes remaining unpaid. On 21 October 2004, this option was amended, providing 3i with a revised right to acquire shares representing 16.2% of the Company's share capital, as so enlarged, subject to adjustment to 23.2% in the event of the 3i variable rate unsecured loan notes remaining unpaid. The option was exercisable by 3i at any time until 30 June 2009 and by the Company upon the fulfilment of certain conditions. During the year, the conditions allowing the Company to call upon 3i to subscribe for the Options Shares were satisfied and, on 21 June 2005, the aggregate subscription amount was satisfied by the cancellation of the loan notes and the issue of 1,397,557 "A" ordinary shares to 3i. In addition, and as part of the consideration for the Option Shares, the one "B" ordinary share held by 3i was converted to a deferred ordinary share (Class "B"). This deferred ordinary share had no right to receive notice of general meetings of the Company or rights to attend or vote at general meetings and on 7 October 2005 was redeemed at its nominal value.

21 Share capital (continued)

Share options (continued)

Under IAS 32, the Company classified the "A" ordinary shares as a financial liability, as the then Articles of Association of the Company provided the shares with priority of dividends, including the right to an annual 5% fixed dividend. The then Articles of Association of the Company also provided that certain matters, including the approval of certain ordinary share dividends, the conversion of "A" ordinary shares to ordinary shares and the approval of certain ordinary share transfers, required the approval of the holders of 75% or more of the "A" ordinary shares.

22 Treasury shares

During the year, the Company acquired 1,460,135 of its own shares at a cost of US$8,127,000 for the purpose of making awards under its employee share schemes and these shares are held by the Petrofac Employee Benefit Trust and classified for balance sheet purposes as treasury shares within equity.

23 Share-based payment plans

On 13 September 2005, the Company established three share schemes for the benefit of employees of the group, being a Performance Share Plan, a Deferred Bonus Share Plan and an approved Share Incentive Plan. A further share scheme, the Restricted Share Plan, was established during the year. All of these share schemes are equity settled award schemes. These share schemes are described below. Further details of the schemes can be found in the directors' remuneration report on pages 41 to 42.

Performance Share Plan (PSP)

Under the Performance Share Plan of the Company, share awards are granted to executive directors and a restricted number of other senior executives of the group. The shares cliff vest at the end of three years subject to continued employment from the date of the award and on achieving certain pre-defined non-market and market based performance conditions. The non-market based condition, representing 50% of the total Performance Share Plan, is subject to achieving between 15% and 25% earnings per share (EPS) growth targets over a three year period. The fair value of the equity-settled award relating to the EPS part of the scheme was estimated based on the quoted closing market price of 353p per Company share at the date of grant with an assumed vesting rate of 97% per annum (subsequently trued up for the year ending 31 December 2006 to 100% based on the actual leaver rate during the period from award date to year end) over the three year vesting period of the plan. The remaining 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the group compared to an index composed of selected relevant companies. The shares vesting under this portion of the award were fair valued at 234p per share by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

Expected share price volatility (based on median of comparator group's three year volatilities)	28.0%
Share price correlation with comparator group	10.0%
Risk-free interest rate	4.6%
Expected life of share award	three years

The number of ordinary shares awarded in the year in relation to PSP was 431,194 and all of these awards were still outstanding but not exercisable at 31 December 2006. The charge recognised in the current year amounted to US$536,000.

Deferred Bonus Share Plan (DBSP)

Executive directors and selected employees are eligible to participate under this scheme. Participants may be invited to elect or in some cases, be required, to receive a proportion of any bonus in ordinary shares of the Company ("Invested Awards"). Following such award, the Company will generally grant the participant an additional award over a number of shares bearing a specified ratio to the number of his or her invested shares ("Matching Shares"). The awards vest over a period of three years from the grant date provided that the participant does not leave the group's employment, subject to a limited number of exceptions. The invested awards are fully recognised as an expense in the period to which the bonuses relate. At the year end the values of the bonuses settled by shares cannot be determined until all employees have confirmed the voluntary portion of their bonus they wish to be settled by shares rather than cash and until the Remuneration Committee has approved the mandatory portion of the employee bonuses to be settled in shares. Once the voluntary and mandatory portions of the bonus to be settled in shares is determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the matching shares are recognised over the three year vesting period. The fair value of the equity-settled matching shares granted during the year in respect of the plan was estimated based on the quoted closing market price of 353p per Company share at the date of grant with an assumed vesting rate of 97% per annum (subsequently trued up at 31 December 2006 to 93% based on the actual leaver rate during the period from award date to year end) over the three year vesting period of the plan. During the year 597,167 shares as invested awards and 548,214 matching shares were granted to the participants in the scheme and 1,104,503 of these share awards were outstanding but not exercisable at 31 December 2006. The charge recognised in the year in relation to matching share awards amounted to US$666,000.

Share Incentive Plan (SIP)

All UK employees, including UK resident directors, are eligible to participate in the scheme. Employees may invest up to GBP1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

During the year, the Company established a Restricted Share Plan (RSP) for senior employees other than the directors of the Company. Under the scheme, senior employees are granted shares in the Company over a restricted vesting period which may or may not be, at the direction of the Remuneration Committee of the Board of directors, 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 value of the awards granted under the plan at various grant dates during the year is based on a weighted average quoted price of 278p over the period with an assumed vesting rate of 91% per annum over the three year vesting period. The Company awarded 161,101 shares to participants in the scheme during the year and recognised a charge of US$79,000 in the current year income statement. At 31 December 2006, there were still 161,101 share awards outstanding but not exercisable at this date.

The group has recognised a total charge of US$1,281,000 in the income statement during the year relating to the above employee share-based schemes (note 4f).

24 Other reserves

	Net unrealised gains on available-for-sale financial assets US$'000	Net unrealised (losses)/ gains on derivatives US$'000	Foreign currency translation US$'000	Reserve for share-based payments US$'000	Total US$'000
Balance at 1 January 2005	2,395	22,964	1,688	–	27,047
Foreign currency translation	–	–	(4,248)	–	(4,248)
Net gain on maturity of cash flow hedges recognised in income statement	–	(5,628)	–	–	(5,628)
Net changes in fair value of derivatives	–	(28,549)	–	–	(28,549)
Realised gains on the sale of available-for-sale financial assets recognised in income statement	(2,390)	–	–	–	(2,390)
Changes in fair value of available-for-sale financial assets	1,342	–	–	–	1,342
Balance at 1 January 2006	1,347	(11,213)	(2,560)	–	(12,426)
Foreign currency translation	–	–	7,449	–	7,449
Net gain on maturity of cash flow hedges recognised in income statement	–	(2,378)	–	–	(2,378)
Net changes in fair value of derivatives	–	22,931	–	–	22,931
Realised gains on the sale of available-for-sale financial assets recognised in income statement	(1,671)	–	–	–	(1,671)
Changes in fair value of available-for-sale financial assets	1,062	–	–	–	1,062
Transfer during the year	–	–	–	4,644	4,644
Balance at 31 December 2006	**738**	**9,340**	**4,889**	**4,644**	**19,611**

Nature and purpose of other reserves

Net unrealised gains on available-for-sale financial assets

This reserve records fair value changes on available-for-sale financial assets held by the group.

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on hedging instruments in cash flow hedges that are determined to be effective hedges are included within this reserve.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the group's net investment in subsidiaries.

Reserve for share-based payments

The reserve for share-based payments is used to wholly recognise the cost of share-based payment in the income statement and is transferred on the vesting of the original share awards.

The transfer during the year includes the current year portion of the three year vesting period of the matching share awards amounting to US$1,281,000 and the transfer from accrued expenses within trade and other payables of the remaining bonus liability relating to the year end 2005 bonus of US$3,363,000 which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (see note 23 for further information on this share-based payment scheme).

25 Interest-bearing loans and borrowings

The group had the following interest-bearing loans and borrowings outstanding:

		31 December 2006 Actual interest rate%	31 December 2005 Actual interest rate%	Effective interest rate%	Maturity	**2006 US$'000**	2005 US$'000
Current							
Revolving credit facility	(i)(a)	–	US LIBOR + 1.50%	US LIBOR + 1.50%	on demand	**–**	2,400
Revolving credit facility	(i)(b)	US LIBOR + 0.875%	US LIBOR + 1.75%	US LIBOR + 1.75%	2008	**–**	6,500
Short-term loan	(ii)	KD discount rate + 1.50%	KD discount rate + 2.00%	KD discount rate + 2.00%	2007	**6,033**	6,228
Bank overdrafts	(iii)	UK LIBOR + 0.875%, US LIBOR + 0.875%, KD discount rate + 1.50%	UK LIBOR + 1.25%, US LIBOR + 1. 50%, KD discount rate + 2.00%	UK LIBOR + 1.25%, US LIBOR + 1.50%, KD discount rate + 2.00%	on demand	**20,442**	6,055
Other loans:							
Project term loan	(iv)		US LIBOR + 2.00%	US LIBOR + 2.00%	2006	**–**	7,000
Current portion of term loan	(v)		US/UK LIBOR + 1.375%	5.39% to 6.26% (2005: 5.48% to 6.20%)		**–**	2,500
						26,475	30,683
Non-current							
Revolving credit facility	(vi)	US/UK LIBOR + 0.875%	US/UK LIBOR + 1.75%	5.73% to 6.04% (2005: 6.20% to 6.29%)	2013	**8,864**	8,077
Revolving credit facility	(i)(b)	US LIBOR + 0.875%	US LIBOR + 1.75%	5.18%	2008	**6,500**	–
Term loan	(v)	US/UK LIBOR + 0.875%	US/UK LIBOR + 1.375%	5.39% to 6.26% (2005: 5.48% to 6.20%)	2008-2013	**77,111**	69,522
						92,475	77,599
Less: Debt acquisition costs, net of accumulated amortisation						**(1,770)**	(1,412)
						90,705	76,187

Details of the group's interest-bearing loans and borrowings are as follows:

(i) Revolving credit facilities

(a) This revolving credit facility relates to US$ denominated borrowings repaid during 2006.

(b) This facility, provided by The Royal Bank of Scotland/Halifax Bank of Scotland (RBOS/HBOS), was previously committed until 30 September 2006. In December 2006 this facility was revised to being committed until 30 September 2008 and has been reclassified as non-current. This facility is subject to annual review after 30 September 2008. The coupon interest rate has also been revised to US LIBOR + 0.875% effective 31 December 2006.

(ii) Short-term loan

The short-term loan is denominated in Kuwaiti Dinars (KD) and relates to funding provided for a project in Kuwait. The loan is committed until 30 November 2007 and subject to annual review thereafter. In November 2006, the interest rate has been revised from KD discount rate + 2.00% to KD discount rate + 1.50% effective 31 December 2006.

(iii) Bank overdrafts

Bank overdrafts are drawn down in US dollar, Kuwaiti Dinars and Sterling denominations to meet the group's working capital requirements. These are repayable on demand.

(iv) Project term loan

The project term loan relates to project funding provided for the group's Ohanet investment in Algeria and was repaid in full in January 2006.

(v) Term loan

In October 2004, the group secured new term loan facilities with RBOS/HBOS. The term loan at 31 December 2006 comprised drawings of US$35,310,000 denominated in US$ and US$41,801,000 denominated in Sterling. Both elements of the loan were previously repayable over a period of five years commencing 31 December 2006 but in December 2006, the terms of the loan were revised and the repayment was rescheduled to commence from 31 December 2008 and end on 30 September 2013. The coupon interest rate was also revised to LIBOR + 0.875% from LIBOR + 1.375%.

(vi) Revolving credit facility

The drawings against this facility, which is also provided by RBOS/HBOS, will be converted to a term loan on 30 September 2010 to be repaid over a period of three years ending 30 September 2013. The drawing at 31 December 2006 comprised US$2,400,000 denominated in US$ and US$6,464,000 denominated in Sterling.

The group's credit facilities and debt agreements contain covenants relating to cash flow cover, cost of borrowings cover, dividends and various other financial ratios. With the exception of Petrofac International Ltd, which under its existing bank covenants is restricted from making upstream cash payments in excess of 70% of its net income in any one year, none of the Company's subsidiaries is subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

26 Provisions

	Other long-term employment benefits provision US$'000	Provision for decommissioning US$'000	Total US$'000
At 1 January 2006	8,284	–	8,284
Arising during the year	4,304	1,115	5,419
Utilised	(1,222)	–	(1,222)
Unwinding of discount	–	17	17
At 31 December 2006	**11,366**	**1,132**	**12,498**

Other long-term employment benefits provision

Labour laws in certain countries in which the group operates require employers to provide for other long-term employment benefits. These benefits are payable to employees at the end of their period of employment. The provision for these long-term benefits is calculated based on the employees' last drawn salary at the balance sheet date and length of service, subject to the completion of a minimum service period in accordance with the local labour laws of the jurisdictions in which the group operates.

Provision for decommissioning

The decommissioning provision primarily relates to the Company's obligation for the removal of facilities and restoration of the site at the PM304 field in Malaysia. The liability is discounted at the rate of 3.5% and the unwinding of the discount is classified as a finance cost (note 5). The Company estimates that the cash outflow against this provision will arise in the year 2014.

27 Other financial liabilities

	2006 US$'000	2005 US$'000
Other financial liabilities – non-current		
Deferred consideration	**7,373**	–
Fair value of derivative instruments	**–**	1,097
Other	**–**	125
	7,373	1,222
Other financial liabilities – current		
Interest payable	**172**	858
Fair value of derivative instruments	**–**	10,502
Deferred consideration	**–**	4,450
	172	15,810

28 Trade and other payables

	2006 US$'000	2005 US$'000
Trade payables	**122,683**	91,490
Advances received from customers	**118,117**	64,170
Accrued expenses	**83,125**	49,652
Other taxes payable	**15,696**	9,936
Other payables	**7,085**	4,177
	346,706	219,425

Trade payables are non-interest bearing and are normally settled on between 30-day and 60-day terms.

Advances from customers represent payments received for contracts on which the related work had not been performed at the balance sheet date.

Included in other payables are retentions held against subcontractors of US$1,532,000 (2005: US$3,197,000).

Certain trade and other payables will be settled in currencies other than the reporting currency of the group, mainly in Sterling, Euros and Kuwaiti Dinars.

29 Accrued contract expenses

	2006 US$'000	2005 US$'000
Accrued contract expenses	**432,003**	362,609
Reserve for contract losses	**–**	861
	432,003	363,470

30 Commitments and contingencies

Commitments

In the normal course of business the group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2006, the group had letters of credit of US$16,920,000 (2005: US$10,899,000) and outstanding letters of guarantee, including performance and bid bonds, of US$573,185,000 (2005: US$385,556,000) against which the group had pledged or restricted cash balances of, in aggregate, US$883,000 (2005: US$1,648,000).

At 31 December 2006, the group had outstanding forward exchange contracts amounting to US$221,188,000 (2005: US$381,003,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 32).

Leases

The group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and ten years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2006 US$'000	2005 US$'000
Within one year	**16,679**	7,159
After one year but not more than five years	**24,748**	15,382
More than five years	**13,500**	8,501
	54,927	31,042

Minimum lease payments recognised as an operating lease expense during the year amounted to US$8,643,000 (2005: US$7,212,000).

Capital commitments

At 31 December 2006, the group had capital commitments of US$21,819,000 (2005: US$3,410,000).

Included in the above are commitments for the construction of a new office building in Sharjah, United Arab Emirates amounting to US$20,577,000 (2005: nil).

31 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 34. Petrofac Limited is the ultimate parent entity of the group.

The following table provides the total amount of transactions which have been entered into with related parties:

		Sales to related parties US$'000	Purchases from related parties US$'000	Amounts owed by related parties US$'000	Amounts owed to related parties US$'000
Joint ventures	**2006**	**4,520**	**3,282**	**7,725**	**133**
	2005	8,194	2,674	28,402	1,333
Other directors' interests	**2006**	**–**	**49**	**–**	**49**
	2005	–	30	–	2

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the group's management.

All related party balances at 31 December 2006 will be settled in cash.

Purchases in respect of other directors' interests of US$49,000 comprise of market rate based costs of chartering the services of an aeroplane used for the transport of senior management and directors of the Company on company business, which is owned by an offshore trust of which the Chief Executive of the Company is one of the beneficiaries.

Other directors' interest in 2005 relates to payments made to a related party for services provided to the group by a then director of the Company.

In 2002, the Company extended an option to a director of the Company to acquire up to 75,000 ordinary shares of US$1.00 each at US$25.00 per share. On 18 May 2005, this option agreement was cancelled.

At the time of appointment in 2002, an agreement was reached between a director of the Company and 3i Group plc (3i), pursuant to which the director received a cash payment of US$1,422,000 from 3i following the Company's listing on the London Stock Exchange in 2005.

Compensation of key management personnel

The following details remuneration of key management personnel of the group comprising of executive and non-executive directors of the Company and other senior personnel. Further information relating to the individual directors is provided in the directors' remuneration report on pages 40 to 45.

	2006 US$'000	2005 US$'000
Short-term employee benefits	**4,412**	4,249
Other long-term employment benefits	**40**	51
Share-based payments	**288**	169
Fees paid to non-executive directors	**415**	266
	5,155	4,735

32 Financial instruments

Risk management objectives and policies

The group's principal financial instruments, other than derivatives, comprise bank loans, loan notes, non-recourse structured finance, cash and short-term deposits. The main purpose of these financial instruments is to finance the group's operations. The group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The group also uses derivative transactions, principally interest rate swaps and caps, and forward currency contracts to manage the interest rate and currency risks arising from the group's operations and its sources of finance. It is the group's policy that no trading in financial instruments be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

The group's exposure to market risk for changes in interest rates relates primarily to the group's long-term variable rate debt obligations and its cash and bank balances. The group's policy is to manage its interest cost using a mix of fixed and variable rate debt and specifically to keep between 60% and 80% of its borrowings at fixed or capped rates of interest. At 31 December 2006, after taking into account the effect of interest rate swaps and caps, approximately 64.8% (2005: 84.7%) of the group's term borrowings are at a fixed or capped rate of interest.

Foreign currency risk

The group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

32 Financial instruments (continued)

Credit risk

The group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not considered significant. At 31 December 2006, the group's five largest customers accounted for 66.3% of outstanding trade receivables and work in progress (2005: 69.8%).

With respect to credit risk arising from the other financial assets of the group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, revolving credit facilities, project finance and term loans.

Fair values of financial assets and liabilities

The fair value of the group's financial instruments as compared to their carrying amounts included within the group's balance sheet are set out below:

	Carrying amount		Fair value	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Financial assets				
Cash and short-term deposits	**457,848**	208,896	**457,848**	208,896
Restricted cash	**883**	1,648	**883**	1,648
Available-for-sale financial assets	**1,726**	2,413	**1,726**	2,413
Interest rate caps and swaps	**568**	672	**568**	672
Forward currency contracts	**8,840**	–	**8,840**	–
Forward currency purchase option	**–**	461	**–**	461
Financial liabilities				
Interest-bearing loans and borrowings	**117,180**	106,870	**117,180**	106,870
Deferred consideration	**7,373**	4,450	**7,373**	4,450
Interest rate swaps	**–**	147	**–**	147
Forward currency contracts	**–**	11,452	**–**	11,452

Market values have been used to determine the fair values of available-for-sale financial assets and forward currency contracts. The fair values of interest rate swaps and caps have been calculated by discounting the expected future cash flows at prevailing interest rates. The Company considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the group's interest-bearing financial liabilities and assets. The following table indicates the years over which these financial liabilities and assets will reprice or mature:

Year ended 31 December 2006

	Within 1 year US$'000	1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities	–	6,500	–	443	1,994	6,427	15,364
Short-term loan	6,033	–	–	–	–	–	6,033
Bank overdrafts	20,442	–	–	–	–	–	20,442
Term loan	–	2,500	10,000	11,250	15,625	37,736	77,111
	26,475	**9,000**	**10,000**	**11,693**	**17,619**	**44,163**	**118,950**
Financial assets							
Floating rates							
Cash and short-term deposits	457,848	–	–	–	–	–	457,848
Restricted cash balances	883	–	–	–	–	–	883
	458,731	**–**	**–**	**–**	**–**	**–**	**458,731**

Year ended 31 December 2005

	Within 1 year US$'000	1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities	8,900	–	404	1,817	2,827	3,029	16,977
Short-term loan	6,228	–	–	–	–	–	6,228
Bank overdrafts	6,055	–	–	–	–	–	6,055
Project term loan	7,000	–	–	–	–	–	7,000
Term loan	2,500	10,000	11,250	15,625	18,750	13,897	72,022
	30,683	10,000	11,654	17,442	21,577	16,926	108,282
Financial assets							
Floating rates							
Cash and short-term deposits	208,896	–	–	–	–	–	208,896
Restricted cash balances	1,648	–	–	–	–	–	1,648
	210,544	–	–	–	–	–	210,544

Financial liabilities in the above table are disclosed gross of debt acquisition costs of US$1,770,000 (2005: US$1,412,000).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Derivative instruments designated as cash flow hedges

At 31 December 2006, the group held the following derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings:

Instrument	Period to maturity	Date commenced	Fair value asset/(liability) 2006 US$'000	2005 US$'000
UK LIBOR interest rate swap	2 years and 9 months	31 December 2004	**77**	(147)
UK interest rate cap	1 year	31 December 2004	**4**	5
US LIBOR interest rate swap	1 year	31 December 2004	**487**	667

Foreign currency risk

The group is exposed to foreign currency risk on sales, purchases and borrowings that are entered into in a currency other than US dollars. The group uses forward foreign exchange contracts to hedge its foreign currency risk, when considered appropriate. At 31 December 2006, the group had foreign exchange contracts designated as cash flow hedges with a fair value gain of US$8,840,000 (2005: fair value loss US$11,452,000) as follows:

	Contract value		Fair value		Net unrealised gain/(loss)	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000	**2006 US$'000**	2005 US$'000
Euro currency purchases	**203,908**	344,107	**212,694**	332,689	**8,786**	(11,418)
Sterling currency purchases	**3,901**	36,896	**4,098**	36,862	**197**	(34)
Yen currency purchases	**13,379**	–	**13,236**	–	**(143)**	–
					8,840	(11,452)

The above foreign exchange contracts mature between January 2007 and February 2008 (2005: between January 2006 and June 2007).

During 2005, the group acquired an option from a bank to purchase Euro currency equivalent to US$31,368,000 by paying a premium of US$689,000. At 31 December 2005, the fair value of the option was US$461,000 with an unrealised loss deferred in equity of US$228,000. In October 2006, the option was exercised and a gain of US$105,000 was recognised in the income statement.

33 Events after the balance sheet

SPD Group Limited

On 16 January 2007, the group acquired a 51% interest in the share capital of SPD Group Limited (SPD), a specialist provider of well operations services. The consideration for the acquisition of the 51% interest inclusive of estimated transaction costs of US$172,000 was US$7,872,000. Consideration of US$7,700,000 (excluding transaction costs) was settled by a cash payment of US$3,935,000, issuance of loan notes payable of US$1,765,000 and the balance of US$2,000,000 by issuance of 274,938 new ordinary shares of the Company at market value at the date of issue to the vendor over three years in equal instalments on the anniversary of the transaction.

The terms of the sale and purchase agreement for the remaining 49% interest in the share capital of SPD which convey call option rights on the acquirer and minority shareholder put option rights over these shares and the respective rights to dividends and share of profits of the two parties are such that this transaction has been accounted for as a 100% acquisition of the business by the group. The discounted deferred consideration for the remaining 49% of the share capital of SPD has been estimated at US$12,025,000 and this will be reassessed each year to fair value and any adjustment to the deferred consideration arising will be reflected in goodwill except for the unwinding of interest which will be reflected in the income statement as an interest expense. The total consideration for the 100% interest therefore, including transaction costs, amounts to US$19,897,000.

The 100% fair values of the identifiable assets and liabilities of SPD Group Limited at the date of acquisition are analysed below and these are provisional pending final agreement with the vendor.

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	47	47
Intangible assets	2,369	–
Trade and other receivables	5,559	5,559
Cash and short-term deposits	970	970
Total assets	8,945	6,576
Less:		
Trade and other payables	(3,210)	(3,210)
Income tax payable	(10)	(10)
Total liabilities	(3,220)	(3,220)
Fair value of net assets acquired	5,725	3,356
Goodwill arising on acquisition	14,172	
Consideration	19,897	

	US$'000
Cash outflow on acquisition	
Cash acquired with subsidiary	970
Cash paid on acquisition	(3,935)
Legal and professional expenses paid on acquisition	(172)
Net cash outflow on the acquisition of subsidiary	(3,137)

Intangible assets recognised on acquisition comprise customer contracts which will be amortised over their remaining economic useful lives on a straight-line basis.

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the group.

Chergui gas concession

On 22 February 2007, the group completed the acquisition of a 45% interest in the Chergui gas concession in Tunisia, for a final cash consideration of US$27,323,000 which after including advance capital expenditure paid on behalf of the vendor of US$2,846,000 (note 10), brought the total consideration for the transaction to US$30,169,000.

34 Subsidiaries and joint ventures

At 31 December 2006, the group had investments in the following subsidiaries and incorporated joint ventures:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group 2006	2005
Trading subsidiaries			
Petrofac Inc.	USA	***100**	*100
Petrofac International Ltd	Jersey	***100**	*100
Petrofac Resources Limited	England	***100**	*100
Petrofac Resources International Limited	Jersey	***100**	*100
Petrofac UK Holdings Limited	England	***100**	*100
Petrofac Facilities Management International Limited	Jersey	***100**	*100
Petrofac Services Limited	England	***100**	*100
Petrofac Services Inc.	USA	***100**	*100
Petrofac Training International Limited	Jersey	***100**	*100
Petroleum Facilities E & C Limited	Jersey	***100**	*100
Petrofac ESOP Trustees Limited	Jersey	***100**	*100
Petrofac Employee Benefit Trust	Jersey	***100**	n/a
Atlantic Resourcing Limited	Scotland	**100**	100
Monsoon Shipmanagement Limited	Cyprus	**100**	100
Petrofac Algeria EURL	Algeria	**100**	100
Petrofac Engineering India Private Limited	India	**100**	100
Petrofac Engineering Services India Private Limited	India	**100**	n/a
Petrofac Engineering Limited	England	**100**	100
Petrofac Offshore Management Limited	Jersey	**100**	100
Petrofac FZE	United Arab Emirates	**100**	n/a
Petrofac Facilities Management Group Limited	Scotland	**100**	100
Petrofac Facilities Management Limited	Scotland	**100**	100
Petrofac International Nigeria Ltd	Nigeria	**100**	100
Petrofac Pars (PJSC)	Iran	**100**	100
Petrofac Iran (PJSC)	Iran	**100**	100
Plant Asset Management Limited	Scotland	**100**	100
Petrofac Nuigini Limited	Papua New Guinea	**100**	100
PFMAP Sendirian Berhad	Malaysia	**100**	100
Petrofac Caspian Limited	Azerbaijan	**100**	100
Petrofac (Malaysia-PM304) Limited	England	**100**	100
Petrofac Training Group Limited	Scotland	**100**	100
Petrofac Training Holdings Limited	Scotland	**100**	100
Petrofac Training Limited	Scotland	**100**	100
RGIT Montrose Inc.	USA	**100**	100
RGIT Montrose (Trinidad) Limited	Trinidad	**100**	100
Monsoon Shipmanagement Limited	Jersey	**100**	100
Petrofac E&C International Limited	United Arab Emirates	**100**	100
Rubicon Response Limited	Scotland	**100**	100
Petrofac Resources (Ohanet) Jersey Limited	Jersey	**100**	100
Petrofac (Cyprus) Limited	Cyprus	**100**	n/a
Petrofac Resources (Ohanet) LLC	USA	**100**	100
PKT Technical Services Ltd	Russia	**50**	n/a
PKT Training Services Ltd	Russia	**100**	n/a
Pt PCI Indonesia	Indonesia	**80**	n/a
Process Control and Instrumentation Services Pte Ltd	Singapore	**100**	n/a
Process Control and Instrumentation Sendirian Berhad	Malaysia	**100**	n/a
Sakhalin Technical Training Centre	Russia	**80**	n/a
Petrofac Norge AS	Norway	**100**	n/a

*Directly held by Petrofac Limited

34 Subsidiaries and joint ventures (continued)

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group 2006	2005
Joint ventures			
Costain Petrofac Limited	England	**50**	50
Kyrgyz Petroleum Company	Kyrgyz Republic	**50**	50
MJVI Sendirian Berhad	Brunei	**50**	50
Spie Capag – Petrofac International Limited	Jersey	**50**	50
TTE Petrofac Limited	Jersey	**50**	50
Dormant subsidiaries			
Petrofac Russia Limited	England	**100**	n/a
Petrofac Sakha Limited	England	***100**	*100
Petrofac Saudi Arabia Limited	Saudi Arabia	**100**	100
ASJV Venezuela SA	Venezuela	**100**	100
Joint Venture International Limited	Scotland	**100**	100
Montrose Park Hotels Limited	Scotland	**100**	100
Montrose Scota Limited	Scotland	**100**	100
RGIT Ethos Health & Safety Limited	Scotland	**100**	100
Scota Limited	Scotland	**100**	100

*Directly held by Petrofac Limited

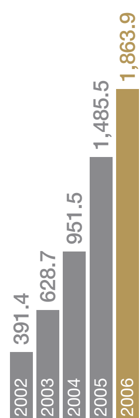
Five year summary[1]

Information not subject to audit

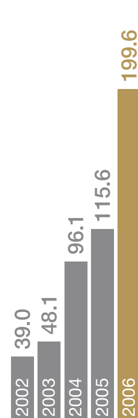
	2006	2005	2004 Restated	2003 Restated	2002 Restated
Revenues[2]	**1,863,873**	1,485,472	951,530	628,702	391,398
EBITDA[2]	**199,631**	115,634	96,065	48,075	39,043
Profit for the year[2,3]	**121,907**	75,397	46,083	38,359	34,336
Diluted earnings per share (cents)[2]	**35.32**	22.41	11.93	8.94	7.51
Total assets	**1,401,847**	986,650	729,357	527,088	467,643
Total equity	**324,904**	195,127	138,558	109,394	96,102
Average number of employees[2]	**7,482**	6,598	5,284	3,330	920
Backlog (US$ millions)	**4,173**	3,244	1,740	1,097	885

1 In US$'000 unless otherwise stated.
2 On continuing operations.
3 Attributable to Petrofac Limited shareholders.

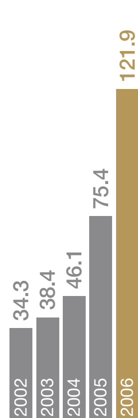
Revenues
US$ millions



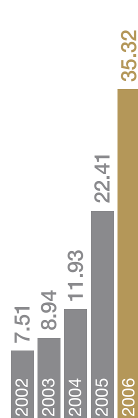
EBITDA
US$ millions



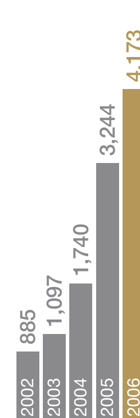
Profit
US$ millions



EPS (diluted)
cents per share



Backlog
US$ millions



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Petrofac shares are traded on the London Stock Exchange using code "PFC.L".

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2007 Financial calendar

11 May 2007	Annual general meeting
17 May 2007	Final dividend payment
5 September 2007	Interim results announcement
November 2007	Interim dividend payment

Dates correct at time of print, but subject to change

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