Petrofac

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Petrofac Annual report and accounts 2007

Petrofac

# Delivering value[s]

Annual report
and accounts 2007

# At a glance

Petrofac has a proven track record in helping companies and governments exploit oil & gas resources worldwide. Over the last five years, our workforce has increased from 1,000 to more than 9,500 and our revenues have grown at 40% compound per annum.

We operate in four key geographic areas – the UK Continental Shelf, Middle East and Africa, Commonwealth of Independent States and Asia Pacific – with support through 24 offices worldwide, including key centres in Aberdeen, Sharjah, Woking, Mumbai and Chennai.

Through our divisions, we design, build, operate and manage oil & gas facilities, train personnel and – where our expertise can leverage our skills in alignment with our customers – we develop and co-invest in projects. At all times and in every aspect of our work, we maintain an unyielding commitment to health and safety.

## Three divisions, one standard

### Engineering & Construction

This division carries out conceptual design, front end engineering and design (FEED) and construction of oil & gas plants and associated infrastructure. Experienced in both greenfield and brownfield developments, our planning and project teams develop solutions that help maximise the lifetime value of oil & gas assets – on time, on budget and across the world.

Our expertise is broad and includes oil & gas gathering, processing and transportation facilities. We thrive on challenges and have a long record of delivering innovative solutions however demanding the project or site conditions.

**Locations**

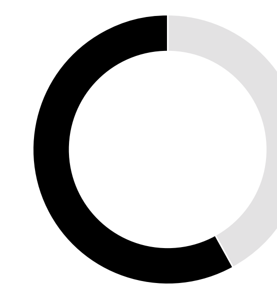
**Key achievements during the year**

- The successful completion and delivery of a new gas plant in the Kauther field in north Oman
- Securing repeat business at Karachaganak in Kazakhstan; completion of the fourth gas train is scheduled for 2009
- Achieving good progress on two new gas trains at the Salam gas plant for Khalda Petroleum Company in Egypt (see page 32 for details)
- A significant increase in valuable consultancy work, handled through our office in Woking, UK
- Award of US$600 million lump-sum EPC contract for In Salah Gas in Algeria

**+31%**

**Revenue**
**US$1,415m**
2006: US$1,081m

**Percentage of group revenue**
**58%**



### Operations Services

Our Operations Services division supports customers through two separate business streams.

**Petrofac Facilities Management** provides comprehensive operational support for oil & gas assets. Within Facilities Management, our operations management teams deliver a total outsourcing capability which takes full responsibility for managing a customer's asset. Our integrated resources businesss enables customers to choose from our wide portfolio of support services while retaining ultimate responsibility for the asset. Facilities Management also includes a significant brownfield engineering capability together with a range of specialist consultancy services.

**Petrofac Training** helps customers optimise their people's expertise and reduce risk through competency-based training in safety and operational disciplines. We also offer a range of managed solutions in the areas of training administration and management, in emergency response and crisis management, and provide training consultancy in all of these areas.

**Locations**

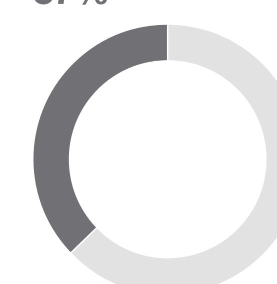
**Key achievements during the year**

- The successful transition of the Dubai Petroleum offshore assets to the new contract under which we provide operational management services as service operator
- Contract extensions for GNPOC in Sudan and for Maersk in the UK North Sea
- Developing a long-term relationship with BP in the Gulf of Mexico to support the development of their training and competency function
- Completion of Brownfield retrofits in the Greater Kittiwake area for Venture Production and the WaGE project for Talisman
- The continuing success of our Emergency Response Service Centre in Aberdeen. 20 customers and over 70 facilities now rely on our support to provide an integrated response in the event of an incident on or offshore
- Provision of a training management solutions contract for Petroleum Development Oman (PDO) in support of Engineering & Constuction execution on Harweel contract in Oman (see page 34 for details)

**+25%**

**Revenue**
**US$911m**
2006: US$729m

**Percentage of group revenue**
**37%**



### Energy Developments

Energy Developments provides the platform through which we partner with customers by developing and co-investing in upstream and energy infrastructure projects where we can deploy our wider group's operations and engineering skills.

With an experienced team of asset managers and commercial specialists, backed by strong financial resources, we work alongside our customers to develop solutions which enhance project viability, better manage project risks and improve alignment.

**Locations**

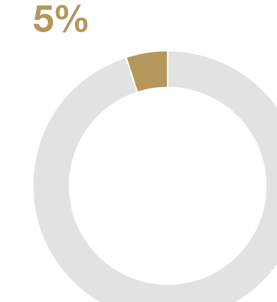
**Key achievements during the year**

- Successfully negotiating the contract for the Northern Producer floating production facility for the Don Area development in the UK North Sea and submission of final field development plans
- Completing the acquisition of a 45% interest in the Chergui gas plant in Tunisia (see page 30 for details)
- Exceeding expectations for operations in the Cendor field, offshore Malaysia, where we have a 30% stake. Cendor recorded 98% production uptime during 2007 and a year of safe operation

**+114%**

**Revenue**
**US$133m**
2006: US$62m

**Percentage of group revenue**
**5%**



# [Our values are the foundation of our success. They are central to the way we operate and underpin our rapid growth.]

## By delivering on those values, we will continue to provide value to our stakeholders.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# Financial highlights

**Revenue**
**US$2,440m**
2006: US$1,864m
+31%

**Backlog**
**US$4,441m**
2006: US$4,173m
+6%

**EBITDA**
**US$301.3m**
2006: US$198.3m
+52%

**Earnings per share (diluted)**
**54.1 cents per share**
2006: 34.9 cents per share
+55%

**Net profit**
**US$188.7m**
2006: US$120.3m
+57%

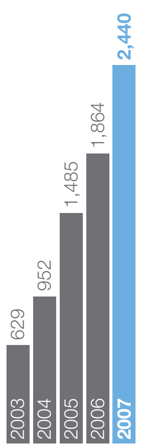
**Return on capital employed**
2006: 45.7%
47.3%

## Five year summary[1]

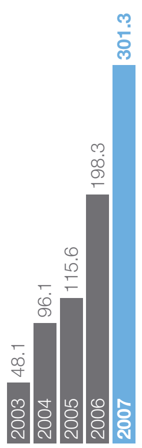
| Information not subject to audit | 2007 | 2006 Restated | 2005 | 2004 Restated | 2003 Restated |
|---|---|---|---|---|---|
| Revenues[2] | 2,440,251 | 1,863,906 | 1,485,472 | 951,530 | 628,702 |
| EBITDA[2] | 301,259 | 198,349 | 115,634 | 96,065 | 48,075 |
| Profit for the year[2,3] | 188,716 | 120,332 | 75,397 | 46,083 | 38,359 |
| Diluted earnings per share (cents)[2] | 54.14 | 34.87 | 22.41 | 11.93 | 8.94 |
| Total assets | 1,748,007 | 1,401,847 | 986,650 | 729,357 | 527,088 |
| Total equity | 486,004 | 324,904 | 195,127 | 138,558 | 109,394 |
| Average number of employees[2] | 9,027 | 7,482 | 6,598 | 5,284 | 3,330 |
| Backlog (US$ millions) | 4,441 | 4,173 | 3,244 | 1,740 | 1,097 |

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

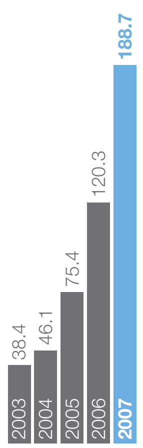
**Revenue**
US$ millions



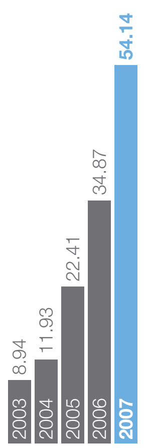

**EBITDA**
US$ millions



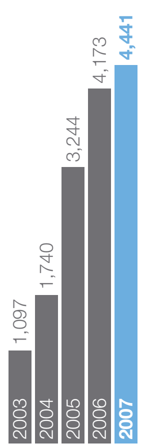

**Profit**
US$ millions




**EPS (diluted)**
cents per share




**Backlog**
US$ millions



# [Living values], delivering value

Customers, employees, communities and shareholders all demand and expect Petrofac to deliver, whether in terms of service, financial performance or cultural sensitivity. Through our five core values, we focus relentlessly on delivering those results.

Being **safe** underpins everything we do. We have a duty of care to our people and to the communities in which we are present; a duty we take with the utmost seriousness. Our people are **ethical.** We have firm principles and will not tolerate anything less than the highest standards of behaviour.

Being **innovative** means thinking about challenges and solutions in a different way. We are creative in how we approach all aspects of a project, from funding and risk-sharing to developing fast track and optimum cost solutions to our customers' development requirements. Our business is built on being **cost-conscious** and translating the savings we can make into improved financial performance for our customers.

We are a service company, and that means being **responsive** to our customers' needs. Listening to customers and understanding their needs is not just the Petrofac way: to us it is the only way to run a successful business.



## [safe]

"Working safely is always our main priority – but nowhere is this more challenging than on a brownfield site such as this one. To date, we have achieved 16 million man hours without an LTI (lost time incident), while also meeting a set of very demanding delivery targets."

**Pratap Kumar**
**Construction Director, KOC facilities upgrade, Kuwait**
**Engineering & Construction**

Although we operate in difficult and dangerous environments, working safely is fundamental to our business and shapes the way in which we work on every site, in every country, for every customer.

Our reputation is our competitive edge and we cannot afford to put it at risk through avoidable accidents. Safety is intrinsic to our culture. Managers and supervisors listen to – and act on – the concerns of our people. Each member of the workforce monitors the safety of colleagues, while audit teams examine safety performance and external assessors test compliance against best practice. We play a leading role in industry benchmarking, sharing our knowledge and drawing on the experiences of others to fine-tune our own systems and processes.

# [ethical]

**"Everybody at Petrofac understands how important it is for us to be fair, honest and considerate in all aspects of our work. I'm proud to be part of the 'Petrofac family' because I know that the Company will never ask me to compromise my commitment to my family or my community."**

**Jasmine J**
**Process Designer, Chennai, India**
**Engineering & Construction**

Other companies frequently talk about supporting their people and respecting their communities, but at Petrofac we go further: we deliver on our promises. We are open, trustworthy partners for customers and local stakeholders alike. We are a multi-cultural organisation and treat every team member with respect.

No matter where we operate, we work to the same high standards which include being a good corporate citizen, employer and neighbour. Through our corporate social responsibility (CSR) initiatives, we build and maintain relationships with those communities, by supporting them through financial help as well as the active engagement of our people in local projects (see pages 42 to 47 for more details).



# [innovative]

**"Choosing to use the Northern Producer, rather than a host platform, for the main processing facility for fluids was a decision that transformed the way we're working on the Don Asset in the North Sea. It reduced the amount of offshore work, saving costs and increasing the level of safety."**

**Maurice Jenkins**
**Head of Strategic Development,**
**Energy Developments**

There is a difference between simply understanding a project's goals and deciding how they are best achieved. Entrepreneurial by nature and agile by design, we are innovative in both a commercial and a technical sense. Sometimes this may mean tailoring a contract that shares risk as well as reward, at other times, it may see us introducing a new way of doing business to our joint venture partners, a new service to our customers or choosing an unusual technical solution. This innovative approach to project development will lead to faster, more productive or more cost-effective solutions and bring demonstrable benefits to our partners or customers.


# [ cost-conscious ]

**“High pressure hydrotesting of the pipeline requires the use of very expensive materials. We always work hard to minimise the customer’s costs, so think creatively about how we can optimise resources – without compromising the safety of our people.”**

**Ali Rammal**
**Mechanical Engineer**
**Engineering & Construction**

Financial performance is a key component of successful project delivery. We draw on all our resources, experience and expertise to maximise cost-savings for our customers. We plan carefully and procure early to shorten time schedules and maximise efficiency improvements. This approach was made even more effective when we became one of the first companies to establish a full service engineering capability in the Middle East, close to many of our customers.

Although we are relentless in our pursuit of cost efficiencies, this is never at the expense of value. In our view, there is a difference between the lowest cost and the greatest value. The bottom line is critical, but it is not the only driver of value.



# [ responsive to customers ]

**“During the Kittiwake export project, an important factor in our success was the manner in which we responded to a late but major design change, after orders had been placed. That degree of flexibility, coupled with a real ‘can-do’ attitude, is how we build trust, develop relationships and, ultimately, win repeat business.”**

**Alex Hosie**
**Venture Business Manager, Brownfield**
**Operations Services**

We are nothing without our customers. Listening to their current needs – and anticipating their future requirements – is a primary reason why we have a reputation as the partner of choice for so many of the world’s most successful oil & gas companies.

Our customers want us to be cost-effective. They demand safety combined with high performance. They seek partners with good ethics and their projects necessitate a highly innovative way of thinking that is not always available from less creative organisations. At Petrofac, we respond.

# Focused relentlessly on delivering results

Ours is a results business.

Whether we are measured by tight schedules, low costs or bright ideas, by production targets achieved or lost time incidents avoided, we are proud to be judged by our results.

Our five core values – safe, ethical, innovative, cost-conscious and responsive to customers – are deeply embedded in our culture. Together, they combine to ensure that every Petrofac professional, on every Petrofac project in the world, is focused relentlessly on delivering results.



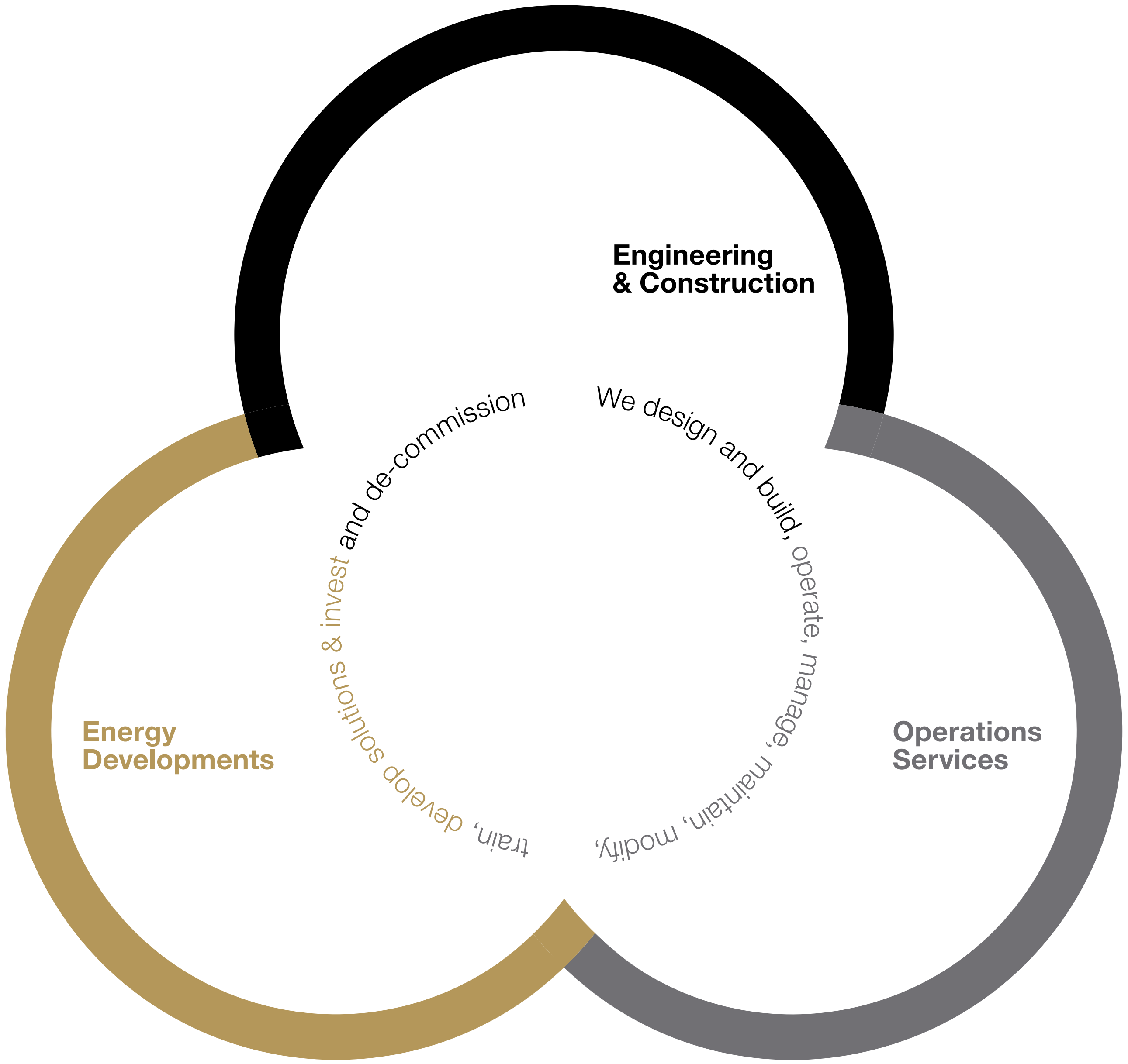
# Integrating services, delivering value

Our business model sets us apart. We can provide a full portfolio of services: Engineering & Construction, Operations Services and also, through Energy Developments, a capability to co-invest in projects where closely aligning our interests with those of our customer will deliver additional value.

**From independent to integrated**
We never forget that Petrofac is a service company, and shape our offering to meet the particular needs of our customers.

Each of our divisions is a standalone and independent entity able to provide a clearly-defined range of services. Our key strength, however, is how these three divisions can integrate to deliver a total and unmatched service.

Engineering & Construction might design and build a project and take it from design concept to handover. Operations Services could then take responsibility for commissioning and the ongoing maintenance and management of the facility. Energy Developments is our investment arm that might invest alongside our partners and develop and finance the project.






## Engineering & Construction

**Reducing costs and saving time to deliver value for the Salam gas plant, Egypt**

To find out more go to page 32

## Operations Services

**A bespoke training programme to deliver additional value for the operatives of the Harweel plant, Oman**

To find out more go to page 34

## Energy Developments

**Partnering to deliver value at Chergui gas plant, Tunisia**

To find out more go to page 36

# Chairman's statement



**Petrofac had another year of excellent performance in 2007. As a relatively recently listed Company, we continued to mature organisationally and to develop our business. Revenue grew by 31% to US$2,440 million during the year and net profits increased by 57% to US$188.7 million.**

## Market overview

Although our customers range from national oil companies and major international oil companies through to smaller independent companies they all face similar challenges; how to bring new oil & gas production on stream in the face of increasing rates of depletion in existing fields and growing world demand for energy. As a consequence, demand for our services during the year has been very strong and we expect this to continue for several years to come.

2007 was also a year in which our industry tried to reconsider the way it has traditionally addressed the challenge of safety, following a number of unfortunate incidents globally. Oil & gas production takes place in some extremely hazardous and remote locations and involves processes and systems which can interact in complex ways. With many plants worldwide operating beyond their original designed lives, a better approach to ensuring the integrity of facilities is required and I am pleased that Petrofac is playing its role in this critical change. Safety is absolutely embedded within Petrofac's culture. It is our responsibility to ensure the safety of every one of our employees on every project worldwide; a responsibility which we take extremely seriously.

## Our progress

In this positive market environment, we have continued to record important achievements which differentiate Petrofac from our mainstream competitors. Our businesses have again worked with considerable skill, delivering outstanding financial results and working on some truly world class projects. They have also continued to promote the service ethos which has always characterised our business; we strive to meet and then surpass our customers' expectations. In Energy Developments we have an investment division that offers an increasingly interesting proposition to our customers. By co-investing alongside them on projects where our core skills are deployed, we can manage risk better and help build and operate complex infrastructure at lower cost.

The rapid, sustained organic growth we have experienced in recent years is both exciting and rewarding – but it is also challenging. We are conscious of the need to put in place the best processes to keep pace with our expansion while also retaining the spirit of entrepreneurship that has driven our growth. We are evolving into a large Company but the entrepreneurship at the heart of our business remains vigorously intact. We have a highly-driven leadership team supported by skilled managers and engineers, many of whom have grown along with the Company.

## Dividends

The Board is recommending a final dividend of 11.50 cents per ordinary share with an equivalent of 5.71 pence per ordinary share which, if approved, will be paid on 19 May to eligible shareholders on the register at 18 April 2008. Together with the interim dividend of 4.90 cents, equivalent to 2.44 pence, this gives a total dividend for the year of 16.40 cents per ordinary share, an increase of 86% compared to 2006.

## Corporate governance and social responsibility

We have continued to improve the way in which we run the Company, in line with best practice. Our internal oversight processes have deepened and we have added Board oversight of major risk issues through the formation of a new Risk Committee.

We have increased our reporting of corporate social responsibility (CSR) issues, both in this Report and also online, as stakeholders rightly demand more information on how we impact the communities alongside which we operate. Some of our operations are conducted in countries facing difficult and, often, deep-seated problems and we are committed to using our influence, limited though it may be in certain places, as a positive force helping to promote long-term and sustainable solutions.

## Our people

The quality of our people is the single greatest factor behind our success. Our staff numbers rose from around 7,800 to 9,600 during 2007 as we continued to invest in the talented, committed individuals who will keep us at the forefront of our industry.

I would like to put on record the Board's thanks to all those who through their experience, expertise and willingness to do their utmost on behalf of our customers, have contributed so much to such an outstanding performance.

## The Board

During the year your Board was expanded with the new appointments of Rijnhard van Tets and Amjad Bseisu. They joined the Board following the 2007 Annual General Meeting. There were no other changes during the year.

## Outlook

For Petrofac, 2008 has started in the same vein as 2007 closed: with strong demand for our services and a fine record of execution from our businesses and we expect to deliver another year of good growth.

I extend the Board's thanks to our customers, shareholders, partners and suppliers – as well as to our staff – for their continued support. Together, we face the future with confidence.

Rodney Chase

**Rodney Chase**
Chairman

# Interview with the Group Chief Executive



**Petrofac's Group Chief Executive, Ayman Asfari discusses some of the highlights of 2007 and the Company's plans for 2008 and beyond.**

**The last year has been very successful, what has been behind this success?**
Petrofac's success can be attributed to one factor: our people. We are a people business and can only succeed through the skills and commitment of the professionals who help ensure that we deliver the highest standards to our customers. I am very pleased with the execution we've seen in all three divisions. We have had another excellent year with good levels of customer satisfaction and correspondingly strong demand for our services.

Our values are absolutely central to the way our people operate and interact with colleagues, customers and other stakeholders. Our key challenge is to maintain our values as we grow. So we are working hard on how we attract, retain and nurture talent and there are many development programmes in place across our business that build on our competency frameworks to ensure that we have the right people with the right skills in Petrofac. Examples include our extensive graduate recruitment and development programmes that operate across the group, and in Operations Services we have a programme called Petrofac Academy, which trains management in various technical operational standards and key behaviours.

Effective communication is also critical to our ongoing development. We are implementing many new channels of communication for all stakeholders, but placing particular emphasis on how we improve internal communication with our staff.

**How does the bidding pipeline for Engineering & Construction projects look for 2008 and beyond?**
I would say that the pipeline for 2008 is, if anything, even healthier than in previous years. We have a number of significant opportunities to look forward to in our traditional areas of operation: the Middle East, Africa and Asia Pacific.

**The Dubai Petroleum contract has clearly made an important contribution to the Operations Services division in 2007. How has the contract performed so far?**
We took over the management of Dubai's offshore oil & gas facilities on 2 April 2007, following a nine-month transition period. Our primary goal was to ensure that we continued to run a safe operation with no unforeseen events, and to manage the transition effectively. We succeeded on both counts. Now we are focused on how we can effect change and deliver improvements in operational performance – at the end of the day that is what our customers expect.

**The year has seen significant activity on the development of your investment projects, what's next for Energy Developments?**
In 2007, Energy Developments made significant progress with both the Chergui project in Tunisia, and the Don Area development in the UK North Sea. We are now pursuing upstream opportunities with partners in the Middle East area and we hope to secure at least one of these during 2008. We are also looking at other opportunities in the UK, which leverage our development and operational skills.

**Where and how do you expect Petrofac to grow over the medium-term?**
We will continue to focus on the Middle East, Africa and Asia Pacific and will work hard to establish a deeper presence in those areas. We are actively pursuing bids in Saudi Arabia and in Africa, where we are looking at opportunities in Libya, Algeria and Tunisia. Growth from the UK continues to be strong and the Operations Services division, and our training business in particular, is seeking to build a worldwide capability which encompasses all of our geographic focus areas and includes the Gulf of Mexico.

**Have you seen any significant change or developing trends in the oil & gas market over the last year?**
2007 was characterised by three key trends. We saw the continuation of the long-term trend for the industry to commit more capital to maintaining existing production volumes while also developing new capacity. The oil industry has under-estimated the robustness and growth of markets such as India and China, and the result has been an increase in the price of oil.

The second important trend was the increased focus by the industry on asset integrity and process safety, particularly after the Texas City refinery incident and the lessons that our industry learned from it.

Finally, there has been a shift in the dynamics of the relationships between national oil companies and governments and the international oil companies. There has been a movement towards nationalising resources – in Latin America, for example – and in re-negotiating terms more in favour of host governments such as in Kazakhstan. There have also been examples of increased willingness from some of the national oil companies to pursue opportunities in direct competition with international oil companies.

# Interview with the Group Chief Executive continued

## Our strategy is to remain committed to our core competencies, which have driven our growth and success in the past, while expanding the breadth and depth of our service.

**How is the contracting environment changing in response to increased cost pressures and how will this impact Petrofac?**
We have seen cost pressures across the industry, both for underlying commodities and in terms of wage inflation. At Petrofac, we are always cost-conscious and our people have done an excellent job in managing cost escalation by hedging purchases of materials and being proactive in anticipating wage inflation.

**How do you think your strategy will develop over the short to medium term?**
Our strategy is to remain committed to our core competencies, which have driven our growth and success in the past, while expanding the breadth and depth of our service.

For example, we are addressing one or two areas where we do not as yet have strong capabilities, such as deepwater offshore operations in the upstream sector. We are also expanding our geographic footprint, establishing a deeper presence in areas including the Middle East and West Africa.

We are building our capability organically, but when we identify appropriate opportunities for acquisition we will pursue them as we have historically.

**What progress are you making with providing the wider group's services into projects?**
Our ability to integrate the capabilities of our three divisions into one cohesive, customer-focused service is a key differentiator for Petrofac.

Instances of such integration in action include the Harweel project in Oman, where Operations Services is providing training support to operatives of the Harweel enhanced oil recovery plant which is being built by Engineering & Construction, and all three divisions have worked closely together in the Chergui development in Tunisia.

So we are making good progress. However, we can integrate even further and during 2008 we will continue to work towards being able to provide a seamless offering.

**What was the biggest challenge you faced last year?**
Maintaining and building our human resources capability was certainly one challenge that we rose to with some success during the year. Beyond people issues, we have continued to look at our organisation and to ensure that as we grow we have the internal processes and resources to support that growth. We initiated this focus, which includes evaluating our global IT systems, in 2007 and will continue to concentrate on it throughout 2008.



**Employee numbers grew from around 7,800 to 9,600 at the end of 2007. Given the industry's concerns over a lack of skilled resources, how have you managed to achieve this? Can this growth be maintained?**
We are a very international and multicultural business, and we managed to grow numbers all over the world – for example in the UK and the Middle East as well as in our Indian operations. Even though the Engineering & Construction division saw a significant expansion in relative terms, from 2,700 to 3,800, this ability to access resources worldwide means we are not reliant on one or two particular labour markets.

Our focus on graduate recruitment, in-house training and staff development combine to help us build the skills bases we need to move ahead with confidence. Hiring from within other industries with similar skill sets to our offshore oil & gas business has also been a successful way of adding both skilled and semi-skilled staff to our organisation, providing additional training as required.

**How is Petrofac managing the threat of high employee attrition rates to retain and incentivise its employees?**
There are three elements to attracting and retaining a high quality workforce.

The first element – and this is one on which we have always concentrated – is the provision of competitive compensation packages. Secondly, we have introduced a number of share schemes and we are keen to spread employee share ownership further still in the future.

The third element concerns the huge opportunities that people have within a rapidly-growing business such as Petrofac. As the Company grows, so too can our people. They can see a clear and professional career path here – one that encourages them to succeed, rewards them appropriately and enables them to fulfil their personal and career goals.

**Ayman Asfari**
Group Chief Executive


**Photographs above from top to bottom**
[a] Operations at Chergui gas plant, Tunisia
[b] Dubai Petroleum, Dubai
[c] Bridge View Office, Aberdeen

# Operating review

Petrofac designs and builds oil & gas facilities; operates or manages facilities and trains personnel; and, where synergies are identified, co-invests to provide additional alignment.

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



## Strategy

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

**Photograph left**
[a] Operations at Salam gas plant, Egypt

**Photographs above from top to bottom**
[b] On-site at Salam gas plant, Egypt
[c] On-site at Kauther gas plant, Oman
[d] Pupils at Arvind Gandbhir School, Mumbai, India
[e] Staff at the Mumbai Office, India

# Strategy
continued

Petrofac aims to achieve this goal through eight key strategic initiatives. Progress during the year against these initiatives is outlined below:

**Maintaining and improving on high safety standards**

- The group's health and safety performance is reviewed on page 44 in the Corporate Social Responsibility Report
- The group's health and safety key performance indicators (KPIs) are presented on page 22

**Attracting and retaining recognised specialists and key personnel/managing succession issues**

- Although skilled personnel are in unprecedented demand, the group has been successful in growing its employee base from approximately 7,800 at 31 December 2006 to approximately 9,600 at 31 December 2007
- While growth in employee numbers in the Operations Services division is often in conjunction with assuming responsibility for new facilities, in general, the group has achieved this strong growth through its:
  - efforts to promote and reward on merit
  - growing employee share ownership (see page 45 for details)
  - commitment to training
  - recruitment strategies
  - access to international labour markets, in particular in the Middle East, the Indian Subcontinent and Asia (for example the group opened a new office in Chennai in April 2007)
  - involvement in world-class projects
  - exciting prospects for continued growth
- The significant growth in employee numbers includes extending the depth and breadth of management and senior management positions
- Succession issues are reviewed by the group's senior management periodically and succession plans and skills gap analyses are reviewed by the Board

**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**

- A key factor in the group delivering strong execution performance is its use of local resources, through recruiting in the local market and establishing long-term relationships with local subcontractors, particularly construction subcontractors
- In addition, the group increasingly delivers training to national workforces, for example:
  - In Oman, Petrofac is training Petroleum Development Oman's employees to operate and maintain the Harweel cluster development, which is currently under construction by the Engineering & Construction division (see page 34)
  - The group recently announced its plans to design and invest in a safety and technical training centre with Dubai Petroleum (see page 28)

**Focusing on regions with major hydrocarbon reserves where significant capital and operational expenditures are expected**

- The group is focused on its key markets of the UK Continental Shelf (UKCS), the Middle East and Africa, the Commonwealth of Independent States (particularly the Caspian region) and the Asia Pacific regions
- These key areas account for approximately 70% of the world's proven oil reserves[1] and 80% of its gas reserves and the significant capital, and subsequently operational, expenditures described in 'Operating Environment' (page 25) are expected to be focused in these regions

**Ensuring a diversified and complementary business model**

- The group's activities provide differentiated commercial, risk, return and cash flow profiles:
  - The Engineering & Construction division is principally focused on delivering fixed-price upstream development projects, with contracts typically 24 to 36 months in duration, and is therefore leveraged to the ongoing strong demand for the group's services (see 'Operating Environment' on page 25); however, the division provides an increasing proportion of reimbursable conceptual design, front end engineering and design (FEED) and consultancy services and has the capability and intent to balance its portfolio with a larger proportion of downstream projects
  - The Operations Services division is principally a cost-plus/reimbursable business, albeit with a growing proportion of net income linked to key performance indicators. The division's operations management business has a large proportion of life-of-field contracts, while the integrated resources business has a number of long-term (typically three to five year) contracts, many of which represent extension or renewal of contracts with customers with which the division has established long-term relationships
  - Energy Developments provides the platform through which customers can access the group's services under innovative commercial structures. The group is prepared, selectively, to risk its own capital, alongside that of its customers and partners and, in so doing, ensure complete alignment with the objectives of a development. Such exposure to the risks as well as rewards of a development's performance can be structured in a number of ways, including concessionary and gain-share arrangements, performance-driven service contracts, quasi-equity structures or direct equity investments



**Leveraging customer relationships by providing a range of services across the life cycle of an asset**

- The group is focused on the provision of an integrated service:
  - In Oman, the Engineering & Construction division completed the engineering, procurement and construction (EPC) of the Kauther gas plant during the year; through its Facilities Management business, Petrofac will commission and initially operate the plant; Petrofac Training have trained PDO Oman plant operators to operate the plant after the initial period of operation
  - The Operations Services division is providing turnkey well and facilities management of Dubai's offshore oil & gas facilities on behalf of Dubai Petroleum, an entity wholly owned by the government of Dubai, through its Facilities Management business and SPD Group Limited (SPD); Petrofac Training will manage Dubai Petroleum's training activities and Petrofac Brownfield provide a range of engineering services

**Expanding Petrofac's established service offering into new countries and regions**

- The group's activities have considerable geographical diversification within its core regions of the UKCS, the Middle East and Africa, the Commonwealth of Independent States and the Asia Pacific regions. During the year the group has further diversified geographically within these regions:
  - The Engineering & Construction division's presence in North Africa increased significantly with work commencing on projects in Egypt and Tunisia; the division will also undertake its largest contract in Algeria for some time with the award of the US$600 million In Salah Gas compression project in late 2007
  - The Engineering & Construction division has been developing its presence in Saudi Arabia and West Africa, which are potentially significant markets for the group in the medium to long-term
  - With the commencement of the well and facilities operations management contract with Dubai Petroleum, the Operations Services division has established a significant presence in Dubai; as described above, the division's Training and Brownfield engineering businesses have also established a key presence in the Emirate

**Identifying, acquiring, integrating and developing complementary businesses, where appropriate**

- As well as strong organic growth, the group has a history of broadening its capability through the acquisition of complementary businesses. In January 2007, the group acquired a majority stake in SPD, a specialist provider of well operations services (see page 28 for more details)

**Photographs above from top to bottom**
[a] Operations at Kauther gas plant, Oman
[b] Fire Training in Montrose, Scotland

1 As per the Energy Information Administration of the US Department of Energy, as at 14 January 2008. Oil reserves include 173 billion barrels of Canadian oil sand reserves.

# Key performance indicators

To help the group assess its performance, the Board and executive management set annual KPI targets and monitor and assess performance against these benchmarks on a monthly basis throughout the year[1]. Throughout this Operating and Financial Review, performance is assessed with reference to these KPIs, the annual measures of which are presented opposite.

## Revenue
Measures the level of operating activity and growth of the business

US$ millions


Revenue for the year as reported in the consolidated income statement.

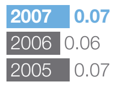
## Return on capital employed (ROCE)
ROCE is a measure of the efficiency with which the group is generating operating profits from its capital

%


ROCE is calculated as EBITA (earnings before interest, tax, amortisation and impairment charges calculated as 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).

## Lost time injury and recordable injury frequency rates
Provides a measure of the safety performance of the group, including subcontractors and partners

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




Recordable injury (rates per 200,000 man hours)

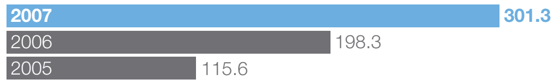

Lost time injury (LTI) and recordable injury (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners expressed as a frequency rate per 200,000 man hours.

1 With the exception of the group's return on capital employed which is reported on a six monthly basis.



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

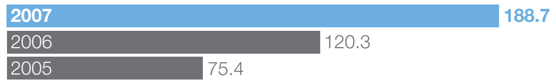
US$ millions




EBITDA is calculated as profit before tax and net finance income (as per the consolidated income statement) adjusted to add back charges for depreciation, amortisation and impairment charges (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)

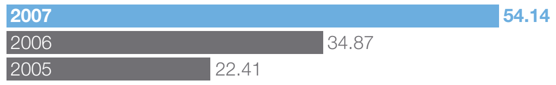
US$ millions




Profit for the year as reported in the consolidated income statement.

## 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 in the consolidated income statement and calculated in accordance with note 7 to the financial statements.

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

US$ millions


%


Cash generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA.

## 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.

## Employee numbers
Provides an indication of the group's service capacity

Number of employees (approximately)


For the purposes of the Annual Report, employee numbers include agency and contract staff but exclude employees of joint ventures.

# Key risks and uncertainties

**There are a number of risks and uncertainties which may have an impact on the accuracy of forward looking statements, the financial performance of the group and its share price. These are explained below, along with the approach to managing the risk or uncertainty. As noted in the Corporate Governance Report on page 55, the group has initiated a review of the way it identifies, evaluates and manages risk following the appointment of the Head of Enterprise Risk Management during the year. As a result, some of the key risks and uncertainties presented in the 2006 Annual Report have been reclassified and/or revised.**

The list below 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.

### Level of demand for the group's services

The demand for the group's services is linked to the level of expenditure by the oil & gas industry, which is not easy to predict; however, as noted in the 'Operating Environment' section (see page 25), the group expects the demand for its services to remain strong for the long-term.

### Availability of executive or project staff

The availability of skilled personnel remains one of the most significant challenges facing the oil & gas industry. The group remains confident that its efforts to promote and reward on merit, 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, involvement in world-class projects and exciting prospects for continued growth will enable the group to attract and retain the necessary skilled personnel. Senior management review succession plans on a periodic basis. (See the key performance indicators on page 23 for details of the group's employee numbers).

### Financial performance of contracts

The group's financial performance could be materially affected by the performance of a relatively small number of large contracts, particularly those which are lump-sum. The group has a strong track-record of successful project execution which reflects its rigorous approach to risk identification and mitigation, from tender through to project completion. Additionally, the group does not recognise profits in the early stages of lump-sum contracts and maintains contingencies to cover unforeseen cost increases. An internal control framework exists to ensure the quality, schedule and budget of projects is regularly reviewed. The progress made on key projects is formally reported to the Board and senior management on a regular basis.

### Change of political, social or economic factors in key regions

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 diversity of the group's geographical footprint should provide some mitigation against country-specific risks, such as a change in taxation regime.

### Financial and liquidity risk: Cost inflation

The majority of the costs of the Operations Services division and a minority, but growing proportion, of the Engineering & Construction division's costs are reimbursed by clients, either on an actual cost basis or through a periodically revised schedule of rates. The group's largest exposure to cost inflation is in its provision of lump-sum Engineering & Construction services. These exposures are managed before and after bid submission as follows:

- Conditional on the award of a major contract, the group will typically negotiate agreements to procure equipment and/or arrangements with key subcontractors, on back-to-back terms where possible
- Expectations of wage inflation are factored into project costings for bid submissions and budgets
- The group maintains contingencies to cover unforeseen cost increases

The capital expenditure associated with Energy Developments' projects is managed in a similar manner to Engineering & Construction lump-sum projects.

### Exchange rates

While the group operates in a number of diverse geographical locations, the majority of the group's revenues are denominated in US dollars or currencies pegged to the US dollar. In contracts priced in US dollars (or currencies pegged to the US dollar) 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 as 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/Sterling exchange rate.

### Oil price

While the long-term trend in the price of oil & gas may have an impact on the level of new investment in the industry the service divisions (Engineering & Construction and Operations Services) should not be significantly impacted by short to medium-term fluctuations in the price of oil & gas (see 'Operating Environment' on page 25). The financial performance of the Energy Developments division is more heavily leveraged to the price of oil & gas through its co-investment in upstream oil & gas assets. Where commodity price risk exists, for example, on the Cendor project (see page 30) where the division benefits from approximately 30% of the upside of the oil price above an agreed base price, the division will look to hedge an appropriate proportion of the exposure on a project-by-project basis.

Other financial risks associated with or managed through the use of financial instruments, such as interest rate, credit and liquidity risk, are disclosed in note 31 to the financial statements.



### Health, safety and environmental performance

Petrofac's strong culture of health and safety and environmental (HSE) awareness is a key part of its operational and business activities and is vital to the group's system of business management and integral to delivery of quality and business excellence. As the group enters new geographical markets, particularly with new customers and partners, and assumes responsibility for new infrastructure, it is imperative that its focus on HSE is maintained. The group's financial exposure to a significant HSE incident is generally mitigated through its commercial arrangements and insurance programme, though an incident may have a financial impact on the group's KPI income. The group still remains exposed to the reputational risk of such an incident. The incident on the Thistle Alpha platform in the North Sea in late November 2007 highlights the media attention that such incidents may generate. Details of this incident and the group's health, safety and environmental performance during 2007 are reviewed in the Corporate Social Responsibility Report.

### Business continuity

The group is potentially exposed to, inter alia, natural hazards, acts of terrorism, war and civil unrest that could impact its infrastructure, either through the unavailability of physical assets or access to systems and procedures. The group mitigates this risk through its business continuity plan, which seeks to minimise disruption from any such threat, in part through the availability of alternative facilities.

# Operating environment

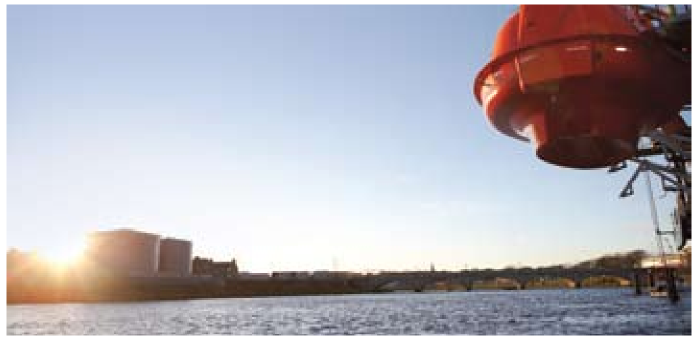
**Demand for the group's services remained strong during 2007 and is expected to remain so for the foreseeable future.**

Given current estimates of worldwide reservoir depletion rates[1], significant investment in production capacity is required to maintain existing levels of oil & gas production. As new discoveries tend to be smaller in size than many depleting mature fields, the level of capital expenditure per barrel of production is expected to increase.

In addition to replacing existing capacity, substantial levels of investment will be required to build new production capacity to meet the growing level of demand. Global demand for energy, driven in part by the expected growth in the economies of China and India[2], is expected to increase by over 55% over the period 2005-2030[3]. A significant proportion[4] of the increase in energy demand is expected to be met by increased oil & gas production.

The International Energy Agency has estimated that US$9.6 trillion of investment in oil & gas production capacity, principally upstream investment, is required from 2006 to 2030 to replace existing production capacity and build new production capacity (equivalent to US$384 billion per annum).

The group has positioned itself to focus on key regions where long-term multi-billion dollar multi-phase developments are expected. The anticipated levels of capital investment and associated operating expenditures should ensure that demand for the group's services remains strong. With access to skilled people being the key constraint on growth for the engineering services sector, the pricing environment should remain favourable for the foreseeable future.



**Photographs above from top to bottom**
[a] Marine Training Centre, Aberdeen, Scotland
[b] Crew change, UK North Sea

1 4.5% according to Cambridge Energy Research Associates (Boston), though industry estimates vary considerably.
2 China and India account for 45% of oil demand growth from 2006-2030, World Energy Outlook 2007, International Energy Agency.
3 World Energy Outlook 2007, International Energy Agency.
4 51% based on the International Energy Agency's reference case, World Energy Outlook 2007.

# Review of operations

## Engineering & Construction

**The Engineering & Construction division continued to make good progress during the year in its key regions of the Middle East and Africa and the Commonwealth of Independent States with its engineering, procurement and construction (EPC), conceptual design, FEED, and consultancy services.**

**Photographs above from top to bottom**
[a] Harweel enhanced oil recovery plant, Oman
[b] Facilities upgrade project, Kuwait
[c] Operations at Salam gas plant, Egypt

### Middle East and North Africa

The award of the Salam and Hasdrubal gas plant contracts in late 2006 signified an increase in focus on the North Africa market for the EPC business. This trend has continued into 2007 with the award of the In Salah gas compression project in Algeria in late 2007 (see page 27). Over 60% of the division's revenue in 2007 was generated from lump-sum EPC contracts in the Middle East and North Africa. Key developments during the year were:

- First gas was achieved on the Kauther gas plant in Oman in November, two months ahead of expectation; the plant is currently undergoing commissioning ahead of initial operation by the Operations Services division
- Substantial progress was made on the Harweel cluster development project for Petroleum Development Oman (PDO), the division's largest project to date; the scope of the project has continued to grow, with variation orders received to address agreed changes to the technical specifications
- In Egypt and Tunisia, the contracts awarded in late 2006 are progressing well with significant progress on engineering and procurement activities and early construction activities underway at the Salam and Hasdrubal gas plants
- The facilities upgrade project for Kuwait Oil Company (KOC) is progressing well with completion expected around the middle of 2008

### Commonwealth of Independent States

The division continues to be heavily involved in the Kashagan and Karachaganak programmes, two of Kazakhstan's three multi-billion dollar multi-phase developments. Developments during the year included:

- As noted on page 27, the division was successful in securing further work on the Kashagan project during the year with the award of an engineering and procurement contract for the third oil processing train
- On the Karachaganak development, the division made good progress on the engineering, procurement and construction management (EPCM) services for the fourth train (awarded in January 2007) and has delivered much of the scope for the Phase III development FEED study awarded in June 2007 (see page 27)
- In Russia, with the proposed change in ownership of TNK-BP's interests in the Kovykta projects through RUSIA Petroleum and the East Siberian Gas Company, the division has commenced demobilisation from these projects and has redeployed personnel within the group where appropriate; the Russian market remains an opportunity for the medium to long-term
- The division was successful in securing a FEED study for the Kharyaga development in late 2007 which maintains its presence in the Russian market

A number of significant EPC and consultancy and engineering services contracts were secured during 2007 and in early 2008:

### Karachaganak fourth stabilisation and sweetening train, Kazakhstan

In January 2007, the division was awarded contracts for the engineering, procurement, construction management and commissioning support for the Karachaganak fourth stabilisation and sweetening train. The contract, 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 contract by SonaHess, a joint venture of Sonatrach and 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.



### Karachaganak Phase III FEED, Kazakhstan

In June 2007, the division secured an award from Karachaganak Petroleum Operating BV (KPO) for a FEED study for Phase III of the development of the Karachaganak Processing Complex. The Phase III FEED, which is scheduled for completion in the second half of 2008, is being executed on a reimbursable basis involving more than 450 personnel and represents the division's largest FEED study to date. The development will have a gas processing capacity of 4 billion cubic feet per day. The division is working alongside KPO, its partners and with NIPI Caspian Engineering and Research (CER). The division and CER will use a jointly developed capability to increase long-term Kazakh development and Kazakh content.

### Kashagan third oil train, Kazakhstan

In late 2007, following on from the initial engineering and procurement and construction management contracts for the Kashagan onshore facilities, the division secured a US$185 million lump-sum project for the engineering and procurement of a new Tranche 3 oil treatment plant.

### In Salah gas development, Algeria

In December 2007, the division announced the award of a US$600 million lump-sum EPC contract with In Salah Gas, an association between Sonatrach, BP and StatoilHydro. The project includes the design and installation of additional field compression facilities at three of the northern fields of REG, TEG and Krechba, in order to maintain plateau production rates of 9 billion cubic metres per year beyond 2009.

### Results

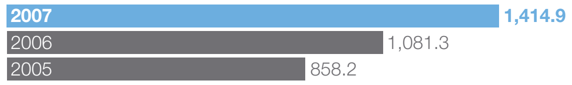
High levels of activity on the division's lump-sum EPC contracts, particularly in the second half of the year, and strong growth in the division's reimbursable engineering business led to an increase in revenues of 30.9% to US$1,414.9 million (2006: US$1,081.3 million). Net margin increased from 8.8% in 2006 to 9.7% in 2007 due to the division's continued strength in execution performance. Revenue growth and continued net margin improvement resulted in a net profit of US$137.1 million, an increase of 43.7% from the prior year (2006: US$95.4 million). The key contributors to revenue in the lump-sum EPC business were the Harweel project in Oman, the facilities upgrade project in Kuwait, the Karachaganak fourth train (part lump-sum, part reimbursable) and the Salam and Hasdrubal gas plant projects that were awarded in late 2006. The strong growth in the division's reimbursable business was principally due to the award of the Karachaganak Phase III FEED study and the division's 50%[1] share of the Brownfield engineering business, which continued to grow in its core market of the UKCS and also achieved strong international growth. The principal divisional profit drivers were the projects referred to above, and additionally, the Kashagan contracts.

The Engineering & Construction division increased its number of employees from approximately 2,700 at 31 December 2006 to approximately 3,800 at 31 December 2007, with strong growth in the Woking and Sharjah offices and from the new Chennai office, which opened in April 2007.

The division's backlog increased to US$2.5 billion at 31 December 2007 (31 December 2006: US$2.2 billion) principally due to the In Salah gas compression project award, the Kashagan third oil train award and scope increases for other existing contracts.

### Engineering & Construction revenue

US$ millions




### Engineering & Construction net profit margin

%


### Engineering & Construction backlog

US$ millions


**Photograph above**
[a] Hasdrubal gas plant, Tunisia

1 Revenues and profits of the Brownfield engineering business are split equally between the Engineering & Construction and Operations Services divisions.

# Review of operations
continued

## Operations Services

**The Operations Services division achieved strong growth in 2007, due principally to the commencement of the facilities and well operations management contract with Dubai Petroleum, international growth in the Training and Brownfield engineering businesses and the acquisition of SPD.**

Facilities Management delivered good operational performance across its portfolio of UKCS and international contracts, however, following a six month period of transition, the highlight of the year was assumption of full turnkey responsibility for the operation of Dubai Petroleum's offshore oil & gas facilities in April 2007. The new contract is the division's largest international contract to date and is proceeding positively and in line with expectations. The financial returns on the Dubai Petroleum contract and the majority of Facilities Management's operations management contracts are linked to operational performance through KPI mechanisms.

In January 2007, the division acquired a majority interest in SPD, a specialist provider of well operations services, in particular well project management, well engineering optimisation, well engineering studies and consultancy services. SPD's core operations are in Africa and Europe and for national and international oil companies in the Middle East, including the provision of services for the Dubai Petroleum contract.

The Brownfield engineering and Training businesses have continued to grow in their core market of the UKCS, where the market remains buoyant, but the strongest growth has been generated in international markets, often in relation to existing projects and/or with existing customers of other parts of the group. Both Brownfield engineering and Training have been successful in delivering services to Dubai Petroleum following the commencement of the facilities management contract. Furthermore, in early 2008, the group announced that Petrofac Training and Dubai Petroleum are to make a joint investment in the Dubai Petroleum Training Centre. The centre will provide a wide range of safety training to the energy and construction industries, with technical courses planned for the future. The centre is currently expected to open later in 2008. In addition to the development of the training centre, Petrofac Training will provide Dubai Petroleum with a managed training solution for its staff and contractors.

**Photographs above from top to bottom**
[a] Staff in Aberdeen, Scotland
[b] Operations at the KOC upgrade project, Kuwait
[c] Delegates prepare for survival training, Aberdeen, Scotland



### Results

Revenue for the Operations Services division increased by 24.9% to US$911.0 million (2006: US$729.2 million). Revenue excluding 'pass-through' revenue[1] increased by 34.8% reflecting the commencement of the Dubai Petroleum contract, the acquisition of SPD, new business in Petrofac Training and Brownfield engineering, particularly in international markets, and a strong Sterling to US dollar exchange rate[2]. Net profit increased by 59.7% to US$28.9 million (2006: US$18.1 million), representing a net margin on revenue excluding pass-through revenue of 4.2% (2006: 3.6%). The underlying net margin, adjusted to eliminate amortisation and finance costs relating to acquisition intangibles and deferred consideration, increased to 4.7% (2006: 3.6%) due principally to the contribution from the Dubai Petroleum contract and the acquisition of SPD.

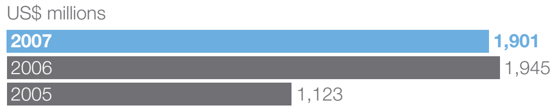
Operations Services' employee numbers grew from approximately 4,900 at 31 December 2006 to over 5,500 at 31 December 2007, due principally to the commencement of the Dubai Petroleum contract, where approximately 600 staff were recruited from the previous operator.

The division's backlog was US$1.9 billion at 31 December 2007 (2006: US$1.9 billion).

**Operations Services revenue**


**Operations Services net profit margin excluding pass-through revenue**


**Operations Services backlog**




**Photograph above**
[a] The Kittiwake Platform, UK North Sea

1 Pass-through revenue refers to the revenue recognised from low or zero-margin third-party procurement services provided to customers.
2 The majority of the Operations Services division's revenues are denominated in Sterling. The average US dollar to Sterling exchange rate for 2007 was 2.01 compared to 1.85 in 2006. Eight percentage points of the growth in revenue, excluding pass-through revenue, in Operations Services is attributable to the movement in the US dollar to Sterling exchange rate.

# Review of operations
continued

## Energy Developments
**The highlight of the year for the Energy Developments' division was the performance of the Cendor field which drove strong growth in the division's revenue and profits. Good progress was made in the development of the division's portfolio during 2007, as discussed below. Analysis of the division's oil & gas reserve entitlements is presented for the first time on page 107.**


**Photographs above from top to bottom**
[a] Operations at Chergui gas plant, Tunisia
[b] The Cendor field, PM304, Malaysia
[c] Helicopter flight, UK North Sea

1 The division's partners on the West Don field are: First Oil (19.28%), Valiant Petroleum (17.27%), Stratic Energy (17.25%) and Nippon Oil Exploration & Production (18.50%). The division's partner on the Don Southwest field is Valiant Petroleum (40%).

### Developed assets
**Cendor PM304, Malaysia**
The division has a 30% interest, as operator, in the Cendor field in Block PM304, offshore Peninsular Malaysia. The other partners to the Production Sharing Contract are: Petronas; PetroVietnam; and Kuwait Foreign Petroleum Exploration Company (KUFPEC). The Cendor field averaged production of approximately 14,300 barrels per day and has produced over 6.3 million barrels of oil since first oil in September 2006. A three well drilling programme, funded from existing cash flow, commenced in October 2007 and is expected to sustain Cendor peak production for longer than originally planned and to develop additional reserves. This further appraisal activity and the performance of the field to date has resulted in the group increasing its estimate of gross ultimate recovery of proven reserves from 24.6 million to 30.2 million barrels during the year. Towards the end of 2008, the division will undertake a further five well drilling programme within Block PM304 to appraise near field development opportunities.

**Ohanet, Algeria**
The division, in joint venture with BHP Billiton (as joint venture operator), Japan Ohanet Oil & Gas Co, and Woodside Energy (Algeria), has invested in excess of US$100 million for a 10% share in a Risk Service Contract (RSC) with Sonatrach, Algeria's national oil company. The US$1 billion Ohanet development is located in the Illizi province of Algeria, southeast of Algiers and close to the Libyan border. Petrofac's Engineering & Construction division carried out the EPC contract for the gas processing facilities in joint venture with ABB Lummus. The group's Operations Services division was also responsible for part of the on-site commissioning works. First gas for export began flowing in late 2003. The Ohanet gas plant continued to perform well in 2007. Overall production was higher than in 2006 at an average of approximately 16.4 million cubic metres per day ($m^3$/d) (2006: 14.6 $m^3$/d) of gas for export, approximately 25,430 bpd (2006: 24,240 bpd) of condensate and approximately 2,110 tonnes per day (2006: 2,770 tonnes per day) of liquefied petroleum gas (a combined oil equivalent of 153,500 bpd; 2006: 138,500 bpd). On average, the group earned its share of the monthly liquids production by the eighth day of the month (2006: 11th), reflecting the higher prevailing oil price in 2007. It is expected that the division will earn its defined return by November 2011, at which point the contract will terminate.

**KPC refinery, Kyrgyzstan**
The division owns a 50% share in the Kyrgyz Petroleum Company (KPC) which is engaged in the refining of crude oil and the marketing of oil products from the KPC refinery. The Operations Services division operates the refinery on behalf of the joint venture partners on a reimbursable basis. During 2007, the refinery produced an average of approximately 2,500 bpd (2006: 1,700 bpd) of principally gasoline, diesel and fuel oil.

### Assets under development
**Chergui field, Tunisia**
In February 2007, the division completed its acquisition of a 45% operating interest in the Chergui concession, for a consideration of approximately US$31 million from Entreprise Tunisienne d'Activités Pétrolières (ETAP), the Tunisian national oil company, which holds the remaining 55% interest. Under the terms of the agreement, in addition to the US$31 million consideration, Petrofac agreed to share costs to complete the central production facilities, pipeline to shore and associated infrastructure. The construction of the facilities and pipeline is substantially complete, with first gas due to flow in the first half of 2008. Plateau rates are expected to be maintained for around four years with a further eight years of production beyond that. Produced gas is to be sold to the national gas company, Société Tunisienne d'Electricité et Gaz (STEG), 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.

**Don Southwest and West Don, UKCS**
In January 2008, the division announced that it had signed an agreement, as operator, on behalf of itself and its co-venturers[1], with Sea Production Limited, a wholly owned subsidiary of Northern Offshore Limited, for the provision of the Northern Producer floating production facility. The Northern Producer will receive and process production from the Don Southwest and West Don fields in the North Sea, before offtake via offshore tanker or nearby infrastructure.



The Northern Producer has a capacity of 55,000 barrels of oil per day and associated gas, water injection and export processing facilities. Modifications will be carried out in 2008 to extend the life of the vessel. The vessel will be deployed between West Don and Don Southwest, with first oil expected in 2009.

Final field development programmes for both fields have been submitted to the Department of Business Enterprise & Regulatory Reform. Approval is expected to be received during the first half of 2008. The division's estimate of gross recoverable proven reserves for the Don Area developments is 26.4 million barrels, while its gross estimate of proven and probable reserves is 50.9 million barrels.

The Energy Developments division has contracted a semi-submersible drilling rig for a seven well drilling programme on the Don Southwest and West Don fields (see note 29 to the financial statements for details of the leasing commitment). It is expected that the rig will come on contract towards the end of the first half of 2008 and complete the programme by the end of the first quarter of 2009.

The division acquired an additional 2.0% unitised interest in the West Don field in August 2007 in exchange for its 29% interest in Block 9/28a, containing the Crawford field. Following an agreement in March 2007 on the unitisation of the field with the owners of neighbouring Blocks 211/13b and 211/18a (First Oil, Valiant, Nippon and Stratic) and with the additional interest acquired from the Crawford asset swap referred to above, the division now owns a 27.70% operated interest in the West Don field. The division has a 60% operated interest in the Don Southwest field.

**Permit NT/P68, Australia**
Energy Developments entered into a farm-in arrangement with MEO Australia Limited (MEO) in June 2007. Under the terms of the farm-in, the division is funding 25% (subject to a cap) of the Heron-2 and Heron-3 wells in return for a 10% interest in the Permit. The division also acquired an option to secure an interest in any LNG or methanol project that results from this investment.

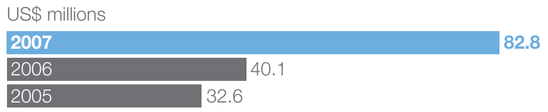
The Heron-2 well was drilled in late 2007. Open-hole production testing of the Elang/Plover formation was conducted and while it was confirmed that the Heron North Plover sands did not contribute to the recorded flow due to blockages in the well immediately above the Heron North Plover formation, the Elang sands did flow gas to surface at a rate of approximately 6 million standard cubic feet per day (mmscfd). While logs suggest that significant hydrocarbons are present, the production testing of the Epenarra Darwin formation only managed to produce minor flows of hydrocarbons to the surface. The joint venture is presently reviewing the Heron-2 well, 3D seismic and inversion data to support drilling of the Heron-3 appraisal well in late 2008 or early 2009. Due to the continuing uncertainties surrounding the commercial outcome of this project, an impairment provision of US$8.7 million has been made against this asset at 31 December 2007.

MEO commenced drilling a sole risk well at the nearby Blackwood Prospect (in Permit NT/P68) in early 2008. The division has an option to participate in the prospect after the well has been drilled, albeit at a substantial premium.

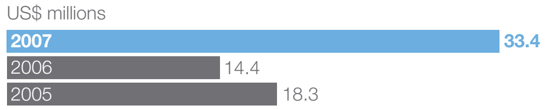
In addition to the prospects noted above, the division reviewed, and continues to review, a range of upstream and energy infrastructure opportunities.

### Results
Divisional revenue and net profit more than doubled from the previous year to US$132.8 million (2006: US$62.1 million) and US$33.4 million (2006: US$14.4 million) respectively, due predominantly to a full year contribution from the Cendor field (2006: four months) including the cost oil recovery period to the end of March 2007. The net profit includes an impairment provision of US$8.7 million against the division's investment in Permit NT/P68 and the recognition of a net tax asset of US$11.3 million in relation to the trigger of a ring fence trade allowing UKCS pre-trading expenditure to be recognised as a deferred tax asset and the recognition of a net tax asset in relation to NT/P68 expenditure.

**Energy Developments EBITDA**




**Energy Developments net profit**




**Photograph above**
[a] Chergui gas plant, Tunisia

# Reducing costs and saving time to deliver value

**Salam gas plant, Egypt**

The skills of our Engineering & Construction division are helping an established gas plant in Egypt's western desert to double production within challenging time and cost constraints.

Around 350 kms from Alexandria and 120 kms from the Mediterranean coast, the Al Salam field was first opened up ten years ago for gas production. The Salam plant has produced 200 million cubic feet per day of export quality gas, via two existing gas trains, for the last eight years. In 2005, the joint owners of the plant – Apache Corporation and Egyptian General Petroleum Company – decided to increase capacity by building two new gas trains and asked Petrofac and the company which had built the existing trains to compete for the contract.

Although our competitor had an advantage through familiarity with the project and an established working relationship with the subcontractor, we won the contract because we were able to offer completion at less cost and in less time.

"We needed maximum flexibility within the schedule for the construction phase, to allow for unforeseen events and shortages of materials," says project director George Salibi. "So we front-loaded resources and drove the engineering and procurement phases very hard during the early months. For example, we placed very early orders for items such as compressors and turbine generators. These can sometimes have a lead time of ten months or more, so early planning and procurement is essential to on-time completion.

"We invested money to make sure that materials were available on site to minimise delays to the pre-fabrication and construction activities. Our work is not always about the lowest cost – you have to understand the concept of value and invest accordingly."

The approach has paid dividends. The 90% model review was completed by July 2007, just seven months following the award of the contract – a very impressive achievement for such a project.

We are on track to deliver the first gas by the end of 2008, with both trains scheduled to be fully operational early in 2009.

# A bespoke training programme to deliver additional value

**Training operatives of the Harweel enhanced oil recovery plant, Oman**

The scope of our involvement on the Harweel enhanced oil recovery (EOR) plant in Oman increased when we were appointed to create and deliver a key training contract.

Petrofac Engineering & Construction was originally awarded the engineering, procurement and construction (EPC) of the plant by Petroleum Development Oman (PDO) in 2005. With an original project cost of US$1 billion and covering 1 km sq, Harweel is one of the largest field development projects ever undertaken in Oman. Once commissioned, the plant is expected to have a capacity of 10,000 cubic metres per day of oil production sustained by high pressure injection of miscible gas.

Building on our close working relationships with PDO, we have now been appointed to put together a bespoke training management and delivery programme to support PDO in their requirement to develop a skilled, safe and competent workforce in Harweel specific operations. The task is to train approximately 180 people, a mixture of Omani nationals and expatriates, in the safe and effective operation of a complex plant in an extremely hostile environment – the Harweel project features high concentrations of hydrogen sulphide under high pressure.

The two-year blended learning programme, which is being delivered by our Training business within the Operations Services division, has been designed to embed behavioural safety deep within the culture of the workforce at Harweel and targets two groups with differing requirements: experienced technicians; and younger Omani technicians, from the PDO graduate development programme.

“Our objective is to hand over a trained team that is able to run the facility to the most exacting standards,” explains Ken Philip, Petrofac’s training project manager. “We are drawing on Petrofac expertise, through our world-leading experiential training facilities in Scotland, and where appropriate, working with global partners to deliver specific elements of the bespoke training required. For example, trainees will spend time at the Chemical Process Training Centre in Singapore, a world-renowned centre of excellence sponsored by the Singaporean government and operated by Nanyang Polytechnic.”

Ultimately, the trainees will be trained and assessed on a competency path towards the attainment of both National Vocational Qualification (NVQ) Level 3 (Production & Engineering Technicians) and NVQ Level 4 Technical Support (Supervisors) and will gain a high level of general technical competence together with a range of behavioural safety skills relevant to their future roles at Harweel.

# Partnering to deliver value

**Chergui gas plant, Tunisia**

With an estimated 70 billion cubic feet of valuable gas reserves, the Chergui project plays an important role in Tunisia's long-term energy strategy. Although the field was discovered in the late 1970s, it was only in more recent years that Entreprise Tunisienne d'Activités Pétrolières (ETAP), the Tunisian state-owned oil Company, had awarded contracts. Subsequently, the development had been characterised by delays and difficulties, including serious safety issues.

ETAP approached and eventually chose to partner with Petrofac because of our reputation for safety and our ability to offer a more comprehensive capability than our peers: through our Energy Developments division we are able to invest, share risk and align with our customers' interests; Engineering & Construction provides a wealth of engineering, design, procurement and build expertise; and our Operations Services division can commission and operate the completed development.

In early 2007 Petrofac, through Energy Developments acquired a 45% interest in Chergui for a cash consideration of around US$31 million. The development comprises an offshore gas production plant on Kerkennah island, together with a 60km pipeline, half of which is beneath the sea. The plant has a capacity of 20 million cubic feet per day. Maximum production is expected to be maintained for four years, followed by an additional eight years of operation.

When we took over the contract and moved onto the site in April 2007, the pipeline work had not yet been started and only a small amount of infrastructure work on the plant had been carried out. "The last nine months of 2007 saw a tremendous amount of work take place," explains Brock Tuppeny, director of Africa Region, Energy Developments. "We've now laid the land-based section of the pipeline and completed 95% of the plant construction."

Production is due to start in the first half of 2008, with the gas being sold to Société Tunisienne d'Electricité et Gaz (STEG) under the gas pricing formula fixed by existing law.

# Financial review

Group revenue increased by 30.9% to US$2,440.3 million (2006: US$1,863.9 million) reflecting strong growth across all three divisions. Although the revenue from the Energy Developments division more than doubled due to the contribution from the Cendor field, the increase was principally driven by the Engineering & Construction and Operations Services divisions which contributed 95% of the group's revenue. The revenue increase in the Engineering & Construction division was as a result of high levels of activity on lump-sum EPC contracts, including those awarded in late 2006, and a significant increase in man-hours in the division's reimbursable engineering business. Growth in the Operations Services division was primarily due to international growth throughout the division, including the commencement of the Dubai Petroleum contract and the acquisition of SPD Group.

Operating profit increased by 46.6% to US$248.5 million (2006: US$169.5 million), with all three divisions showing significant growth in operating profit. Operating margins increased to 10.2% (2006: 9.1%), reflecting continued improvement in operating margins in the Engineering & Construction division, a significant improvement in the Operations Services division, primarily due to the commencement of the Dubai Petroleum contract, and a greater proportion of the group's operating profit coming from the high operating margins earned in the Energy Developments division due principally to the full year contribution from the Cendor field.

As a result of strong growth and good operational performance across all divisions, net profit increased from US$120.3 million in the prior year to US$188.7 million for the year ended 31 December 2007, an increase of 56.9%. The net margin increased 1.2 percentage points to 7.7% (2006: 6.5%), broadly in line with the increase in the group's operating margin.

EBITDA increased from US$198.3 million to US$301.3 million, representing an EBITDA margin of 12.3% (2006: 10.6%). The increase in the group EBITDA margin was due to the net impact of increased margins in Engineering & Construction and Operations Services due to strong operational performance and an increase in the proportion of 2007 EBITDA contribution to the overall group by the higher margin earning Energy Developments division, driven by a full year contribution from Cendor.

### Revenue

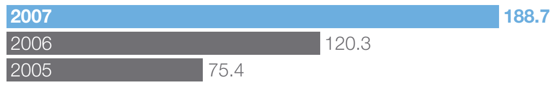
US$ millions


### Operating profit

US$ millions


### Net profit

US$ millions




### Net profit margin

%


### Results for the year*

| | Revenue | | Operating profit[1] | | Net profit[2] | | EBITDA | |
|---|---|---|---|---|---|---|---|---|
| US$ million | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Engineering & Construction | 1,414.9 | 1,081.3 | 158.2 | 117.2 | 137.1 | 95.4 | 173.9 | 127.3 |
| Operations Services | 911.0 | 729.2 | 44.9 | 29.1 | 28.9 | 18.1 | 51.2 | 32.9 |
| Energy Developments | 132.8 | 62.1 | 51.6 | 25.1 | 33.4 | 14.4 | 82.8 | 40.1 |
| Corporate, consolidation & elimination | (18.4) | (8.7) | (6.2) | (1.9) | (10.7) | (7.6) | (6.6) | (2.0) |
| Total | 2,440.3 | 1,863.9 | 248.5 | 169.5 | 188.7 | 120.3 | 301.3 | 198.3 |

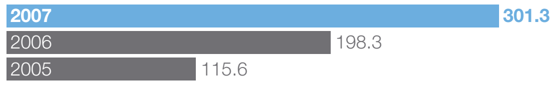
| | Revenue growth | | Operating margin | | Net margin | | EBITDA margin | |
|---|---|---|---|---|---|---|---|---|
| Growth/margin analysis | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Engineering & Construction | 30.9% | 26.0% | 11.2% | 10.8% | 9.7% | 8.8% | 12.3% | 11.8% |
| Operations Services | 24.9% | 20.5% | 4.9% | 4.0% | 3.2% | 2.5% | 5.6% | 4.5% |
| Energy Developments | 113.8% | 34.1% | 38.9% | 40.3% | 25.1% | 23.1% | 62.3% | 64.6% |
| Total | 30.9% | 25.5% | 10.2% | 9.1% | 7.7% | 6.5% | 12.3% | 10.6% |

1 Profit from continuing operations before tax and finance costs.
2 Attributable to Petrofac Limited shareholders.
* Comparative information relating to discontinued operations in the consolidated income statement and related notes to the accounts have been reclassified as continuing operations, as the management no longer considers this information to be sufficiently material to warrant separate disclosure.



### EBITDA

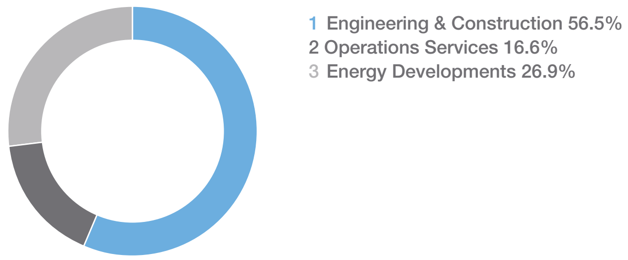
US$ millions




### EBITDA margin

%


### 2007 EBITDA by division




### Backlog

US$ billions


Despite a 36.6% increase in EBITDA in the Engineering & Construction division, its share of group EBITDA decreased due to the very strong performance from the rest of the group. The Energy Developments division contributed a greater proportion of the group's EBITDA in 2007 due to a full year contribution from Cendor. The Operations Services division marginally increased its contribution to the group EBITDA due principally to the commencement of the Dubai Petroleum contract and the acquisition of SPD. As a percentage of EBITDA, excluding the effect of consolidation and elimination adjustments, Engineering & Construction accounted for 56.5% (2006: 63.6%) of group EBITDA, Operations Services 16.6% (2006: 16.4%) and Energy Developments 26.9% (2006: 20.0%).

The combined backlog of the Engineering & Construction and Operations Services divisions increased from approximately US$4.2 billion at 31 December 2006 to US$4.4 billion at 31 December 2007. A significant proportion of the Operations Services division's backlog is denominated in Sterling and therefore benefited from the slight depreciation of the US dollar against Sterling from the beginning to the end of 2007. On a constant currency basis, group backlog increased 5.0% compared to 31 December 2006.

The group's reporting currency is US dollars. During 2007, although there was only a slight change in the year-end US dollar/Sterling exchange rates, there was a significant depreciation of the US dollar against Sterling for much of the year, and there was therefore a significant impact on the reported results of the group's UK trading activities, principally within the Operations Services division.
The impact on the results of the Operations Services division is discussed further on page 29. The table below sets out the average and year-end exchange rates for the US dollar and Sterling for the years ended 31 December 2007 and 2006 as used by the group for financial reporting purposes.

### Financial reporting exchange rates

| US$/Sterling | 2007 | 2006 |
|---|---|---|
| Average rate for the year | 2.01 | 1.85 |
| Year-end rate | 1.99 | 1.96 |

### Gearing ratio

| US$ million (unless otherwise stated) | 2007 | 2006 |
|---|---|---|
| Interest-bearing loans and borrowings (A) | 110.1 | 117.2 |
| Cash and short-term deposits (B) | 581.6 | 457.8 |
| Net cash (C = B – A) | 471.5 | 340.6 |
| Total net assets (D) | 486.0 | 324.9 |
| Gross gearing ratio (A/D) | 22.7% | 36.1% |
| Net gearing ratio (C/D) | Net cash position | Net cash position |

# Financial review
continued

### Interest
Net interest receivable for the year was US$9.7 million (2006: US$2.1 million), due principally to the group's higher average cash balances during 2007.

### Taxation
An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge as a percentage of profit before tax in 2007 was 26.9% (2006: 29.9%). The decrease in the effective tax rate compared to the prior year is due principally to:

- A decrease in the effective tax rate for the Engineering & Construction division due to a higher proportion of its profits being earned in lower tax jurisdictions
- A decrease in the effective tax rate for the Energy Developments division due to the trigger of a ring fence trade allowing UKCS pre-trading expenditure to be recognised as a deferred tax asset and the recognition of a net tax asset in relation to NT/P68 expenditure

### Earnings per share
Fully diluted earnings per share increased from 34.87 cents per share in 2006 to 54.14 cents in 2007, an increase of 55.3%, reflecting the group's significant increase in profitability in 2007.

### Operating cash flow and liquidity
Cash generated from operations was US$370.8 million compared with US$328.6 million in 2006, representing 123.1% of EBITDA (2006: 165.7%). The increase in net cash inflows was as a result of increased operating profit and a reduction in net working capital utilisation during the year. The movement in net working capital arose principally from timing differences at the year end in respect of the customer billing and supplier payment positions on long-term EPC contracts.

The group maintained a broadly comparable level of interest-bearing loans and borrowings at US$110.1 million (2006: US$117.2 million) on an increased equity base, resulting in a decrease in the group's gross gearing ratio to 22.7% at 31 December 2007 (2006: 36.1%).

The group's total gross borrowings before associated debt acquisition costs at the end of 2007 were US$112.4 million (2006: US$119.0 million), of which 39.3% was denominated in US dollars (2006: 38.1%), 55.3% was denominated in Sterling (2006: 56.0%) with the majority of the balance, 5.3%, denominated in Kuwaiti Dinars (2006: 5.9%).

As detailed in note 31 to the financial statements, the group maintained a balanced borrowing profile with 25.3% of borrowings maturing within one year, 54.5% maturing between one and five years and the remaining 20.2% maturing in more than five years (2006: 22.3%, 40.6% and 37.1% respectively). The decrease in the average duration of borrowings reflects the existing repayment terms of the group's facilities with the Royal Bank of Scotland/Halifax Bank of Scotland. The borrowings repayable within one year include US$22.2 million of bank overdrafts and revolving credit facilities (representing 19.7% of total gross borrowings, see note 24 to the financial statements), which are expected to be renewed during 2008 in the normal course of business (2006: US$20.4 million and 17.2% of total gross borrowings).

The group's policy is to hedge between 60% and 80% of interest arising on floating rate interest-bearing loans and borrowings. At 31 December 2007, 69.1% of the group's floating rate interest-bearing loans and borrowings were hedged (2006: 64.8%). During the year, the group has introduced a policy of hedging up to 75% of its direct exposure to movements in the market price of oil on a project-by-project basis. An analysis of the derivative instruments used by the group to hedge this exposure is contained in note 31 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 cash payments to Petrofac Limited in excess of 70% of its net profit in any one year, none of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

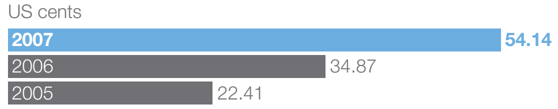
### Capital expenditure
Capital expenditure on property, plant and equipment during the year was US$117.2 million (2006: US$59.4 million). The principal elements of capital expenditure were:

- construction of the new office building in Sharjah of US$22.0 million
- financial completion of the acquisition of the Chergui gas field in Tunisia, and associated EPC costs, totalling US$54.1 million
- capital expenditure on PM304 principally in relation to the drilling programme of US$11.5 million

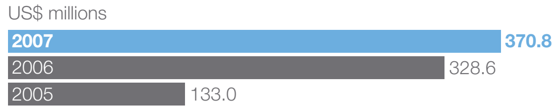
Other capital expenditure included office furniture and equipment and plant and equipment to support the growth in the Engineering & Construction and Operations Services divisions.



**Earnings per share (fully diluted)**




**Cash generated from operations**




**EBITDA to cash conversion**


**Return on capital employed**


Capital expenditure on intangible oil & gas assets during the year was US$49.7 million (2006: US$12.9 million) which was principally in respect of pre-development expenditure on the Energy Developments' Don Area assets of US$32.7 million and US$15.9 million on the division's NT/P68 investment, offshore Australia. The accumulated expenditure in relation to the Don Area assets was transferred from intangible oil & gas assets to oil & gas assets within property, plant and equipment following sanction of the development in late 2007.

### Shareholders' funds
Total equity at 31 December 2007 was US$486.0 million (2006: US$324.9 million). The main elements of the increase were the increase in retained earnings for the year of US$149.9 million, the favourable movement in the group's fair value of derivatives of US$41.7 million, less the net gain on the maturity of cash flow hedges recognised in the income statement of US$22.2 million and an increase in the cost of treasury shares held by the Company in relation to employee share scheme awards of US$21.7 million.

### Return on capital employed (ROCE)
The group maintained a high return on capital employed for the year ended 31 December 2007 of 47.3% (2006: 45.7%).

### Dividends
The Company proposes a final dividend of 11.50 cents per share for the year ended 31 December 2007 (2006: 6.43 cents), which, if approved, will be paid to shareholders on 19 May 2008 provided they were on the register on 18 April 2008. Shareholders who have not elected to receive dividends in US dollars will receive a Sterling equivalent of 5.71 pence per share. Given the strong cash generation of the business, the Board took the decision during the year to increase the percentage of earnings to distribute by way of dividend to approximately 30% of full-year post-tax profits (previously 25%).

# Corporate social responsibility

## Delivering value to our people and our communities



**The Company is an integral part of the lives of its people, of the communities in which it operates and of the broader world and Petrofac has a clear responsibility to play its part as a positive influence.**

**Petrofac recognises the importance of winning and retaining stakeholder support in order to enhance the group's services and develop its reputation. The corporate social responsibility (CSR) policy has been reviewed with the aim of ensuring that all worldwide activities are consistent with these objectives. There is a lot to be proud of regarding current activities in this area and there is a solid foundation for further development.**

**CSR is about how companies take account of the economic, social and environmental impact of the way they operate. For Petrofac, this ranges from the relationship with employees and customers, to that with shareholders and the society in which we work. Petrofac's reputation and values are key to the Company's future success and they drive all work in the CSR arena.**

### The business

The vision for the Petrofac group of companies, which guides employees and contractors as they carry out their duties, is a key factor in the successful delivery of business performance:

- Petrofac will be acknowledged by the oil & gas community and others as a leader in the management of health, safety, security, environment and integrity assurance (HSSEIA) and an expert in delivering high performance from diverse workforces in geographically challenging project and operational circumstances. In 2007, we appointed a Group Head of HSSEIA who reports directly to the Group Chief Executive and makes periodic reports to the Board
- Petrofac conducts business consistent with long-established values: being safe; innovative; ethical; cost-conscious and responsive to our customers. Together, these values combine to ensure that Petrofac is relentlessly focused on delivering results. The Company provides a quality service to customers and makes a positive contribution to the communities where it operates
- To build on that position, in early 2008 the Company launched revised policies at group level, re-stating its commitment to staff and subcontractors and re-affirming its approach to corporate social responsibility
- The policies on the following areas can be viewed in full at www.petrofac.com/responsibility
  – Corporate social responsibility
  – Health and safety
  – Security
  – Integrity assurance
  – Environment

**Photograph left**
[a] Pupils of Arvind Gandbhir School, Mumbai, India

**Photographs above from top to bottom**
[b] Kauther gas plant, Oman
[c] Salam gas plant, Egypt
[d] Basketball game at Nakta Secondary School, Tunisia

# Corporate social responsibility
continued

## Health, safety and security

There are well-established safety management systems in each division and to complement these a complete review of processes and procedures has begun with the intent of cascading improvement. This includes the establishment of group-wide review boards for major hazard incidents and accidents and ensuring effective management of asset integrity for all Petrofac managed assets. These processes were commenced during 2007 and will be fully established during the first half of 2008.

During 2007, the group's employees and subcontractors completed 60 million man-hours (2006: 38 million) of activity. The group's duty of care extends to these parties and as such they are included in the analysis of the group's safety performance. During the year the group experienced 104 recordable incidents (2006: 78), a recordable incident frequency rate of 0.35 per 200,000 man-hours (2006: 0.41). For the fifth year in a row this frequency rate has reduced. 20 lost time injuries were experienced by either our employees or our subcontractors during 2007 (2006: 10), a lost time injury frequency rate of 0.07 (2006: 0.06). This compares well with industry published data but further action is being taken to improve this performance during 2008.

As an organisation Petrofac wants to eliminate accidents and injuries to people in all aspects of its business; we recognise that this is a demanding target but will strive to do this throughout 2008 and beyond. The Company's 'Horizon Zero' health and safety campaign, which won the UK Offshore Contractor's Association (OCA) safety award in 2006, provides the framework to help achieve this. For further details, visit www.horizonzero.co.uk

In 2007, 24 major hazard events (high potential incidents) were recorded although not all of them resulted in any personal injury. However, the decision was taken during the year to examine such events even more carefully than previously, with a view to identifying an event's root causes and, going forward, applying any lessons that the Company has been able to learn. This focus will continue in 2008.

Such an incident took place on the Thistle Alpha platform (licensed operator: Lundin Britain; duty holder: Petrofac) in November 2007 in the UK northern North Sea. No one was injured as a result of an engine fire which was contained within the enclosure of one of the platform's power generation gas turbine driven units. During the incident however the installation manager deemed it appropriate to evacuate temporarily 116 non-essential personnel while the fire was brought under control. The calm, professional approach to handling this incident was praised by HM coastguard and other parties involved and Petrofac is enormously grateful for the support of all those who ensured a safe conclusion to this incident. The worldwide media coverage of this event was a clear indicator of the spotlight under which our industry finds itself. This reinforces Petrofac's endeavours to bring continuing focus to all aspects of its managed operations. This incident also tested emergency response and crisis management preparedness and procedures from local to group level. These worked very well but, notwithstanding this, lessons have been learned and are being applied across the business.

In 2007 Petrofac experienced 33 incidents involving vehicles either on project sites or when personnel were travelling from site to site (2006: 26). During the year a new driver monitoring system was installed on all Company owned vehicles; this together with the increased provision of driver training has been a key activity during the period. In 2008, divisions will report on their compliance to the newly established vehicle standard.

The health and welfare of staff is vital to the business. Measures are in place to assess the health and fitness of senior management in all divisions. The group health programme was reviewed for its implementation and effectiveness and the general coverage of medical assessment for those at risk, particularly for offshore and on overseas assignments, is comprehensive.

Given the diversity and remoteness of many project locations, the security of personnel continues to be a key issue. Petrofac is committed to creating a safe working environment for everybody who has the potential to be affected by its activities.

A comprehensive monthly security briefing is provided to all divisional management teams and this is also factored into the general risk review process as new projects and their locations are evaluated. Further development to safeguard the security of the Company's staff and subcontractors will continue during 2008.

## Environment

Petrofac understands the importance of giving proper consideration to protecting the environment and is committed to conducting operations which minimise environmental impact, with a target of zero environmental incidents.

As reported last year, the Company established an Environmental Committee in 2006. The Committee is a Board Committee and chaired by the Chairman, Rodney Chase. Other members of the Committee are: Ayman Asfari; Amjad Bseisu; Robin Pinchbeck and Maroun Semaan. The Committee is supported in its work by John Methven, the Group Head of HSSEIA.

The Committee exists to advise the Board on the adoption of the group's environmental policy; review the group's compliance with the policy; and review the effectiveness of the Company's environmental management systems, environmental targets and key performance indicators.

The Board, on the recommendation of the Environmental Committee, adopted a new environmental policy and vision statement in 2007, which has provided fresh impetus for further development of environmental plans for all activities. Most parts of the Operations Services and Engineering & Construction divisions have achieved certified environmental management systems and Petrofac remains committed to working towards certification to ISO 14001 for all business operations.

The Company underlined its commitment to minimising direct impact on climate change in a number of ways during 2007. As stated in last year's Annual Report, baselines have been established in respect of the carbon footprint for emissions for each division. Going forward, Petrofac will establish KPIs in respect of these emissions with the intention of seeking a meaningful reduction in the Company's carbon footprint.

Environmental awareness months were held at the two main business centres in Sharjah and Aberdeen and many worthwhile and effective initiatives and education programmes were completed, including staff in Sharjah taking part in clean-up activities at the local beach area and the planting of trees in the locality.

The Engineering & Construction division has made good progress in ensuring that environmental considerations are incorporated into a project's planning as a matter of course. From 2007 onwards, all new Engineering & Construction projects have included an environmental planning element. Both of the other divisions also have activities and operations which require environmental plans and/or impact statements from the outset.

## Asset integrity

It is Petrofac's responsibility to safeguard everyone associated with hydrocarbon operations which are designed, constructed, operated, managed or supported by the Company. Standards have been set which aim to ensure that no unforeseen process, operational or major hazard events occur as a result of Petrofac's activities.

From an industry perspective, and as a result, amongst other matters, of the publishing of the detailed report and findings surrounding the Texas City refinery incident, a significant and increased focus has been placed on the management of process safety and the integrity of hydrocarbon processing plant, particularly for mature facilities under Company management. The appointment of the Group Head of HSSEIA, with responsibility for integrity assurance as well as HSSE matters, was made as a result of this increased focus.

Petrofac hosted a safety conference in November 2007 with the theme of 'Process Safety and Asset Integrity'. Industry speakers included representatives of BP, Shell and BG Group. Learning from the outcomes of this conference and other industry initiatives, including the UK Step Change in Safety movement, has been part of the development of the Company's approach to safeguarding those assets for which it has management responsibility around the world.

## People

Petrofac is a people business. People are the Company's most valuable asset; they create Petrofac's competitive edge and ensure that customer expectations are exceeded. 2007 saw numbers increase from some 7,800 to around 9,600 at the end of the year. As an international organisation, Petrofac believes that its workforce, management and recruitment should reflect the diverse communities in which it operates and this is demonstrated in the graduate recruitment programme: the Company recruited 167 graduates in 2007, from Europe, the Middle East and Asia.

Many employees are shareholders and the Company will continue to support employee share ownership. Around 25% of eligible employees in the UK are participating in the Share Incentive Plan, which the Company believes demonstrates that people choose to share in its success when offered the opportunity. This scheme is open to all employees who are employed in the UK and employees are able to buy shares each month. Furthermore, some 13% of selected employees across the globe participate in at least one of the group's share incentive schemes. Further details of these schemes (the Performance Share Plan, Deferred Bonus Share Plan and Restricted Share Plan) can be found on pages 61 to 62 of the Remuneration Report.

Petrofac is committed to listening to the views of its people and to having regular, open communication throughout the business. Petrofac appointed a Head of Communications during the year, with the remit to promote a shared sense of culture and values across the group.

A regular magazine, *Petrofacts*, as well as a number of local intranet sites for employees, help to ensure that everyone is kept up to date with Company developments. A new global intranet as well as improved email communication are planned for 2008, which aim to reach all our employees, no matter how remote.

During 2007, the Company carried out its first independent group-wide employee survey (*PetroVoices*) in order to solicit employee perceptions on a wide range of matters in relation to their employment. Around 50% of those invited to do so participated and the target is to increase this figure significantly in 2008. The survey highlighted a number of areas where the Company is achieving success – for example, 84% of respondents said they were proud to be a part of Petrofac and 81% responded favourably to questions about work conditions and safety. However, there are also areas for improvement, such as in talent and performance management, and these areas will be the subject of renewed focus in 2008.

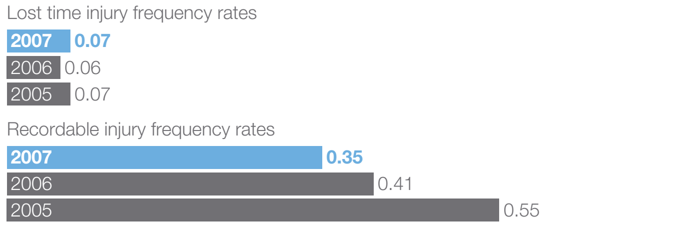
There are processes in place which enable staff to raise concerns in confidence. Petrofac aims to respond to all queries and the Chairman of the Audit Committee is informed of concerns raised. The *PetroVoices* survey showed that a very significant proportion of employees who responded were aware of the "speaking up" process but going forward, the Company wants to raise this figure.

The Company's Code of Business Conduct will also be reviewed again in 2008 with the purpose of making it more relevant and accessible to staff. The intention is to re-evaluate how the Code is communicated to employees.



### Health and safety performance

Lost time injury frequency rates and recordable injury frequency rates are 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.

**Photographs above from top to bottom**
[a] Kittiwake helipad, UK North Sea
[b] Petrofac help with tree planting, Sharjah, UAE
[c] Celebrating 16 million man-hours without LTI on KOC upgrade project, Kuwait

# Corporate social responsibility
continued

**Community**
Petrofac is mindful of its responsibilities to the communities where it operates and works hard to ensure that relationships with non-governmental organisations, customers, suppliers, communities and governments are founded on the basis of mutual respect.

In 2007, the Company joined the UK-based Business in the Community (BITC) organisation which aims to improve the impact business has on society. Petrofac made a membership donation of £11,500 to BITC, which has more than 800 member companies including more than 70 of the UK's FTSE 100. We believe that Petrofac has much to offer and, indeed, much to gain by joining them.

The year was characterised by a huge range of examples of how the Company contributes to communities, primarily through the support of education.

In Egypt, where Petrofac is currently executing a contract for Khalda Petroleum, the Company jointly funded the build and furnishing of two, one-room schools in the Matrouh area in the Western Desert for the local Bedouin community. The schools are equipped with running water and electricity and feature a large classroom together with living accommodation for two teachers. Each school will provide primary education for around 40 children between the ages of four and 11.

In Tunisia, Petrofac's work to build the new Hasdrubal onshore gas processing facility was complemented by a close relationship with the local authorities which has seen the Company fund an extension to the secondary school in the town of Nakta. The school currently has over 600 students between the ages of 12 and 16 and the extension will provide a much needed resource to enable completion of studies and homework. The new hall extension will be 'handed over' fully equipped with new computers and other learning resources.

The launch of the 'Petrofac Scholarship for Studies in Engineering' was also announced during 2007, in collaboration with the Arvind Gandbhir Secondary School at Jogeshwari in northern Mumbai, India. Scholarships are awarded to high-performing pupils whose family circumstances would otherwise not afford them such opportunity. 95 pupils were selected to receive the awards based on a selection criteria relating to individual academic performance and family income. The ultimate goal is to help individuals continue their education in a recognised establishment where they will pursue an engineering qualification.

In Sharjah, Petrofac provided financial support to a further eight students in the School of Engineering at the American University as a result of a US$2 million endowment, which was reported in last year's Annual Report. The Company also supported the American University in Beirut and made a significant donation to the Sharjah English School for the creation of an IT suite in the new secondary school.

The Company recently announced its support for a pilot education initiative in Southern Sudan and has committed US$400,000 over two years to a non-governmental organisation called BRAC. The grant will fund the building of 60 schools in several areas of Southern Sudan creating around 1,800 school places for children, predominantly girls, aged between six and 11 years. The non-formal education programme will be delivered through 'one-teacher-one-room' schools, by local women trained as 'para teachers'. The children will follow the national curriculum, completing the courses in a shorter time which will encourage enrolment and retention. Petrofac believes these efforts are both cost effective and sustainable.

Petrofac's UK team has a long history of community involvement and in 2007 the Community Involvement Group (CIG) again provided support to a large number of charities, groups and individuals.

**Photographs above from top to bottom**
[a–b] Pupils of the Matrouh School, Egypt
[c] Pupils of the Nakta Secondary School, Tunisia



For the past five years, Cornerstone Community Care has been the chosen charity of Petrofac Facilities Management. Cornerstone aims to offer services and support to people with learning disabilities and to their families. Petrofac provides financial support to Cornerstone and many employees take an active interest in the charity.

This partnership was recognised publicly when it won the Partnership Fundraising Award at the Institute of Fundraising Awards 2007, with Petrofac and Cornerstone beating off competition from the Microsoft and Children 1st partnership. The award judges were especially impressed by the extent to which it is a genuine partnership with both sides showing an equal amount of support and commitment.

2007 was the third year that Petrofac sponsored Street Football, a project run in conjunction with Grampian Police and the Robert Gordon University which aims to tackle anti-social youth behaviour. Street Football uses a mobile sports arena to encourage participation in a range of sporting activities in areas of Aberdeen with high levels of youth disaffection. The Street Football initiative was shortlisted for the 2007 Times Higher Education Supplement Award (THES) for Outstanding Contribution to the Local Community.

Petrofac continues to be a principal sponsor of the Aberdeen Youth Festival, which showcases the musical, dancing and acting talents of young people from around the world. Techfest, a festival of science, technology and engineering in Aberdeen for school children, also benefited from the Company's support.

2008 marks the tenth anniversary of Petrofac's nationally acclaimed education-industry partnership with Kincorth Academy in Aberdeen, helping to raise significant funding for the school and providing pupils with skills and experiences that will help them in their future careers. Recent initiatives have included the development of the innovative 'Passport to Work' scheme, in line with the Scottish Executive's 'Determined to Succeed' initiative.

In Woking, Petrofac has worked with the Surrey Care Trust for the past six years, focusing on the welfare of the local community. Petrofac provides financial support to the 'Crisis Grants' welfare arm of the trust, providing a lifeline for local people living under extraordinarily difficult circumstances.

The Company has built a long and significant relationship with Kenny Herriott, one of the world's leading wheelchair athletes, and this continued during 2007. Towards the end of the year, Kenny won the Las Vegas wheelchair marathon.

In 2007, Petrofac successfully introduced a 'Payroll Giving' scheme in the United Kingdom. All permanent 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 pays all the administration charges and matches 50% of the total of these donations. On the anniversary of the scheme, the Company's matching donations will go to education and training focused charities chosen from a shortlist by our employees.

Petrofac has a policy of not making political donations.

**Photographs above from top to bottom**
[a] Arvind Gandbhir School, Mumbai
[b] Cornerstone Community Care, Aberdeen
[c] Surrey Care Trust, Woking, UK

# Board of Directors












1 **Rodney Chase**
**Non-executive Chairman** [c,d]
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; non-executive director of Tesoro Corporation; and senior advisor to Lehman Brothers. He has previously held positions as a board member of BOC plc and Diageo plc. Age 64.

2 **Ayman Asfari**
**Group Chief Executive** [c,d]
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. Ayman currently serves as a member of The Board of Trustees of The American University of Beirut. Age 49.

3 **Michael Press**
**Senior Independent Director, non-executive Director** [a,b,c,e]
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. In 2007, Michael was appointed non-executive chairman of TWMA, an Aberdeen based global drilling waste management firm and interim chairman of RigNet Inc, a US company serving the upstream oil & gas industry. He continues to serve as senior independent director of Chart Industries Inc. Age 60.

4 **Maroun Semaan**
**Chief Executive, Engineering & Construction** [d]
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 & gas pipeline, process facilities and civil works projects in Oman and Bahrain. He was appointed Chief Executive of Petrofac Engineering & Construction in April 2004. Maroun currently serves as a member of The Board of Trustees of The American University Of Sharjah. Age 52.

5 **Bernard de Combret**
**Non-executive Director** [b,c,e]
Bernard de Combret was appointed to the Petrofac Board in November 2003. Bernard 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 where he was CEO of refining marketing; CEO for gas, power, new energies; and CEO for trading and shipping. He is currently a non-executive director of Madagascar Oil; Winstar Resources Ltd; Coastal Energy; and a member of the international advisory board of Grupo Santander. He has previously held positions as a board member of Renault VI, CEPSA and Banco Central Hispano. Age 65.

6 **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. He has previously served as a non-executive director of the Peacock Group plc. Age 51.

7 **Kjell Almskog**
**Non-executive Director** [a,c,e]
Kjell Almskog was appointed to the Petrofac Board in March 2005. Kjell has held a number of senior executive positions including 13 years at the international ABB group – most latterly as deputy group CEO and Head of its Oil, Gas & Petrochemicals division. He was then Chief Executive of Kvaerner from 1998 until its merger with Aker in 2001. Kjell was appointed non-executive Chairman of Intex Resources ASA, a Norwegian listed mining and exploration company in November 2007. He continues to serve as non-executive deputy chairman of Kverneland Group ASA; a non-executive director of Orkla ASA; Kitron ASA; and senior advisor to the Taylor Group. Age 67.

8 **Amjad Bseisu**
**Chief Executive, Energy Developments** [d]
Amjad Bseisu joined Petrofac in 1998 and founded the Energy Developments' business. In 2007, Amjad rejoined the Petrofac Board having previously served for several years prior to the Company's admission to listing on the London Stock Exchange in 2005. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), ultimately as head of International Marketing, Negotiations and Business Development and president of ARCO Petroleum Ventures and ARCO Crude Trading, Inc. Amjad was a founding non-executive director of Serica Energy plc and Stratic Energy Corporation. Age 44.

9 **Rijnhard van Tets**
**Non-executive Director** [a,b,e]
Rijnhard van Tets was appointed a non-executive Director of Petrofac in 2007. Rijnhard is general partner of Laaken Asset Management NV. He was an adviser to the managing board of ABN Amro between 2002 and 2007, having previously served as a member of ABN Amro's managing board for 12 years. 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. Rijnhard currently serves as a non-executive chairman of the boards of Arcadis NV; Euronext Amsterdam NV; Euronext NV; and Equity Trust Holdings SARL and is a non-executive director of IFF Europe; NYSE Euronext Inc; Stichting Administratiekantoor Bührmann NV; and a number of charitable organisations. Age 60.

a Member of the Audit Committee
b Member of the Remuneration Committee
c Member of the Nominations Committee
d Member of the Environmental Committee
e Member of the Risk Committee

# Senior management team















1 **Robin Pinchbeck**
**Chief Executive, Operations Services**
Robin joined Petrofac in 2002. He is Chief Executive of Operations Services and consequently sits on the Operations Services' divisional board. From 1995, Robin was managing director of Atlantic Power & Gas, a leading UK North Sea operations management and services provider and pioneer of the contractor 'duty holder' model. Atlantic Power & Gas was sold in 1998 to Petroleum Geo-Services ASA, which was subsequently purchased by Petrofac in 2002. Robin established Petrofac's facilities management business and as Chief Executive of Operations Services retains ultimate responsibility for this business in addition to the group's training business. Robin has more than 30 years' experience in the oil & gas industry, spending 23 years with BP before moving to Atlantic Power & Gas. Robin is a graduate of Imperial College London and Stanford University. Age 55.

2 **Richard Milne**
**Group Head of Legal and Commercial Affairs**
Richard joined Petrofac in 2004 with overall responsibility for advising on the legal and commercial aspects of the group's activities. Richard was heavily involved in Petrofac's successful admission to listing on The London Stock Exchange in 2005 and in developing the group's governance and compliance framework. As a member of the group's senior management team, Richard participates in the group's risk review process and advises on corporate matters as well as on all commercially significant issues affecting the group. Prior to joining Petrofac, Richard spent some 15 years in corporate finance after working in the insurance brokerage industry. Richard is a graduate of Oxford University and qualified as a solicitor. Age 52.

3 **Marwan Chedid**
**Executive Vice President, Chief Operating Officer of Petrofac International, Engineering & Construction**
Marwan joined Petrofac's Engineering & Construction division as a project manager when the division was first established in Sharjah in 1992. He was subsequently promoted to regional director at the same time as becoming a member of the divisional board. In 2007, he was appointed Chief Operating Officer of Petrofac International, with day-to-day responsibility for the successful delivery of overall operations. Marwan previously worked for a major civil and mechanical construction business based in the Gulf and the Middle East for 12 years and has more than 25 years' experience in the oil & gas sector. He holds a degree in Mechanical Engineering from the American University of Beirut. Age 47.

4 **Bill Dunnett**
**Executive Vice President, Project Development, Energy Developments**
Bill joined Petrofac in 2007 with responsibility for asset development, which includes leading the project management and operation of the greater Don Area Fields in the UKCS. Bill has over 23 years' experience in the oil & gas industry and is a member of the Energy Developments' divisional board. Prior to joining Petrofac, Bill spent eight years at Halliburton and its subsidiary KBR, as a senior vice president and corporate officer and his responsibilities included membership of the KBR Executive Leadership Team, Global Operations and Maintenance, also restructuring and completing the major Barracuda Caratinga offshore EPC project in Brazil. Bill spent his earlier career with Mobil North Sea and Shell. He is a chartered engineer and graduated with a first in Engineering from Heriot Watt University, Edinburgh. Age 45.



5 **Gordon East**
**Managing Director of Petrofac Facilities Management, Operations Services**
Gordon joined Petrofac in 2006 as managing director of Petrofac Facilities Management with overall responsibility for further developing and running Petrofac's operations management and operations services businesses in the UK and the rest of the world. He is a member of the Operations Services' divisional board. Prior to joining Petrofac, Gordon spent more than 20 years with ConocoPhillips in both upstream and operations' roles. Gordon has an MA in Engineering from Cambridge University and an MSc in Petroleum Engineering from Imperial College London. Age 44.

6 **Rory Edwards**
**Vice President, Upstream Business Development and Operations Support, Energy Developments**
Rory is responsible for the development of new business within Energy Developments. During his tenure, the division has acquired interests in Malaysia, the UK and Tunisia. His focus is on undeveloped production opportunities where the capabilities of the group can be used to create value. Rory has 28 years' experience in the oil & gas industry, including 14 years with Amerada Hess in the UK, most latterly as deputy managing director in their emerging international business with responsibility for operations in eight countries. During his career with Amerada Hess, Rory developed the commercial structures enabling several previously dormant discoveries to be brought to fruition, including Nevis and Telford. He is a petroleum engineer having graduated from London University with degrees in Mechanical Engineering and Petroleum Engineering. Age 52.

7 **Leigh Howarth**
**Managing Director of Petrofac Training, Operations Services**
Leigh joined Petrofac in 2002 following Petrofac's acquisition of PGS Production Services where he was group finance director. Leigh established Petrofac's group finance function in 2003 and played a key role in Petrofac's successful admission to listing on The London Stock Exchange in 2005. In 2006, Leigh moved from his role as Group Financial Controller to the position of managing director of Petrofac Training. As such, Leigh has overall responsibility for developing and running the group's UK and global training and consultancy businesses. He is a member of the Operations Services' divisional board. Leigh has more than ten years' experience in the oil & gas industry. He has a degree in Economics, Accounting and Financial Management from the University of Sheffield and is qualified as a Chartered Accountant. Age 43.

8 **Rob Jewkes**
**Executive Vice President & Managing Director of Petrofac Engineering, Engineering & Construction**
Rob joined Petrofac in 2004 with the objective of building a Europe-based engineering and construction business, to complement the Engineering & Construction division's existing operations in Sharjah. Based in our Woking office in the UK, Rob has overseen impressive growth particularly in relation to conceptual, front-end and detailed engineering and project management services to the European, North African and Caspian regions. Rob is a member of the divisional board and has more than 30 years' experience in the oil & gas industry. Prior to joining Petrofac, Rob served as chief executive officer of Clough Engineering, the main operating company of the Australian engineering group, Clough Limited. Rob holds a degree in Civil Engineering from the University of Western Australia. Age 52.

9 **Jeanne-Marie de Larrazabal**
**Vice President, Commercial, Energy Developments**
Jeanne-Marie joined Petrofac in 2006 with responsibility for all legal and commercial aspects of Energy Development's business and as such, she advises on the legal and commercial aspects of corporate and asset opportunities; negotiates a wide variety of commercial arrangements and provides commercial solutions to disputes. Jeanne-Marie is also asset manager for certain upstream areas and provides assistance in overseeing business development. She is a member of the Energy Developments' divisional board. Jeanne-Marie has over 27 years' experience in the oil & gas industry. Prior to joining Petrofac, she spent 20 years at LASMO plc, latterly as a group general manager. Jeanne-Marie is a graduate of the London Metropolitan University and qualified as a barrister. Age 52.

10 **John Methven**
**Group Head of Health, Safety, Security, Environment and Integrity Assurance**
John joined Petrofac in 1998, initially as an operations manager in the facilities management business in Aberdeen. Immediately before his appointment as Group Head of HSSEIA in 2008, he was responsible for Petrofac Facilities Management's European operations. John has responsibility for ensuring that the group continues to develop its health, safety, security, environmental and integrity assurance programmes. He reports to the Group Chief Executive. He has 30 years' operational experience in the oil & gas industry and was recently elected co-chair of 'Step Change in Safety', an organisation whose membership is made up from the oil & gas industry and which aims to promote high safety standards within the industry. John started his career as a sea-going engineering officer. John is a Chartered Petroleum Engineer in the UK. Age 58.

11 **Vivek Prakash**
**Executive Vice President, Finance, Engineering & Construction**
Vivek joined Petrofac in 2004 as a member of the Engineering & Construction divisional board and has overall responsibility for the division's finance and IT functions. Vivek has worked in the oil & gas industry for nearly 20 years. Prior to joining Petrofac, Vivek was a board director of Dodsal Pte Limited, an oil & gas contractor, where he had responsibility for overseeing Dodsal's international activities. Vivek is a Chartered Accountant and holds a degree in Economics from the University of Delhi. Age 51.

12 **Subramanian Sarma**
**Executive Vice President, Projects and Deputy Chief Operating Officer of Petrofac International, Engineering & Construction**
Subramanian joined Petrofac's Engineering & Construction division as a project manager in 1997. After holding various positions in project management, he was subsequently made Head of Engineering and appointed to the divisional board in 2005. In 2007, he was promoted to the position of Executive Vice President, Projects and Deputy Chief Operating Officer of Petrofac International, with responsibility for the successful delivery of projects in the Middle East, North Africa and Caspian regions. Prior to joining Petrofac, Subramanian worked for Kvaerner and Jacobs in India and Oman and has more than 25 years' experience in the oil & gas industry. He holds an MSc in Chemical Engineering from the Indian Institute of Technology. Age 49.

13 **Rajesh Verma**
**Executive Vice President, Strategic Initiatives & Chief Executive Officer, Petrofac India, Engineering & Construction**
Rajesh joined Petrofac's Engineering & Construction division in 1992 as a project manager when the division was first established in Sharjah. He is a member of the division's board with responsibility for Engineering & Construction's strategic initiatives and Indian Operations. He has responsibility for identifying potential acquisition opportunities; ensuring that the division is appropriately resourced; and expanding the division's technical offering if appropriate. Following the division's strategic decision to expand its engineering design function outside the UK, Rajesh managed the establishment and expansion of the offices in Mumbai and Chennai in India and continues to have overall responsibility for Indian operations. He has more than 25 years' experience in the oil & gas industry and holds a degree in Mechanical Engineering from the Birla Institute of Technology and Sciences in India. Age 57.

14 **Peter Warner**
**Executive Vice President, Sales and Marketing, Engineering & Construction**
Peter joined Petrofac's Engineering & Construction division in 2000 as head of the division's sales and marketing function and is a member of the division's board. He has overall divisional responsibility for the identification of potential opportunities; management of bid submissions; and delivery of the division's sales targets. Peter has 30 years' experience of sales and marketing in the oil & gas industry having previously worked for Davy McKee, KBR and Stone & Webster. Peter is a Fellow of the Institute of Chemical Engineers and a Chartered Engineer in the UK. He holds a degree in Chemical Engineering from St. John's College, Cambridge University. Age 51.

Robin Pinchbeck and Richard Milne are members of the group executive committee. All others are shown in alphabetical order.



# Corporate governance report

The Company is incorporated in Jersey, where there is no formal Code relating to corporate governance. Nevertheless, the Board is strongly committed to the highest standards of corporate governance and has therefore decided to adhere, wherever possible, to the provisions of The Combined Code on Corporate Governance published in 2006 (the Combined Code), in the same way as if the Company was incorporated in the United Kingdom. This Report, together with the Nominations Committee Report, Audit Committee Report and Directors' Remuneration Report, has been prepared by reference to the Combined Code. The Directors consider that throughout 2007 and up to the date hereof, the Company has fully complied with the provisions of the Combined Code.

The Combined Code has identified four subject areas, which underpin good corporate governance and these are:

- Directors
- Directors' remuneration
- Accountability and audit
- Relations with shareholders

## Directors

### The Board

The Board is responsible to shareholders for the control and leadership of the group and for safeguarding the Company's reputation. The Board currently has nine members and details of the individuals' skills and experience are contained in the Directors' biographies on pages 48 and 49.

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.

The Board met regularly during the year. The Board met in person at six meetings, which had been scheduled well in advance. In 2007, the Board held three such meetings in Continental Europe; one meeting in Sharjah, the United Arab Emirates, where the group has its largest office; one meeting in Jersey where the Company is incorporated; and one meeting in Kuwait where the group has significant business operations. In addition, the Board held a number of telephone conference Board meetings at relatively short notice, which arose as a result of specific business, usually in relation to a particular commercial project between scheduled Board meetings. The agenda for each scheduled Board meeting allows the Chairman and non-executive Directors to meet without executives present. In addition, the Board attended a strategy and business planning day with members of senior management.

Attendance by the Directors at the scheduled meetings of the Board was as follows:

| Number of meetings | 6 |
|---|---|
| **Rodney Chase**<br>Non-executive Chairman | 6 |
| **Kjell Almskog**<br>Non-executive Director | 6 |
| **Bernard de Combret**<br>Non-executive Director | 6 |
| **Michael Press**<br>Senior Independent Director | 6 |
| **Rijnhard van Tets**[1]<br>Non-executive Director | 3 |
| **Ayman Asfari**<br>Group Chief Executive | 6 |
| **Amjad Bseisu**[2]<br>Chief Executive, Energy Developments | 2 |
| **Keith Roberts**<br>Chief Financial Officer | 6 |
| **Maroun Semaan**<br>Chief Executive, Engineering & Construction | 6 |

1 Rijnhard van Tets joined the Board on 11 May 2007 following his appointment by shareholders at the 2007 Annual General Meeting. He attended all scheduled meetings held after his appointment to the Board.
2 Amjad Bseisu joined the Board on 11 May 2007 following his appointment by shareholders at the 2007 Annual General Meeting. He attended two of the three scheduled meetings held after his appointment to the Board. The Board meeting, which he missed, was due to an engagement arranged before his appointment to the Board.

### Chairman and Chief Executive

The roles of Chairman and Group Chief Executive are clearly separated and set out in writing. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda and for ensuring that there is effective communication with all shareholders. The Chairman also facilitates the effective contribution of all Directors and ensures that there is a constructive relationship between the executive and non-executive Directors. The role of the Group Chief Executive is to provide leadership to management in running the business and to develop proposals for the Board to consider in all areas reserved for its judgement.

### Board balance and independence

The Board believes that it is of sufficient size to contain an appropriate balance of skills and experience but not so large as to be unwieldy. The Board considers all four 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.

# Corporate governance report
continued

The Board is assisted by various committees, principally the Nominations, Audit, and Remuneration Committees. Reports for 2007 from each of these committees are provided from pages 56 to 65. The Board keeps the membership of the committees under review. In May, the Board's number of independent, non-executive Directors increased from three Directors to four Directors upon the appointment of Rijnhard van Tets. The Board accordingly took the opportunity to refresh the membership of the Audit and Remuneration Committees as a consequence of which there is no longer common membership of these two committees, which the Board believes helps to prevent undue reliance on any individual Director.

## Appointments to the Board

The Nominations Committee ensures a formal, rigorous and transparent procedure for the appointment of new Directors. In the case of candidates for non-executive Directorships, care is taken to ascertain whether they will have sufficient time to fulfil their Board, and if applicable, committee responsibilities. As part of this process, candidates disclose all other time commitments and on appointment, undertake to inform the Chairman of any proposed changes. The terms and conditions of appointment of non-executive Directors are available from the Secretary to the Board on request.

## Information and professional development

To enable the Board to discharge its duties, all Directors are given appropriate documentation in advance of Board meetings. The agenda and appropriate supporting Board papers are distributed by the Secretary to the Board at least a week and 24 hours respectively, in advance of each scheduled and telephone Board meeting. In addition, all Directors are encouraged to make further enquiries as they feel appropriate of the executive Directors or management team.

The Chairman implemented a formal programme of training during the year, which covered topics designed both to increase familiarity with the group's business operations as well as to develop technical skills and knowledge. At four of the scheduled Board meetings held during the year, senior management gave presentations to the Board on their particular area of business operations and on one such occasion, a visit to the site of a significant brownfield project was arranged for the Board. In addition, presentations were provided to the Board in relation to the European Disclosure and Transparency Directive and the group's management of, and accounting for, long-term contracts. Further, any Director may request the Secretary to the Board to arrange any individual training or professional development if he feels that this would be helpful to him in discharging his responsibilities.

A formal induction process exists and this is tailored to take account of the individual's specific needs. Two new Directors were appointed during the year, Amjad Bseisu and Rijnhard van Tets. The induction programme provided to Amjad Bseisu concentrated on the legal and regulatory environment in which the Company operates as he was judged to possess extensive knowledge in relation to the group's business activities and competitive environment, having served as a senior member of the management team for several years prior to his appointment as a Director. As a non-executive Director recruited from outside the oil & gas industry, the Company put in place a programme for Rijnhard van Tets, which was designed to help him familiarise himself with the Company's business. As part of this programme, Rijnhard van Tets visited the group's main offices where he had the opportunity to meet senior management and external advisors. In addition, Rijnhard van Tets was supplied with briefing papers designed to assist him in understanding the group's legal and regulatory framework including governance requirements, particularly in relation to audit committees.

## Performance evaluation

Having used an external facilitator to help evaluate Board, committee and individual performance in 2006, the Board decided it would undertake an internal review of its performance in 2007. Each Director completed an extensive questionnaire prepared by reference to the Combined Code and the Secretary to the Board collated the results. The Chairman subsequently led a formal discussion of all Directors as a consequence of which various actions were agreed for the forthcoming year. 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.

## Re-election of Directors

All Directors are required by the Company's Articles of Association to submit themselves to shareholders for re-appointment after their initial appointment by the Board and thereafter by rotation at least once every three years. Sufficient biographical information and other information (including, in the case of a non-executive Director seeking re-appointment, a statement as to their continued effectiveness and commitment) is provided to enable shareholders to make an informed decision.

## Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting solely of independent non-executive Directors, is responsible for determining the remuneration and conditions of employment of executive Directors and senior management. A Report on the Directors' remuneration, including a more detailed description of the role and activities of the Remuneration Committee is set out on pages 58 to 65.

## Accountability and audit

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the group financial statements in accordance with applicable Jersey law and generally accepted accounting principles. The Directors are also responsible for the preparation of the Remuneration Report and Corporate Governance Report, which they have chosen to prepare, being under no obligation to do so under Jersey Company law.

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 a 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.

## Directors' approach

The Board's objective is to present a balanced and understandable assessment of the Company's position and prospects, particularly in the Annual Report, Interim Report and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

## 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.

## Internal control

The Board is responsible for reviewing the effectiveness of the group's system of internal control, including financial, operational and compliance controls and systems for the identification and management of risk. The Audit Committee routinely meets with both the internal and external auditors and discusses matters of internal control. In addition, the Audit Committee, on behalf of the Board conducted a specific review of the internal control environment following the year end. The group's system of internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The group has an ongoing process for identifying, evaluating and managing 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.

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; and assurance processes. A description of each of these elements for the group is given below.

## 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. Each business division operates and maintains its own business management system designed to ensure the application of sound processes of control to all projects and business activities; such systems encompass policies and procedures relating to all major areas of risk including matters relating to health and safety; security; the environment; and contract execution. The Board has approved a Code of Business Conduct, 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

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 currently receives regular formal updates from management both on the most material of these divisional risks as well as any risks separately identified, which the management team judges to have the potential to affect the whole group.

The Board formed a Risk Committee in August, the purpose of which is to take primary responsibility for overseeing the group's risk management systems; and reviewing any external disclosures made by the group in relation to its risk management. The group appointed a Head of Enterprise Risk Management during the year, who supports the Risk Committee. It is anticipated that the Risk Committee will provide support to the Audit Committee in its responsibility for internal control and risk management matters rather than take on this role exclusively for itself. The Board, with the assistance of the Head of Enterprise Risk Management, will continue to keep the group's risk management and reporting system, including the role of the Risk Committee, under review in the forthcoming year.

As well as considering existing risks, a process exists for the consideration of risks associated with undertaking new business through divisional and group risk review committtees.

Details of the principal risks and uncertainties facing the business are disclosed on pages 24 and 25.

## Assurances

The Board receives assurances from the following internal controls:

- Historical financial performance and revised forecasts for the full year with significant variances are regularly reported by management to the Board
- Reports from the Audit Committee, which includes feedback from the internal auditors; the Environmental Committee; and in due course the Risk Committee
- The close involvement of the executive Directors in all aspects of the group's day-to-day operations, including regular divisional meetings with each division's senior management
- Client audits
- Reports and presentations to the Board by senior management including the Group Head of Legal and Commercial Affairs; the Group Head of HSSEIA; the Group Head of Insurance and Group Head of Tax

## Relations with shareholders

The Group Chief Executive, Chief Financial Officer and 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 financial statements 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 2007 Annual General Meeting and all intend to be present at the 2008 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 and published on the Company's website.

# Corporate governance report
continued

The Company's Articles of Association currently require its shareholders to notify the Company in the event that a shareholder acquires an interest of 3% or more in the Company's share capital. Such shareholders as at 25 February 2008, are as follows:

| | Number of ordinary shares | Percentage of allotted share capital |
|---|---|---|
| Legal & General Investment Management Limited | 17,352,271 | 5.02% |
| Petrofac ESOP Trustees Limited | 17,124,524 | 4.96% |
| Alima Trust | 14,255,157 | 4.13% |

Petrofac ESOP Trustees Limited includes certain interests of 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 Remuneration Report on page 65.

This Report was approved by the Board on 7 March 2008.

## Nominations Committee Report

Membership of the Nominations Committee during the year and to the date of this Report is as follows:

- Rodney Chase (Chairman)
- Ayman Asfari
- Kjell Almskog
- Michael Press
- Bernard de Combret

The Committee's powers are conferred to it under the Company's Articles of Association. It has formal terms of reference, which have been drafted in accordance with the Combined Code, are reviewed annually by the Committee and are available on the Company's website. The Secretary to the Board acts as secretary to the Committee. Minutes for all meetings are circulated to all Directors unless there is deemed to be a conflict of interest and supplemented by a verbal report from the Committee's Chairman at the next Board meeting. The Committee's principal roles and responsibilities include the following:

- Consider and make recommendations to the Board on all new appointments of Directors taking into account the overall size, balance and composition of the Board
- Consider succession planning
- Make recommendations to the Board concerning the re-appointment of any Director following conclusion of his specified term in office

Meetings are held as deemed necessary by the Chairman and during the course of 2007, one meeting was held and all members attended. The Committee considered its terms of reference; the Board's composition, which it judged to be satisfactory for the time being; and management's succession planning.

The Committee met in early 2008 to consider Board composition, succession planning and the proposed re-appointment of Rodney Chase, Ayman Asfari and Keith Roberts at the 2008 Annual General Meeting. The Committee recommended to the Board that all three Directors offering themselves for re-appointment should be proposed for re-appointment by the Company's shareholders having taken into account their individual performances, which were considered as part of the annual Board evaluation exercise.

This Report was approved by the Board on 7 March 2008.

**Rodney Chase**
Chairman

## Audit Committee Report

Membership of the Audit Committee during the year and to the date of this Report is as follows:

- Rijnhard van Tets (Chairman and member from 11 May 2007)
- Kjell Almskog
- Michael Press
- Bernard de Combret (Chairman and member until 11 May 2007)

Both Rijnhard van Tets and Kjell Almskog have recent and relevant financial experience.

The Committee's powers are conferred to it under the Company's Articles of Association. It has formal terms of reference, which have been drafted in accordance with the Combined Code, are reviewed annually by the Committee and are available on the Company's website. The Committee's principal roles and responsibilities include the following:

- To monitor the integrity of the Company's financial statements and announcements relating to its financial performance and reviewing significant financial reporting judgements
- To keep under review the effectiveness of the Company's internal control and risk management systems
- To monitor the effectiveness of the internal audit function and review its material findings
- To oversee the relationship with the external auditors, including agreeing their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness and ensuring that policy surrounding their engagement to provide non-audit services is appropriately applied

The Committee is authorised to investigate any matters within its terms of reference and may therefore seek any information it requires from any employee and obtain, at the Company's expense, such professional advice as it sees fit in order to fulfil its duties. However, the Committee has no executive function and its primary role is to review and challenge, rather than assume responsibility for any matters within its remit.

Attendance at the 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 generally attend some or all of the 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. The Secretary to the Board acts as secretary to the Committee.

Minutes for all meetings of the Committee are circulated to all Directors and are supplemented by a verbal report from the Committee's Chairman at the next Board meeting, identifying any matters in respect of which action or improvement is required, and making recommendations where appropriate.



The Committee met four times during the year and considered the following matters:

### Financial reporting

The Committee reviewed the 2006 Annual Report and financial statements and the 2007 Interim Report issued in September 2007 before recommending their publication to the Board. As part of this overall review, the Committee considered the draft preliminary announcements in respect of the Company's 2006 final and 2007 interim results. The Committee discussed with the Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements in preparing the Company's 2006 Report and financial statements and 2007 Interim Report.

### Internal controls and risk management systems

The Committee is charged with reviewing the Company's internal controls and risk management systems. The Committee primarily discharges this responsibility through its engagement with the group's internal and external auditors. An annual internal audit plan, drawn up on a risk-based approach, is presented to the Committee for its review and approval at the start of the financial year. The Group Head of Internal Audit provides the Committee with an interim progress report part way through the year, as a result of which the audit plan may be revised, before returning to the Committee with his final report for the year at the start of the subsequent year. At the same time as the final report for the previous year is presented, an audit plan for the current year is proposed and so the ongoing process of internal control review is continued. In 2007, the internal audit department completed a total of 36 assignments across a broad cross-section of activities.

In addition, the Committee also received presentations or reports during the year in relation to the group's tax risk management; the group's insurances; the group's Code of Business Conduct; and the group's whistle blowing policy (known as the 'speaking up' policy by employees) and its effectiveness. In relation to the 'speaking up' policy, the Committee noted that a staff awareness survey suggested that a very significant proportion of employees had some awareness of the policy. The group has recently appointed a Head of Communications, who led a group-wide mail shot after the results of the survey had been received in order to start the process of increasing staff awareness. Two notifications under the policy were received and conclusively investigated during the year. There were no notifications in 2006.

### 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. During the year, the Group Head of Internal Audit recruited an IT specialist and he intends to undertake further recruitment in 2008. The Committee will continue to keep the resourcing of the department under review. The department is currently staffed by four individuals including the Group Head of Internal Audit.

### External audit

The Committee recommended to the Board that the external auditors, Ernst & Young LLP, be re-appointed 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 external auditors and feedback from the Chief Financial Officer and Group Financial Controller.

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 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 Financial Services Authority (FSA) or United Kingdom Listing Authority (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.

Attendance at the meetings during the year was as follows:

| **Number of meetings** | **4** |
|---|---|
| Rijnhard van Tets[1] Chairman | 3 |
| Kjell Almskog | 4 |
| Bernard de Combret[2] | 2 |
| Michael Press | 4 |

1 Rijnhard van Tets was appointed to the Committee on 11 May 2007. Two meetings were held before and two meetings were held after his appointment. He attended three meetings during the year: one meeting as a guest prior to his appointment and the two meetings held after his appointment.
2 Bernard de Combret stepped down from the Committee on 11 May 2007. He attended the two Committee meetings held before he stepped down from the Committee.

This Report was approved by the Board on 7 March 2008.

**Rijnhard van Tets**
Committee Chairman

# Directors' remuneration report

### Introduction
This Report has been prepared by the Remuneration Committee in accordance with the Directors' Remuneration Report Regulations 2002 and approved by the Board. The Directors are not required under Jersey law to prepare a Remuneration Report but in accordance with the principles of good corporate governance, as outlined in the Combined Code, 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 2007. As required by the Remuneration Report Regulations, shareholders will be invited to approve this Report at the Annual General Meeting. The vote on the resolution will have advisory status only, will be in respect of remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. The members of the Remuneration Committee will be available at the Annual General Meeting to answer shareholders' questions about the Directors' remuneration.

The sections of this Report dealing with Directors' emoluments and share interests have been audited (pages 64 to 65) by the group's external auditors.

### Information not subject to audit
### Composition of the Committee
Membership of the Remuneration Committee during the year and to the date of this Report is as follows:
- Bernard de Combret (Member throughout year and Chairman from 11 May 2007)
- Kjell Almskog (Member until 11 May 2007)
- Michael Press (Member throughout year and Chairman until 11 May 2007)
- Rijnhard van Tets (Member from 11 May 2007)

In May, the Board's number of independent, non-executive Directors increased from three to four Directors following the appointment of Rijnhard van Tets. The Board took the opportunity at this time to refresh the membership of the Committee. Given their diverse backgrounds and experience, the Board believes that the current Committee members provide a suitably balanced perspective on executive remuneration matters. None of the Directors who served during the year had or has any personal interest in the matters to be decided (other than as a shareholder 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.

### Role of the Remuneration Committee
The Remuneration Committee is a formal committee of the Board, and has powers delegated to it under the Articles of Association. Its remit is set out in terms of reference formally adopted by the Board, which were last reviewed in July 2007. A copy of the terms of reference is available on the Company's website. The primary purposes of the Remuneration Committee are set out in its terms of reference and are to:
- Recommend to the Board the broad policy in respect of senior management remuneration
- Ensure that the levels of remuneration are appropriate in order to encourage enhanced performance
- Approve the design and set the targets for any performance related pay scheme
- Review the design of all share incentive plans before approval by the Board and shareholders, to monitor the application of the rules of such schemes and the overall aggregate amount of such awards
- Set the remuneration of all executive Directors, members of senior management and the Chairman including annual cash bonus and share incentive payments

During 2007, 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 members of senior management. He attended no part of a meeting at which his own remuneration was being discussed. The Group Head 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 Secretary to the Board acts as secretary to the Committee and therefore attended all meetings. The Committee appointed Norton Rose and Deloitte & Touche LLP to provide independent advice on remuneration matters during the year. Norton Rose acts as general legal advisors to the group. In 2007, in addition to providing remuneration related advice, a separate division of Deloitte & Touche LLP was engaged to provide tax and assurance work to the group in relation to a specific project, which has now been completed. Minutes of the meetings of the Committee are circulated to all Directors unless any Director is the subject of debate by the Committee, in which case the minutes will not be sent to him. The Chairman supplements the formal circulation of the minutes by a verbal update from the Committee Chairman at the Board meeting following a Committee meeting.

### Activities of the Remuneration Committee
The Committee normally meets four times a year and reports herewith its material findings. In addition to its routine business, the Committee also undertook the following activities during the year and in the period to the date of this Report in discharging its responsibilities:
- Considered and recommended to the Board proposed amendments in relation to the rules of the Company's Deferred Bonus Share Plan (DBSP) prior to the Board recommending such amendments to shareholders in Annual General Meeting
- Instructed Deloitte & Touche LLP to undertake a benchmarking exercise in relation to executive Directors and senior management remuneration before considering the resultant report
- Reviewed the group's policy in respect of senior management remuneration
- Considered management's strategic approach to the retention and motivation of personnel identified as key to the delivery of the group's overall strategy including consideration of the continued appropriateness of the group's current share incentive schemes



The Board considered and approved a funding policy in relation to the Company's employee benefit trust, which holds shares to be used to satisfy awards under the Company's DBSP, Performance Share Plan (PSP) and Restricted Share Plan (RSP). The Company reviews its contingent obligations under the above listed share incentive schemes on a quarterly basis with a view to ensuring that the employee benefit trust should purchase under a loan arrangement with the group and hold shares, sufficient to cover between 80% to 100% of its maximum liability at any time under the three schemes.

Attendance at the meetings during the year was as follows:

| Number of meetings | 4 |
|---|---|
| Bernard de Combret[1] Chairman | 4 |
| Kjell Almskog[2] | 2 |
| Michael Press[3] | 4 |
| Rijnhard van Tets[4] | 2 |

1 Bernard de Combret was appointed Chairman of the Committee on 11 May 2007.
2 Kjell Almskog attended the two meetings held prior to the recomposition of the Committee's membership on 11 May 2007.
3 Michael Press served as Chairman of the Committee until 11 May 2007.
4 Rijnhard van Tets was appointed to the Committee on 11 May 2007 and attended the two meetings held after his appointment.

In addition, a further four ad hoc meetings were held to approve awards under the Company's RSP (see page 62 for details of this share incentive scheme).

### Good governance
The Board and the Committee consider that throughout 2007 and up to the date hereof the Company has complied with the provisions of the Combined Code relating to Directors' remuneration.

### Remuneration policy and practice
#### Non-executive Directors
The Board, with the assistance of independent professional advice, determines the fees of the independent non-executive Directors. The last such benchmarking exercise was conducted by Deloitte & Touche LLP in 2006 and the opportunity was taken to include the Chairman of the Board as part of the review although the Remuneration Committee rather than the Board consider his particular fee. When deciding an appropriate level of fee for each independent non-executive Director, the Board considers the responsibility and time commitment required of each individual, taking into account the number of meetings each attends, the time required for reading Board and other papers, their chairmanship of Board Committees and the significant travel required of all independent non-executive Directors by the Company.

#### Executive Directors and members of senior management
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.

Executive Directors' remuneration packages currently 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 median or below |
| **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 basic salary or 150% for outstanding performance | 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 2007 ranged from 76% to 150% (2006: 100% to 150%) | | | |
| **Share Incentive Scheme** | | | |
| Performance Share Plan (PSP) | | | |
| ▪ Maximum grant level of 100% of basic 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 2007 were 100% of salary (2006: 70% to 73%) | | | 50% of awards are subject to an achievement of compound annual growth in Earnings Per Share (EPS) |

# Directors' remuneration report
continued

Historically, the Committee has been guided by the general principles 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 PSP
- The annual cash bonus and PSP awards do not exceed 100% or in exceptional circumstances, 150% of basic salary

These principles have been applied in 2007.

During the year, the Committee commissioned Deloitte & Touche LLP to undertake a benchmarking exercise in relation to the remuneration of executive Directors and members of senior management. Following a review of Deloitte & Touche LLP's report, the Committee decided that the most appropriate benchmarking group would be:

- A select group of international and UK oil & gas services' companies for the Group Chief Executive and operational executives, to the extent that data in relation to such comparator companies is publicly available
- The FTSE 350 for functional executives

The Committee has agreed that its remuneration policy going forward, by comparison to the relevant benchmarking group, will be that base salaries will be median or below but that the variable element of remuneration will be structured so that individuals can achieve total remuneration that is upper quartile subject to achievement of challenging performance standards. The Committee believes that such a remuneration policy is the most effective way in which to ensure that the executive Directors and members of senior management are incentivised to deliver the group's strategic goals and thus deliver long-term shareholder value.

As the Committee further develops its remuneration policy, it may need to revise its general principles in relation to the split between the three components making up senior management remuneration. The Committee intends to review the matter during 2008.

## 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 and any change is applied with effect from 1 January. In 2007, the rate of increase for basic salary increases for executive Directors was between 4.8% and 14.3% (2006: between 5.0% and 7.1%). The Committee made its 2007 salary increases to bring basic salaries more in line with competitive practice. However, following the increases, basic salaries remained at market median or below, in line with the Company's policy.

### 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. In 2007, Ayman Asfari received a cash allowance of £20,000 (2006: £20,000) whilst the other UK based executive Directors received £15,000 (2006: £15,000). None of the Directors is eligible to receive pension contributions from the Company.

In addition to basic salary, Maroun Semaan, as a UAE resident executive Director, is required by local statute to receive a cash sum (called an end of service indemnity) from his employer on the termination of his employment within the UAE. Accordingly, the Company accrues an amount each year.

The Company also pays a cash allowance in respect of housing and transport for Maroun Semaan. In 2007, Maroun Semaan received a cash allowance of $132,000 for the year (2006: $120,000).

### Non-cash benefits

All executive Directors receive certain benefits-in-kind. All UK resident executive Directors currently receive private health insurance, life assurance and long-term disability insurance. In addition, Ayman Asfari receives the benefit of a personal assistant who spends part of her time in the administration of his philanthropic work. Maroun Semaan, who is resident in the UAE, receives various benefits typical for expatriate senior executives such as private health insurance, benefits in relation to his children's 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 January 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. Each executive Director's personal objectives include health and safety targets. In addition, some executive Directors have additional targets in relation to succession planning; risk management; and the development and implementation of the group's social, environmental and ethical programme. In this way, the Remuneration Committee considers that it has in place an incentive structure for members of senior management, which promotes responsible behaviour



For 2007, as in 2006 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 if outstanding performance were to be achieved. Cash bonus awards in respect of 2007 to executive Directors ranged from 76% to 150% of salary due to performances, which ranged from very good to outstanding (2006: 100% – 150%). In particular, Maroun Semaan received a bonus of 150% of salary (2006: 150%). This level of award was considered appropriate in order to recognise his outstanding contribution to the financial performance of the group and E&C division during the course of the year and in addition the achievement of all his personal objectives.

Actual cash bonuses for the year are disclosed in the table set out on page 64 and taken in conjunction with awards to Directors under the Company's PSP, reflect the Remuneration Committee's assessment of each Director's achievement of his objectives in 2007 and his contribution to the group's performance in the year. Details of awards to Directors under the Company's PSP are outlined on page 64 of this Report.

## Share incentive schemes

### Performance Share Plan (PSP)

Under the PSP, executive Directors and a restricted number of other members of senior management 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 currently 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.

Vesting of PSP grants made in 2006 and 2007 were made subject to two performance measures:

(i) Total Shareholder Return (TSR) relative to an index against a comparator group of 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 TSR index was composed of 17 and 18 companies for grants made in 2006 and 2007, respectively. 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 re-investment 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 unweighted 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 Retail Price Index 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 and after, Tecnicas Reunidas SA.
3 It is assumed that £100 is notionally invested at the start of the performance period equally amongst all the companies making up the TSR index. At the end of the vesting period, the index will represent the value of what the initial notional investment of £100 would have returned over the period. This will be representative of the average return made by the Company's competitors. This is then compared to the return by an equivalent notional investment of £100 in Petrofac over the same period.
4 The Committee is authorised under the rules of the PSP to make retrospective adjustment(s) 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.

# Directors' remuneration report
continued

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% |

As part of its remit, the Committee regularly reviews not only the overall suitability of the group's share incentive schemes but also any performance conditions attached to such schemes. The Committee will therefore undertake both a general review of the group's schemes in 2008 and also consider whether the PSP performance conditions, which have been applied since the introduction of the scheme, remain appropriate.

## Other senior management, management and all-employee schemes

As part of its oversight role, the Committee has considered the following three schemes.

### Deferred Bonus Share Plan (DBSP)

Under the DBSP, selected members of management are invited, or in some cases required, to defer a proportion of their annual cash bonus into Company shares. 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'. To date, Matching Shares have been awarded to participants on the basis of a 1:1 ratio, the sole exceptions to this being two awards made to an executive Director and senior executive, respectively in 2006: in these particular cases, it was felt to be inappropriate to grant any Matching Shares.

Subject to a participant's continued employment at the time of vesting, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, 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. The Remuneration Committee uses its discretion to determine whether or not a participant should be subject to either three-year cliff or annual vesting (or a mixture thereof) but in doing so, takes management's recommendations into consideration.

In 2007, the Remuneration Committee decided that neither executive Directors nor the most senior members of management should participate in the scheme as there are no performance conditions attached to such awards. If executive Directors or members of the group's most senior management are considered for DBSP participation in future years, the Company undertakes not to make matching awards, unless such awards are subject to suitably stretching performance conditions and a deferral period of at least three years.

### Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis throughout the year. 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 Committee periodically monitors the level of awards. Executive Directors are not eligible to participate in the scheme.

### 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.

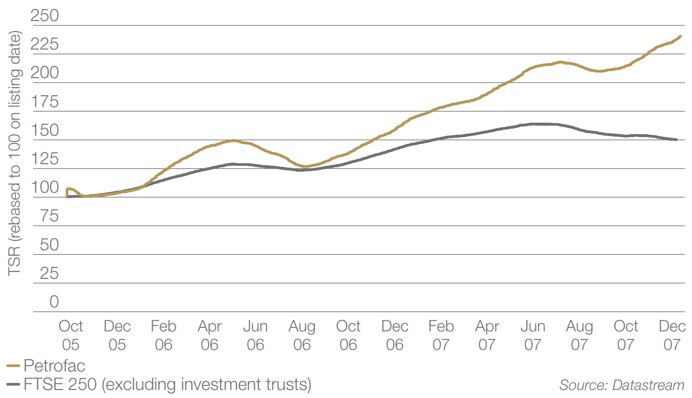
### Dividends and voting rights in respect of shares awarded under the group's share incentive schemes

Participants in the PSP, DBSP and RSP have no dividend or voting rights in respect of their respective awards until such time as their awards vest. However, when the Company pays a dividend, the number of shares comprised in an award will be increased by the number of shares which could have been acquired with the amount of dividend received had the participant been the owner of the award shares. The vesting of the extra shares will be subject to the same performance conditions as the original award shares.

Participants in the SIP receive dividends in respect of their shares like any other shareholder. The trustee invites participants prior to a general meeting to indicate how he or she wishes the trustee to vote in respect of his or her shares on any resolution(s) to be put to shareholders in general meeting.

## Performance graph

The Company's Total Shareholder Return (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 on 7 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.




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 | 2008 AGM | 12 | 12 |
| Amjad Bseisu | 13 September 2005 (11 May 2007) | 2007 AGM | 2009 AGM[1] | 12 | 12 |
| Keith Roberts | 13 September 2005 (6 April 2002) | 2006 AGM | 2008 AGM[2] | 12 | 12 |
| Maroun Semaan | 13 September 2005 (11 January 2002) | 2006 AGM | 2009 AGM[2] | 12 | 12 |

1 Five Directors were elected or re-elected by shareholders at the Company's 2007 Annual General Meeting: two such Directors, including one executive Director, Amjad Bseisu, have been drawn by lot for re-election at the 2009 Annual General Meeting. The remaining three Directors last elected or re-elected at the 2007 Annual General Meeting (Bernard de Combret, Michael Press and Rijnhard van Tets) will therefore become eligible for re-election at the 2010 Annual General Meeting.
2 Both Keith Roberts and Maroun Semaan were re-elected at the Company's 2006 Annual General Meeting. Under the Company's Articles of Association, either Director could submit himself for re-election at the 2008 Annual General Meeting. Keith Roberts was drawn by lot to offer himself for re-election at the 2008 Annual General Meeting as a result of which Maroun Semaan will offer himself for re-election at the 2009 Annual General Meeting.

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. No executive Director currently holds any such external directorships.

## 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) | General meeting at which 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) | 2007 AGM | 2009 AGM[2] | 3 |
| Bernard de Combret | 13 September 2005 (19 November 2003) | 2007 AGM | 2010 AGM[2] | 3 |
| Michael Press | 13 September 2005 (30 April 2002) | 2007 AGM | 2010 AGM[2] | 3 |
| Rijnhard van Tets | 2 February 2007 (11 May 2007) | 2007 AGM | 2010 AGM[2] | 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 Five Directors were elected or re-elected by shareholders at the Company's 2007 Annual General Meeting: two such Directors, including non-executive Director, Kjell Almskog, have been drawn by lot for re-election at the 2009 Annual General Meeting. The remaining three Directors last elected or re-elected at the 2007 Annual General Meeting (Bernard de Combret, Michael Press and Rijnhard van Tets) will therefore become eligible for re-election at the 2010 Annual General Meeting.

During the year, with the exception of the Chairman, non-executive Directors were paid a basic annual fee of £42,000 for their role on the Board and a further annual fee of £6,000 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.

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The Chairman's fee is all inclusive and is currently £105,000 per year, having last been considered by the Remuneration Committee in 2006.

# Directors' remuneration report
continued

## Audited information

### Amount of each Director's emoluments in the relevant financial year

The remuneration of each Director in respect of 2007 (with 2006 comparison) comprised:

| | Salaries and fees US$'000 | Cash allowances US$'000[1] | Benefits US$'000[2] | Cash bonus US$'000 | 2007 total US$'000 | 2006 total US$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Ayman Asfari | 722 | 40 | 76 | 902 | **1,740** | 1,359 |
| Amjad Bseisu[3] | 272 | 19 | – | 205 | **496** | n/a |
| Keith Roberts | 441 | 30 | 1 | 481 | **953** | 805 |
| Maroun Semaan | 330 | 160 | 31 | 495 | **1,016** | 915 |
| **Non-executive Directors** | | | | | | |
| Rodney Chase | 209 | – | – | – | **209** | 190 |
| Kjell Almskog | 91 | – | – | – | **91** | 69 |
| Bernard de Combret | 96 | – | – | – | **96** | 78 |
| Michael Press | 88 | – | – | – | **88** | 78 |
| Rijnhard van Tets[3] | 61 | – | – | – | **61** | n/a |
| | 2,310 | 249 | 108 | 2,083 | **4,750** | 3,494 |

1 Payment in lieu of pension allowance and other benefits for UK resident Directors and end of service indemnity and various allowances for the UAE resident Director. None of the Directors is eligible to receive pension contributions from the Company.
2 Benefits vary depending upon the Director. All executive Directors receive medical insurance. In addition, Ayman Asfari receives the benefit of a personal assistant who spends part of her time in the administration of his philanthropic work; and Maroun Semaan receives, inter alia, benefits in relation to his children's education and return flights to his permanent home.
3 Appointed on 11 May 2007.
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, 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:

| Director and date of grant | % of basic salary in year of grant | Number of shares at 31 December 2006[1,2] | Shares granted in year under annual award cycle[2] | Dividend shares granted in the year[1,2] | Number of shares at 31 December 2007[2] | Date from which shares vest | Market price on date of grant |
|---|---|---|---|---|---|---|---|
| **Ayman Asfari** | | | | | | | |
| 24 April 2006 | 71.4 | 70,629 | – | 846 | 71,475 | 24 April 2009 | 353p |
| 19 March 2007 | 100 | – | 90,338 | 1,082 | 91,420 | 19 March 2010 | 415p |
| **Amjad Bseisu** | | | | | | | |
| 24 April 2006 | 72.8 | 44,732 | – | 536 | 45,268 | 24 April 2009 | 353p |
| 19 March 2007 | 100 | – | 52,697 | 631 | 53,328 | 19 March 2010 | 415p |
| **Keith Roberts** | | | | | | | |
| 24 April 2006 | 71.4 | 47,086 | – | 564 | 47,650 | 24 April 2009 | 353p |
| 19 March 2007 | 100 | – | 55,207 | 661 | 55,868 | 19 March 2010 | 415p |
| **Maroun Semaan** | | | | | | | |
| 24 April 2006 | 70.0 | 37,669 | – | 451 | 38,120 | 24 April 2009 | 353p |
| 19 March 2007 | 100 | – | 42,685 | 511 | 43,196 | 19 March 2010 | 415p |

1 Dividends awarded on the shares granted under the PSP are reinvested to buy further shares. The awards disclosed in the Report and Accounts for 2006 did not reflect this dividend reinvestment and the position as at the start of the year is re-stated for awards made under the PSP on 24 April 2006.
2 The awards which are disclosed are the maximum number, which can vest under the performance conditions attached to awards made under the PSP.
3 The performance conditions under which these awards would vest in full are explained on pages 61 and 62.
4 No shares awarded to executive Directors under the PSP have either lapsed or vested during the year.



### Award of shares under the DBSP

Keith Roberts was granted 31,153 shares under the DBSP on 24 April 2006. The award was made solely in respect of Invested Shares. No Matching Shares were granted. Following the award of dividend shares in 2006 and 2007, the number of Invested Shares was 31,391 shares and 31,768 shares, respectively, on 31 December 2006 and 31 December 2007. The award will vest on the third anniversary of grant subject to Keith Roberts' continued employment. The market price at the date of grant was 353 pence.

### 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 (2006: nil).

### Directors' beneficial shareholdings at 31 December 2007

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 2007 | Number of shares as at 31 December 2006 or date of appointment if later |
|---|---|---|
| **Executive Directors** | | |
| Ayman Asfari | **69,282,114** | 69,282,114 |
| Keith Roberts | **2,120,000** | 3,120,000 |
| Maroun Semaan | **33,068,799** | 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 |
| Rijnhard van Tets | **100,000** | 100,000 |

The Company's share price at the end of the financial year was 550 pence and the market price during the year was in the range 370 pence to 565 pence.

### 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, 16 May 2008.

On behalf of the Board

**Bernard de Combret**
Chairman of the Remuneration Committee
7 March 2008

# 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 2007 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 32. 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 of the Company 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 presented in the Corporate Governance Report. 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 of the Company 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 of the Company 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 2006 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 Interview with the Group Chief Executive, the Operating and Financial Review, the Corporate Social Responsibility Report, the Corporate Governance Report, the unaudited part of the Directors' Remuneration Report of the Company, the Oil & Gas Reserves, the Directors' Information, Senior Management Information and Shareholder Information. 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 of the Company 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 of the Company 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 of the Company 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 2007 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 of the Company to be audited has been properly prepared in accordance with the basis of preparation as described therein

**Ernst & Young LLP**
London
7 March 2008

**Note:**
1. The maintenance and integrity of the **Petrofac Limited** web site 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 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| **Revenue** | 4a | 2,440,251 | 1,863,906 |
| Cost of sales | 4b | (2,029,772) | (1,593,588) |
| **Gross profit** | | 410,479 | 270,318 |
| Selling, general and administration expenses | 4e | (165,308) | (104,513) |
| Other income | 4c | 3,951 | 4,870 |
| Other expenses | 4d | (621) | (1,133) |
| **Profit from operations before tax and finance income/(costs)** | | 248,501 | 169,542 |
| Finance costs | 5 | (8,527) | (7,168) |
| Finance income | 5 | 18,259 | 9,298 |
| **Profit before tax** | | 258,233 | 171,672 |
| Income tax expense – UK | | (7,376) | (13,886) |
| – Overseas | | (62,141) | (37,454) |
| | 6 | (69,517) | (51,340) |
| **Profit for the year** | | 188,716 | 120,332 |
| Attributable to: | | | |
| Petrofac Limited shareholders | | 188,716 | 120,332 |
| **Earnings per share (US cents)** | 7 | | |
| Basic | | 54.63 | 34.98 |
| Diluted | | 54.14 | 34.87 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# Consolidated balance sheet
## At 31 December 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 256,237 | 143,176 |
| Goodwill | 11 | 71,743 | 56,732 |
| Intangible assets | 12 | 9,010 | 17,959 |
| Available-for-sale financial assets | 14 | 1,586 | 1,726 |
| Derivative financial instruments | 15 | 1,775 | 1,925 |
| Other financial assets | 15 | 23 | 22 |
| Deferred income tax assets | 6c | 11,472 | 2,902 |
| | | 351,846 | 224,442 |
| **Current assets** | | | |
| Inventories | 16 | 2,256 | 1,943 |
| Work in progress | 17 | 270,181 | 367,869 |
| Trade and other receivables | 18 | 509,025 | 330,515 |
| Due from related parties | 30 | 3,147 | 7,725 |
| Derivative financial instruments | 15 | 27,298 | 7,483 |
| Other financial assets | 15 | 2,702 | 2,650 |
| Cash and short-term deposits | 19 | 581,552 | 457,848 |
| | | 1,396,161 | 1,176,033 |
| Asset classified as held for sale | | – | 1,372 |
| **Total assets** | | 1,748,007 | 1,401,847 |
| **Equity and liabilities** | | | |
| **Equity attributable to Petrofac Limited shareholders** | | | |
| Share capital | 20 | 8,636 | 8,629 |
| Share premium | | 68,203 | 66,210 |
| Capital redemption reserve | | 10,881 | 10,881 |
| Treasury shares | 21 | (29,842) | (8,144) |
| Other reserves | 23 | 50,467 | 19,611 |
| Retained earnings | | 377,450 | 227,508 |
| | | 485,795 | 324,695 |
| Minority interests | | 209 | 209 |
| **Total equity** | | 486,004 | 324,904 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 24 | 81,640 | 90,705 |
| Provisions | 25 | 19,046 | 12,498 |
| Other financial liabilities | 26 | 13,870 | 7,373 |
| Deferred income tax liabilities | 6c | 34,137 | 25,754 |
| | | 148,693 | 136,330 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | 408,017 | 346,706 |
| Due to related parties | 30 | 744 | 182 |
| Interest-bearing loans and borrowings | 24 | 28,455 | 26,475 |
| Other financial liabilities | 26 | 864 | 172 |
| Income tax payable | | 47,577 | 10,085 |
| Billings in excess of cost and estimated earnings | 17 | 208,105 | 124,990 |
| Accrued contract expenses | 28 | 419,548 | 432,003 |
| | | 1,113,310 | 940,613 |
| **Total liabilities** | | 1,262,003 | 1,076,943 |
| **Total equity and liabilities** | | 1,748,007 | 1,401,847 |

The financial statements on pages 67 to 107 were approved by the Board of Directors on 7 March 2008 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 32 form part of these consolidated financial statements.



# Consolidated cash flow statement
## For the year ended 31 December 2007

| | Notes | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before tax** | | 258,233 | 171,672 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | | 52,758 | 28,807 |
| Share-based payments | 4f | 5,412 | 1,281 |
| Difference between other long-term employment benefits paid and amounts recognised in the income statement | | 5,852 | 3,082 |
| Net finance (income) | | (9,732) | (2,130) |
| Gain on disposal of investments | 4c | – | (1,671) |
| Gain on disposal of property, plant and equipment | 4b,4c | (8,834) | (11,681) |
| Gain on disposal of held for sale assets | 4c | (243) | – |
| Other non-cash items, net | | 1,756 | 1,203 |
| **Operating profit before working capital changes** | | 305,202 | 190,563 |
| Trade and other receivables | | (171,360) | (2,355) |
| Work in progress | | 97,688 | (132,822) |
| Due from related parties | | 4,578 | 20,677 |
| Inventories | | (313) | (787) |
| Current financial assets | | (395) | 983 |
| Trade and other payables | | 64,044 | 129,896 |
| Billings in excess of cost and estimated earnings | | 83,115 | 55,214 |
| Accrued contract expenses | | (12,455) | 68,533 |
| Due to related parties | | 562 | (1,153) |
| | | 370,666 | 328,749 |
| Other non-current items, net | | 133 | (139) |
| **Cash generated from operations** | | 370,799 | 328,610 |
| Interest paid | | (7,004) | (7,848) |
| Income taxes paid, net | | (32,417) | (19,087) |
| **Net cash flows from operating activities** | | 331,378 | 301,675 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (117,157) | (58,332) |
| Acquisition of subsidiaries, net of cash acquired | 10 | (4,902) | (3,865) |
| Payment of deferred consideration on acquisition | 10 | (64) | – |
| Purchase of intangible oil & gas assets | 12 | (48,604) | (6,187) |
| Purchase of available-for-sale financial assets | | – | (501) |
| Proceeds from disposal of property, plant and equipment | | 12,166 | 22,823 |
| Proceeds from disposal of available-for-sale financial assets | | – | 2,250 |
| Net foreign exchange differences | | 829 | 1,366 |
| Interest received | | 18,562 | 7,929 |
| **Net cash flows used in investing activities** | | (139,170) | (34,517) |
| **Financing activities** | | | |
| Proceeds from interest-bearing loans and borrowings | | – | 766 |
| Repayment of interest-bearing loans and borrowings | | (2,767) | (10,361) |
| Shareholders loan note transactions, net | | 216 | 198 |
| Treasury shares purchased | 21 | (21,698) | (8,127) |
| Equity dividends paid | | (39,479) | (15,069) |
| **Net cash flows used in financing activities** | | (63,728) | (32,593) |
| **Net increase in cash and cash equivalents** | | 128,480 | 234,565 |
| Cash and cash equivalents at 1 January | | 437,406 | 202,841 |
| **Cash and cash equivalents at 31 December** | 19 | 565,886 | 437,406 |

The attached notes 1 to 32 form part of these consolidated financial statements.

# Consolidated statement of changes in equity
## For the year ended 31 December 2007

| | 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 US$'000 (note 23) | Retained earnings US$'000 | Total US$'000 | Minority interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2007 | 8,629 | 66,210 | 10,881 | (8,144) | 19,611 | 227,508 | 324,695 | 209 | 324,904 |
| Foreign currency translation | – | – | – | – | (72) | – | (72) | – | (72) |
| Net gain on maturity of cash flow hedges recognised in income statement | – | – | – | – | (22,183) | – | (22,183) | – | (22,183) |
| Net changes in fair value of derivatives | – | – | – | – | 41,734 | – | 41,734 | – | 41,734 |
| Net changes in the fair value of available-for-sale financial assets | – | – | – | – | (140) | – | (140) | – | (140) |
| Total income and expenses for the year recognised in equity | – | – | – | – | 19,339 | – | 19,339 | – | 19,339 |
| Net profit for the year | – | – | – | – | – | 188,716 | 188,716 | – | 188,716 |
| Total income and expenses for the year | – | – | – | – | 19,339 | 188,716 | 208,055 | – | 208,055 |
| Share-based payments charge (note 22) | – | – | – | – | 5,412 | – | 5,412 | – | 5,412 |
| Shares issued on acquisition (note 20) | 7 | 1,993 | – | – | – | – | 2,000 | – | 2,000 |
| Treasury shares (note 21) | – | – | – | (21,698) | – | – | (21,698) | – | (21,698) |
| Transfer to reserve for share-based payments (note 22) | – | – | – | – | 6,105 | – | 6,105 | – | 6,105 |
| Dividends (note 8) | – | – | – | – | – | (38,774) | (38,774) | – | (38,774) |
| **Balance at 31 December 2007** | **8,636** | **68,203** | **10,881** | **(29,842)** | **50,467** | **377,450** | **485,795** | **209** | **486,004** |

| | 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 US$'000 (note 23) | Retained earnings US$'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 |
| Total income and expenses for the year recognised in equity | – | – | – | – | 27,393 | – | 27,393 | – | 27,393 |
| Net profit for the year | – | – | – | – | – | 120,332 | 120,332 | – | 120,332 |
| Total income and expenses for the year | – | – | – | – | 27,393 | 120,332 | 147,725 | – | 147,725 |
| Share-based payments charge (note 22) | – | – | – | – | 1,281 | – | 1,281 | – | 1,281 |
| Treasury shares (note 21) | – | – | – | (8,127) | – | – | (8,127) | – | (8,127) |
| Transfer to reserve for share-based payments (note 22) | – | – | – | – | 3,363 | – | 3,363 | – | 3,363 |
| Dividends (note 8) | – | – | – | – | – | (14,674) | (14,674) | – | (14,674) |
| Minority interests acquired | – | – | – | – | – | – | – | 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 32 form part of these consolidated financial statements.



# Notes to the consolidated financial statements
## At 31 December 2007

### 1 Corporate information
The consolidated financial statements of Petrofac Limited (the Company) for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 7 March 2008.

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 32 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 and all values in the financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated.

#### Statement of compliance
The consolidated financial statements of Petrofac Limited and 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 interests in excess of the minority's interest in the 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.

Comparative information relating to discontinued operations in the consolidated income statement and related notes to the financial statements has not been separately disclosed, as the remaining assets and liabilities associated with the prior year discontinued operations no longer meet the criteria of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as they are not being discontinued via a sale transaction, but are being wound down.

#### New standards and interpretations
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 2007. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

**IAS 1 'Presentation of financial statements'**
This amendment requires new disclosure regarding the group's objectives, policies and processes for managing its capital. These new disclosures are shown in note 31.

**IFRS 7 'Financial instruments: Disclosures'**
This standard requires the disclosure of the group's financial instruments and qualitative and quantitative disclosures around the associated risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

**IFRIC 8 'Scope of IFRS 2'**
This interpretation requires the application of "IFRS 2 Share-based payment" to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The group mainly enters into share-based payment transactions as part of an employee share scheme and as a result this interpretation has no impact on the financial position of the group.

**IFRIC 9 'Reassessment of Embedded Derivatives'**
This interpretation prescribes that the existence of an embedded derivative is determined at the date an entity first becomes a party to a contract and is reassessed only when there has been a change to the contract that significantly modifies the cash flows. The adoption of this interpretation does not have any significant impact on the financial position of the group.

**IFRIC 10 'Interim Financial Reporting and Impairment'**
This interpretation lays out guidelines for the treatment of impairment losses during an interim period, namely that the entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The adoption of this interpretation did not affect the group's operating results or financial position.

Certain new standards, amendments to and interpretations of existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but which the group has not early adopted. Those that are applicable to the group are as follows:

- **IAS 1 'Presentation of Financial Statements (Revised)'** effective for annual periods beginning on or after 1 January 2009 has been revised to enhance the usefulness of information presented in the financial statements. Management is considering the approach to meeting this requirement
- **IFRS 2 'Amendments to IFRS 2 – Vesting Conditions and Cancellations'** is required to be applied to periods beginning on or after 1 January 2009. This amendment clarifies the definition of non-vesting conditions and prescribes accounting treatment of an award that is cancelled because a non-vesting condition is not satisfied. This will have no significant impact on the group's financial statements

# Notes to the consolidated financial statements continued
At 31 December 2007

**2 Summary of significant accounting policies** continued
**New standards and interpretations** continued

- **IFRS 3 'Business Combinations (Revised)'** and the amended version of **IAS 27 'Consolidated and Separate Financial Statements'**, effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other reasons, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100% of the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the group is not expected to be significant
- **IFRS 8 'Operating Segments'** introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the group's Chief Operating Decision Maker in order to assess each segment's performance and allocate resources to them. Management is analysing the approach to be used in the segment information under IFRS 8
- **IFRIC 14 – IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'** clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when an MFR might give rise to a liability. IFRIC 14 will become mandatory for the group's 2008 financial information, with retrospective application required. This will have no significant impact on the group's financial statements
- **Revisions to IAS 23 'Borrowing costs'** have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This will have no significant impact on the group
- **IFRIC 11, IFRS 2 'Group and Treasury Share Transactions'** effective for annual periods beginning on or after 1 March 2007 provides specific guidance on applying IFRS 2. It addresses share-based payments involving an entity choosing or being required to buy its own equity instruments (treasury shares) to settle a share-based payment obligation and the situation when the parent grants rights to its equity instruments to employees of its subsidiaries (both of which should be treated as equity-settled). In addition it addresses the situation when a subsidiary grants rights to equity instruments of its parent to its employees (which should be treated as cash settled). The Directors anticipate that the initial adoption of this standard will have no significant impact on the group

Other interpretations that have been issued but that are not yet effective but that are not applicable to the group are IFRIC 12 'Service Concession Arrangements' and IFRIC 13 'Customer Loyalty Programmes'.

## 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:

- Revenue recognition on fixed-price engineering, procurement and construction contracts: the group recognises revenue on fixed-price engineering, procurement and construction contracts using 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 2007 was US$71,743,000 (2006: US$56,732,000)
- Deferred tax assets: the group recognises deferred tax assets on unused tax losses where it is probable that future taxable 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 likelihood of future taxable profits. The carrying amount of recognised tax losses at 31 December 2007 was US$8,512,000 (2006: US$1,851,000)
- Income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- Recoverable value of intangible oil & gas assets: the group determines at each balance sheet date whether there is any evidence of impairment in the carrying value of its intangible oil & gas assets. This requires management to estimate the recoverable value of its intangible oil & gas assets by reference to quoted market values, similar arms length transactions involving these assets etc

## 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.



## Foreign currency translation

The Company's functional and presentational currency is United States dollars. In the accounts of individual group companies, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. 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.

The balance sheets of overseas subsidiaries and joint ventures are translated in to US dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing 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 a separate component of 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. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis other than on oil & gas assets at the following rates.

| | |
|---|---|
| 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% |

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

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised. Gains shall not be classified as revenue.

## Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

## 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 IAS14 'Segment Reporting'.

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.

# Notes to the consolidated financial statements continued
At 31 December 2007

## 2 Summary of significant accounting policies continued

### Intangible assets – non oil & gas assets

Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill as the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the income statement. The expected useful lives of assets are reviewed on an annual basis. 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 prospectively 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 assets in the evaluation, development and production phases and the group has adopted IFRS 6 'Exploration for and Evaluation of Mineral Resources' for the purposes of accounting for oil & gas assets in its financial statements.

Oil & gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

#### Evaluation expenditures

Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written off in the income statement. When such assets are declared part of a commercial development, related costs are 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.

#### Development expenditures

Expenditure relating to development of assets which include the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

#### 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 proven and probable 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 applied to future decommissioning provisions is included under finance costs in the income statement.

### 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

Fixed-price lump-sum engineering, procurement and construction contracts are presented in the balance sheet as follows:

For each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable to the customers, are shown in current assets in the balance sheet as 'Work in progress'.

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 amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

### 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 consists 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; or
- 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 reflects 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.

The group's 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 25.

### 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').

#### Equity-settled transactions

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the 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.

# Notes to the consolidated financial statements continued
At 31 December 2007

## 2 Summary of significant accounting policies continued

**Equity-settled transactions** continued

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

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.

### Petrofac Employee Benefit Trust

The Petrofac Employee Benefit Trust was established on 7 March 2006 to warehouse ordinary shares purchased to satisfy 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 determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

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.

### 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 once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Provision is made for all losses expected to arise on completion of contracts entered into at the balance sheet date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

**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 once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

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 (Energy Developments)**

Oil & gas revenues comprise the group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

### Income taxes

Income tax expense represents the sum of current income tax and deferred income tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. 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; and
- 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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

Current and deferred 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.

For presentation purposes certain 2006 comparative tax figures have been restated to conform to the current year's presentation.

### Derivative financial instruments and hedging

The group uses derivative financial instruments such as forward currency contracts, interest rate collars and swaps and oil price collars to hedge its risks associated with foreign currency, interest rate and oil price 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.

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 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, swap and oil price collar 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; or
- 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.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the 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.

**Embedded derivatives**

Contracts are assessed for the existence of embedded derivatives at the date that the group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

# Notes to the consolidated financial statements continued
At 31 December 2007

### 3 Segment information

The group's primary operations are organised on a worldwide basis into three business segments: Engineering & Construction, Operations Services and Energy Developments. 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 2007 and 2006. 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 2007

| | Engineering & Construction US$'000 | Operations Services US$'000 | Energy Developments US$'000 | Corporate and others US$'000 | Consolidation adjustments and eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 1,409,817 | 897,602 | 132,832 | – | – | 2,440,251 |
| Inter-segment sales | 5,131 | 13,372 | – | – | (18,503) | – |
| **Total revenue** | **1,414,948** | **910,974** | **132,832** | **–** | **(18,503)** | **2,440,251** |
| **Segment results** | 158,197 | 44,891 | 51,637 | (236) | 51 | 254,540 |
| Unallocated corporate costs | – | – | – | (6,039) | – | (6,039) |
| Profit/(loss) before tax and finance income/(costs) | 158,197 | 44,891 | 51,637 | (6,275) | 51 | 248,501 |
| Finance costs | (662) | (4,384) | (205) | (8,572) | 5,296 | (8,527) |
| Finance income | 18,013 | 1,247 | 331 | 3,857 | (5,189) | 18,259 |
| Profit/(loss) before income tax | 175,548 | 41,754 | 51,763 | (10,990) | 158 | 258,233 |
| Income tax (expense)/income | (38,454) | (12,857) | (18,375) | 169 | – | (69,517) |
| **Profit/(loss) for the year** | **137,094** | **28,897** | **33,388** | **(10,821)** | **158** | **188,716** |

### Year ended 31 December 2006

| | Engineering & Construction US$'000 | Operations Services US$'000 | Energy Developments US$'000 | Corporate and others US$'000 | Consolidation adjustments and eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 1,079,236 | 722,850 | 62,125 | 33 | (338) | 1,863,906 |
| Inter-segment sales | 2,043 | 6,390 | – | – | (8,433) | – |
| **Total revenue** | 1,081,279 | 729,240 | 62,125 | 33 | (8,771) | 1,863,906 |
| **Segment results** | 117,209 | 29,100 | 25,065 | (1,577) | 707 | 170,504 |
| Unallocated corporate costs | – | – | – | (962) | – | (962) |
| Profit/(loss) before tax and finance income/(costs) | 117,209 | 29,100 | 25,065 | (2,539) | 707 | 169,542 |
| Finance costs | (347) | (2,754) | (470) | (8,042) | 4,445 | (7,168) |
| Finance income | 10,040 | 438 | 236 | 3,029 | (4,445) | 9,298 |
| Profit/(loss) before income tax | 126,902 | 26,784 | 24,831 | (7,552) | 707 | 171,672 |
| Income tax (expense)/income | (31,522) | (8,681) | (10,466) | (707) | 36 | (51,340) |
| **Profit/(loss) for the year** | 95,380 | 18,103 | 14,365 | (8,259) | 743 | 120,332 |



### Year ended 31 December 2007

| | Engineering & Construction US$'000 | Operations Services US$'000 | Energy Developments US$'000 | Corporate and others US$'000 | Consolidation adjustments and eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **Assets and liabilities** | | | | | | |
| Segment assets | 1,222,444 | 339,682 | 244,500 | – | (86,438) | 1,720,188 |
| Inter-segment assets | (82,050) | (4,388) | – | – | 86,438 | – |
| Investments | – | – | 1,586 | – | – | 1,586 |
| | 1,140,394 | 335,294 | 246,086 | – | – | 1,721,774 |
| Unallocated assets | – | – | – | 14,761 | – | 14,761 |
| Income tax assets | 2,895 | 1,000 | 13,650 | 618 | (6,691) | 11,472 |
| **Total assets** | **1,143,289** | **336,294** | **259,736** | **15,379** | **(6,691)** | **1,748,007** |
| Segment liabilities | 861,132 | 219,248 | 173,303 | – | (178,559) | 1,075,124 |
| Inter-segment liabilities | (9,621) | (43,731) | (125,207) | – | 178,559 | – |
| | 851,511 | 175,517 | 48,096 | – | – | 1,075,124 |
| Unallocated liabilities | – | – | – | 105,165 | – | 105,165 |
| Income tax liabilities | 53,175 | 10,147 | 23,767 | 1,316 | (6,691) | 81,714 |
| **Total liabilities** | **904,686** | **185,664** | **71,863** | **106,481** | **(6,691)** | **1,262,003** |
| **Other segment information** | | | | | | |
| **Capital expenditures:** | | | | | | |
| Property, plant and equipment | 44,683 | 6,447 | 66,484 | 130 | (587) | 117,157 |
| Intangible oil & gas assets | – | – | 49,700 | – | – | 49,700 |
| Other intangible assets | – | 2,369 | – | – | – | 2,369 |
| Goodwill | – | 14,233 | – | – | – | 14,233 |
| **Charges:** | | | | | | |
| Depreciation | 15,654 | 4,567 | 22,476 | 449 | (845) | 42,301 |
| Amortisation | – | 1,771 | – | – | – | 1,771 |
| Impairment | – | – | 8,686 | – | – | 8,686 |
| Other long-term employment benefits | 5,075 | 1,492 | 7 | 31 | – | 6,605 |
| Share-based payments | 2,667 | 1,382 | 589 | 774 | – | 5,412 |

# Notes to the consolidated financial statements continued
At 31 December 2007

### 3 Segment information continued
**Business segments** continued
**Year ended 31 December 2006**

| | Engineering & Construction US$'000 | Operations Services US$'000 | Energy Developments US$'000 | Corporate and others US$'000 | Consolidation adjustments and eliminations US$'000 | Total US$'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 | 26,487 | (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 | 102,709 | (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 |

**Geographical segments**
The following tables present revenue, assets and capital expenditure by geographical segments for the years ended 31 December 2007 and 2006.

**Year ended 31 December 2007**

| | Middle East and Africa US$'000 | CIS/ Asia Pacific US$'000 | Europe US$'000 | Americas US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| **Segment revenue** | 1,104,569 | 513,083 | 815,707 | 6,892 | 2,440,251 |
| **Carrying amount of segment assets** | 1,131,287 | 247,972 | 360,140 | 8,608 | 1,748,007 |
| **Capital expenditure:** | | | | | |
| Property, plant and equipment | 85,169 | 17,640 | 14,261 | 87 | 117,157 |
| Intangible oil & gas assets | – | 15,927 | 33,773 | – | 49,700 |
| Other intangible assets | 2,369 | – | – | – | 2,369 |
| Goodwill | 14,233 | – | – | – | 14,233 |

**Year ended 31 December 2006**

| | Middle East and Africa US$'000 | CIS/ Asia Pacific US$'000 | Europe US$'000 | Americas US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| **Segment revenue** | 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 |

### 4 Revenues and expenses
**a. Revenue**

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Rendering of services | **2,346,431** | 1,840,552 |
| Sale of crude oil | **85,592** | 15,656 |
| Sale of processed hydrocarbons | **8,228** | 7,698 |
| | **2,440,251** | 1,863,906 |

Included in revenues from rendering of services are Operations Services revenues of a 'pass-through' nature with zero or low margins amounting to US$227,048,000 (2006: US$221,790,000).

**b. Cost of sales**
Included in cost of sales for the year ended 31 December 2007 is US$8,590,000 (2006: US$11,635,000) gain on disposal of property, plant and equipment used to undertake various engineering and construction contracts. In addition depreciation charged on property, plant and equipment of US$37,759,000 during 2007 (2006: US$24,810,000) is included in cost of sales (note 9).

**c. Other income**

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Gain on sale of investments | **–** | 1,671 |
| Foreign exchange gains | **3,003** | 2,201 |
| Gain on sale of property, plant and equipment | **244** | 46 |
| Gain on sale of asset held for sale | **243** | – |
| Other income | **461** | 952 |
| | **3,951** | 4,870 |

# Notes to the consolidated financial statements continued
At 31 December 2007

## 4 Revenues and expenses continued

### d. Other expenses

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Foreign exchange losses | 441 | 931 |
| Other expenses | 180 | 202 |
| | 621 | 1,133 |

### e. Selling, general and administration expenses

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Staff costs | 93,915 | 57,721 |
| Depreciation | 4,542 | 3,312 |
| Amortisation | 1,771 | 390 |
| Impairment (note 12) | 8,686 | 295 |
| Other operating expenses | 56,394 | 42,795 |
| | 165,308 | 104,513 |

### f. Staff costs

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Total staff costs:** | | |
| Wages and salaries | 603,324 | 443,585 |
| Social security costs | 29,544 | 25,127 |
| Defined contribution pension costs | 11,927 | 9,160 |
| Other long-term employee benefit costs (note 25) | 6,605 | 4,304 |
| Expense of share-based payments (note 22) | 5,412 | 1,281 |
| | 656,812 | 483,457 |

Of the US$656,812,000 of staff costs shown above, US$562,897,000 (2006: US$425,736,000) are included in cost of sales, the remainder in selling, general and administration expenses.

The average number of persons employed by the group during the year was 9,027 (2006: 7,482).

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

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Audit fees | 1,142 | 914 |
| **Fees for other services:** | | |
| Tax services | 89 | 78 |
| Other | 95 | 180 |
| | 1,326 | 1,172 |

## 5 Finance costs/(income)

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Interest payable:** | | |
| Long-term borrowings | 4,921 | 5,166 |
| Other interest, including short-term loans and overdrafts | 2,092 | 1,595 |
| Unwinding of discount on deferred consideration and decommissioning provisions | 1,514 | 407 |
| Total finance cost | 8,527 | 7,168 |
| | | |
| **Interest receivable:** | | |
| Bank interest receivable | (18,255) | (9,051) |
| Other interest receivable | (4) | (247) |
| Total finance income | (18,259) | (9,298) |

### 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 15). 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, require 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% (2006: between 3.5% and 3.8%) dependent on the year of issue.

## 6 Income tax

### a. Tax on ordinary activities

The major components of income tax expense are as follows:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Current income tax** | | |
| Current income tax charge | 69,436 | 26,552 |
| Adjustments in respect of current income tax of previous years | (228) | (364) |
| | | |
| **Deferred income tax** | | |
| Relating to origination and reversal of temporary differences | 688 | 24,923 |
| Adjustments in respect of deferred income tax of previous years | (379) | 229 |
| Income tax expense reported in the income statement | 69,517 | 51,340 |

### 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 multiplied by the Company's domestic tax rate is as follows:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Accounting profit before tax** | 258,233 | 171,672 |
| | | |
| At Jersey's domestic income tax rate of 20% (2006: 20%) | 51,647 | 34,334 |
| Profits exempt from Jersey income tax | (51,647) | (34,334) |
| Higher income tax rates of other countries, including withholding taxes | 89,884 | 55,083 |
| Overhead allowances – high rate jurisdiction | (14,456) | (8,248) |
| Expenditure not allowable for income tax purposes – high rate jurisdiction | 3,256 | 2,586 |
| Adjustments in respect of previous periods | (615) | (135) |
| Tax effect of utilisation of tax losses not previously recognised | (183) | (83) |
| Unrecognised tax losses | 86 | 1,797 |
| Losses recognised in the period | (8,455) | – |
| Tax recognised on un-remitted overseas dividends | – | 340 |
| **At the effective income tax rate of 26.9% (2006: 29.9%)** | 69,517 | 51,340 |

The reduction in the effective tax rate for the year ended 31 December 2007 compared to 2006 is principally due to a combination of lower taxed income in the Engineering & Construction division and the recognition of UK ring fenced tax losses and net Australian branch losses amounting to US$11,263,000 in the Energy Developments division.

# Notes to the consolidated financial statements continued
At 31 December 2007

## 6 Income tax continued
### c. Deferred income tax
Deferred income tax relates to the following:

| | Consolidated balance sheet 2007 US$'000 | Consolidated balance sheet 2006 US$'000 | Consolidated income statement 2007 US$'000 | Consolidated income statement 2006 US$'000 |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| Un-remitted overseas dividends | – | – | – | (366) |
| Fair value adjustment on acquisitions | 1,940 | 2,393 | (453) | 39 |
| Accelerated depreciation | 903 | 401 | 502 | (117) |
| Other temporary differences | 31,294 | 22,960 | 8,334 | 22,960 |
| Gross deferred income tax liabilities | 34,137 | 25,754 | | |
| **Deferred income tax assets** | | | | |
| Losses available for offset | 8,512 | 1,851 | (6,661) | 2,384 |
| Tax assets utilised | – | – | – | 33 |
| | 8,512 | 1,851 | | |
| Decelerated depreciation for tax purposes | 1,558 | 407 | (655) | 401 |
| Share schemes | 716 | – | (716) | – |
| Other temporary differences | 686 | 644 | (42) | (182) |
| Gross deferred income tax assets | 11,472 | 2,902 | | |
| Deferred income tax charge | | | 309 | 25,152 |

### d. Unrecognised tax losses
The group has unrecognised tax assets including net operating losses (at 35%) in the US of US$11,972,000 (2006: US$12,137,000) that are potentially available for offset against future taxable profits of the companies in which the losses arose. These losses have an expiration date of 20 years and will expire no earlier than 2022. A further US$5,100,000 (2006: US$603,000) of project-related tax losses in various jurisdictions are not recognised as they are ring fenced to specific projects and these losses have no expiration date. A further US$2,600,000 of project losses are ring fenced to the project and will cease to be available on completion of the contract or within three years of being incurred with the earliest expiry date being 2008.

## 7 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 adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the 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:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Net profit attributable to ordinary shareholders for basic and diluted earnings per share | 188,716 | 120,332 |

| | 2007 Number '000 | 2006 Number '000 |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 345,421 | 344,003 |
| Weighted average number of ordinary shares granted under share-based payment schemes held as treasury shares | 3,175 | 1,117 |
| Adjusted weighted average number of ordinary shares for diluted earnings per share | 348,596 | 345,120 |



## 8 Dividends paid and proposed

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Declared and paid during the year** | | |
| **Equity dividends on ordinary shares:** | | |
| Final dividend for 2005: 1.87 cents per share | – | 6,425 |
| Interim dividend 2006: 2.40 cents per share | – | 8,249 |
| Final dividend for 2006: 6.43 cents per share | 22,018 | – |
| Interim dividend 2007: 4.90 cents per share | 16,756 | – |
| | 38,774 | 14,674 |

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Proposed for approval at AGM** | | |
| (not recognised as a liability as at 31 December) | | |
| **Equity dividends on ordinary shares** | | |
| Final dividend for 2007: 11.50 cents per share (2006: 6.43 cents per share) | 39,725 | 22,228 |

## 9 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 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 1 January 2007 | 28,780 | 124,740 | 21,462 | 20,986 | 6,684 | 34,445 | 9,075 | 246,172 |
| Additions | 65,078 | 631 | 1,170 | 6,604 | 1,092 | 20,593 | 21,989 | 117,157 |
| Acquisition of subsidiaries | – | – | – | – | – | 47 | – | 47 |
| Transfer from intangible oil & gas assets (note 12) | 41,657 | – | – | – | – | – | – | 41,657 |
| Disposals | – | – | (1,642) | (4,514) | (3,378) | (2,187) | – | (11,721) |
| Exchange difference | – | – | 257 | (520) | 45 | 522 | – | 304 |
| **At 31 December 2007** | 135,515 | 125,371 | 21,247 | 22,556 | 4,443 | 53,420 | 31,064 | 393,616 |
| **Depreciation** | | | | | | | | |
| 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 1 January 2007 | (802) | (60,169) | (4,288) | (15,162) | (4,790) | (17,785) | – | (102,996) |
| Charge for the year | (8,072) | (13,491) | (1,321) | (1,277) | (1,676) | (16,464) | – | (42,301) |
| Disposals | – | – | 1,568 | 1,637 | 3,030 | 2,154 | – | 8,389 |
| Exchange difference | – | – | (19) | (247) | (31) | (174) | – | (471) |
| **At 31 December 2007** | (8,874) | (73,660) | (4,060) | (15,049) | (3,467) | (32,269) | – | (137,379) |
| **Net carrying amount:** | | | | | | | | |
| **At 31 December 2007** | 126,641 | 51,711 | 17,187 | 7,507 | 976 | 21,151 | 31,064 | 256,237 |
| At 31 December 2006 | 27,978 | 64,571 | 17,174 | 5,824 | 1,894 | 16,660 | 9,075 | 143,176 |

No interest has been capitalised within oil & gas facilities during the year (2006: nil) and the accumulated capitalised interest, net of depreciation at 31 December 2007, was US$1,929,000 (2006: US$2,427,000).

Included in oil & gas assets is US$1,604,000 (2006: US$990,000) of capitalised decommissioning costs provided on the PM304 asset in Malaysia.

# Notes to the consolidated financial statements continued
At 31 December 2007

## 9 Property, plant and equipment continued

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$31,393,000 including transaction costs, which, after including advance capital expenditures paid on behalf of the vendor of US$2,846,000, brought the total consideration to US$34,239,000. Of the total initial consideration, US$31,393,000 has been recognised during the year as additions to property, plant and equipment and further post acquisition capital expenditure of US$22,693,000 was incurred during the year.

Of the total charge for depreciation in the income statement, US$37,759,000 (2006: US$24,810,000) is included in cost of sales and US$4,542,000 (2006: US$3,312,000) 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.

## 10 Business combinations

### Acquisitions in 2007

**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 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 on 19 January 2007 to the vendor over three years in equal instalments on the anniversary of the transaction. On 27 December 2007, the outstanding loan notes of US$1,765,000 were repaid to the vendors.

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 share holder 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 was originally estimated at US$12,025,000 based on the discounted value of an agreed multiple of the future earnings of SPD and this has been reassessed and maintained as an appropriate year end fair value and a charge of US$1,455,000 for the unwinding of interest has been reflected in the income statement as an interest expense (see note 5). The total consideration for the 100% interest therefore, including transaction costs, amounted to US$19,897,000.

The 100% fair values of the identifiable assets and liabilities of SPD on completion of the acquisition are analysed below:

| | Recognised on acquisition US$'000 | Carrying value US$'000 |
|---|---|---|
| Property, plant and equipment | 47 | 47 |
| Intangible assets | 2,369 | – |
| Trade and other receivables | 5,498 | 5,498 |
| Cash and short-term deposits | 970 | 970 |
| Total assets | 8,884 | 6,515 |
| **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 | 5,664 | 3,295 |
| Goodwill arising on acquisition | 14,233 | |
| Consideration | 19,897 | |

**Cash outflow on acquisition:**

| | |
|---|---|
| Cash acquired with subsidiary | 970 |
| Cash paid on acquisition | (3,935) |
| Legal and professional expenses paid on acquisition | (172) |
| Loan notes repaid | (1,765) |
| Net cash outflow on the acquisition of subsidiary | (4,902) |

Intangible assets recognised on acquisition comprise customer contracts which are being 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 in to the group.

From the date of acquisition, SPD has contributed a profit of US$391,000 to the net profit of the group.

### 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 and the carrying value of the net assets acquired was US$1,332,000. 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. During 2007 a deferred consideration payment of US$64,000 was made to the vendors.

The residual goodwill of US$668,000 comprises the fair value of expected synergies in the group's Training business arising from the acquisition.

**Petrofac (Malaysia-PM304) Limited**

During 2006, contingent consideration of US$4,450,000 was paid in respect of the acquisition of 100% of the 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 in 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 in 2006. 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.

## 11 Goodwill

A summary of the movements in goodwill is presented below:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| At 1 January | **56,732** | 49,183 |
| Acquisitions during the year (note 10) | **14,233** | 668 |
| Exchange difference | **778** | 6,881 |
| At 31 December | **71,743** | 56,732 |

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, Plant Asset Management and SPD)
- Training (comprising Petrofac Training and PPS Process Control and Instrumentation)
- Energy Developments (comprising Petrofac Energy Developments 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.

### Energy Developments cash-generating unit

The recoverable amount of the Energy Developments 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 referred to in IAS 36.

# Notes to the consolidated financial statements continued
At 31 December 2007

### 11 Goodwill continued

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

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Facilities Management unit | 44,769 | 30,091 |
| Training unit | 24,757 | 24,424 |
| Energy Developments unit | 2,217 | 2,217 |
| | 71,743 | 56,732 |

**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: 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 9.8% (2006: 8.0%) 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 Energy Developments unit is most sensitive to the following assumptions:

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 rate used for 2007 was 10% for each asset (2006: 10% to 15%).

Oil prices: management has used a prudent oil price assumption of US$55 (2006: US$40) per barrel for the impairment testing of its individual oil & gas investments.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production as a basis of calculating value in use.

**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 change 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.

### 12 Intangible assets

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Intangible oil & gas assets** | | |
| **Cost:** | | |
| At 1 January | 16,788 | 2,982 |
| Additions | 49,700 | 12,926 |
| Disposals | (8,793) | – |
| Transferred to tangible oil & gas assets (note 9) | (41,657) | – |
| Exchange difference | (111) | 880 |
| At 31 December | 15,927 | 16,788 |
| **Accumulated impairment:** | | |
| At 1 January | – | – |
| Impairment | (8,686) | – |
| At 31 December | (8,686) | – |
| Net book value of intangible oil & gas assets at 31 December | 7,241 | 16,788 |
| **Other intangible assets** | | |
| **Cost:** | | |
| At 1 January | 1,561 | – |
| Additions (note 10) | 2,369 | 1,561 |
| At 31 December | 3,930 | 1,561 |
| **Accumulated amortisation:** | | |
| At 1 January | (390) | – |
| Amortisation | (1,771) | (390) |
| At 31 December | (2,161) | (390) |
| Net book value of other intangible assets at 31 December | 1,769 | 1,171 |
| **Total intangible assets** | 9,010 | 17,959 |

**Intangible oil & gas assets**

On 29 May 2007, the group entered into a farm-in arrangement to acquire a 10% interest in Permit NT/P68 300km north-north-west of Darwin in Australian waters and an option to acquire an interest in any LNG or methanol project in Tassie Shoal that results from this investment. The terms of the farm-in require the group to fund two appraisal wells to a cap of US$13,200,000 and US$12,500,000 respectively. This was subject to an option to terminate the agreement within 60 hours of the decision by the parties to the farm-in arrangement to plug and abandon the primary well. As at 31 December 2007 the group had incurred well appraisal costs of US$15,927,000 on the primary well and exercised its option to enter the second well appraisal programme on 24 January 2008. However due to continuing uncertainties surrounding the commercial outcome of this project an impairment provision of US$8,686,000 has been made against this asset at 31 December 2007.

On 27 August 2007, the group entered in to an exchange agreement whereby it swapped its 29% interest in the Crawford field with a carrying value of US$8,793,000 for a 3.12% interest in the 211/18a Block in West Don (equating to a unit interest of 2%) for nil consideration.

Included in oil & gas asset additions above are US$32,673,000 of pre-development capital expenditure incurred during the year on the group's Don assets. Other intangible oil & gas additions relate to the acquisition of interests in fields.

Transfers to tangible oil & gas assets relate to the group's Don interests which are now considered to be a part of a commercial development (note 9).

There were investing cash outflows relating to capitalised intangible oil & gas assets of US$48,604,000 (2006: US$6,187,000) in the current period arising from pre-development activities pertaining to the Don and NT/P68 interests. As at 31 December 2007 there were cash and deposits of US$3,582,000 (2006: nil), trade and other receivables of US$3,106,000 (2006: nil) and trade and other payables of US$4,840,000 (2006: nil) arising from pre-development activities in the current period.

**Other intangible assets**

Other intangible assets comprise the fair values of customer contracts arising on acquisition (note 10). Customer contracts are being amortised over their remaining estimated 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).

# Notes to the consolidated financial statements continued
At 31 December 2007

### 13 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 32. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities and operations are as follows:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Revenue | 37,140 | 92,800 |
| Cost of sales | (10,990) | (71,103) |
| Gross profit | 26,150 | 21,697 |
| Selling, general and administration expenses | (1,246) | (1,140) |
| Finance income, net | 42 | 45 |
| Profit before income tax | 24,946 | 20,602 |
| Income tax | (819) | (616) |
| Net profit | 24,127 | 19,986 |
| Current assets | 46,991 | 63,009 |
| Non-current assets | 3,883 | 4,459 |
| Total assets | 50,874 | 67,468 |
| Current liabilities | 12,667 | 40,993 |
| Non-current liabilities | 323 | 299 |
| Total liabilities | 12,990 | 41,292 |
| Net assets | 37,884 | 26,176 |

### 14 Available-for-sale financial assets

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Shares – listed | 1,022 | 1,212 |
| Units in a mutual fund | 564 | 514 |
| | 1,586 | 1,726 |

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

### 15 Derivative financial instruments and other financial assets

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Non-current** | | |
| Fair value of derivative instruments (note 31) | 1,775 | 1,925 |
| Other financial assets | 23 | 22 |
| **Current** | | |
| Fair value of derivative instruments (note 31) | 27,298 | 7,483 |
| **Other financial assets** | | |
| Interest receivable | 1,351 | 1,479 |
| Restricted cash | 1,351 | 883 |
| Short-term notes receivable from shareholders | – | 216 |
| Other | – | 72 |
| | 2,702 | 2,650 |

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

### 16 Inventories

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Crude oil | 1,173 | 763 |
| Processed hydrocarbons | 18 | 227 |
| Stores and spares | 732 | 697 |
| Raw materials | 333 | 256 |
| | 2,256 | 1,943 |

Included in the income statement are costs of inventories expensed of US$23,528,000 (2006: US$7,535,000).

### 17 Work in progress and billings in excess of cost and estimated earnings

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Cost and estimated earnings | 2,194,088 | 1,714,647 |
| Less: billings | (1,923,907) | (1,346,778) |
| Work in progress | 270,181 | 367,869 |
| Billings | 1,114,500 | 359,079 |
| Less: cost and estimated earnings | (906,395) | (234,089) |
| Billings in excess of cost and estimated earnings | 208,105 | 124,990 |
| Total cost and estimated earnings | 3,100,483 | 1,948,736 |
| Total billings | 3,038,407 | 1,705,857 |

### 18 Trade and other receivables

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Trade receivables | 453,256 | 293,803 |
| Retentions receivable | 3,450 | 4,591 |
| Advances | 19,154 | 10,754 |
| Prepayments and deposits | 19,450 | 12,323 |
| Other receivables | 13,715 | 9,044 |
| | 509,025 | 330,515 |

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$453,256,000 (2006: US$293,803,000) are as follows:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Specific impairment US$'000 | General impairment US$'000 | Total US$'000 | Specific impairment US$'000 | General impairment US$'000 | Total US$'000 |
| At 1 January | 5,073 | 364 | 5,437 | 3,736 | 107 | 3,843 |
| Charge for the year | 2,948 | 849 | 3,797 | 1,956 | 245 | 2,201 |
| Amounts written off | (3,555) | – | (3,555) | – | – | – |
| Unused amounts reversed | (382) | – | (382) | (640) | – | (640) |
| Exchange difference | 2 | 3 | 5 | 21 | 12 | 33 |
| **At 31 December** | 4,086 | 1,216 | 5,302 | 5,073 | 364 | 5,437 |

# Notes to the consolidated financial statements continued
At 31 December 2007

## 18 Trade and other receivables continued

At 31 December, the analysis of trade receivables is as follows:

| | Neither past due nor impaired US$'000 | Number of days past due < 30 days US$'000 | 30-60 days US$'000 | 60-90 days US$'000 | 90-120 days US$'000 | 120-360 days US$'000 | > 360 days US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| Unimpaired | 88,788 | 240,033 | 84,184 | 20,148 | 5,044 | 8,273 | 876 | 447,346 |
| Impaired | – | 162 | 745 | 1,865 | 1,772 | 4,653 | 2,015 | 11,212 |
| | 88,788 | 240,195 | 84,929 | 22,013 | 6,816 | 12,926 | 2,891 | 458,558 |
| Less: impairment provision | – | (162) | (745) | (222) | (947) | (2,040) | (1,186) | (5,302) |
| **Net trade receivables 2007** | **88,788** | **240,033** | **84,184** | **21,791** | **5,869** | **10,886** | **1,705** | **453,256** |
| Unimpaired | 85,395 | 161,406 | 35,734 | 5,193 | 1,419 | 2,946 | 1,140 | 293,233 |
| Impaired | – | 604 | 3,194 | – | 406 | 874 | 929 | 6,007 |
| | 85,395 | 162,010 | 38,928 | 5,193 | 1,825 | 3,820 | 2,069 | 299,240 |
| Less: impairment provision | – | (604) | (3,194) | – | (67) | (446) | (1,126) | (5,437) |
| Net trade receivables 2006 | 85,395 | 161,406 | 35,734 | 5,193 | 1,758 | 3,374 | 943 | 293,803 |

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

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

All trade and other receivables are expected to be settled in cash.

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

## 19 Cash and short-term deposits

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Cash at bank and in hand | 106,454 | 120,003 |
| Short-term deposits | 475,098 | 337,845 |
| Total cash and bank balances | 581,552 | 457,848 |

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$581,552,000 (2006: US$457,848,000).

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

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Cash at bank and in hand | 106,454 | 120,003 |
| Short-term deposits | 475,098 | 337,845 |
| Bank overdrafts (note 24) | (15,666) | (20,442) |
| | 565,886 | 437,406 |



## 20 Share capital

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

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Authorised** | | |
| 750,000,000 ordinary shares of US$0.025 each (2006: 750,000,000 ordinary shares of US$0.025 each) | 18,750 | 18,750 |
| **Issued and fully paid** | | |
| 345,434,858 ordinary shares of US$0.025 each (2006: 345,159,920 ordinary shares of US$0.025 each) | 8,636 | 8,629 |

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

| | Number |
|---|---|
| **Ordinary shares:** | |
| Ordinary shares of US$0.025 each at 1 January 2006 | 345,159,920 |
| Movement during the year | – |
| Ordinary shares of US$0.025 each at 1 January 2007 | 345,159,920 |
| Issued during the year on acquisition of a subsidiary (note 10) | 274,938 |
| **Ordinary shares of US$0.025 each at 31 December 2007** | **345,434,858** |

## 21 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust. In addition at 31 December 2007, Petrofac ESOP held 40,000 ordinary shares (2006: 40,000) of US$0.025 each in the Company with a carrying value of US$17,000 (2006: US$17,000). All these shares have been classified in the balance sheet as treasury shares within equity.

The movements in total treasury shares are shown below:

| | 2007 Number | 2007 US$'000 | 2006 Number | 2006 US$'000 |
|---|---|---|---|---|
| At 1 January | 1,500,135 | 8,144 | 40,000 | 17 |
| Acquired during the year | 2,551,889 | 21,698 | 1,460,135 | 8,127 |
| At 31 December | 4,052,024 | 29,842 | 1,500,135 | 8,144 |

## 22 Share-based payment plans

### 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 and the achievement of certain pre-defined non-market and market based performance conditions. The non-market based condition governing the vesting of 50% of the total award, is subject to achieving between 15% and 25% earning per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan. The fair value and assumed vesting rates of the EPS part of the scheme are shown below:

| | Fair value per share | Trued up vesting rate |
|---|---|---|
| **2007 awards** | 415p | 98.6% |
| 2006 awards | 353p | 97.7% |

# Notes to the consolidated financial statements continued
At 31 December 2007

## 22 Share-based payment plans continued

### Performance Share Plan (PSP) continued

The remaining 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the group compared to an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

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

The number of ordinary shares awarded in the year in relation to the PSP was 449,537 (2006: 431,194). 864,181 (2006: 431,194) of the 2006 and 2007 awards were still outstanding but not exercisable at 31 December 2007. The charge recognised in the current year amounted to US$1,497,000 (2006: US$536,000).

### Deferred Bonus Share Plan (DBSP)

Executive Directors and selected employees are eligible to participate in this scheme although the Remuneration Committee decided during 2007 that executive Directors should no longer participate. 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 2006 awards vest on the third anniversary of the grant date provided that the participant did not leave the group's employment, subject to a limited number of exceptions. However, a change in the rules of the DBSP scheme was approved by shareholders at the Annual General Meeting of the Company on 11 May 2007 such that for the March 2007 share awards and for any awards made thereafter, the invested and matching shares would, unless the Remuneration Committee of the Board of Directors determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% after year two and the final 33.34% of the award after the end of year three.

At the year end the values of the bonuses settled by shares cannot be determined until all employees have confirmed the voluntary portion of their bonus they wish to be settled by shares rather than cash and until the Remuneration Committee has approved the mandatory portion of the employee bonuses to be settled in shares. Once the voluntary and mandatory portions of the bonus to be settled in shares are determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the matching shares are recognised over the relevant vesting period and the fair values of the equity-settled matching shares granted to employees are based on the quoted closing market price at the date of grant adjusted for the trued up percentage vesting rate of the plan. For details of the fair values and assumed vesting rates of the DBSP scheme see table below:

| | Fair value per share | Trued up vesting rate |
|---|---|---|
| **2007 awards** | 415p | 94.7% |
| 2006 awards | 353p | 92.4% |

During the year 791,083 (2006: 597,167) Invested Awards and 791,083 (2006: 548,214) Matching Shares were granted to the participants in the scheme and 1,058,413 of the original 2006 awards and 1,500,298 of the 2007 awards (2006 awards: 1,104,503) were outstanding but not exercisable at 31 December 2007. The charge recognised in the 2007 income statement in relation to matching share awards amounted to US$2,393,000 in respect of 2007 awards and US$1,018,000 in respect of the second year of the 2006 awards (2006 year one awards charge: 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)

Under the Restricted Share Plan scheme, employees are granted shares in the Company over a discretionary 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 values of the awards granted under the plan at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period. For details of the fair values and assumed vesting rate of the RSP scheme, see table below:

| | Weighted average fair value per share | Trued up vesting rate |
|---|---|---|
| **2007 awards** | 456p | 100.0% |
| 2006 awards | 278p | 96.3% |

The Company awarded 239,567 (2006: 161,101) shares to participants in the scheme during the year and recognised a charge of US$504,000 in the current year income statement (2006: US$79,000). At 31 December 2007, there were 394,216 (2006: 161,101) share awards outstanding but not exercisable.

The group has recognised a total charge of US$5,412,000 (2006: US$1,281,000) in the income statement during the year relating to the above employee share-based schemes (see note 4f) which has been transferred to the reserve for share-based payments along with US$6,105,000 of the bonus liability accrued for the year ended 31 December 2006 which has been voluntarily elected or mandatorily obliged to be settled in shares granted during the year (2006: US$3,363,000).

## 23 Other reserves

| | Net unrealised gains/(losses) 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 2006 | 1,347 | (11,213) | (2,560) | – | (12,426) |
| Foreign currency translation | – | – | 7,449 | – | 7,449 |
| Net gains 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 |
| Share-based payments charge (note 22) | – | – | – | 1,281 | 1,281 |
| Transfer during the year (note 22) | – | – | – | 3,363 | 3,363 |
| Balance at 1 January 2007 | 738 | 9,340 | 4,889 | 4,644 | 19,611 |
| Foreign currency translation | – | – | (72) | – | (72) |
| Net gains on maturity of cash flow hedges recognised in income statement | – | (22,183) | – | – | (22,183) |
| Net changes in fair value of derivatives | – | 41,734 | – | – | 41,734 |
| Changes in fair value of available-for-sale financial assets | (140) | – | – | – | (140) |
| Share-based payments charge (note 22) | – | – | – | 5,412 | 5,412 |
| Transfer during the year (note 22) | – | – | – | 6,105 | 6,105 |
| **Balance at 31 December 2007** | **598** | **28,891** | **4,817** | **16,161** | **50,467** |

### Nature and purpose of other reserves

#### Net unrealised gains/(losses) on available-for-sale financial assets

This reserve records fair value changes on available-for-sale financial assets held by the group net of deferred tax effects. Realised gains and losses on the sale of available-for-sale financial assets are recognised as other income or expenses in the income statement.

#### Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges are included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur the gain or loss is transferred out of equity to the income statement. Realised net gains amounting to US$21,475,000 (2006: US$1,963,000) relating to foreign currency forward contracts have been recognised in cost of sales and realised net gains of US$708,000 (2006: US$415,000) relating to interest rate derivatives have been classified as a net interest expense.

#### Foreign currency translation

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 record the value of equity settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2006 of US$6,105,000 (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 22 for further information on this share-based payment scheme).

# Notes to the consolidated financial statements continued
At 31 December 2007

## 24 Interest-bearing loans and borrowings

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

| | | 31 December 2007 Actual interest rate% | 31 December 2006 Actual interest rate% | Effective interest rate% | Maturity | 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Revolving credit facility | (i) | US LIBOR + 0.875% | US LIBOR + 0.875% | US LIBOR + 0.875% | 2008 | 6,500 | – |
| Short-term loan | (ii) | KD Discount Rate + 1.50% | KD Discount Rate + 1.50% | KD Discount Rate + 1.50% | 2008 | 3,627 | 6,033 |
| Bank overdrafts | (iii) | UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 1.50% | UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 1.50% | UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 1.50% | on demand | 15,666 | 20,442 |
| Other loans: | | | | | | | |
| Current portion of term loan | (iv) | US/UK LIBOR + 0.875% | – | 4.95% to 5.84% (2006: 5.39% to 6.26%) | | 2,662 | – |
| | | | | | | 28,455 | 26,475 |
| **Non-current** | | | | | | | |
| Revolving credit facility | (v) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 4.97% to 5.62% (2006: 5.73% to 6.04%) | 2013 | 8,953 | 8,864 |
| Revolving credit facility | (i) | US LIBOR + 0.875% | US LIBOR + 0.875% | (2006: 5.18%) | 2008 | – | 6,500 |
| Term loan | (iv) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 4.95% to 5.84% (2006: 5.39% to 6.26%) | 2008–2013 | 75,019 | 77,111 |
| | | | | | | 83,972 | 92,475 |
| Less: | | | | | | | |
| Debt acquisition costs, net of accumulated amortisation | | | | | | (2,332) | (1,770) |
| | | | | | | 81,640 | 90,705 |

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

### (i) Revolving credit facilities

This facility, provided by The Royal Bank of Scotland/Halifax Bank of Scotland (RBOS/HBOS), is committed until 30 September 2008 and subject to annual review.

### (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 was partially settled during 2007 and subject to annual review thereafter.

### (iii) Bank overdrafts

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

### (iv) Term loan

The term loan with RBOS/HBOS at 31 December 2007 comprised drawings of US$35,310,000 (2006: US$35,310,000) denominated in US$ and US$42,371,000 (2006: US$41,801,000) denominated in Sterling. Both elements of the loan are repayable over a period of five years commencing 31 December 2008 to 30 September 2013.

### (v) 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 2007 comprised US$2,400,000 (2006: US$2,400,000) denominated in US$ and US$6,553,000 (2006: 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.

## 25 Provisions

| | Other long-term employment benefits provision US$'000 | Provision for decommissioning US$'000 | Total US$'000 |
|---|---|---|---|
| At 1 January 2007 | 11,366 | 1,132 | 12,498 |
| Additions during the year | 6,605 | 637 | 7,242 |
| Unused amounts reversed | (753) | – | (753) |
| Unwinding of discount | – | 59 | 59 |
| **At 31 December 2007** | **17,218** | **1,828** | **19,046** |

### 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 2014.

## 26 Other financial liabilities

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| **Other financial liabilities – non-current** | | |
| Deferred consideration | 13,622 | 7,373 |
| Fair value of derivative instruments (note 31) | 130 | – |
| Other | 118 | – |
| | 13,870 | 7,373 |
| **Other financial liabilities – current** | | |
| Interest payable | 812 | 172 |
| Fair value of derivative instruments (note 31) | 52 | – |
| | 864 | 172 |

# Notes to the consolidated financial statements continued
At 31 December 2007

## 27 Trade and other payables

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Trade payables | 187,417 | 122,683 |
| Advances received from customers | 61,744 | 118,117 |
| Accrued expenses | 136,514 | 83,125 |
| Other taxes payable | 16,885 | 15,696 |
| Other payables | 5,457 | 7,085 |
| | 408,017 | 346,706 |

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

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$4,292,000 (2006: US$1,532,000).

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.

## 28 Accrued contract expenses

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Accrued contract expenses | 416,322 | 432,003 |
| Reserve for contract losses | 3,226 | – |
| | 419,548 | 432,003 |

## 29 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 2007, the group had letters of credit of US$8,184,000 (2006: US$16,920,000) and outstanding letters of guarantee, including performance and bid bonds, of US$663,292,000 (2006: US$573,185,000) against which the group had pledged or restricted cash balances of, in aggregate, US$1,351,000 (2006: US$883,000).

At 31 December 2007, the group had outstanding forward exchange contracts amounting to US$326,442,000 (2006: US$221,188,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (see note 31).

### 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 17 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:

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Within one year | 70,870 | 16,679 |
| After one year but not more than five years | 76,493 | 24,748 |
| More than five years | 52,827 | 13,500 |
| | 200,190 | 54,927 |

Included in the above are commitments relating to the lease of an office building extension in Aberdeen, United Kingdom of US$54,933,000 (2006: nil) and the lease of a drilling rig for the Don Southwest project of US$43,200,000 (2006: nil).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$21,359,000 (2006: US$8,643,000).

### Capital commitments

At 31 December 2007, the group had capital commitments of US$29,630,000 (2006: US$21,819,000).

Included in the above are commitments for the construction of a new office building in Sharjah, United Arab Emirates amounting to US$10,260,000 (2006: US$20,577,000) and commitments relating to the further appraisal and development of wells as part of the Cendor project in Malaysia amounting to US$11,389,000 (2006: nil).

## 30 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 32. 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 | 2007 | 180 | 507 | 3,147 | 625 |
| | 2006 | 4,520 | 3,282 | 7,725 | 133 |
| Other Directors' interests | 2007 | – | 614 | – | 119 |
| | 2006 | – | 49 | – | 49 |

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 2007 will be settled in cash.

Purchases in respect of other Directors' interests of US$614,000 (2006: US$49,000) reflect the market rate based costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the group on Company business, which is owned by an offshore trust of which the Chief Executive of the Company is a beneficiary.

### 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 58 to 65.

| | 2007 US$'000 | 2006 US$'000 |
|---|---|---|
| Short-term employee benefits | 5,063 | 4,412 |
| Other long-term employment benefits | 43 | 40 |
| Share-based payments | 906 | 288 |
| Fees paid to non-executive Directors | 546 | 415 |
| | 6,558 | 5,155 |

## 31 Financial instruments

### Risk management objectives and policies

The group's principal financial assets and liabilities, other than derivatives, comprise trade and other receivables, cash and short-term deposits, interest-bearing loans and borrowings, trade and other payables and deferred consideration.

The group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate loans and borrowings and foreign currency risk on both conducting business in currencies other than reporting currency, as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are being addressed by using a combination of various derivative instruments, principally interest rate swaps, caps and forward currency contracts in line with the group's hedging policy. The group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee and Risk Committee to help identify, evaluate and manage the significant financial risks faced by the group and their activities are discussed in detail on pages 53 to 57.

The other main risks besides interest rate and foreign currency risk arising from the group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed on pages 100 to 103.

# Notes to the consolidated financial statements continued
At 31 December 2007

## 31 Financial instruments continued
### 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 group's exposure to market risk arising from 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 term borrowings at fixed or capped rates of interest. At 31 December 2007, after taking into account the effect of interest rate swaps and collars, approximately 69.1% (2006: 64.8%) of the group's term borrowings are at a fixed or capped rate of interest.

### Interest rate sensitivity analysis
The impact on the group's pre-tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below. The analysis assumes that all other variables remain constant.

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | 100 basis point increase US$'000 | 100 basis point decrease US$'000 | 100 basis point increase US$'000 | 100 basis point decrease US$'000 |
| **31 December 2007** | **(1,058)** | **1,058** | **272** | **(670)** |
| 31 December 2006 | (1,114) | 1,114 | 1,044 | 62 |

The following table reflects the maturity profile of these financial liabilities and assets:

### Year ended 31 December 2007

| | 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 (note 24) | 6,500 | – | 448 | 2,015 | 3,134 | 3,356 | 15,453 |
| Short-term loan (note 24) | 3,627 | – | – | – | – | – | 3,627 |
| Bank overdrafts (note 24) | 15,666 | – | – | – | – | – | 15,666 |
| Term loan (note 24) | 2,662 | 10,000 | 11,250 | 15,625 | 18,750 | 19,394 | 77,681 |
| Interest rate collars (note 31) | – | 130 | – | – | – | – | 130 |
| | **28,455** | **10,130** | **11,698** | **17,640** | **21,884** | **22,750** | **112,557** |

| | 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 assets** | | | | | | | |
| **Floating rates** | | | | | | | |
| Cash and short-term deposits (note 19) | 581,552 | – | – | – | – | – | 581,552 |
| Restricted cash balances (note 15) | 1,351 | – | – | – | – | – | 1,351 |
| Interest rate swap (note 31) | – | 28 | – | – | – | – | 28 |
| | **582,903** | **28** | **–** | **–** | **–** | **–** | **582,931** |

### 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 (note 24) | – | 6,500 | – | 443 | 1,994 | 6,427 | 15,364 |
| Short-term loan (note 24) | 6,033 | – | – | – | – | – | 6,033 |
| Bank overdrafts (note 24) | 20,442 | – | – | – | – | – | 20,442 |
| Term loan (note 24) | – | 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 |

| | 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 assets** | | | | | | | |
| **Floating rates** | | | | | | | |
| Cash and short-term deposits (note 19) | 457,848 | – | – | – | – | – | 457,848 |
| Restricted cash balances (note 15) | 883 | – | – | – | – | – | 883 |
| Interest rate swaps and cap (note 31) | – | 491 | 77 | – | – | – | 568 |
| | 458,731 | 491 | 77 | – | – | – | 459,299 |

Financial liabilities in the above table are disclosed gross of debt acquisition costs of US$2,332,000 (2006: US$1,770,000).



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 2007, the group held the following derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings:

| Instrument | Nominal amount (US$ equivalent) | Period to maturity | Date commenced | Fair value of asset/(liability) 2007 US$'000 | 2006 US$'000 |
|---|---|---|---|---|---|
| UK LIBOR interest rate swap | US$9,531,000 | 1 year and 9 months | 31 December 2004 | **28** | 77 |
| UK interest rate cap | – | Matured | 31 December 2004 | **–** | 4 |
| US LIBOR interest rate swap | – | Matured | 31 December 2004 | **–** | 487 |
| UK LIBOR interest rate collar | US$42,371,000 | 2 years | 31 December 2007 | **(74)** | – |
| US LIBOR interest rate collar | US$35,310,000 | 2 years | 31 December 2007 | **(56)** | – |

During 2007 changes in fair value of US$(102,000) (2006: US$501,000) relating to these derivative instruments were taken to equity and US$708,000 (2006: US$415,000) were recycled from equity into interest expense in the income statement.

### Foreign currency risk
The group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The group is also exposed to the translation of the functional currencies of its units to the US dollar reporting currency of the group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US dollar terms, of the group totals. Included in the foreign currency analysis below are currencies that are pegged to the US dollar and therefore the group is not exposed to foreign currency risk on these amounts.

| | 2007 % of foreign currency denominated items | 2006 % of foreign currency denominated items |
|---|---|---|
| Revenues | **48.6%** | 70.1% |
| Costs | **68.7%** | 68.2% |
| Current financial assets | **67.9%** | 74.8% |
| Non-current financial assets | **0.6%** | 2.8% |
| Current financial liabilities | **45.8%** | 48.0% |
| Non-current financial liabilities | **44.0%** | 49.8% |

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 derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

### Foreign currency sensitivity analysis
The income statements of foreign operations are translated into the reporting currency using a weighted average rate of conversion. Foreign currency monetary items are translated using the closing rate at the date of the balance sheet. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to US dollars:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Average rate | Closing rate | Average rate | Closing rate |
| Sterling | **2.01** | **1.99** | 1.85 | 1.96 |
| Kuwaiti Dinars | **3.51** | **3.66** | 3.41 | 3.45 |
| Euros | **1.38** | **1.46** | 1.26 | 1.32 |

# Notes to the consolidated financial statements continued
At 31 December 2007

### 31 Financial instruments continued

**Foreign currency sensitivity analysis** continued

The following table summarises the impact on the group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US dollar exchange rates with respect to different currencies:

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | +10% US dollar rate increase US$'000 | -5% US dollar rate decrease US$'000 | +10% US dollar rate increase US$'000 | -5% US dollar rate decrease US$'000 |
| **31 December 2007** | **(27,285)** | **13,642** | **(35,065)** | **17,532** |
| 31 December 2006 | (25,312) | 12,656 | (22,691) | 11,345 |

**Derivative instruments designated as cash flow hedges**

At 31 December 2007, the group had foreign exchange forward contracts designated as cash flow hedges with a fair value gain of US$28,657,000 (2006: US$8,840,000) as follows:

| | Contract value | | Fair value | | Net unrealised gain/(loss) | |
|---|---|---|---|---|---|---|
| | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 | **2007 US$'000** | 2006 US$'000 |
| Euro currency purchases | **321,264** | 203,908 | **349,964** | 212,694 | **28,700** | 8,786 |
| Sterling currency purchases | **4,500** | 3,901 | **4,448** | 4,098 | **(52)** | 197 |
| Yen currency purchases | **678** | 13,379 | **687** | 13,236 | **9** | (143) |
| | | | | | **28,657** | 8,840 |

The above foreign exchange contracts mature and will affect income between January 2008 and February 2009 (2006: between January 2007 and February 2008).

During 2007, changes in fair value of US$41,500,000 (2006: US$22,430,000) relating to these derivative instruments were taken to equity and US$21,475,000 (2006: US$1,963,000) were recycled from equity into cost of sales in the income statement.

**Commodity price risk – oil prices**

The group is exposed to the impact of changes in oil prices on its revenues and profits generated from sales of crude oil. The group did not hedge this risk in the current year as the exposure to movements in the price of oil primarily relating to the Cendor field in Malaysia were not considered significant. However, in late 2007, the group introduced a new oil production hedging strategy whereby on a project-by-project basis it evaluates the size of the potential oil price exposure and using the near term forward oil price curve aims to hedge up to 75% of its current year P90 production forecasts.

On 23 November 2007, the group entered into a zero premium oil price collar to hedge its exposure to fluctuations in oil prices which mature on a monthly basis from 31 January 2008 to 31 December 2008. The collar hedges 240,000 barrels of oil production with a floor price of US$85.00 per barrel and a capped price of US$102.30 per barrel. The fair value of the oil price collar at 31 December 2007 was US$336,000 with a corresponding gain recognised in equity.

The following table summarises the impact on the group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the overlifting liability) of a reasonably possible change in the oil price:

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | +10 US$ / bbl rate increase US$'000 | –10 US$ / bbl rate decrease US$'000 | +10 US$ / bbl rate increase US$'000 | –10 US$ / bbl rate decrease US$'000 |
| **31 December 2007** | **(446)** | **446** | **(1,739)** | **741** |
| 31 December 2006 | – | – | – | – |

**Credit risk**

The group trades only with recognised, creditworthy third parties. Divisional Risk Review Committees (DRRC) have been set up by the Board of Directors to evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the DRRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not considered a key risk. At 31 December 2007, the group's five largest customers accounted for 58.0% of outstanding trade receivables and work in progress (2006: 66.3%).

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 to reduce its exposure to liquidity risk. The maturity profiles of the group's financial liabilities at 31 December 2007 are as follows:

**Year ended 31 December 2007**

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 19,293 | 9,162 | 10,000 | 51,222 | 22,750 | 112,427 | 110,095 |
| Trade and other payables (excluding advances from customers) | 345,833 | 440 | – | – | – | 346,273 | 346,273 |
| Income tax payable | 28,658 | 18,919 | – | – | – | 47,577 | 47,577 |
| Due to related parties | 744 | – | – | – | – | 744 | 744 |
| Deferred consideration | 1,964 | 2,088 | 9,570 | – | – | 13,622 | 13,622 |
| Derivative instruments | 52 | – | 130 | – | – | 182 | 182 |
| Interest payable | 812 | – | – | – | – | 812 | 812 |
| | **397,356** | **30,609** | **19,700** | **51,222** | **22,750** | **521,637** | **519,305** |

**Year ended 31 December 2006**

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 19,317 | 7,158 | 9,000 | 39,312 | 44,163 | 118,950 | 117,180 |
| Trade and other payables (excluding advances from customers) | 211,722 | 16,867 | – | – | – | 228,589 | 228,589 |
| Income tax payable | 8,042 | 277 | 1,766 | – | – | 10,085 | 10,085 |
| Due to related parties | 182 | – | – | – | – | 182 | 182 |
| Deferred consideration | – | 7,210 | 73 | 90 | – | 7,373 | 7,373 |
| Interest payable | 172 | – | – | – | – | 172 | 172 |
| | 239,435 | 31,512 | 10,839 | 39,402 | 44,163 | 365,351 | 363,581 |

The group uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

**Capital management**

The group's policy is to maintain a healthy capital base to sustain future growth and maximise shareholder value.

The group seeks to optimise shareholder returns by maintaining a balance between debt and capital and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

| | **2007 US$'000** | 2006 US$'000 |
|---|---|---|
| Cash and short-term deposits | **581,552** | 457,848 |
| Interest-bearing loans and borrowings (A) | **(110,095)** | (117,180) |
| Net cash (B) | **471,457** | 340,668 |
| Equity attributable to Petrofac Limited shareholders (C) | **485,795** | 324,695 |
| Profit for the year attributable to Petrofac Limited shareholders (D) | **188,716** | 120,332 |
| Gross gearing ratio (A/C) | **22.7%** | 36.1% |
| Net gearing ratio (B/C) | **Net cash position** | Net cash position |
| Shareholders' return on investment (D/C) | **38.8%** | 37.1% |

# Notes to the consolidated financial statements continued
At 31 December 2007

## 31 Financial instruments continued

### Fair values of financial assets and liabilities

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2007 US$'000 | 2006 US$'000 | 2007 US$'000 | 2006 US$'000 |
| **Financial assets** | | | | |
| Cash and short-term deposits | 581,552 | 457,848 | 581,552 | 457,848 |
| Restricted cash | 1,351 | 883 | 1,351 | 883 |
| Available-for-sale financial assets | 1,586 | 1,726 | 1,586 | 1,726 |
| Oil derivatives | 336 | – | 336 | – |
| Interest rate swap | 28 | 568 | 28 | 568 |
| Forward currency contracts | 28,709 | 8,840 | 28,709 | 8,840 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | 110,095 | 117,180 | 110,095 | 117,180 |
| Deferred consideration | 13,622 | 7,373 | 13,622 | 7,373 |
| Interest rate collar | 130 | – | 130 | – |
| Forward currency contracts | 52 | – | 52 | – |

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, collars and caps have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long-term interest-bearing loans and borrowings are their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. 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.

## 32 Subsidiaries and joint ventures

At 31 December 2007, 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 2007 | 2006 |
|---|---|---|---|
| **Trading subsidiaries** | | | |
| Petrofac Inc. | USA | *100 | *100 |
| Petrofac International Ltd | Jersey | *100 | *100 |
| Petrofac Energy Developments Limited (formally Petrofac Resources Limited) | England | *100 | *100 |
| Petrofac Energy Developments International Limited (formally 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 | *100 |
| Atlantic Resourcing Limited | Scotland | 100 | 100 |
| Petrofac Algeria EURL | Algeria | 100 | 100 |
| Petrofac Engineering India Private Limited | India | 100 | 100 |
| Petrofac Engineering Services India Private Limited | India | 100 | 100 |
| Petrofac Engineering Limited | England | 100 | 100 |
| Petrofac Offshore Management Limited | Jersey | 100 | 100 |
| Petrofac FZE | United Arab Emirates | 100 | 100 |
| 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-PM 304) Limited | England | 100 | 100 |
| Petrofac Training Group Limited | Scotland | 100 | 100 |
| Petrofac Training Holdings Limited | Scotland | 100 | 100 |
| Petrofac Training Limited | Scotland | 100 | 100 |
| Petrofac Training Inc. | USA | 100 | 100 |
| Petrofac Training (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 Energy Developments (Ohanet) Jersey Limited | Jersey | 100 | 100 |
| Petrofac Energy Developments (Ohanet) LLC | USA | 100 | 100 |
| PEDL Limited | England | 100 | n/a |
| Petrofac (Cyprus) Limited | Cyprus | 100 | 100 |
| PKT Technical Services Ltd | Russia | 50 | 50 |
| PKT Training Services Ltd | Russia | 100 | 100 |
| Pt PCI Indonesia | Indonesia | 80 | 80 |
| Process Control and Instrumentation Services Pte Ltd | Singapore | 100 | 100 |
| Process Control and Instrumentation Sendirian Berhad | Malaysia | 100 | 100 |
| Sakhalin Technical Training Centre | Russia | 80 | 80 |
| Petrofac Norge AS | Norway | 100 | 100 |

* Directly held by Petrofac Limited

# Notes to the consolidated financial statements continued
At 31 December 2007

## 32 Subsidiaries and joint ventures continued

| Name of company | Country of incorporation | Proportion of nominal value of issued shares controlled by the group 2007 | 2006 |
|---|---|---|---|
| **Trading subsidiaries continued** | | | |
| SPD Group Limited | British Virgin Islands | 51 | n/a |
| SPD UK Limited | Scotland | 51 | n/a |
| SPD FZCO | United Arab Emirates | 51 | n/a |
| SPD LLC | United Arab Emirates | 51 | n/a |
| Petrofac Energy Developments Oceania Limited | Cayman Islands | 100 | n/a |
| **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 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 |
| RGIT Ethos Health & Safety Limited | Scotland | 100 | 100 |
| Scota Limited | Scotland | 100 | 100 |
| Petrofac Russia Limited | England | 100 | 100 |
| Monsoon Shipmanagement Limited | Cyprus | 100 | 100 |



# Other financial information
At 31 December 2007

## Oil & gas reserves (unaudited)

| | Europe Oil & NGLs mmbbl | Europe Gas bcf | Africa Oil & NGLs mmbbl | Africa Gas bcf | Southeast Asia Oil & NGLs mmbbl | Southeast Asia Gas bcf | Total Oil & NGLs mmbbl | Total Gas bcf | Total Oil equivalent mmboe |
|---|---|---|---|---|---|---|---|---|---|
| **Proven reserves** | | | | | | | | | |
| At 1 January 2007 | | | | | | | | | |
| Developed | – | – | 3.3 | – | 4.2 | – | 7.5 | – | 7.5 |
| Undeveloped | – | – | – | – | – | – | – | – | – |
| | – | – | 3.3 | – | 4.2 | – | 7.5 | – | 7.5 |
| **Changes during the year:** | | | | | | | | | |
| Revisions | – | – | (0.3) | – | 0.5 | – | 0.2 | – | 0.2 |
| Additions | 12.2 | – | – | – | – | – | 12.2 | – | 12.2 |
| Acquisitions | – | – | 0.1 | 26.1 | – | – | 0.1 | 26.1 | 4.6 |
| Production | – | – | (0.5) | – | (1.3) | – | (1.8) | – | (1.8) |
| **At 31 December 2007** | | | | | | | | | |
| Developed | – | – | 2.6 | 24.1 | 3.2 | – | 5.8 | 24.1 | 9.9 |
| Undeveloped | 12.2 | – | – | 2.0 | 0.2 | – | 12.4 | 2.0 | 12.8 |
| | 12.2 | – | 2.6 | 26.1 | 3.4 | – | 18.2 | 26.1 | 22.7 |
| **Probable reserves** | | | | | | | | | |
| At 1 January 2007 | – | – | – | – | 1.3 | – | 1.3 | – | 1.3 |
| **Changes during the year:** | | | | | | | | | |
| Revisions | – | – | – | – | 0.2 | – | 0.2 | – | 0.2 |
| Additions | 11.4 | – | – | – | – | – | 11.4 | – | 11.4 |
| Acquisitions | – | – | – | 6.4 | – | – | – | 6.4 | 1.1 |
| Production | – | – | – | – | – | – | – | – | – |
| **At 31 December 2007** | 11.4 | – | – | 6.4 | 1.5 | – | 12.9 | 6.4 | 14.0 |
| **Total proven and probable reserves** | | | | | | | | | |
| At 1 January 2007 | – | – | 3.3 | – | 5.5 | – | 8.8 | – | 8.8 |
| **Changes during the year:** | | | | | | | | | |
| Revisions | – | – | (0.3) | – | 0.7 | – | 0.4 | – | 0.4 |
| Additions | 23.6 | – | – | – | – | – | 23.6 | – | 23.6 |
| Acquisitions | – | – | 0.1 | 32.5 | – | – | 0.1 | 32.5 | 5.7 |
| Production | – | – | (0.5) | – | (1.3) | – | (1.8) | – | (1.8) |
| **At 31 December 2007** | 23.6 | – | 2.6 | 32.5 | 4.9 | – | 31.1 | 32.5 | 36.7 |

Notes
- These estimates of reserves were prepared by the group's engineers and the group's estimates of its reserves have been audited by a competent, independent third party based on the guidelines of the Petroleum Resources Management System, recently adopted by the Society of Petroleum Engineers, World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers
- The reserves presented are the net entitlement volumes attributable to the Company, under the terms of relevant production sharing contracts and assuming future oil prices equal to the average of prevailing prices during 2007
- For the purpose of calculating oil equivalent total reserves, volumes of natural gas have been converted to oil equivalent volumes at the rate of 5,800 standard cubic feet of gas per barrel of oil

# Shareholder information

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

### Registrar
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

### UK Transfer Agent
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

### Company Secretary and registered office
Ogier Corporate Services (Jersey) Limited
Whiteley Chambers
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St Helier
Jersey JE4 9WG

### Legal Advisors to the Company
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Norton Rose LLP
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London SE1 2AQ

**As to Jersey Law**
Ogier
Whiteley Chambers
Don Street
St Helier
Jersey JE4 9WG

### Joint Brokers
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London E14 4QJ

Lehman Brothers
25 Bank Street
London E14 5LE

### Auditors
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1 More London Place
London SE1 2AF

### Corporate and Financial PR
Bell Pottinger Corporate & Financial
6th Floor Holborn Gate
330 High Holborn
London WC1V 7QD

### Financial Calendar

| | |
|---|---|
| 16 May 2008 | Annual General Meeting |
| 19 May 2008 | Final dividend payment |
| 27 August 2008 | Interim results announcement |
| November 2008 | Interim dividend payment |

Dates correct at time of print, but subject to change

The group's investor relations website can be found through www.petrofac.com

**Photograph right**
[a] The completed Kauther gas plant, Oman

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