Press Release

5 March 2007

PETROFAC LIMITED

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Petrofac Limited (Petrofac, the group or the Company) is a leading international provider of facilities solutions to the oil & gas production and processing industry, providing project development, engineering, construction and facilities operation, maintenance and training services to many of the world's leading integrated, independent and national oil & gas companies. Petrofac's predominant focus is on the UK Continental Shelf (UKCS), Africa, the Middle East, the Commonwealth of Independent States (CIS) and the Asia Pacific region, with 17 offices worldwide and approaching 8,000 employees.

FINANCIAL HIGHLIGHTS*

- Revenue of US$1,864 million (2005: US$1,485 million), up 25.5%

- EBITDA(1) of US$199.6 million (2005: US$115.6 million), up 72.7%
  - Engineering & Construction EBITDA of US$127.3 million, up 100.5%
  - Operations Services EBITDA of US$32.9 million, up 19.6%
  - Resources EBITDA of US$40.1 million, up 23.0%

- Net profit(2) of US$121.9 million (2005: US$75.4 million), up 61.7%

- Backlog(3) at 31 December 2006 of US$4,173 million (2005: US$3,244 million), up 28.6%

- Return on capital employed(4) of 47.5% (2005: 32.5%)

- Earnings per share (fully diluted) of 35.32 cents (2005: 22.41 cents), up 57.6%

- Final dividend of 6.43 cents (3.30 pence(5)) per ordinary share taking dividends for the full year to 8.83 cents per ordinary share

* *continuing operations*

Registered Address: Whiteley Chambers, Don Street, St Helier Jersey JE4 9WG
Registered in Jersey No. 81792

OUTLOOK

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

The current level of backlog within our Engineering & Construction division provides particularly strong visibility for current year revenue and we will continue our focus on project execution to ensure consistent margin delivery. We believe that we are well positioned to secure further new business, particularly in regions and on projects which have the potential for long term capital expenditure.

Our Operations Services division also has good visibility for revenue for the current and future years and will look to continue its growth both in the UKCS and internationally, in particular, the contract with Dubai Petroleum Establishment will make an important contribution to this growth and towards continued margin expansion.

The integrity management of hydrocarbon facilities is becoming an increasingly significant challenge for many asset owners. Through our strong engineering and operational capabilities, in particular within our growing Brownfield activity, we believe we are well positioned to assist clients extend the life span of their facilities whilst ensuring the highest standards of operational safety are met.

Within our Resources division, we expect the investment in Cendor, Malaysia, to have substantially, if not entirely, recovered its costs during the first half of the year. During the year ahead, in addition to seeking further opportunities to expand our investment portfolio, in particular on the energy infrastructure side, we will be actively progressing our existing development assets, in particular Chergui, Tunisia, and the greater Don area assets in the UKCS.

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

Commenting on the results, Ayman Asfari, Petrofac's Group Chief Executive, said:
"I am very pleased to be able to report another set of strong financial results, in particular, with our E&C division reporting good growth in both revenue and profitability. Whilst we continue to face challenges, in particular because of industry-wide resource constraints, the benefit of our consistent focus on delivery is reflected in our results. Demand for our services continues to be strong and we expect this to remain the case at least for the medium term which, with our backlog at its current levels, positions us well for continued growth during the current year and beyond."

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Petrofac Limited

Final results for the year ended 31 December 2006

(Note: all financial information set out herein reflects the group's continuing operations, unless stated otherwise)

Chairman's statement

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

Market overview

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

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

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

Petrofac's progress

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

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

Dividends

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

Corporate governance

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

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

Our people

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

Changes to the Board

During 2006 there were no changes to report. However, subject to shareholder agreement, we look forward to welcoming two additional members to the Board, Rijnhard van Tets and Amjad Bseisu. Further details of these proposed appointments are included in a separate announcement released today.

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

Rodney Chase
Chairman

Group Chief Executive's review

I am pleased to be able to report a strong set of financial results for the year ended 31 December 2006.

	2006	2005	
	US$m	*US$m*	
Revenue	**1,863.9**	1,485.5	*up 25.5%*
EBITDA	**199.6**	115.6	*up 72.7%*
EBITDA margin	*10.7%*	*7.8%*	
Net profit	**121.9**	75.4	*up 61.7%*
Net margin	*6.5%*	*5.1%*	
Backlog	**4,173**	3,244	*up 28.6%*

Group revenue increased by 25.5% to US$1,863.9 million (2005: US$1,485.5 million) reflecting strong growth across all three divisions. EBITDA increased by 72.7% to US$199.6 million (2005: US$115.6 million). Net profit increased by 61.7% to US$121.9 million (2005: US$75.4 million), representing a net margin of 6.5% (2005: 5.1%). At the close of 2006, the combined backlog of the Engineering & Construction and Operations Services divisions was US$4,173 million (2005: US$3,244 million).

ENGINEERING & CONSTRUCTION

	2006	2005	
	US$m	*US$m*	
Revenue	**1,081.3**	858.2	*up 26.0%*
EBITDA	**127.3**	63.5	
EBITDA margin	*11.8%*	*7.4%*	
Net profit	**95.4**	55.1	*up 73.1%*
Net margin	*8.8%*	*6.4%*	
Backlog	**2,228**	2,121	*up 5.0%*

Results

The division's strong operational performance has increased revenue by 26.0% to US$1,081.3 million (2005: US$858.2 million) and net profit by 73.1% to US$95.4 million (2005: US$55.1 million), representing a net margin of 8.8% (2005: 6.4%). The majority of revenue in 2006 came from further progress on contract awards secured in 2005, in particular the Kuwait Oil Company (KOC) facilities upgrade project and the Harweel and Kauther projects in Oman. The significant growth in net profit and net margin was driven by the timing of profit recognition (profits are typically not recognised in the early stages of lump-sum contracts and, therefore, profits lag revenue recognition) on lump-sum EPC contracts and increased profitability through the division's ongoing strong execution performance. In 2006, the main divisional profit drivers were the Kashagan engineering and procurement contract, the KOC facilities upgrade and Kauther gas plant projects.

Engineering & Construction increased its number of employees[(6)] from approximately 2,400 at 31 December 2005 to 2,700 at 31 December 2006. Much of the increase was in the division's operating centres in the Middle East and India. The group is currently building a new office tower in Sharjah, UAE, which will be able to accommodate approximately 1,800 employees and is establishing a new office in Chennai which expects to have around 200 employees by the end of 2007.

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

Review of operations

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

Middle East

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

- The northern oil export system for KOC was substantially completed during the year, as were, following an extended commissioning period, the flare mitigation works for Qatar Petroleum.

- Good progress was made on both the facilities upgrade project for KOC, where the scope, particularly in piping and civils, has increased, and with the EPC of the

Kauther gas plant for the Ministry of Oil & Gas in Oman, albeit against a challenging schedule.

- Satisfactory progress has been made on the Harweel Cluster Development project for Petroleum Development Oman (PDO) with significant technical re-design work meaning the expected completion of the project will be later than planned but in line with PDO's expectations.

Commonwealth of Independent States (CIS)

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

- In Kazakhstan, the Kashagan engineering and procurement contract is substantially complete, while the related construction management contract, awarded in January 2006, is still in its early stages as scheduled; the front-end engineering and design (FEED) study for the fourth oil processing train for Karachaganak Petroleum Operating B.V. (KPO), a BG Group and ENI led consortium, was substantially completed by the end of 2006 and, as referred to below, has been followed by the award of the EPCM for the fourth train.

- In Russia, substantial progress was made in particular with the Kovykta project management contract and, building on our recently established engineering presence in Moscow, with various engineering services projects for other customers.

- The BTC/SCP project, which became a reimbursable contract at the beginning of 2006, was successfully completed in the second half of the year.

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

Hasdrubal Gas Plant, Tunisia

In November 2006, following on from the FEED study awarded late in 2005, the group was awarded a US$400 million lump-sum turnkey project by BG Tunisia Limited, a BG Group (BG) subsidiary, and Entreprise Tunisienne d'Activités Pétrolières (ETAP) to build the new

Hasdrubal onshore gas processing facility and liquefied petroleum gas (LPG) production facility.

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

Salam Gas Plant, Egypt

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

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

Strasshof Development FEED, Austria

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

Karachaganak 4th train, Kazakhstan

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

El Gassi field, Algeria

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

OPERATIONS SERVICES

	2006	2005	
	US$m	*US$m*	
Revenue	**729.2**	605.3	*up 20.5%*
EBITDA	**32.9**	27.5	*up 19.6%*
EBITDA margin	*4.5%*	*4.5%*	
Net profit	**18.1**	15.6	*up 16.0%*
Net margin	*2.5%*	*2.6%*	
Backlog	**1,945**	1,123	*up 73.2%*

Results

Divisional revenue for the period increased by 20.5% to US$729.2 million (2005: US$605.3 million) reflecting new business and an increased level of pass-through revenue. Net profit increased to US$18.1 million (2005: US$15.6 million), representing a net margin of 2.5% (2005: 2.6%). Net of pass-through revenue(7), net margin increased by 0.2%, reflecting an improvement in the division's operational performance.

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

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

Review of operations

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

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

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

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

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

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

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

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

RESOURCES

	2006	2005	
	US$m	*US$m*	
Revenue	**62.1**	46.3	*up 34.1%*
EBITDA	**40.1**	32.6	*up 23.0%*
EBITDA margin	*64.6%*	*70.4%*	
Net profit*	**14.4**	18.3	*down 21.3%*
Net margin	*23.1%*	*39.5%*	
Adjusted net profit*	**13.8**	9.4	*up 46.8%*
Adjusted net margin	*22.2%*	*20.3%*	

* *2006 net profit includes recognition of a net tax credit of US$0.6 million from tax losses in Petrofac (Malaysia-PM304) Limited (2005: US$8.9 million); the adjusted net profit and adjusted net profit margin presented above exclude the impact of these tax credits*

Results

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

Review of operations

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

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

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

Resources owns a 50% share in Kyrgyz Petroleum Company which is engaged in the production and refining of crude oil and marketing the sale of oil products from the refinery. The Operations Services division runs the refinery on behalf of the joint venture partners on a reimbursable basis. During 2006, the refinery produced an average of approximately 1,700 bpd (2005: 1,700 bpd) of principally gasoline, diesel and fuel oil. Finding a steady supply of feedstock remains a challenge, although increased product prices during 2006 resulted in an improved financial performance.

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

- In December 2006, the division acquired a 60% interest in part of Block 211/18a containing the Don Southwest discovery. The partners in the acquisitions were First Oil (30% interest in West Don area) and Valiant Petroleum (30% interest in West Don; 40% interest in Don Southwest).

- During 2006, Petrofac (50%) and Valiant Petroleum (50%) were successful in securing Block 211/18c, adjoining the West Don field, in the UK's 23rd licensing round. In February 2007, Petrofac (50%) and Valiant (50%) secured Block 211/17 in the 24th licensing round. These awards are an important development in the strategy to build a core area of operations in the 'greater Don area' and seek opportunities in neighbouring blocks.

- The division increased its interest in Block 9/28a part B (containing the Crawford field) from 5.58% to 29% in February 2006, assuming operatorship of the field. The group's partners are Fairfield Acer (52%) and Stratic (19%).

- In early 2007, Petrofac was awarded a 100% equity interest in Block 28/3b in the 24th licensing round. The group already owns 100% equity in Block 28/3a, containing the Elke field.

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

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

OUTLOOK

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

The current level of backlog within our Engineering & Construction division provides particularly strong visibility for current year revenue and we will continue our focus on project execution to ensure consistent margin delivery. We believe that we are well positioned to secure further new business, particularly in regions and on projects which have the potential for long term capital expenditure.

Our Operations Services division also has good visibility for revenue for the current and future years and will look to continue its growth both in the UKCS and internationally, in particular, the contract with Dubai Petroleum Establishment will make an important contribution to this growth and towards continued margin expansion.

The integrity management of hydrocarbon facilities is becoming an increasingly significant challenge for many asset owners. Through our strong engineering and operational capabilities, in particular within our growing Brownfield activity, we believe we are well positioned to assist clients extend the life span of their facilities whilst ensuring the highest standards of operational safety are met.

Within our Resources division, we expect the investment in Cendor, Malaysia, to have substantially, if not entirely, recovered its costs during the first half of the year. During the year ahead, in addition to seeking further opportunities to expand our investment portfolio, in particular on the energy infrastructure side, we will be actively progressing our existing development assets, in particular Chergui, Tunisia, and the greater Don area assets in the UKCS.

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

Ayman Asfari
Group Chief Executive

Chief Financial Officer's review

	2006	2005	
	US$m	*US$m*	
Revenue	**1,863.9**	1,485.5	*up 25.5%*
Operating profit[8]	**171.1**	88.6	*up 93.1%*
Operating margin	*9.2%*	*6.0%*	
EBITDA	**199.6**	115.6	*up 72.7%*
EBITDA margin	*10.7%*	*7.8%*	
Net profit	**121.9**	75.4	*up 61.7%*
Net margin	*6.5%*	*5.1%*	
Backlog	**4,173**	3,244	*up 28.6%*

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

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

Net profit attributable to the shareholders of Petrofac Limited from the group's continuing business activities increased by 61.7% to US$121.9 million (2005: US$75.4 million). The net margin increased to 6.5% (2005: 5.1%) due primarily to the 3.2% increase in the group's operating margin, net finance income of US$2.2 million (as compared to net finance cost of US$5.3 million in 2005, reflecting a combination of higher average cash balances held by the group during the year offset slightly by higher prevailing interest rates on the group's debt), partially offset by a significant increase in the group's effective tax rate.

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

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

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

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

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

Discontinued operations

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

Interest and taxation

Net interest receivable for the year on continuing operations was US$2.2 million (2005: net interest payable of US$5.3 million). The reduction in net interest payable was largely attributable to the group's higher average cash balances during 2006. These arose principally from the significant increase in contract advance payments from Engineering & Construction division customers and the impact of strong conversion of earnings into operating cash flows.

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

Interest cover

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

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

- During 2006, the Engineering & Construction division generated the majority of its profits from higher taxable jurisdictions;

- The Resources division's effective tax rate in 2005 included recognition of a deferred tax asset of US$8.9 million in respect of Cendor pre-trading losses. Following commencement of production in late 2006, the UK deferred tax asset was written down to recognise the future availability of Malaysian double tax credits against UK tax, whilst a Malaysian deferred tax asset was set up to reflect the anticipated utilisation of carried forward losses against Malaysian tax at 38%; this resulted in an overall recognition of a further tax credit of US$0.6 million in the period; and

- The group had unrecognised tax losses of US$1.8 million at 31 December 2006 (2005: US$1.5 million less utilisation of tax losses of US$3.1 million).

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

	2006		2005 (as restated)	
	US$'000	*%*	*US$'000*	*%*
Reported tax charge	**51,340**	**29.6%**	7,951	9.5%
Tax credit re Cendor PM304	**609**	**0.4%**	8,943	10.7%
Net tax losses utilised/ (unrecognised)	**(1,797)**	**(1.1%)**	1,538	1.9%
	50,152	**28.9%**	18,432	22.1%

Earnings per share

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

Operating cash flow and liquidity

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

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

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

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

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

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

Capital expenditure

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

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

Shareholders' funds

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

Return on capital employed (ROCE)

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

Keith Roberts
Chief Financial Officer

End notes:

(1) EBITDA means earnings before interest, tax, depreciation and amortisation and is calculated as profit from continuing operations before tax and finance costs adjusted to add back charges for depreciation, amortisation and impairment losses (as set out in note 3 to the financial statements).

(2) Net profit (for the group) means profit for the year from continuing operations attributable to Petrofac Limited shareholders.

(3) 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. To the extent work advances on these contracts, revenue is recognised and removed from the backlog. Where contracts extend beyond five years, the backlog relating thereto is added to the backlog on a rolling monthly basis. Backlog includes only the revenue attributable to signed contracts for which all pre-conditions to entry have been met and only the proportionate share of joint venture contracts that is attributable to Petrofac. Backlog does not include any revenue expected to arise from contracts where the client has no commitment to draw upon services from Petrofac. Backlog is not an audited measure. Other companies in the oil and gas industry may calculate these measures differently.

(4) Return on capital employed is defined as the ratio of earnings before interest, income tax and amortisation (i.e. operating profit plus goodwill and other amortisation and impairment losses) (EBITA) and average capital employed, being average total assets employed less average total current liabilities.

(5) The group reports its financial results is US dollars and, accordingly, will declare any dividends in US dollars together with a Sterling equivalent. Unless shareholders have made valid elections to the contrary, they will receive any dividends payable in Sterling. Conversion of the 2006 final dividend from US dollars into Sterling is based upon an exchange rate of US$1.9481:£1, being the Bank of England Sterling spot rate as at midday on 2 March 2007.

(6) Includes agency and contract staff but exclude employees of joint ventures.

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

(8) Operating profit means profit from continuing operations before tax and finance costs.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

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

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

CONSOLIDATED BALANCE SHEET
At 31 December 2006

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

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

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2006

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

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

CONSOLIDATED CASH FLOW STATEMENT (continued)
For the year ended 31 December 2006

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

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

Petrofac Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

	Attributable to Shareholders of Petrofac Limited								
	Issued share capital US$'000	*Share premium US$'000*	*Capital redemption reserve US$'000*	*Treasury shares US$'000*	*Other reserves US$'000 (note 24)*	*Retained earnings US$'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
Transfers to reserve for share-based payments	-	-	-	-	4,644	-	4,644	-	4,644
Total income and expenses for the year recognised in equity	-	-	-	-	32,037	-	32,037	-	32,037
Net profit for the year	-	-	-	-	-	120,332	120,332	-	120,332
Total income and expenses for the year	-	-	-	-	32,037	120,332	152,369	-	152,369
Treasury shares (note22)	-	-	-	(8,127)	-	-	(8,127)	-	(8,127)
Dividends (note 9)	-	-	-	-	-	(14,674)	(14,674)	-	(14,674)
Minority interests acquired (note 11)	-	-	-	-	-	-	-	209	209
Balance at 31 December 2006	**8,629**	**66,210**	**10,881**	**(8,144)**	**19,611**	**227,508**	**324,695**	**209**	**324,904**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2006

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

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

1 CORPORATE INFORMATION

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Statement of compliance

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

Basis of consolidation

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

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

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

Accounting policies

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting policies (continued)

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

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

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

Significant accounting judgements and estimates

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

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

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

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

- *Project cost to complete estimates*: at each balance sheet date the group is required to estimate costs to complete on fixed price contracts. Estimating costs to complete on such contracts requires the group to make estimates of future costs to be incurred, based on work to be performed beyond the balance sheet date.

- *Impairment of goodwill*: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was US$56,732,000 (2005: US$49,183,000).

- *Deferred tax assets*: the group recognises deferred tax assets on unused tax losses where it is probable that future profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised as well as the timing of the future profits. The carrying amount of recognised tax losses at 31 December 2006 was US$1,851,000 (2005: US$4,235,000).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint ventures

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

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

Transactions in foreign currencies

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

Foreign group companies

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

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

Property, plant and equipment

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

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

No depreciation is charged on land or assets under construction.

Borrowing costs

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

Oil & gas assets

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil & gas assets (continued)

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

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

Available-for-sale financial assets

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

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

Impairment of assets (excluding goodwill)

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

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

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

Inventories

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

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

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

Trade and other receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables (continued)

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

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents 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 is the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the balance sheet.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

Employee Share Ownership Plan (ESOP)

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

Petrofac Employee Benefit Trust

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

Leases

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

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, or whether the 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.

Revenue recognition

Revenue is recognised to the extent that it is probable economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Engineering, procurement and construction services (Engineering & Construction)
Revenues from fixed-price lump-sum contracts are recognised on the percentage-of-completion method, based on surveys of work performed when the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Engineering, procurement and construction services (Engineering & Construction) (continued)
Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

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

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

Facilities management, engineering and training services (Operations Services)
Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value when the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

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

Oil & gas activities (Resources)
Oil & gas revenues comprise the group’s share of sales from the processing or sale of hydrocarbons on an entitlement basis.

Income taxes

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

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

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; 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.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; 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.

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

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

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

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

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

3 SEGMENT INFORMATION

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

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

Business segments

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

Year ended 31 December 2006

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

3 SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2005

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

3 SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2006

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

3 SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2005

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

3 SEGMENT INFORMATION (continued)

Geographical segments

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

Year ended 31 December 2006

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

Year ended 31 December 2005

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

4 REVENUES AND EXPENSES

a. Revenue

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

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

b. Cost of sales

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

4 REVENUES AND EXPENSES (continued)

c. Other income

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

d. Other expenses

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

e. Selling, general and administration expenses

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

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

f. Staff costs

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

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

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

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

4 REVENUES AND EXPENSES (continued)

f. Staff costs (continued)

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

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

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

5 FINANCE COSTS / (INCOME)

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

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

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

6 INCOME TAX

a. Tax on ordinary activities

The major components of income tax expense are as follows:

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

b. Reconciliation of total tax charge

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

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

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

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

6 INCOME TAX (continued)

c. Deferred income tax

Deferred income tax relates to the following:

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

d. Unrecognised tax losses

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

7 DISCONTINUED OPERATIONS

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

The results of Petrofac Inc. are presented below:

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

7 DISCONTINUED OPERATIONS (continued)

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

Cash flow
The cash flows of Petrofac Inc. have been disclosed on the face of the Consolidated Cash Flow Statement.

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

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

8 EARNINGS PER SHARE

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

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

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

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

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

8 EARNINGS PER SHARE (continued)

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

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

9 DIVIDENDS PAID AND PROPOSED

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

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

10 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

11 BUSINESS COMBINATIONS

Acquisitions in 2006

PPS Process Control and Instrumentation Services Limited

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

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

	Recognised on acquisition US$'000	*Carrying value US$'000*
Property, plant and equipment	43	43
Intangible assets (note 13)	1,561	-
Trade and other receivables	616	616
Income tax receivable	56	56
Cash and short-term deposits	169	169
Total assets	2,445	884
Less:		
Trade and other payables	(748)	(748)
Minority interest	(209)	6
Deferred tax liability	(156)	-
Total liabilities	(1,113)	(742)
Fair value of net assets acquired	1,332	142
Goodwill arising on acquisition (note 12)	668	
Consideration	2,000	
Cash outflow on acquisition:		
Cash acquired with subsidiary		169
Cash paid on acquisition		(527)
Legal expenses paid on acquisition		(211)
Net cash outflow on the acquisition of subsidiary		(569)

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

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

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

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

11 BUSINESS COMBINATIONS (continued)

Acquisitions in 2006 (continued)

PPS Process Control and Instrumentation Services Limited (continued)

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

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

Acquisitions in 2005

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

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

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

12 GOODWILL

A summary of the movements in goodwill is presented below:

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

12 GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to three groups of cash-generating units, which are reportable segments, for impairment testing as follows:

- Facilities Management (comprising Petrofac Facilities Management and Plant Asset Management)
- Training (comprising Petrofac Training, Chrysalis Learning, Rubicon Response and PPS Process Control & Instrumentation)
- Resources (comprising Petrofac Resources International Limited)

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

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

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

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

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

Key assumptions used in value in use calculations

The calculation of value in use for both the Facilities Management and Training units is most sensitive to the following assumptions:

- Market share
- Growth rate
- Net profit margins; and
- Discount rate

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

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

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

12 GOODWILL (continued)

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

The calculation of value in use for the Resources unit is most sensitive to the following assumptions:

- Financial returns
- Discount rate; and
- Oil prices

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

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

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

Sensitivity to changes in assumptions

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

13 INTANGIBLE ASSETS

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

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

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

13 INTANGIBLE ASSETS (continued)

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

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

14 INTEREST IN JOINT VENTURES

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

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

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

16 OTHER FINANCIAL ASSETS

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

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

17 INVENTORIES

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

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

18 WORK IN PROGRESS AND BILLINGS IN EXCESS OF COST AND ESTIMATED EARNINGS

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

19 TRADE AND OTHER RECEIVABLES

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

19 TRADE AND OTHER RECEIVABLES (continued)

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

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

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

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

20 CASH AND SHORT-TERM DEPOSITS

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

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

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

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

21 SHARE CAPITAL

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

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

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

21 SHARE CAPITAL (continued)

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

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

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

Petrofac ESOP

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

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

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

21 SHARE CAPITAL (continued)

Share options

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

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

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

22 TREASURY SHARES

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

23 SHARE-BASED PAYMENT PLANS

On 13 September 2005, the Company established three share schemes for the benefit of employees of the group, being a Performance Share Plan, a Deferred Bonus Share Plan and an approved Share Incentive Plan. A further share scheme, the Restricted Share Plan, was established during the year. All of these share schemes are equity settled award schemes. These share schemes are described below. Further details of the schemes can be found in the Directors' Remuneration Report on pages 31 to 33.

Performance Share Plan (PSP)

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

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

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

23 SHARE-BASED PAYMENT PLANS (continued)

Deferred Bonus Share Plan (DBSP)

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

Share Incentive Plan (SIP)

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

Restricted Share Plan (RSP)

During the year, the Company established a Restricted Share Plan (RSP) for senior employees other than the Directors of the Company. Under the scheme, senior employees are granted shares in the Company over a restricted vesting period which may or may not be, at the direction of the Remuneration Committee of the Board of Directors, subject to the satisfaction of performance conditions. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair value of the awards granted under the plan at various grant dates during the year is based on a weighted average quoted price of 278p over the period with an assumed vesting rate of 91% per annum over the three year vesting period. The Company awarded 161,101 shares to participants in the scheme during the year and recognised a charge of US$79,000 in the current year income statement. At 31 December 2006, there were still 161,101 share awards outstanding but not exercisable at this date.

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

24 OTHER RESERVES

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

Nature and purpose of other reserves

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

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

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

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

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

25 INTEREST-BEARING LOANS AND BORROWINGS

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

		31 December 2006 Actual interest rate%	*31 December 2005 Actual interest rate%*	*Effective interest rate%*	*Maturity*	***2006 US$'000***	*2005 US$'000*
Current							
Revolving credit facility	(i)(a)	-	US LIBOR + 1.50%	US LIBOR + 1.50%	on demand	-	2,400
Revolving credit facility	(i)(b)	US LIBOR + 0.875%	US LIBOR + 1.75%	US LIBOR + 1.75%	2008	-	6,500
Short term loan	(ii)	KD Discount Rate + 1.50%	KD Discount Rate + 2.00%	KD Discount Rate + 2.00%	2007	**6,033**	6,228
Bank overdrafts	(iii)	UK LIBOR + 0.875%, US LIBOR + 0.875% ,KD Discount Rate + 1.50%	UK LIBOR + 1.25%, US LIBOR + 1. 50% ,KD Discount Rate + 2.0%	UK LIBOR + 1.25% , US LIBOR + 1.50% , KD Discount Rate + 2.0%	on demand	**20,442**	6,055
Other loans:							
Project term loan	(iv)	-	US LIBOR + 2.00%	US LIBOR + 2.00%	2006	-	7,000
Current portion of term loan	(v)	-	US/UK LIBOR + 1.375%	5.39% to 6.26% (2005: 5.48% to 6.20%)		-	2,500
						26,475	30,683
Non-current							
Revolving credit facility	(vi)	US/UK LIBOR + 0.875%	US/UK LIBOR + 1.75%	5.73% to 6.04% (2005: 6.20% to 6.29%)	2013	**8,864**	8,077
Revolving credit facility	(i)(b)	US LIBOR + 0.875%	US LIBOR + 1.75%	5.18%	2008	**6,500**	-
Term loan	(v)	US/UK LIBOR + 0.875%	US/UK LIBOR + 1.375%	5.39% to 6.26% (2005: 5.48% to 6.20%)	2008-2013	**77,111**	69,522
						92,475	77,599
Less:							
Debt acquisition costs, net of accumulated amortisation						**(1,770)**	(1,412)
						90,705	76,187

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

(i) Revolving credit facilities

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

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

(ii) Short term loan

The short term loan is denominated in Kuwaiti Dinars (KD) and relates to funding provided for a project in Kuwait. The loan is committed until 30 November 2007 and subject to annual review thereafter. In November 2006, the interest rate has been revised from KD Discount Rate + 2.0% to KD Discount Rate + 1.5, effective 31 December 2006.

(iii) Bank overdrafts

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

(iv) Project term loan

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

25 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(v) Term loan

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

(vi) Revolving credit facility

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

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

26 PROVISIONS

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

Other long term employment benefits provision

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

Provision for decommissioning

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

27 OTHER FINANCIAL LIABILITIES

	2006	*2005*
	US$'000	*US$'000*
Other financial liabilities - non-current		
Deferred consideration	**7,373**	-
Fair value of derivative instruments	**-**	1,097
Other	**-**	125
	7,373	1,222

Other financial liabilities - current		
Interest payable	**172**	858
Fair value of derivative instruments	**-**	10,502
Deferred consideration	**-**	4,450
	172	15,810

28 TRADE AND OTHER PAYABLES

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

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

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

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

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

29 ACCRUED CONTRACT EXPENSES

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

30 COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

Leases

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

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

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

Capital commitments

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

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

31 RELATED PARTY TRANSACTIONS

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

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

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

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

31 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

Compensation of key management personnel

The following details remuneration of key management personnel of the group comprising of executive and non-executive directors of the Company and other senior personnel. Further information relating to the individual directors is provided in the Directors' Remuneration report on pages 29 to 36.

	2006 ***US$'000***	*2005* *US$'000*
Short-term employee benefits	**4,412**	4,249
Other long term employment benefits	**40**	51
Share-based payments	**288**	169
Fees paid to non-executive directors	**416**	266
	5,156	4,735

32 FINANCIAL INSTRUMENTS

Risk management objectives and policies

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

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

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

Interest rate risk

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

Foreign currency risk

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

32 FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

Liquidity risk

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

Fair values of financial assets and liabilities

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

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

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

32 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 following table indicates the years over which these financial liabilities and assets will reprice or mature:

Year ended 31 December 2006

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

Year ended 31 December 2005

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

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

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

Derivative instruments designated as cash flow hedges

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

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

32 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

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

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

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

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

33 EVENTS AFTER THE BALANCE SHEET DATE

SPD Group Limited

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

The terms of the sale and purchase agreement for the remaining 49% interest in the share capital of SPD which convey call option rights on the acquirer and minority 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 has been estimated at US$12,025,000 and this will be reassessed each year to fair value and any adjustment to the deferred consideration arising will be reflected in goodwill except for the unwinding of interest which will be reflected in the income statement as an interest expense. The total consideration for the 100% interest therefore, including transaction costs, amounts to US$19,897,000.

33 EVENTS AFTER THE BALANCE SHEET DATE

SPD Group Limited (continued)

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

	Recognised on acquisition US$'000	*Carrying Value US$'000*
Property, plant and equipment	47	47
Intangible assets	2,369	-
Trade and other receivables	5,559	5,559
Cash and short-term deposits	970	970
Total assets	8,945	6,576
Less:		
Trade and other payables	(3,210)	(3,210)
Income tax payable	(10)	(10)
Total liabilities	(3,220)	(3,220)
Fair value of net assets acquired	5,725	3,356
Goodwill arising on acquisition	14,172	
Consideration	19,897	
Cash outflow on acquisition:		
Cash acquired with subsidiary		970
Cash paid on acquisition		(3,935)
Legal and professional expenses paid on acquisition		(172)
Net cash outflow on the acquisition of subsidiary		(3,137)

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

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

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

34 SUBSIDIARIES AND JOINT VENTURES

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

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

** Directly held by Petrofac Limited*

34 SUBSIDIARIES AND JOINT VENTURES (continued)

Name of Company	***Country of incorporation***	***Proportion of nominal value of issued shares controlled by the group***	
Joint Ventures		**2006**	2005
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 Sakha Limited	England	***100**	*100
Petrofac Saudi Arabia Limited	Saudi Arabia	**100**	100
ASJV Venezuela SA	Venezuela	**100**	100
Joint Venture International Limited	Scotland	**100**	100
Montrose Park Hotels Limited	Scotland	**100**	100
Montrose Scota Limited	Scotland	**100**	100
Petrofac Resources (Palmyra) Limited	Jersey	**100**	100
RGIT Ethos Health & Safety Limited	Scotland	**100**	100
Scota Limited	Scotland	**100**	100

** Directly held by Petrofac Limited*

SHAREHOLDER INFORMATION
At 31 December 2006

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

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2007 Financial Calendar

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

* Dates correct at time of print, but subject to change