Petrofac

Annual report and accounts 2005

Strategy in action

Petrofac aims to generate sustainable growth in value for its shareholders by being the leading international provider of facilities solutions to the oil & gas production and processing industry; delivering world-class project development, project management, engineering, procurement, construction, operations and training services.

Petrofac aims to achieve this goal by:

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

Contents

Group financial highlights[1]

US$1,485m

Revenue
2004 US$952m

US$3,244m

Backlog[2]
2004 US$1,740m

US$115.6m

EBITDA[3]
2004 US$96.1m

32.5%

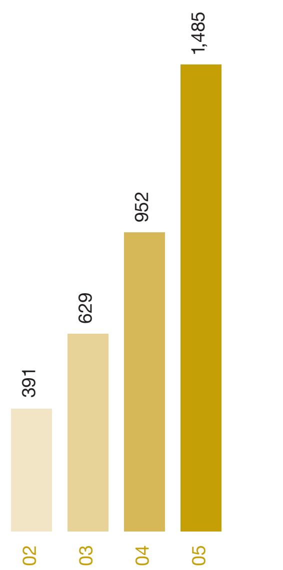
Return on capital employed
2004 31.4%

US$75.4m

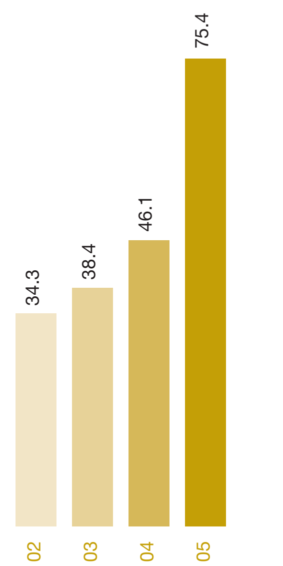
Net profit[4]
2004 US$46.1m

22.4 cents

Earnings per share (diluted)
2004 11.9 cents



Revenue (US$ millions)



Net profit (US$ millions)

1 Unless otherwise stated, results on pages 1 to 29 are on continuing operations.
2 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. The group uses this key performance indicator as a measure of the visibility of future earnings. Backlog is not an audited measure. Other companies in the oil & gas industry may calculate this measure differently.
3 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 (see note 3 to the financial statements).
4 Profit for the year attributable to Petrofac Limited shareholders.

Petrofac at a glance

Petrofac provides services across the lifecycle for upstream, midstream and downstream facilities and infrastructure. By working in partnership with the owners of oil & gas reserves and infrastructure, providing innovative and cost-efficient services, Petrofac aims to create value across all aspects of an asset's development.

Petrofac's customer base includes many of the world's leading integrated, independent and national oil & gas companies. The group's core focus is on the UK Continental Shelf, Middle East, Africa and the Former Soviet Union; it has 17 offices worldwide and approximately 7,000 employees.

Petrofac Corporate Services:
1 London, England

Petrofac Operations Services:
2 Aberdeen, Scotland
3 Sharjah, UAE

Petrofac Engineering & Construction:
4 Sharjah, UAE
5 Mumbai, India
6 Woking, England

Petrofac Resources
7 London, England
8 Sharjah, UAE
9 Kuala Lumpur, Malaysia

Petrofac Country Offices
10 Abu Dhabi, UAE
11 Algiers, Algeria
12 Baku, Azerbaijan
13 Tehran, Iran
14 Ahmadi, Kuwait
15 Bishkek, Kyrgyzstan
16 Lagos, Nigeria
17 Doha, Qatar
18 Moscow, Russia
19 Khartoum, Sudan
20 Damascus, Syria
21 Houston, USA

Petrofac delivers services through its three divisions, Engineering & Construction, Operations Services and Resources, enabling the group to provide a total solutions approach to meeting customers' needs across the full lifecycle of oil & gas assets.

Engineering & Construction

Petrofac's development planning specialists and project professionals provide customers around the world with project development services to help them maximise the lifetime value of their oil & gas assets.

Petrofac's engineering, procurement and construction expertise covers oil & gas gathering, processing and transportation in both greenfield and brownfield developments. By tailoring construction planning and detailed schedule activities around specific site conditions, Petrofac provides a differentiated approach and delivers innovative solutions to logistically difficult and technically complex projects. Utilising the latest developments in process engineering technology and equipment, Petrofac provides fast-track engineering, procurement and construction services for facilities and processes – from wellhead to finished refined products.

Operations Services

Operations Services comprises Petrofac Facilities Management and Petrofac Training. Petrofac Facilities Management provides operations management customers with a turnkey service, delivering production, safety and environmental performance from their hydrocarbon production and processing assets. In addition, Petrofac Facilities Management provides a range of solutions in operations support, brownfield development, performance management, plant asset management, maintenance management, turbo machinery and manpower supply.

Training is integral to the development of safe, efficient and multi-skilled workforces and core to Petrofac's overall proposition. Petrofac Training is a provider of specialist operations, production and technical training to industry, and is also the home of world leading safety training provider, RGIT Montrose and the international specialist in emergency response and crisis management, Rubicon Response.

Resources

Petrofac will invest alongside its clients in development projects, producing assets and oil & gas infrastructure where, through providing facilities engineering services, it can enhance value by facilitating project viability and containing or reducing design, construction or operational costs. In addition, the division aims to identify and develop opportunities in producing and proved or probable but undeveloped reserves.

Chairman's statement

I am delighted to report on a year of significant achievements for Petrofac and to present the financial results for the year ended 31 December 2005.

These results demonstrate the growing position and reputation that we are building in our core markets. Over the past year, we have increased revenue by 56% to US$1,485 million and net profit by 64% to US$75.4 million.

Market overview

2005 was characterised by high commodity prices with Brent oil averaging nearly US$55 per barrel and Henry Hub Gas average price approaching US$9 per million British thermal unit (mmbtu), respectively over 40% and 50% above 2004 averages. Energy prices remained volatile as OPEC's surplus capacity averaged less than 2 million barrels per day (bpd) for the third year running and a series of unrelated factors caused disruption to energy supplies across the world.

Our industry faces the challenge of meeting the world's increasing demand for energy fuelled by good economic growth and from the still relatively low energy intensive economies of China and the Indian subcontinent. In addition, the industry is struggling with rising rates of depletion of existing production, particularly as the "super-major" fields in the Middle East reach their maturity. These twin challenges will require a sustained period of increased capital investment in order to bring on more production every year. It will not be easy to build a greater level of surplus capacity back into the world's system, but we and others are committed to this effort.

As a company that designs, builds, operates and invests in oil & gas infrastructure, Petrofac is very much involved in helping to address these challenges. While the increasing use of renewable energy sources and greater energy conservation will both help to bring the supply and demand for energy into balance, there remains a pressing need to develop more oil & gas reserves every year. We are working hard to help our clients meet this need and we enter 2006 with a record backlog of approximately US$3.2 billion. We are well placed to take advantage of new opportunities as they arise over the coming year.

Dividend

The Board is recommending a final dividend of 1.87 cents per ordinary share with an equivalent of 1.07 pence per ordinary share being payable which, if approved, will be paid on 31 May 2006 to eligible shareholders on the register at 28 April 2006. This proposed final dividend reflects the fact that the Company was listed for approximately three months of the 2005 financial year and is approximately half the level that would have been declared had Petrofac been listed for the whole of the 2005 financial year, having taken account of the intention to pay two-thirds of the annual dividend as a final dividend.

Admission to the London Stock Exchange

Petrofac's admission to listing on the London Stock Exchange was a major highlight of our year. Due to the strength and depth of the executive management team, this major exercise had no discernible impact on our operational performance during the year. The institutional marketing, which represented almost 50% of the Company's shares, was well received by the market and, since listing, our share price has performed well. The Company was admitted into the FTSE 250 index in December 2005. On behalf of the Board, I would like to welcome all of our new shareholders into Petrofac.

Our people

After four years with the group, during which time he played a key role in establishing our Woking based engineering business, Dr Mike Stacey stepped down from the Board and retired from the Company. I would like to thank him for his contribution and wish him a happy retirement. Also, immediately prior to the Company's admission to the London Stock Exchange, Amjad Bseisu and Robin Pinchbeck left the Board although they both continue in their roles as Divisional Chief Executives. Kjell Almskog and I joined the Board during the year.

As a provider of facilities solutions to the oil & gas production and processing industry, the Company's greatest resource is its people. This has been an exceptional year, both for the Company's business performance and its corporate development and, on behalf of the Board, I would like to thank all of our employees for the tremendous way they have responded to the challenges of 2005.

Corporate governance

As Chairman of the Board, I am very conscious that one of my principal objectives is to ensure that the Board fulfils its obligations to shareholders and stakeholders without stifling the Company's entrepreneurial spirit. The Board has an important duty to ensure good governance, and I believe that this effort will aid our growth strategy and help to maximise long term value for our shareholders. As part of our role, my directors and I will test the Company's strategic direction, monitor its operations in pursuit of that strategy and seek to ensure that Petrofac's activities are consistent with our stated values and deliver superior shareholder returns.

I look forward with confidence to another challenging and exciting year ahead.

Rodney Chase
Chairman

▲88%

Earnings per share (diluted)

1.87cents

Final dividend per ordinary share

Group Chief Executive's review

2005 was an exciting and eventful year for Petrofac and one in which considerable progress was made towards our goal of becoming the leading facilities solutions provider to the oil & gas industry.

During the year, we secured a number of large and strategically important projects, extended the scope and duration of contracts with some of our core customers and, in October, completed Petrofac's Initial Public Offering (IPO) on the London Stock Exchange. By working in partnership with the owners of oil & gas reserves and infrastructure, providing innovative and cost-efficient project development, engineering, construction and facilities operation, maintenance and training services, we aim to create value across all aspects of an asset's development.

I am pleased to be able to report a strong set of financial results for the year ended 31 December 2005. Group revenue increased by 56.1% to US$1,485.5 million (2004: US$951.5 million) reflecting significant growth in our Engineering & Construction and Operations Services divisions. EBITDA increased by 20.3% to US$115.6 million (2004: US$96.1 million). Our Engineering & Construction division accounted for 51.4% (2004: 43.9%) of group EBITDA, Operations Services 22.2% (2004: 22.2%) and Resources 26.4% (2004: 33.9%)[1]. Net profit attributable to Petrofac Limited shareholders on the group's continuing business activities increased by 63.6% to US$75.4 million (2004: US$46.1 million).

At the close of 2005, the combined backlog of the Engineering & Construction and Operations Services divisions was approximately US$3,244 million (2004: US$1,740 million), representing a year-on-year increase of 86%.

We have sought to ensure that our Engineering & Construction business is positioned where there are significant medium and long-term programmes for investment expenditure, in particular the Middle East, the Former Soviet Union and Africa. The scale of the hydrocarbon resources in these areas is substantial and there is considerable commitment on the part of both the international and national oil companies to develop these assets. Through positioning at an early stage in these developments and executing to the highest standard, there are good prospects for sustained growth and, with the operational expenditure that should follow, the opportunity to provide operations management and support and training services.

Our Operations Services business has performed well this year with considerable activity in its core market of the UK Continental Shelf (UKCS). Our longstanding presence in the UK has demonstrated our operations services and training capability in a very discerning and demanding market. We have successfully expanded into Kuwait, Iran and Sudan, and look forward to continuing this growth by leveraging the international network of our Engineering & Construction and Resources divisions.

1 Excluding consolidation and elimination adjustments.

A key area of focus across much of our business is the need to increase the use of local resources and improve the technical skills of national workforces, thereby ensuring our clients achieve their local content goals. In this regard, Petrofac has two key differentiators – we have considerable experience of working with the leading local subcontractors in our core markets and we have a leading presence and focus on providing health, safety and operational training services. With a diverse mix of nationalities and cultures within our own business, we are well placed to deliver international competence to our clients with local capability.

Our Resources business made a strong contribution to the financial performance of the group and its existing investments and projects under development continued to meet our expectations. While we continue to see competition for asset investments, we are confident that our strong service platform will continue to provide attractive and differentiated investment opportunities where, alongside our partners, we are able to leverage our engineering and operational skills and unlock an enhanced return.

Overall, Petrofac has had another very successful year. In acknowledging these achievements, I would like to extend my thanks to all our employees for their dedication, hard work and commitment. We enter the current year with a record backlog and I am confident that our strategy will deliver sustainable growth in value in 2006 and beyond.

Outlook

After an extended period of relative under-investment by the oil & gas industry and with increasing demand for energy and rising rates of depletion of existing production, we believe the capital investment, both brownfield and greenfield, necessary to enable the industry to build the required capacity is substantial and will continue over a number of years.

Each of our three divisions achieved a strong financial performance in 2005 and, on entering 2006 with record backlog, the group is well positioned to deliver further growth.

Our Engineering & Construction division finished 2005 with backlog of approximately US$2.1 billion, of which approximately US$1 billion was awarded as recently as December 2005. With good progress having been made on those contracts that were in an early phase of execution during much of 2005 and on contracts that are entering their final stages, in the absence of unforeseen circumstances and subject to the scale and timing of further contract awards, the directors expect to see some positive progression in profit margins in this division during the year ahead.

Our Operations Services division secured a number of significant contract renewals, extensions and wins during 2005 and revenue increased significantly as a result. At 31 December 2005, the backlog for the division was approximately US$1.1 billion with a further US$0.3 billion in new awards which, at that time, remained subject to final contract. Revenue for the current year should benefit from a full year's impact from the new business secured during 2005. The directors expect that, in the absence of unforeseen circumstances, the division's profit margins will be maintained in the year ahead.

The Ohanet investment continued to dominate the financial contribution from our Resources division's investment portfolio and is expected to produce relatively stable revenues and cash flows throughout the year. We expect our investment in the Cendor field to commence production in late 2006, which is anticipated to result in increased revenues and profitability for the division in accordance with the terms of the Cendor production sharing contract.

We are well placed to address the execution challenges and resource constraints that accompany a buoyant market and, with the strength and breadth of our service offering and strategic positioning, to capitalise on the many opportunities it offers. Against this backdrop, and with the significant increase in backlog, we are well positioned for continued growth during the current year and beyond.

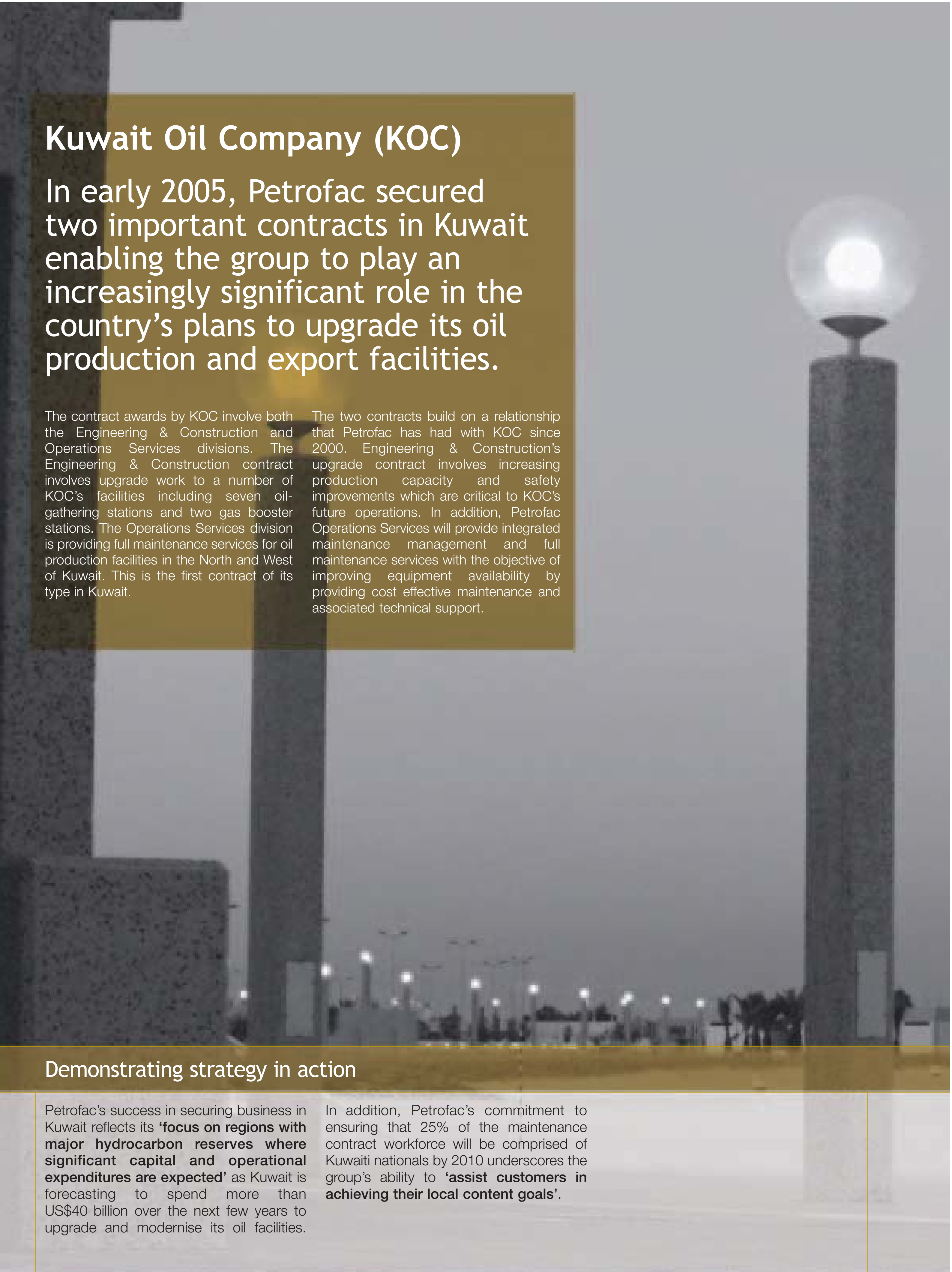
Ayman Asfari
Group Chief Executive

▲56%
Revenue

▲64%
Net profit

▲20%
EBITDA

▲86%
Backlog



Kuwait Oil Company (KOC)

In early 2005, Petrofac secured two important contracts in Kuwait enabling the group to play an increasingly significant role in the country's plans to upgrade its oil production and export facilities.

The contract awards by KOC involve both the Engineering & Construction and Operations Services divisions. The Engineering & Construction contract involves upgrade work to a number of KOC's facilities including seven oil-gathering stations and two gas booster stations. The Operations Services division is providing full maintenance services for oil production facilities in the North and West of Kuwait. This is the first contract of its type in Kuwait.

The two contracts build on a relationship that Petrofac has had with KOC since 2000. Engineering & Construction's upgrade contract involves increasing production capacity and safety improvements which are critical to KOC's future operations. In addition, Petrofac Operations Services will provide integrated maintenance management and full maintenance services with the objective of improving equipment availability by providing cost effective maintenance and associated technical support.

Demonstrating strategy in action

Petrofac's success in securing business in Kuwait reflects its **'focus on regions with major hydrocarbon reserves where significant capital and operational expenditures are expected'** as Kuwait is forecasting to spend more than US$40 billion over the next few years to upgrade and modernise its oil facilities.

In addition, Petrofac's commitment to ensuring that 25% of the maintenance contract workforce will be comprised of Kuwaiti nationals by 2010 underscores the group's ability to **'assist customers in achieving their local content goals'**.

800m	**5,000**	**25%**	**4m**
US$ value of contracts awarded to Petrofac by KOC in 2005	number of staff expected to work on E&C upgrade project at its peak	of workforce to be Kuwaiti nationals by 2010	barrels per day of anticipated output capacity in Kuwait by 2020

Operating review

Engineering & Construction

Engineering & Construction enjoyed a year of substantial growth, successful project execution and a record level of new orders.

Our staff numbers increased by one-third in 2005 to approximately 2,400 personnel, with the majority of this growth in our Mumbai and Woking offices, where we have now achieved critical mass to carry out large-scale projects. Our Woking office has broadened its service offering to include project management contracts (PMC) and, selectively, brownfield and greenfield engineering, procurement and construction (EPC) execution. Our Mumbai office now offers a truly world-class engineering capability that we expect to continue to grow through 2006.

While there is increasing competition for experienced engineers in our sector, we strive to ensure that we attract and retain the best talent and reward and incentivise our employees appropriately while maintaining a competitive cost structure. In addition, Petrofac has continued its focus on graduate recruitment with great success. There is no doubt that the future of our business growth and further success will depend on successfully attracting first-rate, motivated young engineers.

In terms of project execution, there were a number of highlights during 2005. These included the completion of the BTC pipeline and pumping stations in Georgia and Azerbaijan; entering the final stages, ahead of schedule, of engineering and procurement for the three process plants for the Kashagan Field Development project in Kazakhstan; the mechanical completion of the Crescent Gas Plant in the UAE; and entering the final phase of a major upgrade project for Qatar Petroleum. These achievements have been accomplished while maintaining a good HSE record.

New order intake during the year was in excess of US$2.1 billion (2004: US$0.7 billion), with major awards in Oman, Kuwait, Russia and Kazakhstan, and smaller awards in the UKCS, Africa and the UAE. In addition to a buoyant market that is yielding significant opportunities, our success in securing new business has been achieved through Petrofac's reputation for execution excellence. Our focus on Project Development Services has achieved strong growth during the year, underpinned by the award of several PMC type contracts and a larger flow of consultancy work and studies. It is pleasing to note that these recent successes have created opportunities for major contracts in our Operations Services division for both Facilities Management and Training services.

The Engineering & Construction division's strategic focus is on customers and regions that will create a platform for sustained growth through significant medium and long-term investment programmes. In particular, we are well placed for future phases and expansion opportunities on our current projects in Oman and the north Caspian region. The challenges ahead remain in finding and developing the resources required to support growth.

The outlook in our core regional markets of the UKCS, Middle East, Africa and Former Soviet Union is expected to remain positive through 2006. Our main focus will be to maintain our track record of safe, high quality and cost effective project development and execution and continue to meet our customers' expectations.

Maroun Semaan

Chief Executive
Engineering & Construction

▲81%
Revenue

▲66%
Net profit

▲187%
Backlog

From its three principal operating centres – Sharjah (UAE), Mumbai (India), and Woking (UK) – Petrofac's Engineering & Construction division provides both 'front-end' services during project development (Project Development Services) and project implementation capability by way of comprehensive engineering, procurement and construction contracting services (EPC Services).

Project Development Services cover concept, feasibility and commerciality studies together with a full front-end engineering and design (FEED) capability. This capability includes feasibility and planning, consultancy, design and engineering, project services and cost estimating.

EPC Services encompass the detailed engineering, procurement, construction, commissioning and start-up phases of the projects. More specifically, EPC Services include extended basic and detailed engineering, procurement, inspection, testing, expediting, transport and clearance of equipment and materials, installation and construction on site, pre-commissioning, commissioning, performance testing and start-up services and full project documentation.

The division's geographic focus is in areas where there is expected to be sustained high levels of capital investment over the medium to long-term, predominantly the Middle East, Africa, and the Former Soviet Union. The division will also continue to focus on the mature, but core, market of the UKCS.

During 2005, the Engineering & Construction division undertook work in countries including Kazakhstan, Qatar, UAE, Kuwait, Azerbaijan, Georgia, Iran, Oman, Russia and the UK.

A number of new EPC Services projects were awarded and commenced during 2005:

Petroleum Development Oman (PDO), Harweel Cluster Development, Oman

In late 2005, Petrofac secured a large lump-sum turnkey project with the award of a contract by PDO for the second phase of the Harweel Cluster Development in southern Oman. The contract, worth close to US$1 billion, will be executed over three years.

The scope of the contract includes a new oil & gas processing station, associated facilities with a capacity of 10,000 cubic metres per day (m^3/d) of oil production, facilities for 5 million m^3/d gas injection into the Zalzala oilfield and modifications to the existing Harweel processing station.

PDO has the option to extend the scope to cover an additional 10 million m^3/d gas injection facilities into the Sakhiya oilfield, additional gathering facilities and expansion of the Harweel oil processing facilities to 20,000 m^3/d.

Ministry of Oil & Gas (MOG), Kauther Gas Plant, Oman

During July 2005, Petrofac secured a contract with the Sultanate of Oman's MOG to build a new gas plant in the Kauther field in north Oman at a value over US$200 million. The Kauther field was discovered by PDO in 2001 and is being developed and operated by PDO on behalf of MOG. The single-train plant will recover valuable gas and condensate reserves and will have a capacity of 20 million m^3/d.

Petrofac's role in the project will draw on its capability from both the Engineering & Construction and Operations Services divisions, as Petrofac is responsible for engineering, procurement and construction and operating the plant for an initial one-year period following commissioning.

Both the Harweel and Kauther projects will be executed in conjunction with Petrofac's long-term in-country construction partner, Galfar, a leading Omani engineering and construction company. The award of these contracts represents Petrofac's return to Oman, where in 1994, the group successfully completed the North Oman Crude Stabilisation project for PDO with Galfar.

Kuwait Oil Company (KOC), Facilities Upgrade, Kuwait

Following the successful upgrade of an oil gathering centre (GC-23) and the 2004 award for the replacement of the north Kuwait crude oil export system, which at the end of 2005 was in its final stages, KOC and Petrofac have extended their relationship with the award of a US$680 million facilities upgrade contract.

Under the contract, Petrofac is tasked with modernising facilities at nine locations, including seven oil gathering centres and two gas booster stations. The project is key to KOC's future operations, which aim to improve the performance of the facilities and increase the state-owned oil company's oil production.

The two year contract will be executed through the division's base in Sharjah and a project office in Kuwait and is scheduled for completion in 2007.

Operating review

Engineering & Construction
(continued)

The award of the Harweel Cluster Development, Kauther Gas Plant and KOC Facilities Upgrade contracts build upon Petrofac's relationships with the regions' national oil companies and demonstrate the group's ability to leverage from its strong regional presence. Furthermore, these awards demonstrate our customers' confidence in Petrofac's ability to deliver large-scale EPC projects.

Other significant EPC Services contracts undertaken during the year included:

AGIP KCO, Kashagan, Kazakhstan

During 2005, Petrofac progressed to the final stages of the three engineering and procurement packages for AGIP KCO and its partners, for the onshore oil, gas and sulphur processing units for the Kashagan field in Kazakhstan.

In January 2006, Petrofac's role on the Kashagan project was extended with the award of a further contract with AGIP KCO and its partners for the construction management of the onshore facilities of the first phase of the Kashagan development. The scope includes the main works contract (oil, gas and sulphur processing units), power generation and utilities, tanks and offsite facilities, industrial buildings, initial civil works and pipe rack erection contracts.

BP, BTC/SCP Pipelines and Facilities, Azerbaijan and Georgia

Petrofac, together with joint venture partner Amec-Spie, completed construction of the 248km Georgia stretch of the BTC pipeline, as well as the associated pumping and metering stations in Georgia and Azerbaijan. The challenging project, which took more than three years to complete, and was valued at approximately US$800 million, covered a route that climbed to a highpoint of 2,500 metres above sea level and traversed 16 rivers and 20 roads. The project also includes the SCP pipeline and facilities which at the end of the year are at an advanced stage of completion.

The complexity of the project resulted in extensive delays in respect of which the joint venture raised significant claims for cost overruns. Further details of the claims are set out in the Financial review.

Qatar Petroleum (QP), Flare Mitigation, Qatar

Petrofac has entered the final phase of the US$173 million contract for engineering, procurement, installation and commissioning at QP's Mesaieed natural gas liquids complex. Commissioning is expected to be completed in early 2006.

Crescent Petroleum, Gas Processing Facility, Sharjah

In late 2005, Petrofac substantially completed the US$82 million contract for Crescent Petroleum in Sharjah, UAE on time and within budget. Petrofac provided engineering, procurement and construction services for the new gas processing facility on a 17 month fast-track schedule. The plant includes an onshore gas receiving and processing facility, two gas sweetening trains, a sulphur recovery plant and associated utilities and infrastructure.

Key Project Development Services undertaken during 2005 included:

BG, Hasdrubal Field Development, Tunisia

In late 2005, Petrofac was awarded a contract to carry out FEED work for both the onshore and offshore elements of BG Tunisia's Hasdrubal field development.

With conceptual and pre-FEED work for the offshore and onshore facilities already completed by Petrofac from its Woking office, the plan is to develop the field with a normally unmanned installation and produce hydrocarbons through a new multiphase export pipeline to onshore processing facilities that will be constructed adjacent to the existing BG Tunisia Hannibal plant.

Once in operation the Hasdrubal onshore facilities will export gas to the Tunisian gas grid and condensate to a storage facility along the coast at La Skhira via a newly constructed pipeline. The facilities will also produce separate liquid propane and butane products, making the very most of the value of the hydrocarbon fluids being extracted from the Hasdrubal field.

Lundin, Oudna Field Development, Tunisia

In September 2005, Petrofac and Lundin extended their relationship with the award of two further contracts for the development of the Oudna field, located approximately 80km off the coast of north eastern Tunisia.

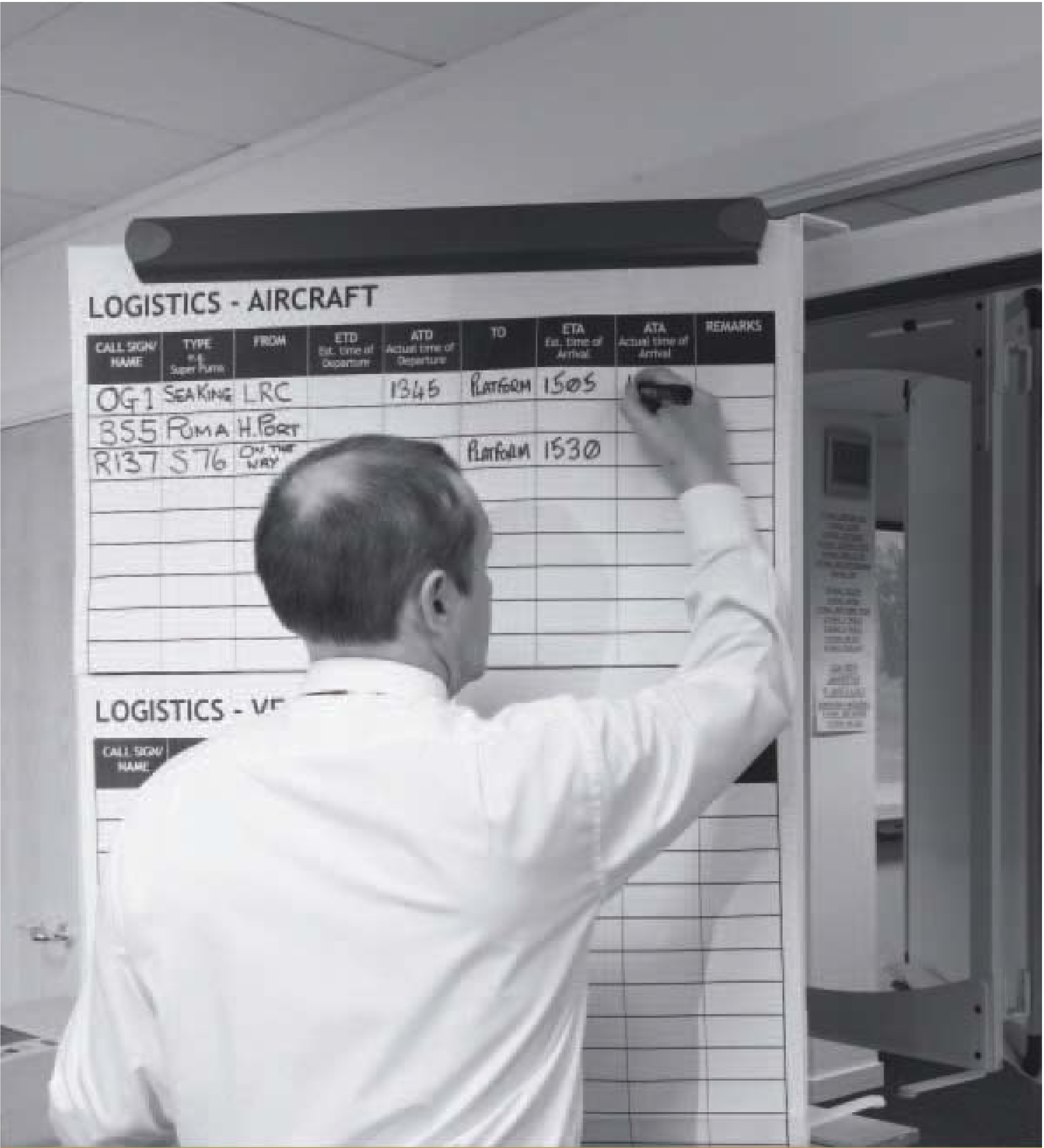
Petrofac is providing engineering, procurement and project management services during the drilling and facilities development phases which are scheduled to last until October 2006. In addition to monitoring and reporting on all drilling-related project costs, Petrofac is also responsible for the engineering, procurement and project management of all subsea hardware and process, vessel and mooring system modifications required to convert the Ikdam floating, production, storage and offloading (FPSO) vessel and install it for service on the Oudna field.

TNK-BP, Kovykta Field Development, Russia

In 2004, Petrofac was awarded and completed a FEED study for Rospan, a subsidiary of TNK-BP, in relation to their gas and condensate field in Western Siberia. During 2005, further engineering services were provided in relation to safety and integrity upgrades for the gas plant.

In December 2005, Petrofac was awarded two further contracts with subsidiaries of TNK-BP. These contracts are in connection with the development of the Kovykta gas and condensate field in East Siberia. The contracts run for three years and are worth over US$60 million.

The first contract, awarded by RUSSIA Petroleum, will see Petrofac provide project management services for the engineering, procurement and construction of new 7 million m^3/d gas production facilities and condensate loading system. Under the second contract, with the East Siberian Gas Company, Petrofac will provide project management services for the design and construction of the main gas pipeline which will provide gas to local consumers in the Irkutsk region. The 645km pipeline will extend from the processing facilities at Kovykta to the region's capital, Irkutsk, with first gas scheduled to be delivered to consumers towards the end of 2006. The total investment being made which is under Petrofac's project management amounts to approximately US$1.1 billion.



Demonstrating strategy in action

The acquisition of Rubicon Response demonstrates Petrofac's ongoing commitment to '**identify, acquire, integrate and develop complementary businesses**'. In identifying the synergies with this specialist emergency response and crisis management provider, and through the subsequent acquisition, Petrofac enhanced its training and consultancy capability, and has been able to utilise the expertise of Rubicon Response to '**maintain and improve upon existing high safety standards**' within the group.

Rubicon Response is now fully integrated within Petrofac Training and is the specialist emergency response and crisis management arm of the Petrofac group.

A key initiative has been the creation of the North Sea's first integrated Emergency Response Service Centre (ERSC) in Aberdeen, Scotland, underpinning the importance that the group places on safety and the proactive approach it takes in order to address safety issues in the oil & gas industry.

Rubicon Response

Petrofac enhanced its training and consultancy capability with the acquisition of emergency response and crisis management specialist, Rubicon Response in January 2005.

A division of Petrofac Training, Rubicon Response has since pioneered the development of the North Sea's first integrated Emergency Response Service Centre (ERSC), providing multiple operators with access to a dedicated professional emergency management service.

The strategic location of the facility enables the team from Rubicon Response to work closely with the emergency services, industry regulators and other agencies to provide an efficient and swift response service.

The facility is held at a constant state of readiness, allowing response to any type of incident at any time. Out of hours it could normally take 40 – 60 minutes to mobilise an emergency response team, but with a 24/7 operation, the on-duty Emergency Response Operator ensures that the ERSC responds immediately.

1

integrated Emergency Response Service Centre co-located with the Marine Coastguard Agency and Oil Spill Response services

250

responders trained to use the facility

24/7

operation with a constant state of readiness

35

assets in the North Sea can be supported

Operating review

Operations Services

Operations Services had a successful 2005, aided by a buoyant core market, the UKCS, driven by sustained high oil prices.

Overall, key contracts were renewed, competence was extended, both organically and through acquisition, major projects were mobilised and significant new business was secured. All of these achievements were accomplished while maintaining high safety standards.

Key contract renewals included five year operations support contracts with ExxonMobil and CNR, a two year extension to our training management solutions contract for Shell, and one year extensions with Maersk Oil for the Gryphon, Janice and Global Producer III installation operations support contract and with Sea Production for the duty holder contract on Talisman Energy's Galley field.

A number of significant new contract awards were secured during the year including the five year Marathon engineering, construction, operations and maintenance contract won in competitive tender and now being delivered in conjunction with our Engineering & Construction division. We also extended our relationship with Tullow Oil, taking responsibility for the Schooner & Ketch and Horne & Wren facilities.

The year also saw excellent progress in project execution. We successfully mobilised two major projects, the Heather & Thistle service operator contract for Lundin Petroleum and the maintenance services contract for KOC in Kuwait, our largest international contract so far. These projects demonstrate Petrofac's ability to mobilise rapidly and to execute large-scale operations and maintenance projects, both in the UK and internationally, at a time when the industry is facing a shortage of skilled people.

Sustained high oil prices had mixed effects on the business. Our specialist manpower services and survival training businesses saw particular benefit from these economic conditions. However, the price environment led to something of a hiatus in mature UK field asset trading. It has typically been in periods of increased asset trading activity that Petrofac has been able to secure service operator contracts with new entrant independent oil companies. During the year, major oil companies largely postponed asset divestment programmes due to improved economic viability and potentially reflecting a relative shortage of available reserve replacement opportunities.

During the year, we saw the ownership of two of our clients change. Paladin Resources was acquired by Talisman Energy and Kerr-McGee's UK oil & gas assets were acquired by Maersk Oil. In both cases, we continue to work on the same assets for the new owners, although, with regard to the Montrose & Arbroath facilities, now owned by Talisman Energy, in line with their established operating strategy, we expect to transition duty holder responsibility during the course of this year. Such events require Petrofac to be agile and responsive to changing customers' needs but they also create opportunities to demonstrate our capabilities to new customers of scale.

Petrofac Facilities Management supported national oil companies (NOCs) and their subsidiaries, directly and in consortia, in Iran, Sudan, and Kuwait, while Petrofac Training continued to expand and service our target markets of NOCs, major oil companies and independents.

Petrofac Training acquired Rubicon Response, a specialist provider of emergency response and crisis management solutions, in January 2005. This acquisition positioned Petrofac as a world leader in the provision of this specialised capability and is an excellent fit with our overall service offering.

We are confident in the growth potential of our businesses as we continue to develop our capabilities and project them internationally.

Robin Pinchbeck
Chief Executive
Operations Services

▲ **38%**
Revenue

▲ **62%**
Net profit

▲ **25%**
Backlog[1]

[1] on a constant currency basis

Petrofac Facilities Management

Petrofac Facilities Management is focused on growing its operational coverage of assets in the UK sector of the North Sea and in developing operations support, maintenance and facilities management opportunities worldwide.

Europe

Petrofac Facilities Management works in the UKCS with global integrated oil companies and both large international and regional independents. Our customers include BP, ExxonMobil, Total, BG, BHP Billiton, Marathon, Maersk Oil, CNR, Talisman Energy, Lundin Petroleum, Tullow Oil and Venture Production. In total, Petrofac either operates or provides support services to more than thirty platforms in the UK oil & gas sector operating on more than twenty fields with production of around 360,000 bpd of oil and approximately 72 million m^3/d of gas. This production level equates to approximately 810,000 bpd of oil equivalent and represents around 25% of current UK production.

2005 was a successful year for major contract awards and renewals:

Lundin, Service Operator contract

In January 2005, Petrofac secured its fifth life-of-field service operator contract in the UK with Lundin Petroleum. Lundin Petroleum's Heather and Thistle assets were successfully transitioned by Petrofac in the second quarter of 2005. Petrofac is responsible, as facilities manager and safety case duty holder, for the fields' production and maintenance operations on a life-of-field basis.

Marathon, Engineering, Construction, Operations and Maintenance contract

The award of this contract covers the provision of engineering, construction, operations and maintenance (ECOM) services for the Brae field (UKCS) and engineering and construction services for the Central Africa Business unit (Equatorial Guinea and Gabon), over an initial five year period.

The execution of this contract will bring together the skill sets from the Engineering & Construction and Operations Services divisions of Petrofac.

ExxonMobil, Operations and Maintenance contract

Effective May 2005, Petrofac was awarded a five year contract extension with ExxonMobil. The extension is for the provision of offshore personnel to the Beryl Alpha and Bravo facilities, which have been supported by Petrofac since 1989.

CNR International (CNR), Maintenance and Services contract

Petrofac was awarded a contract with CNR to provide operations support services for four fixed installations in the UKCS comprising the Ninian and Murchison fields where Petrofac has provided services since the mid 1990s. CNR acquired the assets from Kerr-McGee and became operator of the fixed installations in December 2002. The contract, which has an estimated value of US$35 million, will commence in early 2006, when Petrofac's existing contract ends, with an initial term of five years but with the intent of continuing for the life of the assets.

Operating review

Operations Services
(continued)

Maersk Oil, Operations and Maintenance contract

In late 2005, following its acquisition of Kerr-McGee's UK assets, Maersk Oil awarded Petrofac an extension of the current operations support contract for the Gryphon, Janice, and Global Producer III assets. The extension of the original five year contract became effective in January 2006 and runs until late 2006.

Sea Production, Operations and Maintenance contract

In early 2005, Sea Production awarded Petrofac an extension worth an estimated US$26 million for the provision of operations services on board the Northern Producer to July 2006.

The Northern Producer, a floating production installation located on the Talisman-operated Galley field, is managed by Petrofac on behalf of Sea Production. Petrofac acts as facilities manager (providing operations and maintenance management) and safety case duty holder. Petrofac is also responsible for the onshore and offshore operations team and provides facilities engineering support.

When the project started in 1998, it was forecast to have a lifespan of approximately four years. Seven years from first production, the field has produced nearly 55 million barrels of oil.

Tullow Oil, Service Operator contract scope extension

During the year, Tullow Oil and Petrofac agreed to expand the scope of their existing service operator relationship to include the Schooner & Ketch platforms and new Horne & Wren assets. These platforms are normally unmanned.

International

2005 represented a year of both consolidation and expansion for Petrofac Facilities Management internationally. Contracts in Sudan and Iran ran their first full year, while the award of a five year maintenance contract with KOC provided the basis for significant growth.

KOC, Maintenance Services contract

Petrofac secured a US$125 million maintenance contract with KOC to deliver full maintenance services on the North and West areas in Kuwait.

The five year contract was the first performance-based full maintenance services contract within Kuwait to be awarded to an international contractor. Petrofac provide integrated maintenance management and full maintenance services with the aim of improving equipment availability by providing cost-effective maintenance and associated technical support services.

The contract covers maintenance of 16 facilities comprising oil gathering centres, gas booster stations, gas steam and water injection plants, water gathering and pumping stations, gas and crude oil pipelines and well heads. To facilitate the execution of this contract, Petrofac has established an in-country base including office, workshop and warehouse facilities working with Kharafi National, a leading Kuwaiti contractor, to provide in-country support.

As part of Petrofac's commitment to developing skills locally, by 2010, at least 25% of the workforce will be comprised of Kuwaiti nationals.

Petrofac Training

Petrofac Training is focused on providing specialist safety, operations, production and technical training services to the worldwide oil & gas industry.

In January 2005, Petrofac Training expanded its capability through the acquisition of Rubicon Response, a specialist provider of emergency response and crisis management solutions, headquartered in Aberdeen. Petrofac Training now houses two respected training brands within its comprehensive portfolio of operations, production and technical training services – Rubicon Response and RGIT Montrose (which focuses on health and safety training in the UK). The latter performed well in 2005 with the market for offshore survival training being particularly buoyant. Rubicon Response, now fully integrated into Petrofac Training, serves clients across a wide range of geographies.

In early 2005, Petrofac Training successfully re-secured and expanded an important existing contract with Shell to provide training management solutions. The two year contract covers management of training for Shell's three key European operating centres in the UK, Holland and Norway. In late 2005, the contract was further extended to cover Ireland. Internationally, Petrofac Training secured a three year contract to provide safety training, and a training management solution for BP in Sharjah.

In conjunction with joint venture partner TTE International, Petrofac has continued to provide training management, trainers and support staff to BP and third parties at the Caspian Technical Training Centre in Baku, Azerbaijan. The training centre, near Baku in Azerbaijan, aims to deliver a highly skilled, safe, efficient and motivated national workforce to match the growing needs of the industry in the Caspian region.

During the year, Petrofac provided training and consultancy services to many major oil companies, national oil companies and major service contractor clients in seventeen countries.

In addition to stand-alone opportunities, Petrofac Training is seeing an increasing number of joint opportunities with both the Facilities Management and Engineering & Construction businesses, whose own contracting activities can generate significant training opportunities.

The oil & gas industry faces a critical shortage of key technical and operational skills across the spectrum of activities and across regions: in mature areas the problem is an ageing workforce, while in newer regions, such as the Caspian, the basic skills base still needs to be created. Petrofac Training is highly focused on the development of national workforces and is therefore presented with worldwide opportunities for growth.

Cendor – PM304

Petrofac's three divisions combine to provide innovative development solutions.

The Cendor field offshore Peninsular Malaysia in Block PM304 is being developed by a Petrofac-led joint operating team with Petronas Carigali under a Production Sharing Contract (PSC).

Under the revenue-over-cost PSC, Petrofac bears 100% of the investment cost and receives revenue from the date of first oil to recover that investment and also a profit element to yield an appropriate return on the investment made.

The Resources team has been supported by staff from other divisions of Petrofac with Engineering & Construction providing project construction management and the Operations Services division managing facilities and operations prior to first oil.

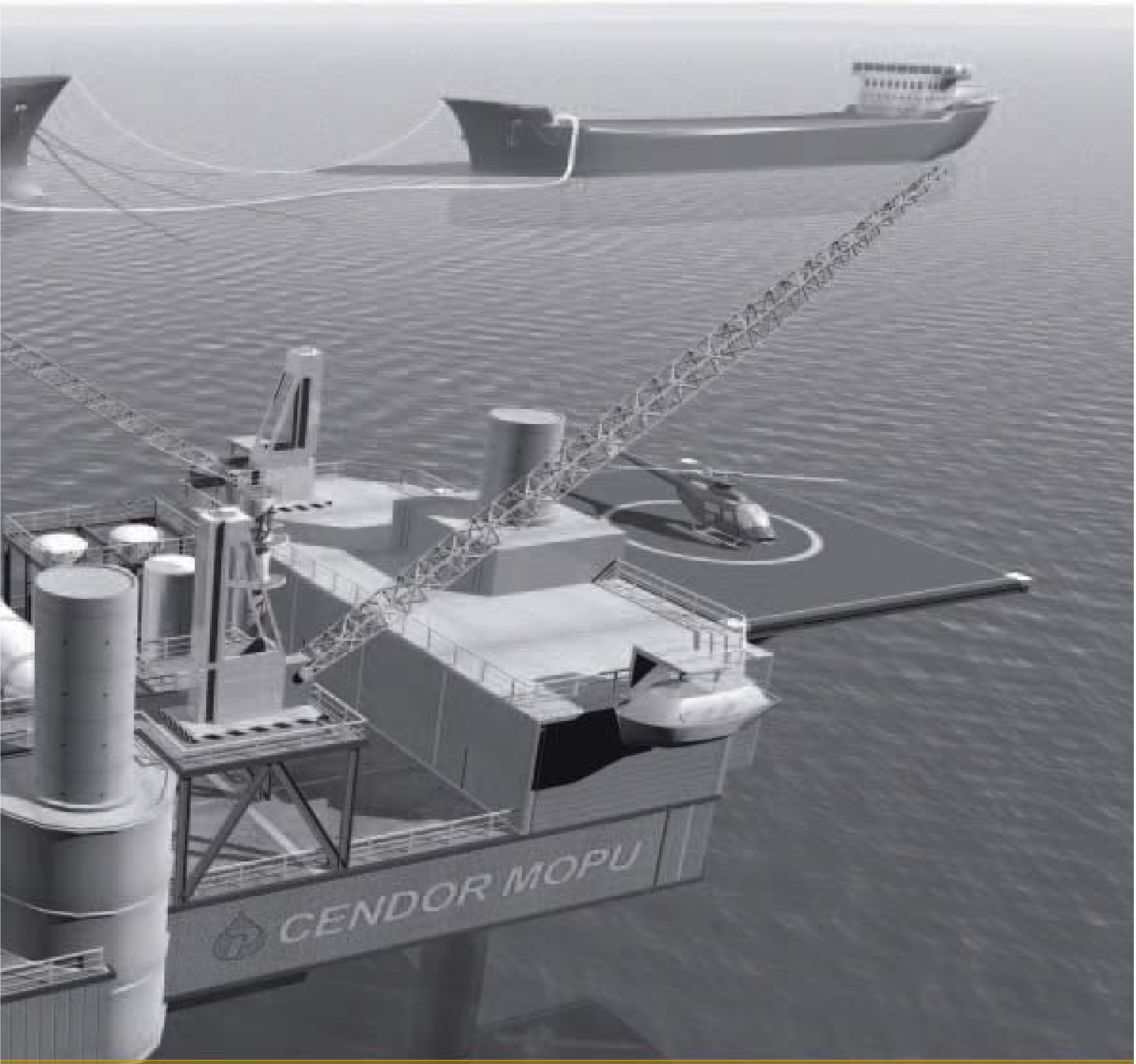
The field development plan for this project was formulated and approved rapidly and an innovative technological solution was developed to execute the plans.

The Cendor field had been undeveloped until Petrofac's development solution and focused approach were applied.

Demonstrating strategy in action

The stake in the undeveloped Cendor field in Block PM304 in offshore Peninsular Malaysia demonstrates Petrofac's ability to **'improve revenue and earnings stability through a diversified and complementary business model'**.

The Resources team are supported in the execution of this project by personnel from Petrofac's two other divisions, Engineering & Construction and Operations Services, enabling the group to **'leverage customer relationships by providing a range of services across the life cycle of an asset'**.



30%

the stake that Petrofac has in the Cendor field in Block PM304

3

partners in the development: Petronas Carigali, Kuwait Foreign Petroleum Exploration Company and PetroVietnam Investment Development Company

2006

first oil expected in 2H

24.6m

estimated barrels of proved reserves in Cendor PM304

Operating review

Resources

Petrofac Resources enjoyed another successful year with an increase in our business development capability allowing access to a greater number of opportunities.

In particular, we expanded our presence in Malaysia, bringing South East Asia into our areas of core focus. Our existing investments performed well during the year and we made good progress with those that are under development. Furthermore, we expanded the investment portfolio with the acquisition of an interest in the West Don field in the UKCS.

Our Upstream group aims to identify and develop opportunities in producing and proved or probable but undeveloped reserves through, for example, participation in large onshore field developments, onshore and offshore field developments that major oil companies may consider to be marginal, and late life producing assets, particularly those offshore. The investment in the undeveloped Cendor field offshore Peninsular Malaysia in Block PM304 is an excellent example of this and, following approval of the field development plan early in 2005, the year saw considerable activity on this project with the establishment of the full project team. First production is currently scheduled for the second half of 2006.

In late 2005, we reached agreement to acquire Centrica's interest in the Hewett field. However, following the exercise of pre-emption rights by the existing partners, this investment did not proceed. While this was a disappointment, we continue to seek opportunities to achieve greater alignment with our partners. As announced in early 2006, we completed the acquisition of an interest in the West Don field, alongside FirstOil and Valiant Petroleum, and the field development plan is currently being prepared. We also secured a 50% interest in the adjoining block in the UK's 23rd oil & gas licensing round.

The Energy Infrastructure Solutions group aims to identify and develop brownfield and greenfield opportunities in oil & gas midstream and downstream infrastructure, for example, refineries, pipeline transmission, tolling process plants and utilities. Typically, these will be structured either as the direct acquisition of an asset or in a turnkey project development structure, including Build Operate Transfer (BOT), Build Own Operate Transfer (BOOT) and Build Own Operate (BOO) development arrangements. During the year, we established an alliance with First Reserve, a US private equity firm specialising in the energy industry. The alliance brings together First Reserve's financing and transaction structuring expertise, with Petrofac's project identification and assessment capabilities, particularly in relation to assets and regions where our Engineering & Construction and Operations Services businesses have experience.

In addition to our development investments, our portfolio comprises two assets that have been cash flowing for some time; the operational performance of the Ohanet gas field in Algeria during the year was very satisfactory, with a 17% increase in production levels over 2004, while in Kyrgyzstan, our refinery joint venture also performed well through the year.

While we continue to see competition for asset investments, we are confident that our experienced business development team and our enhanced ability to assess and manage risk through accessing the wider group's capabilities, should enable us to secure suitable investment opportunities.

Amjad Bseisu
Chief Executive
Resources

▲3%
Revenue

▲163%
Net profit

Petrofac invests alongside its partners to add value through its expertise in Engineering & Construction or Operations Services. Petrofac's optimised facilities solutions can facilitate project viability, manage project risks, and improve alignment. Petrofac also provides facilities to customers on a fully-financed or BOT/BOOT/BOO basis.

Current investment portfolio

Petrofac Resources' investment portfolio currently comprises interests in the Ohanet gas redevelopment project in Algeria, block PM304 of the Cendor field in offshore Peninsular Malaysia, the West Don, Cragganmore and Elke fields in the UKCS and Kyrgyz Petroleum Company, owner of the only operating refinery in the Kyrgyz Republic.

Ohanet, Algeria

Petrofac Resources' largest investment is in the Ohanet project, Algeria. Petrofac, in joint venture with BHP Billiton (as joint venture operator), Japan Ohanet Oil & Gas Co, and Woodside Energy (Algeria), has invested in excess of US$100 million for a 10% share in a Risk Service Contract (RSC) with Sonatrach, Algeria's national oil company. The US$1 billion Ohanet development is located in the Illizi province of Algeria, southeast of Algiers and close to the Libyan border. Petrofac's Engineering & Construction division carried out the EPC contract for the gas processing facilities at Ohanet in joint venture with ABB Lummus. The group's Operations Services division was also responsible for part of the on-site commissioning works.

First gas for export began flowing in late 2003. During 2005, Ohanet produced, on average, approximately 15.5 million m^3/d (2004: 13.5) of gas for export, approximately 28,008 bpd (2004: 23,900) of condensate and approximately 2,227 tonnes per day (2004: 1,800) of liquefied petroleum gas (151,700 bpd of oil equivalent; 2004: 130,000).

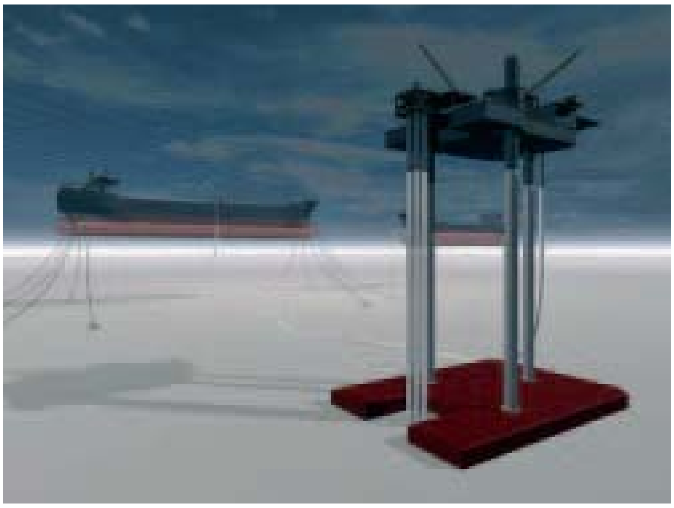
Under the terms of the RSC, signed in July 2000, Petrofac and its joint venture partners receive a portion of the monthly liquids production over a target eight year period, up to a defined return on the investment. Should the defined return not be achieved within eight years, the period can be further extended by three years, and if necessary, a further one year. At Petrofac's current base case production profiles, and current oil price forecasts, it is unlikely that there will be an extension of the repayment period.

Cendor PM304, Malaysia

During 2004, Petrofac Resources acquired a 30% interest in the Production Sharing Contract for the undeveloped Cendor field offshore Peninsular Malaysia in Block PM304. Proven reserves are estimated at 24.6 million barrels of oil.

The field is being developed by a Petrofac-led, joint operating team with Petronas Carigali. Other field partners are Kuwait Foreign Petroleum Exploration Company and PetroVietnam Investment Development Company.

During 2005, the field development plan (FDP) was submitted to, and approved by, Petronas. In accordance with the FDP, contracts were secured by competitive tender for a mobile operating production unit (MOPU) and a mobile operating drilling unit (MODU). The MOPU was sourced from the Gulf of Mexico, and arrived in Malaysia in December 2005, where some additional engineering works were performed. The MODU is available and on standby.



Kyrgyz Petroleum Company, Kyrgyz Republic

Kyrgyz Petroleum Company (KPC) is engaged in the production and refining of crude oil and the marketing and sale of oil products in the Kyrgyz Republic. KPC is jointly owned by Kyrgyzneftegaz, the state-owned oil & gas company, and Petrofac. Petrofac has managed KPC's facilities and operations since 1998. KPC continues to be the only integrated oil refiner and distributor of petroleum products in the country. The refinery is located in Jalalabat and is now capable of processing all local crude oil production (up to 10,000 bpd). KPC employs around 170 technical specialists and support personnel who, after a major training programme, are now almost entirely Kyrgyz citizens.

During the year the refinery produced an average of 314 bpd of gasoline (2004: 410), 657 bpd of diesel (2004: 554) and 731 bpd of fuel oil (2004: 762). The steady supply of feedstock remains a challenge and was impacted in the later part of the year by restrictions on the export of crude oil from Kazakhstan.

Resources

(continued)

Cragganmore, UKCS

Petrofac Resources acquired a 5.58% interest in Block 9/28a Area B in the UKCS in January 2004. The block contains the Crawford field, since renamed Cragganmore, which was originally produced by Hamilton Oil and Gas (now BHP Billiton) using a converted semi-submersible production vessel. The field, with remaining oil in place estimated to be in excess of 200 million barrels, was abandoned in 1990 when oil prices were low and there were better opportunities to use the vessel elsewhere.

The field is being re-mapped using up-to-date data processing and interpretation methods. A number of development options will be evaluated together with a prospect inventory of additional appraisal targets. Petrofac's involvement as operator is with a view to services being provided by the group's Engineering & Construction division and ultimately by the Operations Services division.

Elke, UKCS

Petrofac Resources hold a 100% interest in Block 28/3 in the UKCS, containing the Elke field. The field was discovered in 2002 by OMV and contains approximately 227 million barrels of heavy oil initially in place. However, due to the high viscosity of the oil, the field remained undeveloped by OMV and its original partners. Developing an offshore field with high viscosity oil requires an innovative development scheme and Petrofac is looking to draw on the expertise of its Engineering & Construction and Operations Services divisions with a view to providing an economic FDP. If successful, the approach may have application to other offshore heavy oil fields.

New business development

During 2005, major bid submissions were made for projects in Kuwait, Syria, Algeria, Nigeria and the UK, including joint bid submissions with Cal Dive International for mature offshore oil & gas properties and proven undeveloped reserves in the UKCS. Other significant developments included:

West Don, UKCS

Petrofac Resources acquired a 40% interest in Block 211/18a in the UKCS, containing 80% of the undeveloped West Don field. Petrofac acquired the field together with First Oil and Valiant, each with a 30% interest, from BP and ConocoPhillips. Petrofac Resources and Valiant both secured a 50% interest in the adjoining Block 211/18c in the United Kingdom's 23rd oil & gas licensing round. Petrofac and its partners will draw on the expertise from the rest of the Petrofac group to help successfully develop these interests.

First Reserve

Petrofac Resources and First Reserve, a US private equity firm specialising in the energy industry, entered into an alliance for midstream and downstream investment opportunities. The alliance will target opportunities for investing in assets and regions where Petrofac already has experience and expertise. The alliance will share risks and rewards and will allow Petrofac Resources to invest in larger scale projects. The alliance will benefit from synergies particularly where Petrofac provide Engineering & Construction and Operations Services.

Financial review

2005 was an important year for the group. After months of intense activity and preparation, Petrofac was admitted to the Official List of the London Stock Exchange on 7 October following a successful IPO.

The IPO provided liquidity for our employee shareholders and a full exit for the 3i Group (3i), which, at the time, was our only institutional shareholder.

Our recent contract awards, particularly in the Engineering & Construction and Operations Services divisions, demonstrate our customers' confidence in our capability to undertake larger-scale projects and, as our business has grown, we have enhanced our risk management systems and financial controls. Following the establishment of our current divisional structure in 2004, we established new divisional boards during the year. These changes have improved our management of resources and have afforded each of our divisions an increased focus on strategy. The group's risk review process was further enhanced during the year with the establishment of divisional risk review committees. These committees provide both an additional layer of review of major proposals, contracts and investments and, within a framework of delegated authorities, are the principal review body for opportunities which are considered lower risk.

We have continued to refine our management reporting systems and our business management systems. These improvements have resulted in improved communication between our international locations and more efficient and robust processes. During the year, we also strengthened our information technology resources and we are in the process of reviewing our IT network infrastructure and the integration of systems internationally.

In December, we were delighted that Petrofac achieved the milestone of admission to the FTSE 250 index of the London Stock Exchange, capping a year of significant growth and corporate development for the group.

Keith Roberts
Chief Financial Officer

Financial review

(continued)

Economic environment

The trend in increasing oil prices during 2004 extended throughout 2005. Oil prices ranged from US$41 to US$67 per barrel, closing the year at around US$58 per barrel. Prices continue to be driven by high global demand, particularly in emerging economies combined with little spare capacity in the supply chain.

Such economic conditions are forecast to continue, at least in the medium term, as reflected in market expectations of future oil prices. The combination of high oil prices and the need for oil companies to maintain and improve reserve replacement ratios has resulted in the planning of significant investment programmes in both upstream activities, as high oil prices increase profits from production and extend the viability of marginal assets, and in downstream activities, to ease current processing limitations and to keep pace with planned future production levels. Such investment programmes are expected to provide opportunities for all three of the group's divisions.

Results for the year from continuing operations

	2005 US$'000	2004 US$'000
Revenue	**1,485,472**	951,530
Operating profit[1]	**88,603**	68,283
Net profit[2]	**75,397**	46,083
EBITDA	**115,634**	96,065

1 Profit from continuing operations before tax and finance costs.
2 Attributable to Petrofac Limited shareholders.

Group revenue increased by 56.1% to US$1,485.5 million (2004: US$951.5 million) reflecting significant growth in the Engineering & Construction and Operations Services divisions. The Resources division reported slightly higher revenues from a similar portfolio of investments to that held in 2004.

Operating profit increased from US$68.3 million in 2004 to US$88.6 million in 2005, an increase of 29.8%, reflecting the strong growth in revenue within Engineering & Construction and Operations Services. As a percentage of revenue, operating profit decreased from 7.2% in 2004 to 6.0% in 2005, primarily reflecting the stage of completion, and, therefore, timing of profit recognition, and risk profile of major projects executed by the Engineering & Construction division and the impact of US$6.3 million of one-off costs associated with the IPO. These dilutive factors were partially offset by a decrease in depreciation costs as a percentage of revenue and the cessation of goodwill amortisation.

Net profit attributable to the shareholders of Petrofac Limited on the group's continuing business activities increased by 63.6% to US$75.4 million (2004: US$46.1 million). Notwithstanding the decrease in operating margin, the net margin increased from 4.8% in 2004 to 5.1% in 2005. The increase in net margin was due primarily to the group's low effective tax rate in 2005 and a decrease in net finance costs.

EBITDA increased to US$115.6 million (2004: US$96.1 million), representing 7.8% (2004: 10.1%) of revenue. The decrease in EBITDA margin was largely attributable to lower operating margins from the Engineering & Construction division and the impact of one-off costs associated with the Company's listing.

The significant growth experienced in 2005 by the Engineering & Construction and Operations Services divisions diluted the proportion of EBITDA provided by the Resources division relative to 2004, though in absolute terms its EBITDA contribution was marginally higher than in 2004. Taken as a percentage of EBITDA, excluding the effect of consolidation and elimination adjustments, Engineering & Construction accounted for 51.4% (2004: 43.9%) of group EBITDA, Operations Services 22.2% (2004: 22.2%) and Resources 26.4% (2004: 33.9%).

At the close of 2005 the combined backlog of the Engineering & Construction and Operations Services divisions was approximately US$3.2 billion (2004: US$1.7 billion), representing an increase of 86.4% on the comparative figure at 31 December 2004.

Petrofac's functional currency for financial reporting purposes is US dollars. However, there are a number of group subsidiaries with non-US dollar functional currencies. In particular, the group's main trading subsidiaries with activities in the UK use Sterling as their functional currency. During 2005, there was only a slight change in the average US$/Sterling exchange rate compared to 2004, 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 2005 and 2004 as used by Petrofac for its financial reporting.

	2005 US$/Sterling	2004 US$/Sterling
Average rate for the year	**1.81**	1.83
Year end rate	**1.72**	1.93

Segment performance

US$'000	Revenue 2005	Revenue 2004	Operating profit 2005	Operating profit 2004	Net profit 2005	Net profit 2004	EBITDA 2005	EBITDA 2004
Engineering & Construction	**858,206**	473,466	**52,592**	33,524	**55,063**	33,100	**63,540**	41,880
Operations Services	**605,331**	440,127	**25,250**	17,347	**15,578**	9,643	**27,466**	21,135
Resources	**46,331**	45,042	**18,495**	17,164	**18,321**	6,953	**32,594**	32,289
Consolidation & elimination[1]	**(24,396)**	(7,105)	**(7,734)**	248	**(13,565)**	(3,613)	**(7,966)**	761
Total	**1,485,472**	951,530	**88,603**	68,283	**75,397**	46,083	**115,634**	96,065

1 2005 figures for operating profit, net profit and EBITDA include US$6.3 million of expenses relating to the IPO.

Growth/margin analysis	Revenue growth 2005	Revenue growth 2004	Operating margin 2005	Operating margin 2004	Net margin 2005	Net margin 2004	EBITDA margin 2005	EBITDA margin 2004
Engineering & Construction	**81.3%**	38.1%	**6.1%**	7.1%	**6.4%**	7.0%	**7.4%**	8.8%
Operations Services	**37.5%**	60.1%	**4.2%**	3.9%	**2.6%**	2.2%	**4.5%**	4.8%
Resources	**2.9%**	211.9%	**39.9%**	38.1%	**39.5%**	15.4%	**70.4%**	71.7%
Total	**56.1%**	51.3%	**6.0%**	7.2%	**5.1%**	4.8%	**7.8%**	10.1%

Engineering & Construction

The Engineering & Construction division reported significant growth in revenue, increasing to US$858.2 million (2004: US$473.5 million). The increase was largely attributable to the execution of projects secured in 2004, including significant progress on the Kashagan engineering and procurement contract and substantial completion of projects for QP, Crescent Petroleum and KOC, and the completion of the BTC pipeline (with significant progress being made on the SCP pipeline).

Net profit increased by 66.4% to US$55.1 million (2004: US$33.1 million) representing a net margin of 6.4% (2004: 7.0%). The reduction in net margin in 2005 was due primarily to a decrease in operating margin:

- profit recognition on lump-sum contracts in the Engineering & Construction division is significantly impacted by the number and timing of projects reaching completion during the year. Typically, profits are not recognised on such contracts in the early stages of completion. It is therefore not unusual for profit recognition on contracts to lag revenue recognition. In 2004 and 2005, a number of projects reached completion toward the end of the year, however, in 2005, early stage contracts generated a greater proportion of revenue, with correspondingly lower recognition of margin; and,
- a large proportion of revenue in 2005 was generated by the Kashagan engineering and procurement contract, which, since it does not involve construction management, was bid at a lower margin than typical EPC contracts.

The dilution in margin due to the above factors was partially offset by the following:

- the result for 2005 included a net credit of US$2.5 million and followed a favourable reassessment of the expected overall loss on the BTC/SCP project. At 31 December 2005, the group had cumulatively provided US$17.5 million in respect of its share of the loss in relation to this project (2004: US$20.0 million). The reassessment reflects the current status of ongoing negotiations with the customer regarding claims for reimbursement of cost overruns and associated costs; and,
- a decrease in depreciation costs as a percentage of revenue, a lower effective tax rate and higher finance income.

The Engineering & Construction division's backlog increased 187% from US$739 million at 31 December 2004, to US$2,121 million at 31 December 2005, due to the significant order intake achieved in 2005, particularly for contracts in Oman and Kuwait.

Operations Services

In 2005, the Operations Services division experienced strong growth with revenue up 37.5% to US$605.3 million (2004: US$440.1 million). A large proportion of the growth was attributable to a new service operator contract with Lundin Petroleum in the UK, which contributed significant revenues. Growth was also generated by the new brownfield service offering, and, internationally, by the commencement of the maintenance management contract with KOC. Additionally, RGIT Montrose contributed a full year's revenue in 2005 after its acquisition in February 2004, while Rubicon Response, which was acquired in January 2005, contributed US$3.8 million of revenue in 2005.

Operations Services' net profit increased to US$15.6 million (2004: US$9.6 million). Net margin increased to 2.6% in 2005 (2004: 2.2%) due primarily to an increase in the operating margin and a lower effective tax rate. Notwithstanding the dilution effect of increased pass-through revenues, which resulted in the lower EBITDA margin, the operating margin increased to 4.2% (2004: 3.9%) due primarily to the cessation of goodwill amortisation.

Backlog for the Operations Services division increased to US$1,123 million at 31 December 2005 (2004: US$1,001 million). As the majority of backlog for the division related to Sterling denominated contracts, the US$/Sterling exchange rate had a significant impact on the calculation of Operations Services backlog at the end of 2005 as compared to 2004. Eliminating the impact of the exchange rate movement, Operations Services' backlog increased 25% from 31 December 2004 to 31 December 2005 reflecting a successful year of new contract wins and extensions. In addition, at the year end, the division was providing services under letters of award which, had formal contracts been entered into at that time, would have added approximately US$0.3 billion to backlog at 31 December 2005.

Resources

Revenue for the Resources division increased marginally to US$46.3 million (2004: US$45.0 million) reflecting the division's portfolio of investments remaining largely as it was through 2004. The increase in revenue is primarily attributable to higher product prices for sales from the KPC refinery.

In 2005, net profit increased to US$18.3 million (2004: US$7.0 million) primarily reflecting the impact of an income tax credit of US$8.9 million from tax losses in Petrofac (Malaysia-PM304) Limited (the division's investment in Cendor PM304) and a reduction in finance costs due to the repayment of project finance loans relating to the Ohanet investment. The Resources division earned EBITDA and operating margins broadly comparable to 2004.

Discontinued operations

Net losses from the group's discontinued operation in the US, Petrofac Inc, were US$0.8 million (2004: US$13.2 million). Operational activities in the US are now largely complete. The loss for the year includes a small impairment provision against the operation's remaining freehold property.

Interest and taxation

Net interest payable on continuing operations decreased during the year to US$5.3 million (2004: US$5.5 million) despite increases in LIBOR interest rates for both US dollar and Sterling denominated borrowings. The reduction in net interest payable was largely attributable to the group's higher average cash balances, a reduction in borrowings relating to the Ohanet investment and the conversion of 3i's loan notes.

The group had interest cover of 16.9 times (2004: 12.3 times) based on profit from continuing operations. The significant improvement in interest cover was attributable to an increase in operating profit and lower interest costs.

Interest cover

US$'000 (unless otherwise stated)	**2005**	2004
Operating profit from continuing operations (A)	**88,603**	68,283
Net interest cost (B)	**5,255**	5,547
Interest cover (A/B)	**16.9 times**	12.3 times

An analysis of the income tax charge is set out in note 6 to the group's financial statements. The income tax charge on continuing operations as a percentage of profit before tax in 2005 was 9.5% (2004: 26.6%). The tax rate in 2005 was affected by the following factors:

- the recognition of a tax credit of US$8.9 million from tax losses in Petrofac (Malaysia-PM304) Limited within the Resources division following the approval of the company's field development plan for Cendor PM304 (2004: nil);
- the improved profitability in various projects resulting in the utilisation of US$3.1 million of tax losses brought forward that had not been previously recognised as deferred tax assets (2004: nil), net of unrecognised tax losses of US$1.5 million related to tax losses in various jurisdictions (2004: US$3.1 million); and,
- expenditure not allowable for tax purposes of US$2.3 million (2004 : US$0.2 million).

Adjusting for these factors, the underlying effective tax rate was 19.3% for 2005 (2004: 21.4%), as set out in the table below:

Effective tax rate

US$'000 (unless otherwise stated)	**2005**	**2005**	2004	2004
Reported tax charge	**7,951**	**9.5%**	16,699	26.6%
Tax credit re Cendor PM304	**8,943**	**10.7%**	–	–
Net project tax losses utilised/ (unrecognised)	**1,538**	**1.9%**	(3,087)	(4.9%)
Expenditure not allowable for tax purposes	**(2,328)**	**(2.8%)**	(174)	(0.3%)
	16,104	**19.3%**	13,438	21.4%

Earnings per share

Fully diluted earnings per share on continuing operations increased in 2005 to 22.41 cents per share (2004: 11.93 cents per share, after adjusting for the 40:1 share split), reflecting primarily the group's improved profitability and, to a lesser extent, the lower weighted average number of shares outstanding.

Operating cash flow and liquidity

The net cash flow from all operating activities in 2005 was US$108.2 million (2004: US$80.9 million). On continuing operations, net cash flow from operating activities was US$108.9 million compared with US$89.8 million in 2004, representing 94.1% of EBITDA (2004: 93.5%).

The significant cash generation from operations together with the conversion of the loan notes held by 3i prior to listing enabled the group to reduce its level of interest-bearing loans and borrowings to US$106.9 million (2004: US$161.5 million) and restore a net cash position.

The group's gross gearing ratio decreased to 54.8% at 31 December 2005 (2004: 116.5%) reflecting the strong cash generation in 2005 and the conversion of 3i's loan notes. The group's net cash at the end of 2005 compared with a 13.0% net gearing ratio at 31 December 2004.

Gearing ratio

US$'000 (unless otherwise stated)	**2005**	2004
Interest-bearing loans and borrowings (A)	**106,870**	161,478
Cash and short term deposits (B)	**208,896**	143,534
Net cash/(debt) (C = B - A)	**102,026**	(17,944)
Total net assets (D)	**195,127**	138,558
Gross gearing ratio (A/D)	**54.8%**	116.5%
Net gearing ratio (C/D)	**Net cash position**	13.0%

The group's total gross borrowings before associated debt acquisition costs at the end of 2005 were US$108.3 million (2004: US$166.8 million), of which 49.5% was denominated in US dollars (2004: 65.9%), 44.7% was denominated in Sterling (2004: 34.1%) with the balance 5.8% denominated in Kuwaiti Dinars (2004: nil).

The group maintained a balanced borrowing profile with 28.3% of borrowings maturing within one year, 56.1% maturing between one and five years and the remaining 15.6% maturing in more than five years (2004: 30.4%, 51.9% and 17.7% respectively). The borrowings repayable within one year include US$15.0 million of bank overdrafts and revolving credit facilities (representing 13.8% of total gross borrowings), which are expected to be renewed during 2006 in the normal course of business (2004: US$19.0 million and 11.4% 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 2005, 84.7% of the group's term interest-bearing loans and borrowings were hedged (2004: 67.6%). The percentage hedged at the end of 2005 increased above the policy limit due to the conversion of 3i's loan notes. An analysis of the derivative instruments used by the group to hedge this exposure is contained in note 29 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 2005 was US$17.6 million (2004: US$17.1 million). The main elements of the expenditure included investment in, and replacement of, vehicles and equipment to support the growth in the Engineering & Construction and Operations Services divisions and Resources' investment in Cendor PM304 in Malaysia.

Shareholders' equity

Total equity increased from US$138.6 million at 31 December 2004 to US$195.1 million at 31 December 2005. The main elements of the increase were the retained profits for the year, net of dividends paid, and the conversion of 3i's loan notes to equity, partly offset by the movement in the group's unrealised position on derivative instruments.

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 then "A" ordinary shares were reclassified as ordinary shares and immediately following the reclassification, a 40:1 share split of all ordinary shares then authorised was unconditionally approved. An analysis of the movements in share capital is set out in note 20 to the financial statements.

Dividends

The Company proposes a final dividend of 1.87 cents per share for the year ended 31 December 2005. The level of the final dividend reflects the fact that the Company was listed for approximately three months of the 2005 financial year and is approximately half the level that would have been declared as a final dividend had Petrofac been listed for the whole of the 2005 financial year, having taken account of the intention to pay two thirds of the full year dividend as a final dividend. In September 2005, the Company paid a dividend of 3.01 cents per share.

Corporate social responsibility

The Board recognises that it must win and retain the support of various constituencies in order to keep improving the group's services, thereby safeguarding the Company's future success and sustainability. The Company believes that to maximise long-term shareholder value, it must take account of its shareholders, customers, employees and communities if it is to improve its performance and develop its reputation. The Company is currently reviewing the group's Corporate Social Responsibility (CSR) policy with the aim of ensuring that all group activities are consistent with these objectives wherever the location. This report outlines the group's current activities. The Company believes that it demonstrates that it has much to be proud of and that it has laid a solid foundation for further CSR development.

Petrofac: the business

Petrofac employees are guided by the Company's values – to be safe, ethical, innovative, cost-conscious, responsive to customers and focus relentlessly on delivering results. These values are embodied within a variety of practical policies and procedures that govern areas of our activity: health and safety; security; environment and ethical business conduct. The group uses a system of risk management to assess the impact of its activities on health, safety, security and the environment.

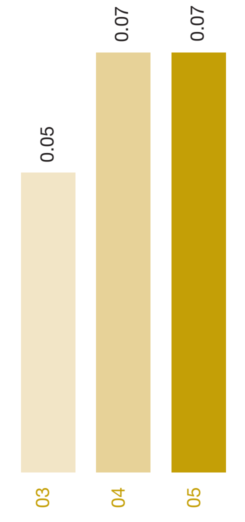
Health, safety and security

The health, safety and security of everyone who works with us and for us is critical to the success of our business. The health and safety of the public and communities who may be affected by our business activities is also a priority to us. The Board has recently endorsed a review of the Company's Health Management Programme in 2006. In addition, the Board has approved the development and implementation of a group Security Policy including the introduction of revised security plans for each locality where the Company works. The Board will be monitoring progress on both these matters throughout 2006.

The Company has a well established group safety management strategy, which is part of the group's business management system. Managers are accountable for ensuring that safety risks are properly assessed and as far as possible mitigated. The Company places great emphasis on training and ensuring that facilities are well maintained. Management closely monitor safety performance through the setting and monitoring of Key Performance Indicators (KPIs). The Board is regularly updated on matters relating to Safety.

During 2005, approximately 38 million man-hours were worked across the group's operations (2004: 40 million). During the year, the group experienced 107 Recordable Injuries (RIs) (2004: 109), a RI frequency rate of 0.55 per 200,000 man-hours (2004: 0.55) and 13 Lost Time Injuries (LTIs) (2004: 13), a LTI frequency rate of 0.07 per 200,000 man-hours (2004: 0.07). This performance is comparable with the best in the oil & gas industry and also within targets set at 0.70 RI and 0.070 LTI for the group in 2005. The Board is pleased that the overall RI and LTI performance is being sustained despite the potentially higher risks associated with the increase in the number of new operations started during the year. It is believed that the group wide rollout of the programme, the eight Golden Rules of Safety, during 2005, has assisted in sustaining performance.

Recordable injuries
(per 200,000 man hours)



Lost time injuries
(per 200,000 man hours)

Despite meeting these important targets, the Board deeply regrets there was an incident in July 2005, which resulted in a fatal injury to an employee of our joint venture with AMEC Spie on the BTC/SCP pipeline project in Georgia. The group immediately carried out an investigation in conjunction with AMEC Spie into the incident as a result of which the joint venture made various procedural improvements in the way it works.

Petrofac people

Petrofac is an international organisation and as such, the Company believes that its workforce, management and recruitment should reflect the diverse communities in which the group operates. The Company is committed to employing, training and developing local staff and leaders in its operations across the globe. The Company has a policy of equal opportunity where decisions on recruitment, career development, promotion, training and reward are based solely on an individual's merit. The Company is committed to developing an open and honest working environment where people are treated with respect. The Company does not tolerate bullying or harassment in the work place. Many Petrofac employees are shareholders, as the Company has long encouraged employee share ownership through the operation of various schemes. The Company will continue to support employee share ownership and introduced three new share incentive schemes at the time of listing.

The Company understands that it is vital to communicate with its staff especially since they work in many locations around the world. The Company publishes a quarterly in-house magazine, Petrofacts, and has developed a number of local intranet sites for employees. In addition, the Company relies on targeted e-mails, management presentations and team briefings. Petrofac believes that effective communication facilitates employee awareness of the financial, economic, social and environmental factors affecting Petrofac's performance.

The Company continues to emphasise the importance of doing business ethically. The Standards of Business Conduct policy is kept under regular review and communicated to the workforce. The Company has a clear anti-corruption policy, including a prohibition on bribes and other inducements and the making of unauthorised facilitation payments. If an employee is found to have acted in breach of this policy, the individual will be subject to disciplinary action which may result in dismissal.

The environment

Petrofac understands that it must give proper consideration to protecting the environment. The Company seeks to balance environmental concerns with operational objectives wherever possible. The Board has recently approved the development and implementation of a group environmental policy, which will result in the introduction of environmental plans for all activities. Some parts of the Company have certified environmental management systems and the Company has committed to working towards certification to ISO 14001:1996 for all its business operations.

Society

The Company is mindful of its responsibilities to the communities in which it operates. It tries to ensure that its relationships with non-governmental organisations (NGOs), customers, suppliers, communities and governments are founded on the basis of mutual respect. Petrofac's relationships last for many years, so it is essential that the Company understands the aspirations of those with whom it does business. The Company has decided that in its formal assessment regarding whether or not to undertake a particular piece of business, it will in future formulate a specific community relations strategy for each major project taking account of the particular long-term local needs.

The Company places particular emphasis upon contributing to the communities in which it operates. In the UK, Petrofac's Community Involvement Group (CIG) provides support to a number of charities, groups and individuals. In 2005, CIG named Cornerstone Community Care as its charity of the year for the third year running and, through fundraising activities, supported the charity in offering services and support to people with learning disabilities. CIG continued to provide support to Kenny Herriot, a wheelchair athlete. Petrofac has sponsored Kenny since 2001 following an accident in 2000 that left him paralysed. In 2005, Petrofac helped Kenny to compete in major competitions throughout the world.

In recognition of the essential role of arts and science in building quality of life, Petrofac continues to be a main sponsor of the Aberdeen Youth Festival, which showcases the musical, dancing and acting talents of young people from around the world; and Techfest, a festival of science, technology and engineering in Aberdeen visited by over 10,000 school pupils.

The group has recently decided to focus a number of its community targeted projects around education and training themes. Petrofac has a longstanding and nationally acclaimed education-industry partnership with Kincorth Academy in Aberdeen. Not only has the Company helped raise significant funding for the Academy but it has provided pupils with an insight into the oil & gas industry and the general working environment through mentoring programmes and careers evenings. In the Middle East, Petrofac has supported the American Universities in Sharjah and Beirut. Funding provided by Petrofac has assisted their Engineering Faculties to invest in leading edge technologies and to enhance standards of educational excellence. Maroun Semaan currently sits on the board of trustees of the American University in Sharjah. Petrofac has also made a significant donation to the Sharjah English School towards the construction of a new chemistry laboratory in the new secondary school.

The Company looks forward to expanding its support for education, learning and training as its geographical spread increases. In particular, the Company intends to replicate its Kincorth style education-industry partnership with an academic institution in India through its Mumbai office.

The Company has a policy of not making political contributions.

Board of directors

Rodney Chase[3]

Non-executive Chairman, *Age 62.*
Rodney Chase was appointed non-executive Chairman of Petrofac on 21 June 2005. Rodney spent 38 years at BP plc, of which 11 were served on its board. He was deputy group CEO on his retirement from the BP group in May 2003. He also spent time as CEO of the exploration and production, and marketing and refining divisions.

He is currently non-executive deputy chairman of Tesco plc, non-executive director of Computer Sciences Corporation, non-executive director of Nalco Company and senior adviser to Lehman Brothers. He has previously held positions as a board member of BOC plc and Diageo plc.

Ayman Asfari[3]

Group Chief Executive, *Age 47.*
Ayman Asfari joined Petrofac in 1991 to establish Petrofac International.

Ayman has 25 years' experience in the oil & gas industry and served as Chief Executive Officer of Petrofac International until his appointment as Group Chief Executive of Petrofac Limited in January 2002.

Ayman previously worked as the managing director of a major civil and mechanical construction business based in Oman.

Keith Roberts

Chief Financial Officer, *Age 49.*
Keith Roberts joined Petrofac in March 2002 as Chief Financial Officer having spent most of his working life as an investment banker based in the city of London. After positions in commercial banking with Standard Chartered Bank and then with County Bank, the merchant banking subsidiary of National Westminster Bank, Keith moved into corporate finance with Hawkpoint Partners where he was a managing director and a member of the operating committee.

Keith has recently served as a non-executive director of The Peacock Group plc, stepping down from the board at the time that the company was taken private.

Maroun Semaan

Chief Executive,
Engineering & Construction, *Age 50.*
Maroun Semaan joined Petrofac in 1991 to establish Petrofac International.

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

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

Kjell Almskog[123]

Non-executive Director, *Age 65.*
Kjell Almskog was appointed to the Petrofac Board in March 2005. After starting his professional career in brand management, with Procter & Gamble, Kjell subsequently spent some 25 years in various senior executive positions.

During 13 years in the ABB group, Kjell was country manager in Norway while in parallel, developing a substantial and highly successful international oil and gas activity, ultimately becoming group executive vice-president and head of ABB Oil, Gas and Petrochemicals. In 1998, he moved to Kvaerner as chief executive with responsibility for executing a major turnaround of that business until its acquisition by Aker in 2001.

Presently, Kjell is senior adviser and non-executive director of several international companies, including: Orkla, a large listed Norwegian group involved in branded consumer goods, chemicals and financial investments and KITRON ASA, a listed Norwegian group specialising in electronics manufacturing. He is also chairman of the Kverneland Group, a Norwegian listed international supplier of agricultural machinery.

Bernard de Combret[123]

Non-executive Director, *Age 63.*
Bernard de Combret was appointed to the Petrofac Board in November 2003. Bernard is an international consultant and was deputy chairman of TotalFinaElf's executive committee until his retirement in 2002.

Following senior positions in both the French Ministry of Foreign Affairs and Ministry of Finance, he spent 24 years with Elf and subsequently Total, and was heavily involved in building the trading organisation. He also held various senior executive positions, including CEO of refining marketing, CEO for gas and power and CEO for trading and shipping.

He is currently a director of AXA-RE and Winstar Resources Ltd, and a member of the international advisory board of Banco Santander. He has previously held positions as a board member of Renault VI, CEPSA and Banco Central Hispano.

Michael Press[123]

Senior Independent Director
Non-executive Director, *Age 58.*
Michael Press was appointed to the Petrofac Board in April 2002, having previously held senior executive positions for the Standard Oil Company Inc and BP and as a main board director of Amerada Hess. Between 1997 and 2001, Michael held various posts at KBC Advanced Technologies including non-executive director, executive chairman, and chief executive.

He is currently also non-executive chairman of SPS International, a supplier of downhole tools and services used in wellbore clean-up and filtration, a director of ABARTA Inc and T3EnergyServices and a member of the advisory board of Pharmadule Emtunga.

Corporate governance report

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

Statement about applying Principles of Good Governance

The Company was admitted to the London Stock Exchange on 7 October 2005. Although the Board has applied many of the principles of good governance for some time, the Board undertook a review of the Company's governance in preparation for admission to the London Stock Exchange, with the intention that all principles should be applied in future. The Company has applied the principles of good governance set out in section 1 of the Code as reported below and in the Directors' Remuneration Report.

Statement of compliance with the Provisions of Good Governance

The Company has complied with the majority of the provisions of section 1 of the Code following listing. Areas of non-compliance for 2005 are identified in the following table, with the majority of such matters having arisen prior to the Company's listing.

Areas of non-compliance with those provisions of the Code relating to remuneration are outlined in the Remuneration Report.

Provision		Reason for non-compliance
A3.2	The Board should have a balance between non-executive and executive directors.	The current Board is compliant but from 1 January 2005 to 13 September 2005, the Board was comprised of a majority of executive directors.
A4.1	A Nominations Committee to be established and new directors to be recruited using an external search agency or open advertisement.	Prior to listing, the Company did not have a standing Nominations Committee. The Chairman was introduced to the Company by one of the Company's advisers.
A5.1	New directors receive a full, formal and tailored induction on joining the Board, including offering major shareholders the opportunity to meet a new non-executive director.	All the directors were appointed when the shares in the Company were not listed so limited consideration was given to devising a formal, tailored induction programme. Prior to listing, all directors were fully briefed on their responsibilities and henceforth the Board will ensure that it regularly reviews individual training needs in relation to business operations, legal responsibilities and investor relations.
A6.1	Annual performance evaluation of Board, Committees and individual directors.	The current Board has been in existence for less than a year and the Company was only admitted to the London Stock Exchange on 7 October 2005. The Board considered that carrying out appraisals in 2005 would be premature. The Board will implement an evaluation programme in 2006.
C3.1	The Audit Committee membership should consist of three independent non-executive directors.	The current Committee membership is compliant but from 1 January 2005 to 13 September 2005, an executive director of the Company was a member of the Committee.
C3.2	Partial compliance with the role and responsibilities of the Audit Committee prior to listing.	While the Company operated an Audit Committee throughout the year, its terms of reference have been amended to ensure full compliance in 2006.
C3.4	The Audit Committee should review arrangements by which staff may raise concerns in confidence.	The Company has recently introduced a "whistleblowing" policy and process, which the Committee will shortly review.

Dialogue with shareholders

The Board attaches great importance to dialogue with its shareholders. The Chairman intends to maintain regular contact with major shareholders and ensure that the Board is apprised of their views. The Group Chief Executive and Chief Financial Officer also meet with major institutional shareholders and fund managers, and keep the Board informed about their views through board reports and copies of brokers' notes. The Board takes the view that, by these means, it receives a sufficiently frequent and clear impression of the views of shareholders. Michael Press, as senior independent director, is available to discuss issues with shareholders. Prior to admission to the London Stock Exchange, the Company appointed an individual to take responsibility for investor relations.

Interests in 3% or more of the issued share capital which have been notified to the Company, in accordance with the Articles of Association of the Company as at 1 March 2006 were as follows:

	Number of ordinary shares	Percentage of allotted share capital
Petrofac ESOP Trustees Limited	31,830,488	9.22%
Alima Trust	21,355,157	6.19%

In addition to the shareholdings above, Ayman Asfari and his family holds an interest in 69,282,114 shares through the Lamia Trust representing 20.07% of issued share capital; and Maroun Semaan and his family holds an interest in 34,068,799 shares through the Nola Trust representing 9.87% of issued share capital. Petrofac ESOP Trustees Limited includes interests of directors and senior employees as well as other employees.

The Company's first annual general meeting as a public company will be used as an opportunity to provide a review of the group's progress during the year and for shareholders to put questions to the directors. Details of proxy votes for and against each resolution will be announced at the meeting.

Board of Directors

The Board currently comprises seven directors, made up of four non-executive and three executive directors. The non-executive directors are all independent of management and contribute independent judgement and extensive knowledge and experience to the proceedings of the Board. The executive directors are responsible for the management of the group's activities. Michael Press is the senior independent director. The Chairman and Kjell Almskog were appointed to the Board during the year and Amjad Bseisu, Robin Pinchbeck and Mike Stacey stepped down from the Board prior to listing.

Brief biographies of the directors appear on pages 32 and 33. Ayman Asfari, Keith Roberts and Maroun Semaan, being the longest serving directors, will offer themselves for election at this year's annual general meeting. Henceforth, all directors must submit themselves for election at the annual general meeting following their appointment and, thereafter, for re-election at least once every three years.

During the year the Board met five times and the current intention is that henceforth the Board should meet six times a year and additionally as required.

The Board has adopted a schedule of matters reserved to itself for decision, including, but not limited to, matters of a strategic nature; approval of the annual budget; approval of major acquisitions; major changes to the group's capital structure; the recommendation or declaration of dividends; the entry into contracts which are material strategically or by reason of size; appointments to the Board; ensuring the maintenance of a sound system of internal controls; reviewing its own and its committees' performance and reviewing the group's overall corporate governance arrangements.

The Board receives appropriate and timely information from management to enable it to perform its duties, including reports on operating and financial issues at each board meeting.

The roles of the Chairman and Chief Executive are separate. Since his appointment in June 2005, the Chairman has met with the other non-executive directors on a number of occasions without the executive directors present. It is the Board's intention to undertake its first formal evaluation of its performance and that of its committees and individual directors in 2006. The Board will use the process to identify any training needs of directors.

Directors have access to the advice and services of the Secretary to the Board, who is responsible for ensuring that board procedures and applicable rules and regulations are observed, and for advising the Board on governance matters. The directors are entitled to take independent professional advice, at the Company's expense, if necessary.

Committees of the Board

Attendance by the directors at the meetings of the Board and its committees are summarised below:

	Board	Audit Committee	Remuneration Committee	Nominations Committee[1]
Number of meetings held in 2005	5	4	4	0
Executive directors				
Ayman Asfari	5			
Keith Roberts	5			
Maroun Semaan	5			
Amjad Bseisu (resigned 13 September 2005)	4			
Robin Pinchbeck (resigned 13 September 2005)	3			
Mike Stacey (resigned 13 September 2005)	4	3	3	
Non-executive directors				
Rodney Chase (appointed 21 June 2005)	3			
Kjell Almskog (appointed 25 March 2005)	4	3	3	
Bernard de Combret	5	4	4	
Michael Press	5	4	4	

1 The Nominations Committee was only formed as a standing Committee following the Company's listing.

The Board is assisted by various committees, principally the Audit Committee, the Remuneration Committee and the Nominations Committee. A summary of the work of the Audit Committee and the Nominations Committee is set out below. The report of the Remuneration Committee is included in the Directors' Remuneration Report on page 38. The Committees' terms of reference are available on the Company's website. The minutes of meetings and/or reports from the chairmen of the committees are made available to the Board for its scheduled meeting next following the committee meeting in question, or otherwise as soon as practicable thereafter.

Audit Committee

The Audit Committee is chaired by Bernard de Combret and also comprises Kjell Almskog and Michael Press. Kjell Almskog was appointed during the year and Mike Stacey stepped down on his resignation from the Board. Both Bernard de Combret and Kjell Almskog have recent and relevant financial experience. In 2005, the Committee met four times. The Committee's principal roles and responsibilities include:

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

Previously, the Audit Committee has tended to concentrate on the more traditional work of an audit committee; that is reviewing the auditors' terms of engagement and the scope of audit work and assessing the Company's financial statements. The Committee is currently considering how best to undertake a systematic review of the Company's controls and risk management processes and is working with the recently appointed Group Head of Internal Audit to establish a suitable framework to achieve this. It is anticipated that the group internal audit function will be strengthened further during the course of 2006. Although the Company has previously taken steps to ensure that auditor independence is maintained when it has appointed its external auditors to undertake non-audit work, the Committee intends to adopt a formal policy in 2006 on the procurement of non-audit work from the auditors. The Committee will meet sufficiently often in 2006 in order to fulfil its responsibilities and in any event will meet no less than three times.

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

Nominations Committee

The Nominations Committee was formed during the year and is chaired by Rodney Chase and also comprises Kjell Almskog, Bernard de Combret, Michael Press and Ayman Asfari. The Committee will meet at least twice a year to review the structure of the Board and, as appropriate, consider candidates for appointment to the Board. Prior to the Committee's formation, the Board created ad hoc Committees to consider issues, which would ordinarily fall within the remit of a Nominations Committee; one such Committee considered the appointments of Kjell Almskog and Rodney Chase. An external search consultancy was appointed for the recruitment of Kjell Almskog. Rodney Chase was introduced to the Company by an adviser. The Board considered him to be an exceptionally qualified candidate and saw no merit in undertaking a fullscale search process.

Audit and accountability

The Board acknowledges that it is responsible for the group's system of financial and operational controls and monitoring their effectiveness. The group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the group, which has been in place for the year under review and up to the date of this Annual Report. This process is regularly reviewed by the Board and is in accordance with the guidance provided by the Turnbull Committee on internal control. The key elements of the internal control system and the processes used by the Board to review the effectiveness of the system are detailed below:

Control environment

The group has a clear organisational structure for the control and monitoring of its businesses, including defined lines of responsibility and delegation of authority. The group has issued a group policy in relation to standards of business conduct which includes provisions to ensure that staff may raise ethical concerns in confidence.

Risk management

Each division is required to produce a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken in order to manage those risks. The Board receives regular formal updates from management on the key risks and the related controls in relation to the group's existing business and if appropriate, on potential new business. Management also thoroughly considers risks associated with undertaking new business via divisional and group risk review committees.

Assurances

The directors receive assurances from the following internal and external controls:

- historical financial performance and revised forecasts for the full year with significant variances are regularly reported by management to the Board;
- reports from the Audit Committee;
- client audits;
- external audits including management letters from the group's auditors;
- reports from the group health, safety, security, environment and quality function; and,
- reports from the Group Internal Audit function.

Going concern

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

Directors' remuneration report

This report has been prepared by the Remuneration Committee and has been approved by the Board.

The Remuneration Committee (the Committee) met four times in 2005 and henceforth will meet at least twice a year. The Committee considers group wide incentive schemes and sets the policy for the remuneration of the Chairman, executive directors and first tier of management below the Board and furthermore determines the remuneration packages for the individuals concerned. The fees of the non-executive directors other than the Chairman are a matter for decision by the Chairman and the executive directors.

Good governance

The Company has applied the principles of good governance set out in section 1 of the Code as reported below. The Company has complied with all the provisions of section 1 of the Code in 2005 except for the following:

B2.1 The Committee membership should consist of three independent non-executive directors.

The current Committee membership is compliant but from 1 January 2005 to 13 September 2005 an executive director of the Company was a member of the Committee.

Composition of the Remuneration Committee

The Committee comprises Michael Press (Chairman), Kjell Almskog and Bernard de Combret. Michael Press and Bernard de Combret served throughout the year and Kjell Almskog joined the Committee after his appointment to the Board. Mike Stacey stepped down from the Committee following his resignation from the Board. None of the directors has any personal interest in the matters to be decided (other than as shareholders of the Company), any potential conflict of interest arising out of cross-directorships or any day to day involvement in the management of the group's business activities.

At the invitation of the Chairman of the Committee, the Group Chief Executive attended meetings during the year in order to provide advice on setting remuneration for other executive directors although he attended no part of a meeting at which his own remuneration was being discussed. In addition, the group's Director of Legal and Commercial Affairs, Norton Rose, Watson Wyatt Limited and Deloitte & Touche LLP have provided advice to the Committee.

Remuneration policy

The Committee aims to establish a level of remuneration, which is sufficient to attract, retain and motivate directors and key executives of the calibre required to achieve the group's objectives; and which, furthermore, reflects the size and complexity of the group's business together with an executive's individual contribution and geographical location. In order to ensure that the range and level of emoluments and incentive schemes are competitive in the market place, the Committee takes advice from independent external bodies on the remuneration policies of companies whose turnover and/or business activities are similar to those of the group. Reviews of the remuneration policy are carried out regularly.

The components of executive directors' remuneration packages include:

- basic salary, cash allowances and non-cash benefits;
- annual cash bonus payments; and,
- awards of shares under the Company's Deferred Bonus Share Plan and Performance Share Plan.

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

Basic salary, cash allowances and non-cash benefits

Basic salary

Ordinarily, the Committee determines an executive director's basic salary at the beginning of each year. During 2005, the Committee undertook an additional mid-year review of executive directors' overall remuneration in order to ensure that the directors' respective packages were appropriate, particularly in view of the Company's anticipated admission to listing on the London Stock Exchange. The Committee took advice from Watson Wyatt Limited and Deloitte & Touche LLP on this matter. In determining levels of overall remuneration, the Committee seeks to ensure that a significant part of the total package is dependent upon group and individual performance.

Cash allowances

In addition to basic salary, UK resident executive directors receive a cash allowance in place of benefits including, but not limited to, pension contributions and car allowances. In addition to basic salary, UAE resident executive directors are required by local statute to receive an end of service indemnity and the Company accordingly accrues an amount each year with the intention that a cash sum be paid to the director on the termination of his employment within the UAE.

Non-cash benefits

All executive directors receive certain benefits-in-kind. UK resident executive directors currently receive private health insurance, life assurance and long-term disability insurance. Maroun Semaan and Robin Pinchbeck, who are resident in the UAE, receive similar benefits as well as other benefits typical for expatriate senior executives such as car, housing and education allowances.

Annual cash bonus payments

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

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

In 2005, the Committee set the maximum cash bonus potential at 100% of basic annual salary for achievement of corporate and personal targets but retained the ability to increase this to 150% of basic annual salary in exceptional circumstances. Actual bonuses for the year are disclosed in the table set out on page 40, and taken in conjunction with awards to directors under the Company's Deferred Bonus Share Plan and Performance Share Plan, reflect the Remuneration Committee's assessment of each director's achievement of his objectives in 2005 and their contribution to the group's performance in the period. Details of awards to directors under the Company's share incentive schemes are outlined on pages 40 and 41 of this Report.

Awards of shares

The Committee took advice from the Director of Group Legal and Commercial Affairs, Watson Wyatt Limited, Deloitte & Touche LLP, Norton Rose and Ogier in connection with the establishment of the Company's current share incentive schemes.

Deferred Bonus Share Plan (DBSP)

The DBSP was established upon listing. Executive directors and selected employees are eligible to participate in the DBSP. 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. These shares are called "Invested Shares" and are comprised in "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 and these shares are called "Matching Shares" and are comprised in "Matching Awards". Awards will generally vest three years after grant and, subject to a limited number of exceptions, provided the participant does not leave the Company's employment. The Committee has determined that any participation of executive directors in the DBSP should not include Matching Awards as such awards do not contain performance conditions.

Performance Share Plan (PSP)

The PSP was established upon listing. Executive directors and a restricted number of other senior executives may receive performance related share awards on an annual basis. Participants are granted contingent awards to receive ordinary shares in the Company which will in normal circumstances vest after three years subject to the continued employment of the participant and to the extent that performance conditions have been satisfied. The initial market value of the shares over which any such award is made to any participant in any financial year may not in any event exceed 100% of basic annual salary or, in circumstances which the Committee deems to be exceptional, 150% of basic annual salary.

The Committee has determined that up to 50% of awards will vest according to the Company's total shareholder return (TSR) performance in comparison to an index composed of selected relevant companies; and that up to 50% of awards will vest depending upon the extent to which the Company achieves earnings per share growth targets.

The Petrofac approved Share Incentive Plan (SIP)

A SIP was established upon listing. All UK employees, including UK resident directors, are eligible to participate in the SIP. Employees may invest up to £1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares. There is no holding period for these shares.

There were no awards under the DBSP, PSP or SIP in 2005.

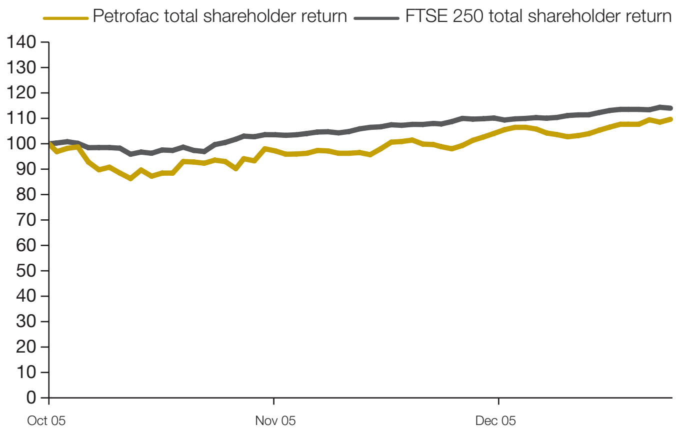
The group operated two share participation schemes prior to the Company's admission to listing: the Petrofac Limited Executive Share Scheme (ESS) and Petrofac Limited Long Term Incentive Plan (LTIP).

Under the ESS participants were invited to purchase participatory interests in shares in the Company. The underlying shares were held in trust for the benefit of the participants subject to the rules of the scheme. On listing, the majority of participants became entitled to call for the transfer to them by the Trustee of the shares comprised in their participatory interest. No further awards will be made under the ESS.

All awards made under the LTIP vested in full upon the Company's admission to listing and the scheme ended. There were no performance conditions attached to awards under the LTIP.

Performance graph

The Company's TSR is defined as share price growth plus reinvested dividends. For shareholders' information, the Company's TSR performance since the Company was admitted to listing on the London Stock Exchange on 7 October 2005 is shown on the graph below compared with the performance achieved by the FTSE 250 Index, which the Committee believes is the most relevant benchmark to allow a meaningful assessment of the Company's performance.



Directors' remuneration report

(continued)

	Date of contract	Notice period	Unexpired term
Executive directors			
Ayman Asfari	13 September 2005	12 months	12 months[1]
Keith Roberts	13 September 2005	12 months	12 months[1]
Maroun Semaan	13 September 2005	12 months	12 months[1]
Non-executive directors			
Rodney Chase	13 September 2005	3 months	66 months[2]
Kjell Almskog	13 September 2005	3 months	63 months[2]
Bernard de Combret	13 September 2005	3 months	47 months[2]
Michael Press	13 September 2005	3 months	28 months[2]

1 The executive directors' contracts are on a 12 month rolling basis.
2 Unexpired terms for non-executive directors run from their respective dates of appointment and are assumed to run for a duration of two three-year terms.

Directors' detailed emoluments

	Salaries & fees US$'000	Cash allowances[4] US$'000	Benefits US$'000	Cash bonus US$'000	**2005 total US$'000**	2004 total US$'000
Executive directors						
Ayman Asfari	479	21	1	814	**1,315**	699
Keith Roberts	332	14	1	235	**582**	511
Maroun Semaan	255	23	119	350	**747**	568
Amjad Bseisu[1]	218	6	1	242	**467**	483
Robin Pinchbeck[1]	168	17	68	70	**323**	509
Mike Stacey[1]	223	–	1	–	**224**	430
Non-executive directors						
Rodney Chase[2]	102	–	–	–	**102**	–
Kjell Almskog[3]	43	–	–	–	**43**	–
Bernard de Combret	63	–	–	–	**63**	49
Michael Press	59	–	–	–	**59**	43
	1,942	81	191	1,711	**3,925**	3,292

1 For the period 1 January 2005 to 13 September 2005. Amjad Bseisu, Robin Pinchbeck and Mike Stacey resigned as directors on 13 September 2005. Amjad Bseisu and Robin Pinchbeck continued to be employed by the group and earned a further US$210,000 and US$141,000, respectively, as employees of the group during the year following their resignations from the Board. US$30,000 of Amjad Bseisu's salary as a director was paid to a related party.
2 For the period 1 June 2005 to 31 December 2005.
3 For the period 25 March 2005 to 31 December 2005.
4 Payment in lieu of pension allowance and other benefits for UK resident directors and end of service indemnity for UAE resident directors. None of the directors are eligible to receive pension contributions from the Company.
5 UK based directors are paid in Sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of bonus amounts, which have been translated using the average exchange rate for the year.

Each of the executive directors is contractually restricted to a termination payment equal to 12 months' salary and benefits.

Each non-executive director is typically expected to serve two three-year terms from the date of his initial appointment although the Board may invite a director to serve an additional three year period.

In addition, Keith Roberts and Robin Pinchbeck will be awarded £100,000 of shares and US$100,000 of shares, respectively, as part of their bonus award for 2005 under the Company's DBSP. This award will be made in 2006. There will be no matching awards of shares as the Remuneration Committee believes that this would be inappropriate given that such awards would be made without the attachment of any performance criteria. These shares will in normal circumstances vest three years after they have been granted subject to continued employment.

Directors' interests in the LTIP

At the start of the year, no director held any interest in shares under the LTIP. On 29 April 2005, prior to the Company's 40:1 share split, Keith Roberts and Robin Pinchbeck were awarded 5,000 ordinary shares each under the Company's LTIP. The shares were to vest free of charge in four equal instalments commencing on the award date and annually thereafter. The rules provided for all awards to vest in full on admission to listing. At the time of the awards, there was no market in the Company's shares although the fair value of shares, determined using a net asset based formula, was US$16.93 per ordinary share. At the time that the shares vested, the award was equivalent to 200,000 ordinary shares following the Company's 40:1 share split and the market price of the shares was £2.15 at the time the Company's shares were admitted to listing on the London Stock Exchange.

Director's interest in share option

In 2002, the Company awarded Keith Roberts an option to acquire up to 75,000 ordinary shares at $25.00 per share. On 18 May 2005, this option agreement was cancelled. The option was awarded prior to the Company's 40:1 share split.

Directors' beneficial interests in ordinary shares at 31 December 2005

	Number of shares as at 31 December 2005	Number of shares as at 31 December 2004 or date of appointment if later[1]
Executive directors		
Ayman Asfari	**69,282,114**	101,641,480
Keith Roberts[2]	**3,120,000**	2,000,000
Maroun Semaan	**34,068,799**	49,981,200
Non-executive directors		
Rodney Chase[2]	**1,000,000**	800,000
Kjell Almskog[2]	**400,000**	–
Bernard de Combret	**600,000**	400,000
Michael Press[2]	**240,000**	200,000

1 Shares have been expressed as if the 40:1 share split of the Company's share capital which became effective at listing had been completed by 31 December 2004 in order to provide a like-for-like comparison. Refer to note 20 of the Company's financial statements for further details of the 40:1 share split.

2 During the year, the following directors subscribed for shares under the Company's ESS: Keith Roberts (3,000,000 shares); Rodney Chase (800,000 shares); Kjell Almskog (200,000 shares); and Michael Press (200,000 shares). The awards have been expressed as if the 40:1 share split had been effective at the time of the awards.

The Company's share price at the end of the financial year was 254p and the market price during the period that the Company's shares were listed was in the range 200p to 254p.

There have been no changes to the directors' share interests since the year end.

Other earnings by directors

Keith Roberts received fees of £33,512 in 2005 (2004: £27,000) for his non-executive directorship of The Peacock Group plc, which he retained. Robin Pinchbeck received fees of £26,740 in 2005 (2004: £23,059) for his non-executive directorship of Sondex plc, which he retained.

Annual General Meeting approval

The Remuneration Report will be submitted for approval to the Annual General Meeting to be held on Friday, 19 May 2006.

On behalf of the Board

Michael Press
Chairman of the Remuneration Committee
15 March 2006

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the shareholders of Petrofac Limited

We have audited the accompanying consolidated financial statements of Petrofac Limited ("the Company") and its subsidiaries (together "the group") for the year ended 31 December 2005 which comprise consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of change in equity and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' remuneration report, Chairman's statement, Operating and Financial review and Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP
London
15 March 2006

Consolidated income statement

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000 Restated
Continuing operations			
Revenue	4a	**1,485,472**	951,530
Cost of sales		**(1,324,673)**	(829,081)
Gross profit		**160,799**	122,449
Selling, general and administration expenses	4d	**(74,928)**	(58,825)
Other income	4b	**5,223**	6,246
Other expenses	4c	**(2,491)**	(1,587)
Profit from continuing operations before tax and finance costs		**88,603**	68,283
Finance costs	5	**(8,448)**	(7,544)
Finance income	5	**3,193**	1,997
Profit before tax		**83,348**	62,736
Income tax expense	6	**(7,951)**	(16,699)
Profit for the year from continuing operations		**75,397**	46,037
Discontinued operations			
Loss for the year from discontinued operation	7	**(815)**	(13,162)
Profit for the year		**74,582**	32,875
Attributable to:			
Petrofac Limited shareholders		**74,582**	32,921
Minority interests		**–**	(46)
		74,582	32,875
Earnings per share (US cents)	8		Restated
From continuing and discontinued operations:			
– Basic		**24.52**	9.43
– Diluted		**22.17**	8.70
From continuing operations:			
– Basic		**24.79**	13.19
– Diluted		**22.41**	11.93

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2005

	Notes	2005 US$'000	2004 US$'000 Restated
Assets			
Non-current assets			
Property, plant and equipment	10	**120,431**	123,413
Goodwill	12	**49,183**	49,653
Intangible assets	13	**2,982**	6,721
Available-for-sale financial assets	15	**2,413**	4,104
Other financial assets	16	**680**	11,205
Deferred income tax assets	6	**5,576**	782
		181,265	195,878
Current assets			
Inventories		**1,156**	1,702
Work in progress	17	**235,047**	109,037
Trade and other receivables	18	**325,716**	216,796
Due from related parties	28	**28,402**	20,889
Other financial assets	16	**4,501**	37,843
Cash and short-term deposits	19	**208,896**	143,534
		803,718	529,801
Assets of discontinued operation classified as held for sale	7	**1,667**	3,678
Total assets		**986,650**	729,357
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	**8,629**	7,166
Share premium		**66,210**	28,553
Capital redemption reserve		**10,881**	10,881
Treasury shares		**(17)**	–
Other reserves	21	**(12,426)**	27,047
Retained earnings		**121,850**	64,911
Total equity		**195,127**	138,558
Non-current liabilities			
Interest-bearing loans and borrowings	22	**76,187**	110,787
Provisions	23	**8,284**	5,912
Other financial liabilities	24	**1,222**	6,877
Deferred income tax liabilities	6	**3,121**	1,535
		88,814	125,111
Current liabilities			
Trade and other payables	25	**219,425**	157,934
Due to related parties	28	**1,335**	1,453
Interest-bearing loans and borrowings	22	**30,683**	50,691
Other financial liabilities	24	**15,810**	1,275
Income tax payable		**2,210**	3,172
Billings in excess of cost and estimated earnings	17	**69,776**	72,155
Accrued contract expenses	26	**363,470**	179,008
		702,709	465,688
Total liabilities		**791,523**	590,799
Total equity and liabilities		**986,650**	729,357

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000 Restated
Operating activities			
Net profit/(loss) before income taxes:			
Continuing operations		**83,348**	62,736
Discontinued operation	7	**(815)**	(13,162)
		82,533	49,574
Adjustments for:			
Depreciation, amortisation and impairment		**27,281**	27,888
Share-based payments	4d	**897**	–
Difference between end-of-service benefits paid and amounts recognised in the income statement		**2,372**	1,513
Finance costs, net		**5,195**	5,512
Gain on disposal of investments	4b	**(2,390)**	(2,932)
Other non-cash items, net		**(2,026)**	78
Operating profit before working capital changes		**113,862**	81,633
Trade and other receivables		**(106,794)**	(101,187)
Work in progress		**(126,010)**	(6,196)
Due from related parties		**(7,513)**	746
Inventories		**546**	(113)
Current financial assets		**15,121**	1,776
Trade and other payables		**61,010**	19,746
Billings in excess of cost and estimated earnings		**(2,379)**	60,773
Accrued contract expenses		**184,462**	28,489
Due to related parties		**(118)**	1,345
Current financial liabilities		**4,261**	(6,363)
		136,448	80,649
Other non-current items, net		**(4,022)**	19,206
Cash generated from operations		**132,426**	99,855
Interest paid		**(9,097)**	(5,695)
Income taxes paid, net		**(15,085)**	(13,278)
Net cash flows from operating activities		**108,244**	80,882
Of which discontinued operations		***(619)***	*(8,903)*

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated cash flow statement

(continued)

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000 Restated
Investing activities			
Purchase of property, plant and equipment	10	**(17,556)**	(17,142)
Acquisition of business assets	11	**–**	(695)
Acquisition of subsidiary, net of cash acquired	11	**(4,073)**	(9,119)
Purchase of minority interest	11	**(1,644)**	–
Acquisition of interest in joint venture	11	**–**	(1,000)
Purchase of intangible oil & gas assets		**(3,079)**	(4,480)
Purchase of available-for-sale financial assets		**(691)**	–
Proceeds from disposal of property, plant and equipment		**647**	804
Proceeds from disposal of assets of discontinued operation classified as held for sale		**1,832**	–
Proceeds from disposal of available-for-sale financial assets		**4,545**	2,344
Net foreign exchange difference		**(135)**	(1,659)
Interest received		**3,442**	1,665
Net cash flows used in investing activities		**(16,712)**	(29,282)
Of which discontinued operations		***1,892***	*39*
Financing activities			
Proceeds from issue of share capital		**–**	1,511
Proceeds from interest-bearing loans and borrowings		**28,339**	45,722
Repayment of interest-bearing loans and borrowings		**(32,026)**	(35,684)
Purchase of derivative financial instruments		**(689)**	(62)
Shareholders loan note transactions, net		**4,968**	(1,581)
Transactions with employee share plan, net		**537**	3,016
Exercise of option to acquire group shares	11	**(2,400)**	–
Repurchase of shares	20	**–**	(30,760)
Equity dividends paid		**(15,243)**	(1,315)
Net cash flows used in financing activities		**(16,514)**	(19,153)
Of which discontinued operations		**–**	–
Net increase in cash and cash equivalents		**75,018**	32,447
Cash and cash equivalents at 1 January		**127,823**	95,376
Cash and cash equivalents at 31 December	19	**202,841**	127,823

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2005 (Restated)

	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$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total equity US$'000
Balance at 1 January 2004	9,066	52,592	8,634	–	(1,803)	35,552	104,041	2,241	106,282
Change in accounting policy (note 2)	–	–	–	(106)	–	–	(106)	–	(106)
Balance at 1 January 2004 (restated)	9,066	52,592	8,634	(106)	(1,803)	35,552	103,935	2,241	106,176
Foreign currency translation	–	–	–	–	3,598	–	3,598	–	3,598
Net loss on maturity of cash flow hedges recognised in income statement	–	–	–	–	486	–	486	–	486
Net changes in fair value of derivatives	–	–	–	–	23,498	–	23,498	–	23,498
Changes in the fair value of available-for-sale financial assets	–	–	–	–	1,268	–	1,268	–	1,268
Total income and expenses for the year recognised in equity	–	–	–	–	28,850	–	28,850	–	28,850
Net profit for the year	–	–	–	–	–	32,921	32,921	(46)	32,875
Total income and expenses for the year	–	–	–	–	28,850	32,921	61,771	(46)	61,725
Shares issued during the year	115	1,396	–	–	–	–	1,511	–	1,511
Shares repurchased during the year	(2,247)	(28,513)	2,247	–	–	(2,247)	(30,760)	–	(30,760)
Petrofac ESOP transactions, net	232	2,784	–	106	–	–	3,122	–	3,122
Increase in value of stock warrants	–	294	–	–	–	–	294	–	294
Elimination of minority interest	–	–	–	–	–	–	–	(2,195)	(2,195)
Dividends	–	–	–	–	–	(1,315)	(1,315)	–	(1,315)
Balance at 31 December 2004	7,166	28,553	10,881	–	27,047	64,911	138,558	–	138,558

For the comparative year ended 31 December 2004 a capital redemption reserve resulting from shares repurchased was not disclosed separately from retained earnings. This comparative data has been restated to reflect this separate disclosure.

As restated, a capital redemption reserve of US$8,634,000 is reflected as at 1 January 2004. Retained earnings has been reduced by this amount at this date. During 2004, the capital redemption reserve increased as a result of further shares repurchased during the year (US$2,247,000). This movement has been reclassified from retained earnings. As at 31 December 2004, a capital redemption reserve is separately disclosed of US$10,881,000 with a corresponding reduction in retained earnings. There is no impact on basic or diluted earnings per share.

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated statement of changes in equity

(continued)

For the year ended 31 December 2005 (Restated)

	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$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'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)
Changes in the fair value of available-for-sale financial assets	–	–	–	–	(1,048)	–	(1,048)	–	(1,048)
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 ESOP transactions, net	65	1,398	–	(17)	–	–	1,446	–	1,446
Conversion of debt instruments	1,398	36,259	–	–	–	–	37,657	–	37,657
Exercise option to acquire group shares (note 11)	–	–	–	–	–	(2,400)	(2,400)	–	(2,400)
Dividends	–	–	–	–	–	(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 31 form part of these consolidated financial statements.

Notes to the consolidated financial statements

At 31 December 2005

1 Corporate information

The consolidated financial statements of Petrofac Limited (the Company) for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 15 March 2006.

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 30 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 functional 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 accounting principles generally accepted in the island of Jersey, incorporating International Financial Reporting Standards (IFRS) and in compliance with the 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 using consistent accounting policies. Where necessary, adjustments are made to bring the 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. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Changes in accounting policies

The group has changed its accounting policy for oil & gas assets from the full cost method of accounting for oil & gas assets to the successful efforts method. The group believes this change in accounting policy will enhance the transparency of the financial reporting of future performance. The reported net profit and shareholders' equity for the year ended 31 December 2004 are unaffected by the adoption of this method of accounting for oil & gas assets. There is no impact on the net profit and shareholders' equity for the year ended 31 December 2005.

With the exception of accounting for oil & gas assets, the accounting policies adopted are consistent with those of the previous financial year except that 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 2005. The principal effects of the adoption of new and amended standards are discussed below:

IFRS 2 'Share-Based Payment'

IFRS 2 'Share-Based Payment' requires an expense to be recognised where the group buys goods or services in exchange for shares or rights over shares ('equity-settled transactions').

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

As a result of adopting IFRS 2, the group has recognised an expense in the year of US$897,000 relating to employees' share-based incentives. This expense is classified within selling, general and administration expenses in the income statement. The effect of the adopting this standard on basic and diluted earnings per share is as follows:

- a decrease in basic earnings per share by 0.29 US cents
- a decrease in diluted earnings per share by 0.26 US cents

The reported net profit and shareholders' equity for the year ended 31 December 2004 are unaffected by the adoption of this new standard.

Standing Interpretations Committee (SIC) 12 'Special Purpose Entities'

The Company has adopted the recently amended SIC 12 'Special Purpose Entities'. This requires special purpose entities, formed for the purpose of equity compensation plans, to be consolidated within the financial statements of the group.

The adoption of SIC 12 has required the group to consolidate Petrofac ESOP Trustees Limited (Petrofac ESOP) and, consequently, to offset the cost of shares temporarily held by Petrofac ESOP as treasury shares from equity. Prior to adopting SIC 12, Petrofac ESOP was not consolidated and the cost of shares held was disclosed as a current receivable within Total Assets. Total equity as at 1 January 2004 has been reduced by US$106,000 due to the adoption of this amended Standard. This restatement is reflected under the heading 'Treasury shares' within total equity.

IFRS 3 'Business Combinations', IAS 36 (revised) 'Impairment of Assets'

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004.

The effect of the adoption of IFRS 3 and IAS 36 (revised) has resulted in the group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually, unless an event occurs during the year which requires the goodwill to be tested more frequently, from 1 January 2005.

This revised accounting policy has been applied prospectively, in accordance with the transitional rules of IFRS 3, and therefore the reported net profit and shareholders' equity for the year ended 31 December 2004 are unaffected by the adoption of this new Standard.

IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

The group has adopted IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' with effect from 1 January 2005. IFRS 5 requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the group has disposed of the operation. The adoption of this Standard has required the group to separately disclose, on the face of the balance sheet, those assets held for sale within its discontinued operation.

In addition, the presentation of the income statement for discontinued operations is no longer required on a line-by-line basis. Instead, the Standard requires the net profit or loss from discontinued operations to be disclosed as a single line item at the foot of the income statement.

The comparative figures for the year ended 31 December 2004 have been restated to conform with the presentation required by IFRS 5. These restatements do not affect previously reported net profit or shareholders' equity.

Amendment to IAS 21 'The Effects Of Changes In Foreign Exchange Rates – Net Investment in a Foreign Operation'

The group has adopted Amendment to IAS 21 'Net Investment in a Foreign Operation' with effect from 1 January 2005'. The amendment to IAS 21 requires all exchange differences arising from the group's net investment in subsidiaries to be taken directly to equity, irrespective of which group entity provides the investment.

As a result of adopting this Amendment to IAS 21, US$526,000 of translation losses arising in the year from the group's net investment in subsidiaries has been recognised within the foreign currency translation reserve in equity. Prior to adopting this amended Standard this translation loss would have been charged to the income statement. The effect of adopting this amended Standard on basic and diluted earnings per share is as follows:

- an increase in basic earnings per share by 0.17 US cents
- an increase in diluted earnings per share by 0.15 US cents

The reported net profit and shareholders' equity for the year ended 31 December 2004 are unaffected by the adoption of this amended Standard.

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:

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 choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was US$49,183,000 (2004: US$49,653,000).

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.

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 and operations 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.

The financial statements of the group's jointly controlled entities and operations are prepared using consistent accounting policies. Where necessary, adjustments are made to bring the 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.

2 Summary of significant accounting policies (continued)

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 facilities	10% – 12.5%
Plant and equipment	4% – 33%
Buildings and leasehold improvements	5% – 33%
Office furniture and equipment	25% – 100%
Vehicles	20% – 33%

No depreciation is charged on land or assets under construction.

Borrowing costs

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

Goodwill

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit 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 unit retained.

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

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

Changes in unit-of-production factors

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

Decommissioning

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

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

Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at cost, being the fair value of consideration given, 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, which comprise raw materials and consumables, 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.

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.

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 long term contracts 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 hand and bank 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 cost, being 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.

2 Summary of significant accounting policies (continued)

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 employees' end-of-service 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.

Employees' end-of-service 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 23.

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.

The group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 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, as determined using a net asset based formula, and the Company extends an interest free loan to Petrofac ESOP to acquire these shares. The effects of share issues and repurchase transactions arising within Petrofac ESOP are taken directly to equity.

Leases

The group has entered into various operating leases the payments under which are treated as rentals and charged to the income statement on a straight-line basis over the lease terms.

Revenue recognition

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

Engineering, procurement and construction services

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, based on surveys of work performed when the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

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

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

Incentive payments are included in revenue when the contract is sufficiently advanced 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

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 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

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.

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.

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.

Notes to the consolidated financial statements

(continued)

At 31 December 2005

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 2005 and 2004. Included within the consolidation and eliminations columns are certain balances, which due to their nature, are not allocated to segments.

	Continuing operations							
	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Consolidation & eliminations US$'000	Total US$'000	Discontinued operations US$'000	Eliminations US$'000	Total operations US$'000
Year ended 31 December 2005								
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 income/(costs)	–	–	–	(8,474)	(8,474)	–	–	(8,474)
Profit/(loss) from operating activities	52,592	25,250	18,495	(7,734)	88,603	(875)	–	87,728
Finance costs	(166)	(2,043)	(986)	(5,253)	(8,448)	–	–	(8,448)
Finance income	4,023	82	129	(1,041)	3,193	60	–	3,253
Profit/(loss) before income tax	56,449	23,289	17,638	(14,028)	83,348	(815)	–	82,533
Income tax (expense)/income	(1,386)	(7,711)	683	463	(7,951)	–	–	(7,951)
Net profit/(loss)	55,063	15,578	18,321	(13,565)	75,397	(815)	–	74,582
Year ended 31 December 2004								
Revenue								
External sales	467,116	439,372	45,042	–	951,530	12,624	–	964,154
Inter-segment sales	6,350	755	–	(7,105)	–	1,126	(1,126)	–
Total revenue	473,466	440,127	45,042	(7,105)	951,530	13,750	(1,126)	964,154
Results								
Segment operating results	33,524	17,347	17,164	(550)	67,485	(13,197)	–	54,288
Unallocated corporate income/(costs)	–	–	–	798	798	–	–	798
Profit/(loss) from operating activities	33,524	17,347	17,164	248	68,283	(13,197)	–	55,086
Finance costs	(133)	(1,127)	(1,968)	(4,316)	(7,544)	(5)	–	(7,549)
Finance income	1,969	104	17	(93)	1,997	40	–	2,037
Profit/(loss) before income tax	35,360	16,324	15,213	(4,161)	62,736	(13,162)	–	49,574
Income tax (expense)/income	(2,260)	(6,681)	(8,306)	548	(16,699)	–	–	(16,699)
Minority interests	–	–	46	–	46	–	–	46
Net profit/(loss)	33,100	9,643	6,953	(3,613)	46,083	(13,162)	–	32,921

	Engineering & Construction US$'000	Operations Services US$'000	Resources US$'000	Discontinued operations US$'000	Consolidation & eliminations US$'000	Total operations US$'000
Year ended 31 December 2005						
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	–	(3,513)	5,576
Total assets	657,825	203,122	123,201	2,857	(355)	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	–	(4,282)	5,331
Total liabilities	561,784	118,800	19,197	671	91,071	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	–	(672)	26,591
Amortisation	–	–	–	–	440	440
Impairment losses	–	–	–	250	–	250
End-of-service benefits	2,206	636	36	–	25	2,903
Share-based payments	685	102	–	–	110	897
Year ended 31 December 2004						
Assets and liabilities						
Segment assets	489,663	164,717	119,173	7,385	(64,235)	716,703
Inter-segment assets	(63,166)	(604)	(61)	(404)	64,235	–
Investments	–	–	4,104	–	–	4,104
	426,497	164,113	123,216	6,981	–	720,807
Unallocated assets	–	–	–	–	7,768	7,768
Income tax assets	–	780	–	–	2	782
Total assets	426,497	164,893	123,216	6,981	7,770	729,357
Segment liabilities	347,316	99,804	100,175	29,044	(108,273)	468,066
Inter-segment liabilities	(3,133)	(16,751)	(61,960)	(26,429)	108,273	–
	344,183	83,053	38,215	2,615	–	468,066
Unallocated liabilities	–	–	–	–	118,026	118,026
Income tax liabilities	712	3,838	–	–	157	4,707
Total liabilities	344,895	86,891	38,215	2,615	118,183	590,799
Other segment information						
Capital expenditures:						
Property, plant and equipment	11,673	2,931	3,744	–	(1,206)	17,142
Intangible oil & gas assets	–	–	6,721	–	–	6,721
Goodwill	–	19,118	–	–	–	19,118
Charges:						
Depreciation	8,356	1,357	14,809	106	(696)	23,932
Goodwill amortisation	–	2,168	316	–	–	2,484
Other amortisation	–	263	–	–	1,209	1,472
End-of-service benefits	1,550	176	35	–	88	1,849

Notes to the consolidated financial statements

(continued)

At 31 December 2005

3 Segment information (continued)

Geographical segments

The following tables present revenue, assets and capital expenditure by geographical segments for the years ended 31 December 2005 and 2004.

	Middle East & Africa US$'000	Former Soviet Union/Asia US$'000	Europe US$'000	Americas US$'000	Consolidated US$'000
Year ended 31 December 2005					
Segment revenue					
Continuing operations	354,326	609,270	518,175	3,701	1,485,472
Discontinued operation	–	–	–	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
Year ended 31 December 2004					
Segment revenue					
Continuing operations	281,678	272,384	392,085	5,383	951,530
Discontinued operation	–	–	–	12,624	12,624
	281,678	272,384	392,085	18,007	964,154
Carrying amount of segment assets	382,100	127,561	207,576	12,120	729,357
Capital expenditure:					
Property, plant and equipment	5,674	8,851	2,537	80	17,142
Intangible oil & gas assets	–	6,721	–	–	6,721

4 Revenues and expenses

a. Revenue

	2005 US$'000	2004 US$'000
Rendering of services	**1,478,187**	945,375
Sale of processed hydrocarbons	**7,285**	6,155
	1,485,472	951,530

b. Other income

	2005 US$'000	2004 US$'000 Restated
Gain on sale of investments	**2,390**	2,932
Foreign exchange gains	**1,200**	2,088
Other income	**1,614**	1,206
Gain on sale of property, plant and equipment	**19**	20
	5,223	6,246

c. Other expenses

	2005 US$'000	2004 US$'000
Foreign exchange losses	**2,302**	1,460
Other expenses	**189**	127
	2,491	1,587

d. Selling, general and administration expenses

	2005 US$'000	2004 US$'000 Restated
Included in selling, general and administration expenses:		
Staff costs	**40,893**	27,910
Depreciation	**2,221**	1,684
Amortisation and impairment	**440**	3,956
Other operating expenses	**31,374**	25,275
	74,928	58,825

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 (2004: nil).

	2005 US$'000	2004 US$'000 Restated
Total staff costs:		
Wages and salaries	**359,860**	283,915
Social security costs	**23,494**	22,097
Defined contribution pension costs	**7,252**	6,823
End-of-service benefit costs (note 23)	**2,903**	1,849
Expense of share based payments	**897**	–
	394,406	314,684

The average number of persons employed by the group during the year in continuing operations was 6,598 (2004: 5,284).

Equity-settled transactions

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

In the year to 31 December 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 the year in relation to these equity-settled transactions (2004: nil).

Auditors' remuneration

(including out-of-pocket expenses)

	2005 US$'000	2004 US$'000
Audit fees	**651**	564
Fees for other services:		
Assurance services related to the Company's Initial Public Offering	**2,262**	–
Tax services	**154**	118
Other	**67**	105
	3,134	787

5 Finance costs/(income)

	2005 US$'000	2004 US$'000 Restated
Interest payable:		
Long-term borrowings	**5,954**	6,608
Other interest, including short-term loans and overdrafts	**1,938**	936
"A" ordinary shares	**556**	–
Total finance cost	**8,448**	7,544
Bank interest receivable	**(2,952)**	(1,644)
Other interest receivable	**(241)**	(353)
Total finance income	**(3,193)**	(1,997)

"A" ordinary shares

During the year, the conditions allowing the Company to call upon 3i Group plc (3i) to convert its unsecured variable rate loan notes to equity (as "A" ordinary shares) were satisfied (note 22(ix)). 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 and the date the "A" ordinary shares were reclassified as ordinary shares (note 20).

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 3.4% and 4.5% (2004: between 3.4% and 6.2%) dependent on the year of issue.

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2005 US$'000	2004 US$'000
Current income tax		
Current income tax charge	**13,495**	15,576
Adjustments in respect of current income tax of previous years	**(590)**	69
Deferred income tax		
Relating to origination and reversal of temporary differences	**(4,929)**	1,095
Adjustment in respect of deferred income tax of previous year	**(25)**	(41)
Income tax expense reported in Consolidated Income Statement	**7,951**	16,699

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.

b. Reconciliation of total tax charge (continued)

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:

	2005 US$'000	2004 US$'000 Restated
Profit from operating activities before income tax	**83,348**	62,736
At Jersey's domestic income tax rate of 20% (2004: 20%)	**16,670**	12,547
Profits exempt from Jersey income tax	**(16,670)**	(12,547)
Higher income tax rates of other countries, including withholding taxes	**17,212**	15,834
Adjustments in respect of previous periods	**(615)**	(91)
Tax effect of utilisation of tax losses not previously recognised	**(12,030)**	–
Unrecognised tax losses	**1,549**	–
Expenditure not allowable for income tax purposes	**2,328**	174
Tax recognised on unremitted overseas dividends	**(381)**	618
Other	**(112)**	164
	7,951	16,699

Tax effect of utilisation of tax losses not previously recognised

On 6 May 2005, Petrofac (Malaysia-PM304) Limited received formal approval from the Malaysian licensing authorities for the company's field development plan in relation to Block PM304, Malaysia and, as a consequence, recognised commercial oil & gas reserves. As a result of these developments, a tax credit of US$8,943,000 was recognised in the year ended 31 December 2005 relating to losses available within Petrofac (Malaysia-PM304) Limited. In addition, a further US$3,087,000 of project related tax losses, in various jurisdictions, were utilised in the year. These tax losses were previously unrecognised due to the uncertainty of utilisation of the losses.

c. Deferred income tax

Deferred income tax relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Deferred income tax liabilities				
Unremitted overseas dividends	**366**	817	**(378)**	775
Revaluation adjustment	**1,746**	–	**–**	–
Other timing differences	**1,009**	718	**363**	–
Gross deferred income tax liabilities	**3,121**	1,535		
Deferred income tax assets				
Losses available for offset	**9,088**	–	**(9,088)**	–
Group relief	**(4,853)**	–	**4,853**	–
Tax assets utilised	**33**	241	**192**	61
	4,268	241		
Decelerated depreciation for tax purposes	**808**	423	**(485)**	108
Other timing differences	**500**	118	**(411)**	110
Gross deferred income tax assets	**5,576**	782		
Deferred income tax (credit)/charge			**(4,954)**	1,054

d. Unrecognised tax losses

The group has tax losses arising in the US of US$33,883,000 (2004: US$32,978,000) and in the UK of US$4,192,000 (2004: US$36,480,000) that are available for offset against future taxable profits of the companies in which the losses arose, and a further US$1,549,000 (2004: US$3,087,000) of project related tax losses in various jurisdictions. As at 31 December 2005, deferred tax assets have not been recognised in respect of these losses due to the uncertainty of utilisation of these tax losses in future years (2004: nil).

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. By 31 December 2005, all physical work relating to residual projects within the business of Petrofac Inc. was complete, subject to a number of relatively minor commercial issues, principally relating to ongoing legal disputes.

The results of Petrofac Inc. are presented below:

	2005 US$'000	2004 US$'000
Revenue	**204**	13,750
Cost of sales	**(375)**	(26,039)
Gross loss	**(171)**	(12,289)
Selling, general and administration expenses	**(784)**	(1,043)
Other income	**80**	135
Loss from discontinued operation	**(875)**	(13,197)
Finance income, net	**60**	35
Loss before tax from discontinued operation	**(815)**	(13,162)
Income tax expense	**–**	–
Net loss attributable to discontinued operation	**(815)**	(13,162)

The major classes of assets and liabilities comprising the discontinued operation are as follows:

	2005 US$'000	2004 US$'000
Property, plant and equipment	**28**	28
Work in progress	**9**	347
Trade and other receivables	**1,131**	1,315
Other current assets	**–**	1,800
Cash and short-term deposits	**126**	217
	1,294	3,707
Assets classified as held for sale:		
Freehold land and buildings	**1,667**	3,678
Total assets	**2,961**	7,385
Trade and other payables	**25,373**	28,109
Accrued contract expenses and provisions	**–**	830
Accrued expenses and other liabilities	**62**	105
Total liabilities	**25,435**	29,044
Net liabilities of discontinued operation	**(22,474)**	(21,659)

Trade and other payables include US$24,742,000 (2004: US$26,290,000) payable to the Company.

Freehold land and buildings included in assets held for sale are valued at the lower of cost and fair value less costs to sell. An impairment provision of US$250,000 was recognised in the year ended 31 December 2005 (2004: nil) in relation to a freehold property, reflecting its anticipated fair value, net of selling costs. This charge is included within the selling, general and administration expense of US$784,000.

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. The weighted average number of shares used for calculating both basic and diluted earnings per share for 2004 have been restated to reflect the Company's 40:1 share split (note 20).

	2005 US$'000	2004 US$'000 Restated
Earnings per share (US cents):		
Basic from discontinued operations	**(0.27)**	(3.77)
Diluted from discontinued operations	**(0.24)**	(3.23)

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 and options on ordinary shares.

The weighted average number of ordinary shares used for calculating both basic and diluted earnings per share for 2004 have been restated to reflect the Company's 40:1 share split (note 20).

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

Continuing and discontinued operations

	2005 US$'000	2004 US$'000
Net profit attributable to ordinary shareholders for basic earnings per share	**74,582**	32,921
Income statement charge on variable rate unsecured loan notes (note 22 (ix))	**1,873**	2,611
Net profit attributable to ordinary shareholders for diluted earnings per share	**76,455**	35,532

Continuing operations

	2005 US$'000	2004 US$'000
Net profit attributable to ordinary shareholders for basic earnings per share	**75,397**	46,083
Income statement charge on variable rate unsecured loan notes (note 22 (ix))	**1,873**	2,611
Net profit attributable to ordinary shareholders for diluted earnings per share	**77,270**	48,694

	2005 Number '000	2004 Number '000 Restated
Weighted average number of ordinary shares for basic earnings per share	**304,141**	349,280
Convertible share warrants (note 20)	**39,361**	55,992
Ordinary share option	**1,134**	3,000
Unvested portion of LTIP shares	**166**	–
Adjusted weighted average number of ordinary shares for diluted earnings per share	**344,802**	408,272

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:

	2005 US$'000	2004 US$'000
Net loss attributable to ordinary shareholders from discontinued operations for basic and diluted earnings per share	**(815)**	(13,162)

9 Dividends paid and proposed

All dividend per ordinary share figures within this note reflect the Company's 40:1 share split (note 20).

	2005 US$'000	2004 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2004: 2.30 cents (2003: 0.36 cents)	**6,586**	1,315
2005 pre-listing dividend: 3.01 cents	**8,657**	–
	15,243	1,315

On 19 August 2005, a dividend of 40 cents per "A" ordinary share was approved for payment. Under IAS 32, and prior to the reclassification of the "A" ordinary shares to ordinary shares (note 20), the Company classified the "A" ordinary shares as a financial liability rather than as part of equity. As a consequence, the dividend paid on these "A" ordinary shares is recognised in the income statement as a finance cost.

	2005 US$'000	2004 US$'000
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2005: 1.87 cents (2004: 2.30 cents)	**6,454**	6,586

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	Total US$'000
Cost							
At 1 January 2004	–	121,076	11,504	17,095	6,425	11,112	167,212
Adjustment to opening balances	–	–	–	(650)	–	650	–
Additions	–	2,285	3,316	2,761	3,819	4,961	17,142
Acquisition of subsidiaries	–	–	9,210	2,431	106	–	11,747
Transfer attributable to discontinued operation	–	–	(4,382)	–	–	–	(4,382)
Disposals	–	–	–	(110)	(709)	(2,624)	(3,443)
Exchange difference	–	12	358	134	42	347	893
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 31 December 2005	**11,232**	**124,591**	**19,283**	**21,657**	**12,994**	**19,486**	**209,243**
Depreciation							
At 1 January 2004	–	(20,136)	(1,884)	(11,964)	(2,097)	(7,965)	(44,046)
Adjustment to opening balances	–	–	–	467	–	(467)	–
Charge for the year	–	(13,734)	(3,017)	(2,456)	(2,515)	(2,210)	(23,932)
Acquisition of subsidiaries	–	–	(168)	(560)	(32)	–	(760)
Transfer attributable to discontinued operation	–	–	704	–	–	–	704
Disposals	–	–	–	2	464	2,259	2,725
Exchange difference	–	(1)	(89)	(69)	(8)	(280)	(447)
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 31 December 2005	**–**	**(46,880)**	**(7,472)**	**(16,505)**	**(7,094)**	**(10,861)**	**(88,812)**
Net carrying amount:							
At 31 December 2005	**11,232**	**77,711**	**11,811**	**5,152**	**5,900**	**8,625**	**120,431**
At 31 December 2004	–	89,502	15,552	7,081	5,495	5,783	123,413

Oil & gas facilities include capitalised interest, net of depreciation, of US$2,927,000 (2004: US$3,421,000).

Of the total charge for depreciation in the income statement for continuing operations, US$24,370,000 (2004: US$22,142,000) is included in cost of sales and US$2,221,000 (2004: US$1,684,000) in selling, general and administration expenses.

11 Business combinations

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 cost of US$52,000. The consideration was settled in cash. The difference between the consideration paid and the fair value of assets acquired has been allocated as goodwill and is included in the Facilities Management cash-generating unit for the purposes of impairment testing. Included in the US$1,644,000 of goodwill recognised above 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 (note 22), 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 (note 22). 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 fair value and carried value of the identifiable net assets and liabilities acquired were as follows:

	US$'000
Property, plant and equipment	81
Trade and other receivables	1,083
Cash and short-term deposits	2,253
Total assets	3,417
Deferred tax liability	(11)
Trade and other payables	(841)
Total liabilities	(852)
Fair value of net assets acquired	2,565
Goodwill arising on acquisition (note 12)	3,761
	6,326
Cash outflow on acquisition:	
Net cash acquired with the subsidiary	2,253
Cash paid on acquisition	(6,326)
	(4,073)

Included in the US$3,761,000 of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature.

From the date of acquisition, Rubicon Response has contributed US$399,000 to net profit for the group. If the combination had taken place at the beginning of the year, net profit for the group would have been US$74,608,000 and revenue from continuing operations would have been US$1,485,655,000.

Chrysalis

On 1 April 2003, the group acquired the entire trade and assets and liabilities of Chrysalis Learning Limited (Chrysalis), a UK provider of training services, for consideration of US$29,000. The net liabilities of Chrysalis acquired on the date of acquisition were US$344,000. On 26 August 2004, the group paid an additional US$695,000 as earn-out consideration.

11 Business combinations (continued)

Petrofac (Malaysia-PM304) Limited

On 16 June 2004, the group acquired 100% of the issued and outstanding shares of Amerada Hess (Malaysia-PM304) Limited. Subsequent to the acquisition, the company name was changed to Petrofac (Malaysia-PM304) Limited (PM304). At the date of acquisition, PM304 held a 40.5% interest in a Production Sharing Contract (PSC) in Block PM304, Malaysia. The consideration for the acquisition was US$3,418,000 in cash with further cash consideration of US$4,450,000 due (note 24), contingent on the commercial production of oil from the block. No goodwill arose on this acquisition.

Under pre-emption rights contained within the PSC, PM304 entered into a sale and purchase agreement with a partner in the PSC for the sale of 10.5% of the PSC on, pro rata, the same commercial terms and conditions associated with the acquisition from Amerada Hess. The total consideration payable by the partner for the 10.5% share of the PSC is US$2,040,000 of which US$1,154,000 is deferred, contingent on commercial production of oil from the block.

The fair value of the identifiable assets and liabilities acquired, net of the pre-emption disposal, were as follows:

	US$'000
Intangible oil & gas asset	5,828
Inventories	369
Trade and other receivables	11
Cash and short-term deposits	4
Total assets	6,212
Trade and other payables	(20)
Other current liabilities	(364)
Total liabilities	(384)
Fair value of net assets acquired	5,828

Petrofac Training

On 12 February 2004, the group acquired 100% of the issued and outstanding shares of RGIT Montrose Holdings Limited, a leading provider of training and consultancy services to the upstream oil & gas exploration and production markets. Following the acquisition, the company changed its name to Petrofac Training Holdings Limited (Petrofac Training). Total consideration for the acquisition of the shares, inclusive of transaction costs of US$562,000, was US$17,236,000. The fair value of the identifiable net assets and liabilities of Petrofac Training acquired were as follows:

	US$'000
Property, plant and equipment	10,987
Goodwill	4,707
Other non-current assets	386
Trade and other receivables	7,259
Other current assets	2,508
Cash and short-term deposits	609
Total assets	26,456
Non-current interest-bearing loan notes	(8,678)
Deferred tax liability	(580)
Trade and other payables	(8,938)
Current interest-bearing loan notes	(1,159)
Other current liabilities	(3,409)
Total liabilities	(22,764)
Fair value of net assets acquired	3,692
Goodwill arising on acquisition (note 12)	13,544
	17,236

Included in the goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature.

Petrofac Training (continued)

Cash outflow on acquisition:

	US$'000
Net cash acquired with the subsidiary	609
Cash paid on acquisition	(9,728)
	(9,119)

The consideration was settled by a combination of cash and the issue of bank guaranteed loan notes. Interest is payable on the loan notes at UK LIBOR less 1% (note 22).

Kyrgyz Petroleum Company

On 29 January 2004, Petrofac Resources International Limited (PRIL), acquired a 50% interest in Kyrgyz Petroleum Company (KPC) from its subsidiary Kyrgoil Holding Corporation (KHC). PRIL indirectly held a 32.1% interest in KPC during 2004 to the date of acquisition, through its 64.2% investment in KHC. The agreed consideration for the acquisition was the cancellation of 50 million shares held in KHC and a cash payment of US$1,000,000. The fair value of the shares at the date of cancellation was US$3,562,000.

12 Goodwill

With effect 1 January 2005, following the prospective adoption of IFRS 3, the group has ceased to amortise goodwill and hereafter tests for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

A summary of the movements in goodwill is presented below:

	2005 US$'000	2004 US$'000
At 1 January, net of amortisation	**49,653**	26,376
Acquisitions during the year	**5,405**	19,118
Amortisation charge	**–**	(2,484)
Exchange difference	**(5,875)**	6,643
At 31 December, net of amortisation	**49,183**	49,653

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

- Facilities Management cash-generating unit (comprising Petrofac Facilities Management and Plant Asset Management)
- Training cash-generating unit (comprising Petrofac Training, Chrysalis Learning and Rubicon Response)
- Resources cash-generating unit (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 10 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 5 year impairment test period referred to in IAS 36. The cash flow projections are based on financial budgets approved by senior management covering a three-year period, extrapolated, thereafter at a growth rate of 5% per annum. Management considers this 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 unit

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 of the cash-generating units

	2005 US$'000	2004 US$'000
Facilities Management unit	**26,117**	27,849
Training unit	**20,849**	19,587
Resources unit	**2,217**	2,217
At 31 December	**49,183**	49,653

Notes to the consolidated financial statements
(continued)

At 31 December 2005

12 Goodwill (continued)

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 7 years of the 10 year projection period.

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

Discount rate: management has used a discount rate of 9.1% per annum throughout the assessment period, reflecting 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; and,
- Discount rate

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 9.9% and 17.0%.

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

Intangible oil & gas assets

	2005 US$'000	2004 US$'000
At 1 January	**6,721**	–
Additions	**4,825**	6,721
Transferred to tangible oil & gas assets	**(8,467)**	–
Exchange difference	**(97)**	–
At 31 December	**2,982**	6,721

On 6 May 2005, Petrofac (Malaysia–PM304) Limited received formal approval from the Malaysian licensing authorities for the company's field development plan in relation to Block PM304, Malaysia and, as a consequence, recognised commercial oil & gas reserves. As a result of this development, the carrying value of intangible assets associated with Block PM304 was transferred from intangible oil & gas assets to tangible oil & gas assets.

Intangible oil & gas assets at 31 December 2005 relate to the group's interest in two UK offshore oil & gas licences.

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. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities and operations, which are proportionately consolidated within these consolidated financial statements, are as follows:

	2005 US$'000	2004 US$'000
Revenue	**159,041**	229,237
Cost of sales	**(150,802)**	(251,690)
Gross profit/(loss)	**8,239**	(22,453)
Selling, general and administration expenses	**(883)**	(742)
Finance income, net	**21**	46
Profit/(loss) before income tax	**7,377**	(23,149)
Income tax	**(373)**	(224)
Net profit/(loss)	**7,004**	(23,373)
Current assets	**96,266**	99,154
Non-current assets	**12,314**	16,970
Total assets	**108,580**	116,124
Current liabilities	**100,276**	112,776
Non-current liabilities	**290**	132
Total liabilities	**100,566**	112,908
Net assets	**8,014**	3,216

15 Available-for-sale financial assets

	2005 US$'000	2004 US$'000
Shares – listed	**2,413**	4,104

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

16 Other financial assets

	2005 US$'000	2004 US$'000
Other financial assets – non-current		
Fair value of derivative instruments	**672**	6,394
Notes receivable from shareholders	**–**	3,342
Restricted cash	**–**	91
Other	**8**	1,378
	680	11,205
Other financial assets – current		
Restricted cash	**1,648**	17,587
Fair value of derivative instruments	**461**	17,371
Short-term notes receivable from shareholders	**414**	2,057
Other	**1,978**	828
	4,501	37,843

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

At 31 December 2005

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

	2005 US$'000	2004 US$'000
Cost and estimated earnings	**1,453,455**	820,360
Less: Billings	**(1,218,408)**	(711,323)
Work in progress	**235,047**	109,037

Billings	**210,582**	148,334
Less: Cost and estimated earnings	**(140,806)**	(76,179)
Billings in excess of cost and estimated earnings	**69,776**	72,155

18 Trade and other receivables

	2005 US$'000	2004 US$'000
Contract receivables	**290,313**	194,919
Retentions receivable	**5,408**	2,190
Advances	**18,256**	4,329
Prepayments and deposits	**9,213**	9,866
Other receivables	**2,526**	5,492
	325,716	216,796

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

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.

19 Cash and short-term deposits

	2005 US$'000	2004 US$'000
Cash at bank and in hand	**91,339**	45,169
Short-term deposits	**117,557**	98,365
	208,896	143,534

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$208,896,000 (2004: US$143,534,000).

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

	2005 US$'000	2004 US$'000
Cash at bank and in hand	**91,339**	45,169
Short-term deposits	**117,557**	98,365
Bank overdrafts (note 22)	**(6,055)**	(15,711)
	202,841	127,823

20 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:

	2005 US$'000	2004 US$'000
Authorised		
750,000,000 ordinary shares of US$0.025 each (2004: 15,000,000 ordinary shares of US$1.00 each)	**18,750**	15,000
Nil "A" ordinary shares of US$1.00 each (2004: 3,750,000 "A" ordinary shares of US$1.00 each)	**–**	3,750
Nil deferred ordinary share of US$1.00 (Class "B") (2004: 1 ordinary share Class "B")	**–**	–
Issued and fully paid		
345,159,920 ordinary shares of US$0.025 each (2004: 7,166,330 ordinary shares of US$1.00 each)	**8,629**	7,166
Nil deferred ordinary share of US$1.00 each (Class "B") (2004: 1 ordinary share Class "B")	**–**	–
	8,629	7,166

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

	Number
Ordinary shares	
Balance of ordinary shares of US$1.00 each at 1 January 2004	9,066,401
Issued during the year	346,617
Repurchased and cancelled during the year	(2,246,688)
Balance of ordinary shares of US$1.00 each at 31 December 2004	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 following the Company's 40:1 share split	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 31 December 2005	**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	–

During 2005, the Company issued 47,486 ordinary shares of US$1.00 each and 705,000 ordinary shares of US$0.025 each to Petrofac ESOP for a combined consideration of US$1,102,000.

Notes to the consolidated financial statements

(continued)

At 31 December 2005

20 Share capital (continued)

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).

During 2004, the Company issued 115,000 ordinary shares of US$1.00 each to the senior executives of Petrofac Training for a total consideration of US$1,511,000 and 231,617 ordinary shares of US$1.00 each to Petrofac ESOP for a total consideration of US$3,043,000.

On 21 October 2004, the Company repurchased 2,246,688 ordinary shares from two retiring senior executives for a total consideration of US$30,760,000. The premium on the share buy-back of US$28,513,000 has been deducted from the share premium account. The shares repurchased were cancelled.

Petrofac 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 movements in the warehousing of ordinary shares are noted below:

	2005 Number	2004 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**	231,617
Existing US$1.00 ordinary shares of the Company acquired by Petrofac ESOP	**185,989**	176,569
US$1.00 ordinary shares of the Company sold by Petrofac ESOP	**(198,100)**	(418,100)
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$1,398,000 (2004: US$2,784,000) has been credited to the share premium account of the Company. At 31 December 2005, Petrofac ESOP held 40,000 ordinary shares of US$0.025 each in the Company and, in respect of which, had an indebtedness to the Company of US$17,000 (31 December 2004: nil shares and indebtedness of nil).

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 (note 22), 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.

Employee share schemes

On 13 September 2005, conditional upon listing on the London Stock Exchange, the Company approved the establishment of three new employee share schemes, details of which are contained within the Directors' Remuneration Report. There have been no awards or commitments made in relation to these schemes either in the year or since the reporting date and before the completion of these financial statements.

21 Other reserves

	Net gains on available-for-sale financial assets US$'000	Net (losses)/ gains on derivatives US$'000	Foreign currency translation US$'000	Total US$'000
Balance at 1 January 2004	1,127	(1,020)	(1,910)	(1,803)
Foreign currency translation	–	–	3,598	3,598
Net loss on maturity of cash flow hedges recognised in income statement	–	486	–	486
Net changes in fair value of derivatives	–	23,498	–	23,498
Changes in fair value of available-for-sale financial assets	1,268	–	–	1,268
Balance at 31 December 2004	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)
Changes in fair value of available-for-sale financial assets	(1,048)	–	–	(1,048)
Balance at 31 December 2005	**1,347**	**(11,213)**	**(2,560)**	**(12,426)**

Nature and purpose of other reserves

Net gains on available-for-sale financial assets

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

Net (losses)/gains 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.

22 Interest-bearing loans and borrowings

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

		Effective interest rate%	Maturity	**2005 US$'000**	2004 US$'000
Current					
Loan notes	(i)	UK LIBOR - 1.00%	2005	**–**	7,699
Revolving credit facility	(ii)(a)	US LIBOR + 1.50%	on demand	**2,400**	3,250
Revolving credit facility	(ii)(b)	US LIBOR + 1.75%	2006	**6,500**	–
Short term loan	(iii)	KD Discount Rate + 2.00%	2006	**6,228**	–
Bank overdrafts	(iv)	UK LIBOR + 1.25%	on demand	**6,055**	15,711
Other loans:					
Project term loan	(v)	US LIBOR + 2.00%	2006	**7,000**	–
Non-recourse structured finance	(vi)	US LIBOR + 3.00%	2005	**–**	24,031
Current portion of Term loan	(vii)	5.48% to 6.20% (2004: 5.38% to 6.31%)	2006	**2,500**	–
				30,683	50,691
Non-current					
Revolving credit facility	(viii)	US/UK LIBOR +1.75%	2008	**8,077**	–
Term loan	(vii)	5.48% to 6.20% (2004: 5.38% to 6.31%)	2007-2011	**69,522**	68,838
Variable rate unsecured loan notes	(ix)	n/a (2004: 7.66%)	n/a (2007-2009)	**–**	40,250
Other loans:					
Project term loan	(v)	US LIBOR + 2.00%	2006	**–**	7,000
				77,599	116,088
Less:					
Debt acquisition costs, net of accumulated amortisation				**(1,412)**	(3,334)
Warrants, net of accumulated amortisation				**–**	(1,967)
				76,187	110,787

22 Interest-bearing loans and borrowings (continued)

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

(i) Loan notes

The loan notes related to deferred consideration associated with the acquisition of Petrofac Training. Interest accrued at the current prevailing 3 month UK LIBOR rate less 1.00%. On 30 June 2005 the loan notes were repaid in full using the group's term loan facility (vii).

(ii) Revolving credit facilities

(a) This revolving credit borrowing relates to US$ denominated borrowings.

(b) This facility, provided by The Royal Bank of Scotland/Halifax Bank of Scotland (RBOS/HBOS), is committed until 30 September 2006 and subject to annual review thereafter. Until 1 September 2005, the revolving credit facility was secured by a floating charge over certain of the group's assets. On 1 September 2005, this charge was released.

(iii) 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 June 2006 and subject to annual review thereafter.

(iv) Bank overdrafts

Bank overdrafts are denominated in Sterling. Until 1 September 2005, the bank overdrafts were secured by a floating charge over certain of the group's assets. On 1 September 2005, this charge was released.

(v) Project term loan

The project term loan relates to project funding provided for the group's Ohanet investment in Algeria and is repayable in full in April 2006.

(vi) Non-recourse structured finance

The group's non-recourse structured finance related to funding provided by GE Structured Finance for the Ohanet project in Algeria. This project facility was voluntarily prepaid in full on 7 April 2005.

(vii) Term loan

In October 2004, the group secured new term loan facilities with RBOS/HBOS. The term loan at 31 December 2005 comprised drawings of US$35,310,000 denominated in US$ and US$36,712,000 denominated in Sterling. Both elements of the loan are repayable over a period of five years commencing 31 December 2006. Until 1 September 2005, the term loan was secured by a floating charge over certain of the group's assets. On 1 September 2005, this charge was released.

(viii) 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 2008 to be repaid over a period of three years ending 30 September 2011. The drawing at 31 December 2005 comprised US$2,400,000 denominated in US$ and US$5,677,000 denominated in Sterling. Until 1 September 2005, the revolving credit facility was secured by a floating charge over certain of the group's assets. On 1 September 2005, this charge was released.

(ix) Variable rate unsecured loan notes

In May 2002, the group entered into an investment agreement with 3i pursuant to which 3i subscribed for US$40,250,000 of variable rate unsecured loan notes. Through the issuance of warrants associated with this investment agreement, the group granted an option to 3i 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 convert the variable rate unsecured loan notes to equity were satisfied. On 21 June 2005, the aggregate subscription amount was satisfied by the cancellation of the loan notes and the issue of "A" ordinary shares to 3i.

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.

23 Provisions

	End-of-service benefits US$'000
At 1 January 2005	5,912
Arising during the year	2,903
Utilised	(531)
At 31 December 2005	**8,284**

End-of-service benefits

Labour laws in certain countries in which the group operates require employers to provide for end-of-service benefits. These benefits are payable to employees at the end of their period of employment. The provision for end-of-service benefits is calculated based on the employees' final salary 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.

24 Other financial liabilities

	2005 US$'000	2004 US$'000
Other financial liabilities – non-current		
Fair value of derivative instruments	**1,097**	210
Deferred consideration on acquisitions	**–**	4,450
Other	**125**	2,217
	1,222	6,877
Other financial liabilities – current		
Fair value of derivative instruments	**10,502**	12
Deferred consideration on acquisitions	**4,450**	–
Interest payable	**858**	1,263
	15,810	1,275

25 Trade and other payables

	2005 US$'000	2004 US$'000
Trade payables	**91,490**	99,927
Advances received from customers	**64,170**	12,327
Accrued expenses	**49,652**	30,897
Other taxes payable	**9,936**	10,649
Other payables	**4,177**	4,134
	219,425	157,934

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$3,197,000 (2004: US$933,000).

26 Accrued contract expenses

	2005 US$'000	2004 US$'000
Accrued contract expenses	**362,609**	174,731
Reserve for contract losses	**861**	4,277
	363,470	179,008

At 31 December 2005

27 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 2005, the group had letters of credit of US$10,899,000 (2004: US$34,081,000) and outstanding letters of guarantee, including performance and bid bonds, of US$385,556,000 (2004: US$219,590,000) against which the group had pledged or restricted cash balances of, in aggregate, US$1,648,000 (2004: US$17,678,000).

At 31 December 2005, the group had outstanding forward exchange contracts amounting to US$381,003,000 (2004: US$185,619,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 29).

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:

	2005 US$'000	2004 US$'000
Within one year	**7,159**	4,667
After one year but not more than five years	**15,382**	13,963
More than five years	**8,501**	10,717
	31,042	29,347

Minimum lease payments recognised as an operating lease expense during the year amounted to US$7,212,000 (2004: US$4,255,000).

Capital commitments

At 31 December 2005, the group had capital commitments of US$3,410,000 (2004: nil).

On 24 January 2006, the group approved a commitment to construct a new office building in Sharjah, United Arab Emirates. The total value of this commitment, including the cost of land, is US$34,060,000.

28 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 30. 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	**2005**	**8,194**	**2,674**	**28,402**	**1,333**
	2004	11,656	14	20,361	1,428
Directors' loans	**2005**	**–**	**–**	**–**	**–**
	2004	–	–	528	–
Other directors' interests	**2005**	**–**	**30**	**–**	**2**
	2004	–	252	–	25

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.

Directors' loans

Directors' loans receivable include the following items:

	2005 US$'000	2004 US$'000
Loans advanced to directors for the purchase of participatory interests in ordinary shares	–	528

The loans advanced to directors of the Company for the purchase of participatory interests in ordinary shares in the Company through the Petrofac ESS carried interest at rates between 3.4% and 3.8%, dependent on the year of grant. The loans were repaid in full during 2005.

Directors' interests in 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.

Other Directors' interests

During the year the following payments were made to a related party for services provided to the group by a director of the Company:

	2005 US$'000	2004 US$'000
Purchases from related party	30	252
Amount owed by the group at 31 December	2	25

Other Directors' transactions

At the time of appointment in 2002, an agreement was reached between a director of the Company and 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.

On 21 October 2004, the Company repurchased 1,730,211 ordinary shares from a retiring director of the Company for a total consideration of US$23,652,000.

Petrofac Ohanet

Certain of the Company's directors held direct or beneficial interests in the holding company of Petrofac Ohanet. On 27 May 2005 the group acquired Petrofac Ohanet from its parent for cash consideration of US$2,400,000. The amount received in aggregate by the directors, either directly or beneficially, as a result of this transaction was US$1,437,000. The acquisition price was determined by a fixed price option that was established in May 2002.

Compensation of key management personnel

	2005 US$'000	2004 US$'000
Short-term employee benefits	4,249	2,993
End-of-service benefits	51	46
Share-based payments	169	–
Fees paid to non-executive directors	266	92
	4,735	3,131

29 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 2005, after taking into account the effect of interest rate swaps and caps, approximately 84.7% (2004: 67.6%) 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 eliminate 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.

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 2005, the group's five largest customers accounted for 69.8% of outstanding trade receivables and work in progress (2004: 62.6%).

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

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	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Financial assets				
Cash and short-term deposits	**208,896**	143,534	**208,896**	143,534
Restricted cash	**1,648**	17,678	**1,648**	17,678
Available-for-sale financial assets	**2,413**	4,104	**2,413**	4,104
Interest rate caps and swaps	**672**	53	**672**	53
Forward currency contracts	**–**	23,712	**–**	23,712
Forward currency purchase option	**461**	–	**461**	–
Other non-current financial assets	**8**	4,720	**8**	4,720
Other current financial assets	**2,392**	2,885	**2,392**	2,885
Financial liabilities				
Interest-bearing loans and borrowings	**106,870**	161,478	**106,870**	162,404
Deferred consideration	**4,450**	4,450	**4,450**	4,450
Interest rate swaps	**147**	210	**147**	210
Forward currency contracts	**11,452**	12	**11,452**	12
Other non-current financial liabilities	**125**	2,217	**125**	2,217
Other current financial liabilities	**858**	1,263	**858**	1,263

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.

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:

	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
Year ended 31 December 2005							
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
Year ended 31 December 2004							
Financial liabilities							
Floating rates							
Loan notes	7,699	–	–	–	–	–	7,699
Revolving credit facilities	3,250	–	–	–	–	–	3,250
Bank overdrafts	15,711	–	–	–	–	–	15,711
Non-recourse structured finance	24,031	–	–	–	–	–	24,031
Project term loan	–	7,000	–	–	–	–	7,000
Unsecured loan notes	–	13,417	13,417	13,416	–	–	40,250
Term loan	–	2,500	10,000	11,250	15,625	29,463	68,838
	50,691	22,917	23,417	24,666	15,625	29,463	166,779
Financial assets							
Floating rates							
Cash and short-term deposits	143,534	–	–	–	–	–	143,534
Restricted cash balances	17,587	91	–	–	–	–	17,678
	161,121	91	–	–	–	–	161,212

Financial liabilities in the above table are disclosed gross of debt acquisition costs of US$1,412,000 (2004: US$3,334,000) and warrant debt discount of nil (2004: US$1,967,000).

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.

29 Financial instruments (continued)

Derivative instruments designated as cash flow hedges

At 31 December 2005, 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	Duration	Commencement date	**2005 US$'000**	2004 US$'000
UK LIBOR interest rate swap	4 years and 9 months	31 December 2004	**(147)**	(70)
UK interest rate cap	3 years	31 December 2004	**5**	50
US LIBOR interest rate swap	3 years	31 December 2004	**667**	(140)
US interest rate cap	3 years and 4 months	31 January 2002	**–**	3

Foreign exchange risk

The functional currency of the group is US dollars. 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 2005, the group had foreign exchange contracts designated as cash flow hedges with a fair value loss of US$11,452,000 (2004: fair value gain US$23,700,000) as follows:

	Contract value		Fair value		Net unrealised (loss)/gain	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000	**2005 US$'000**	2004 US$'000
Euro currency purchases	**344,107**	179,125	**332,689**	202,676	**(11,418)**	23,551
Sterling currency purchases	**36,896**	6,494	**36,862**	6,643	**(34)**	149
					(11,452)	23,700

The group has also 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.

The above foreign exchange contracts mature between January 2006 and June 2007 (2004: between January 2005 and April 2006).

30 Subsidiaries and joint ventures

At 31 December 2005, 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		**2005**	2004
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*
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**	51
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**	n/a
Petrofac E&C International Limited	United Arab Emirates	**100**	n/a
Rubicon Response Limited	Scotland	**100**	n/a
Petrofac Resources (Ohanet) Jersey Limited	Jersey	**100**	n/a
Petrofac Resources (Ohanet) LLC	USA	**100**	n/a

* Directly held by Petrofac Limited

Notes to the consolidated financial statements
(continued)

At 31 December 2005

30 Subsidiaries and joint ventures (continued)

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group	
Joint ventures		**2005**	2004
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

31 Comparative amounts

Certain of the corresponding figures in the balance sheet for 2004 have been reclassified in order to conform with the presentation for the current year, primarily to reflect the separate disclosure of financial assets and liabilities and the reclassification of end-of-service benefits to provisions. Such reclassifications do not affect previously reported totals of non-current assets, current assets, non-current liabilities or current liabilities, nor do they affect previously reported net profit or shareholders' equity.

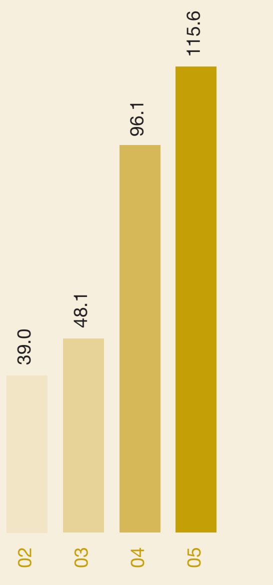
The table below summarises the reclassifications between the balance sheet line items affected.

	As reported 2004 US$'000	Reclassification US$'000	Restated 2004 US$'000
Other financial assets – non-current	–	11,205	11,205
Other non-current assets	11,205	(11,205)	–
Trade and other receivables	200,042	16,754	216,796
Other current assets	54,597	(54,597)	–
Other financial assets – current	–	37,843	37,843
	265,844	–	265,844
Other financial liabilities – non-current	–	6,877	6,877
Provisions	–	5,912	5,912
Other non-current liabilities	12,789	(12,789)	–
Trade and other payables	114,873	43,061	157,934
Accrued expenses and other liabilities	44,336	(44,336)	–
Other financial liabilities – current	–	1,275	1,275
	171,998	–	171,998

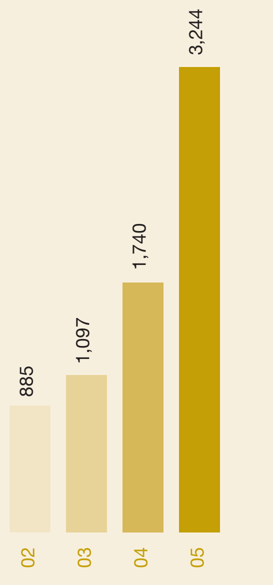
Four year summary[1]

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

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



EBITDA (US$ millions)



Backlog (US$ millions)

Shareholder information

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

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Beckenham
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2006 financial calendar*	
19 May 2006	Annual general meeting
31 May 2006	Final dividend payment
18 September 2006	Interim results announcement
November 2006	Interim dividend payment

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

Petrofac is a culturally diverse international company, united by shared values.

Petrofac people are:

- Safe
- Ethical
- Innovative
- Cost-conscious
- Responsive to customers

and focus relentlessly on delivering results

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