Petrofac

Driving business value

Annual report and accounts 2008

Driving business value

Petrofac is an international provider of facilities solutions to the oil & gas production and processing industries. By creating innovative commercial models to deliver services, supporting our people and developing long-term relationships, we drive business value for our shareholders, customers and employees.

We aim to generate sustainable growth in value for our shareholders by being the leading international provider of facilities solutions to the oil & gas processing industry. We aim to do this by:

- Maintaining and improving on high safety standards
- Focusing on regions with major hydrocarbon reserves where significant capital and operational expenditures are expected
- Improving revenue and earnings stability through a diversified and complementary business model
- Leveraging customer relationships by providing a range of services across the life cycle of an asset
- Expanding our established service offering into new countries and regions
- Attracting and retaining specialists and key personnel
- Generating predictable, long-term returns from a diversified portfolio of investments, leveraging the group's service capabilities in order to understand and manage better the risks involved
- Assisting customers in achieving their local content goals by accessing in-country resources and improving the competence and technical skills of local workforces
- Identifying, acquiring, integrating and developing complementary businesses where appropriate

Photograph: Mesaieed complex, Qatar

Contents

Overview

3 Financial highlights
4 At a glance
6 Creating
8 Supporting
10 Developing

Business review

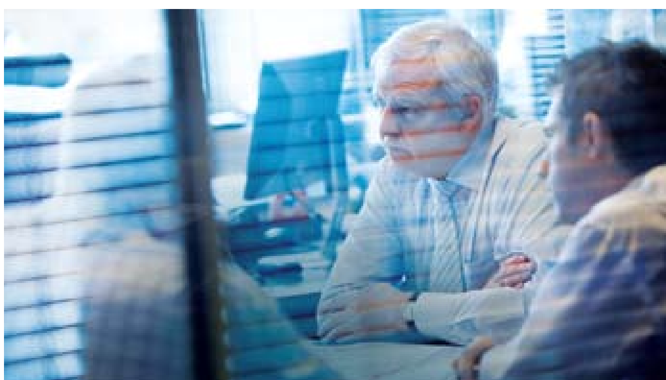
12 Chairman's statement
14 Interview with the Group Chief Executive
18 Management structure
20 Operating review
44 Financial review

Corporate social responsibility

49 Health safety, security, environment and integrity assurance
51 People
53 Community

Governance

56 Board of Directors
58 Senior management team
61 Corporate governance report
66 Directors' remuneration report
75 Statement of Directors' responsibilities



Financial statements

76 Independent auditors' report
77 Consolidated income statement
78 Consolidated balance sheet
79 Consolidated cash flow statement
80 Consolidated statement of changes in equity
82 Notes to the consolidated financial statements
119 Independent auditors' report (Petrofac Limited)
120 Company financial statements
132 Other financial information
133 Shareholder information

Delivering world-class results

Our results are driven by Petrofac people across the world creating opportunities, supporting our customers and developing long-term partnerships to drive value for our customers and shareholders.

Photograph: Sajaa gas plant, Sharjah, UAE

Overview

World-class results

Revenue
US$3,330m
2007: US$2,440m

+36%

Backlog
US$6,797m
2007: US$4,441m

+53%

EBITDA
US$419.0m
2007: US$301.3m

+39%

Earnings per share (diluted)
77.11 cents per share
2007: 54.61 cents per share
(as restated)

+41%

Net profit
US$265.0m
2007: US$188.7m

+40%

Return on capital employed
2007: 45.7%
(as restated)

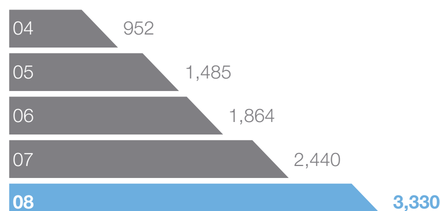
52.7%

Five year summary[1]

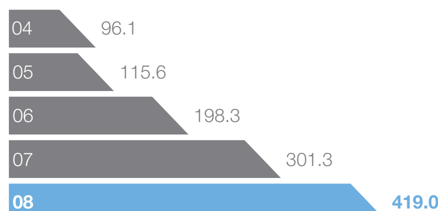
Information not subject to audit	2008	2007 Restated	2006 Restated	2005	2004 Restated
Revenues[2]	3,329,536	2,440,251	1,863,906	1,485,472	951,530
EBITDA[2]	418,952	301,259	198,349	115,634	96,065
Profit for the year[2,3]	264,989	188,716	120,332	75,397	46,083
Diluted earnings per share (cents)[2]	77.11	54.61	34.87	22.41	11.93
Total assets	2,269,821	1,748,007	1,401,847	986,650	729,357
Total equity	559,031	522,970	324,904	195,127	138,558
Average number of employees[2]	10,383	9,027	7,482	6,598	5,284
Backlog (US$ millions)	3,997+	4,441	4,173	3,244	1,740

1 In US$'000 unless otherwise stated. 2 On continuing operations. 3 Attributable to Petrofac Limited shareholders.
Adjusted to include US$2.8 billion of new contracts awarded between 1 January and 6 March 2009 (the date of approval of the 2008 Annual Report and Accounts). Subsequent to 6 March 2009, the group announced a further lump-sum EPC award for the El Merk project in Algeria, with a contract value of US$2.2 billion.
+ Not including new contracts awarded subsequent to 31 December 2008.

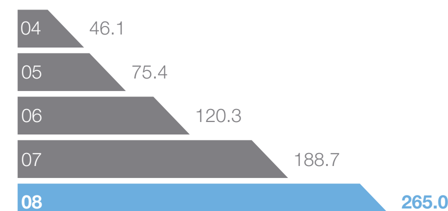
Revenue
US$ millions



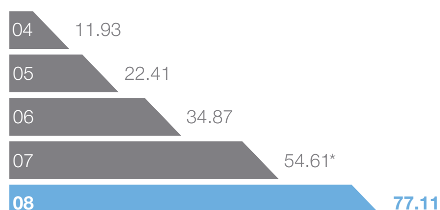
EBITDA
US$ millions



Profit
US$ millions

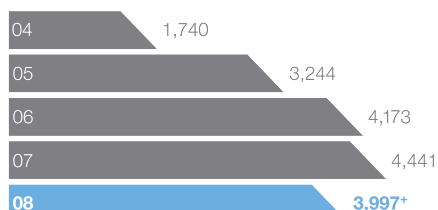


EPS (diluted)
cents per share



* as restated

Backlog
US$ millions



At a glance

Petrofac is a leading international provider of facilities solutions; we help the world's integrated, independent and national oil & gas companies to exploit oil & gas resources worldwide.

Engineering & Construction

Provides conceptual design, front end engineering design (FEED) and engineering, procurement and construction (EPC) of oil & gas plant and associated infrastructure.

2008 highlights include:

- The award of two EPC contracts in Syria worth approximately US$1 billion for the Jihar and Ebla gas treatment plants
- Award of follow-up work with Agip KCO on the Kashagan development in Kazakhstan
- Award of US$543 million lump-sum contract to engineer, procure and construct a 140km gas pipeline to the Mina Al-Ahmadi refinery in Kuwait
- Establishment of Petrofac Emirates, a joint venture with Mubadala Petroleum Services Company, in Abu Dhabi
- Establishment of a joint venture initiative with IKPT in Indonesia to focus on liquefied natural gas (LNG) projects

Employee numbers:
4,900

Operations Services

Works with customers through two separate business streams: Petrofac Facilities Management, which provides operational support; and Petrofac Training, which provides competency-based training for customers' personnel.

2008 highlights include:

- Completion of the first full year of operating Dubai Government's offshore oil & gas operations
- Acquisition of Eclipse Petroleum Technology and Caltec Limited, to strengthen our technical capability in the area of production enhancement
- Opening of new training centres on Sakhalin Island, in Houston and also in Dubai (via a joint venture with Dubai Petroleum)
- International expansion of our brownfield capability including two new contract awards in Abu Dhabi

Employee numbers:
5,800

Energy Developments

Provides the platform through which Petrofac invests alongside our partners to develop upstream and energy infrastructure projects, where we can add value through the deployment of the group's engineering and operations skills.

2008 highlights include:

- Continuing development of the West Don and Don Southwest fields in the UK North Sea, including the modifications to the Northern Producer floating production facility
- Reaching the milestone of 10 million barrels of oil produced from the Cendor field, offshore Peninsula Malaysia, in September
- Commencement of commercial production of gas from the Chergui field, Tunisia in August

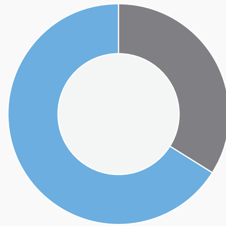
Employee numbers:
400

We have more than 11,000 employees operating out of five strategically located operational centres, in Aberdeen, Sharjah, Woking, Chennai and Mumbai and a further 19 offices worldwide. The predominant focus of our business is on the UK Continental Shelf (UKCS), the Middle East, Africa, the Commonwealth of Independent States (CIS) and the Asia Pacific region.

Petrofac's range of services meets our customers' needs across the full life cycle of oil & gas assets. We design and build oil & gas facilities; operate, maintain and manage facilities and train personnel; enhance production; and, where we can leverage our service capability, develop and co-invest in upstream and infrastructure projects.

Revenue
US$2,219m
2007: US$1,415m

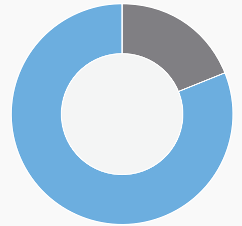
Percentage of group revenue
66%



+57%

Net profit
US$224.1m
2007: US$137.1m

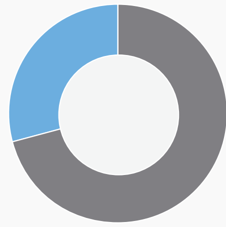
Percentage of group profit
81%



+63%

Revenue
US$982m
2007: US$911m

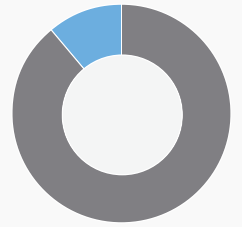
Percentage of group revenue
29%



+8%

Net profit
US$31.8m
2007: US$28.9m

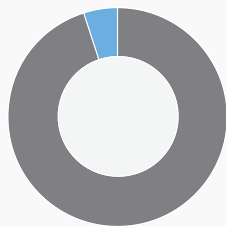
Percentage of group profit
11%



+10%

Revenue
US$153m
2007: US$133m

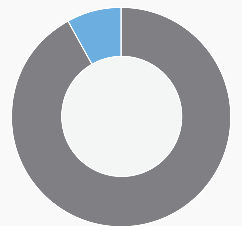
Percentage of group revenue
5%



+15%

Net profit
US$21.9m
2007: US$33.4m

Percentage of group profit
8%



–34%

Creating

Tough and hazardous environments demand innovative solutions. We strive to provide new and better services that drive business value for customers. From creating new technical answers to introducing entrepreneurial ways of working, including co-investment and other solutions to build competitive advantage – for ourselves and our customers.

Don development, UK North Sea

We refurbished the Northern Producer floating production facility in order to provide an innovative oil export solution which reduced offshore activities and shortened the project lead time. First oil is anticipated during the first half of 2009.

Photograph: Ebla, Syria

In Salah gas compression project

Demanding schedules, acceleration of material deliveries and logistical constraints are all familiar issues for Petrofac on fast-track projects, but when executed in the unforgiving environment of the central Saharan desert in Algeria they are a formidable undertaking. What differentiates Petrofac is our ability to handle the challenges by empowerment of project management and the sense of ownership held by every member of the team; ensuring we deliver every time.

Commercial innovation

Our innovative commercial solutions are designed to meet the needs of our customer and the project. These range from straightforward reimbursable arrangements, with or without an element of performance-based income, lump-sum turnkey agreements to co-investment with our customers in upstream and infrastructure projects.

Khalda gas processing plant, Salam gas trains 3 & 4

Together with Apache we have been able to support this project's local community by building and equipping two schools for local Bedouin children in the Matrouh area of the western desert in Egypt. During 2009 a further two schools will be built reinforcing our commitment to supporting the communities in which we operate.

Development of training centres

During the year we opened new centres on Sakhalin Island, in Houston, Dubai, Baku and in Kuala Lumpur, in addition to taking on the management and operational responsibility for the Chemical Process Technology Centre on Jurong Island, Singapore.

Acquisitions add value

The acquisitions of Eclipse and Caltec, which were completed during 2008, enhance our existing well operations expertise and provide us with new and valuable capability to deliver projects through our Production Solutions business unit on a gain-share or quasi-equity basis.

Photograph: Kittiwake platform, North Sea

Supporting

We help our customers to achieve their objectives, whether these are related to timescales, costs, safety, environmental factors or production targets. Supporting our people is integral to this goal. We help them to be safe, ethical and cost-conscious at all times, while also being a positive force in the communities in which we operate.

Developing

Developing long-term partnerships enables us to be responsive to customer needs. In the Middle East and Africa, many of our current projects can be traced back to relationships established in the 1990s. Our new organisational structure implemented in 2009 will ensure that we are more tightly focused than ever on delivering results.

Photograph: Kauther, Oman

Jihar and Ebla gas treatment plants, Syria

We secured two lump-sum engineering, procurement and construction awards for gas treatment plants in Syria, a country where we have considerable experience and many established relationships.

KOC facilities upgrade project

In Kuwait we are working closely with Kuwait Oil Company (KOC) and our construction partner Kharafi National to overcome significant safety challenges presented by the upgrade of facilities on a complex multi-location brownfield project, some parts of which are 50 years old.

Chergui, Tunisia

First gas was produced from the Chergui field in June 2008 with commercial gas sales commencing in August 2008 and work is currently underway to increase the plant's capacity by 25%. This complex project demanded the integration of many Petrofac teams, from investment through engineering, design, procurement and construction to the commissioning and, ultimately, the operation of the plant.

Chairman's statement

2008 was another outstanding year for Petrofac, as we again delivered record revenue and profits. Not only are we maintaining the trend for growth, but we are now winning business and executing projects of significant scale. Revenue grew by 36% to US$3,330 million during the year and net profits increased by 40% to US$265.0 million.

Market overview

2008 was a year of extraordinary turbulence and uncertainty in the global economy. Fuelled by the crisis in banking and a marked fall in confidence, the downturn is impacting businesses in most sectors worldwide.

The environment in our industry has, so far, remained broadly positive. Despite extreme volatility in the price of oil, which at one point during the year rose to US$147 per barrel before falling away to less than US$40 in December, continuing supplies of reasonably-priced energy will remain fundamental to world economic growth for many years to come.

Our progress

In the past year, we experienced strong demand for our services. Our Company is in a strong position financially with very little debt, substantial cash balances and a healthy order book that continues to position us very well for the future.

Petrofac is developing as a public company and now has the organisational capability, the leadership talent and an expanded engineering skills base to compete at the highest level. We have now joined an exclusive list of companies capable of participating in the largest and most challenging projects in our sector and executing them with a high degree of technical and commercial success.

As you will read elsewhere in this Report, our three divisions – Engineering & Construction, Operations Services and Energy Developments – have all reported significant progress.

This has been achieved through our proven technical capability, entrepreneurial business attitude and a focus on geographic regions where there are programmes of work in place that are not as susceptible to factors affecting the global economic environment and the cost of production is competitive. Driving our continued competitive advantage is a group-wide commitment to our people, to the environment and, crucially, to safety above all other considerations.

Dividends

The Board is recommending a final dividend of 17.90 cents per ordinary share, equivalent to 12.57 pence per ordinary share which, if approved, will be paid on 22 May 2009 to eligible shareholders on the register at 24 April 2009. Given the strong cash generation of the group, the Board has taken the decision to increase the percentage of earnings to be distributed by way of dividend to approximately 35% of full-year post-tax profits (previously 30%), which will continue to be paid approximately one-third as an interim dividend and two-thirds as a final dividend. Together with the interim dividend of 7.50 cents, equivalent to 4.09 pence, this gives a total dividend for the year of 25.40 cents per ordinary share, an increase of 55% over 2007.

Corporate governance and corporate social responsibility

The Board has continued to focus on corporate governance issues, ensuring that our processes are comparable to those recognised as best practice. We have also worked hard during the year to meet our responsibilities to the wider stakeholder community.

Some of the countries in which we operate are facing deep-seated challenges and we are committed to being a positive force wherever possible. In practical terms, this is frequently expressed through an increasing range of community support initiatives where our focus is primarily on education and training. We believe it is extremely important that we play a part in the advancement of the people and communities who interact with Petrofac. In many locations, young people do not have the opportunity to learn and to contribute to the development of their countries. From building schools to funding scholarships, Petrofac programmes are helping young people fulfil their potential.

Our people

Attracting, retaining and developing our people is both an enduring strength and an ongoing challenge. During the year, our numbers rose from around 9,800[1] to around 11,100 as we continued to invest in the technical skills as well as the leadership talent that will maintain our market-leading position.

We operate in difficult and challenging environments and I extend the Board's thanks to all of our employees who worked so tirelessly throughout 2008 to execute our projects with great skill and intelligence and with an unyielding focus on safety at all times.

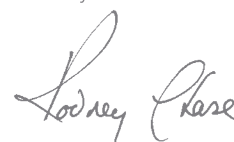
The Board

This has been a year of stability for your Board. No changes have been made to its composition since the 2007 Annual General Meeting (held on 16 May 2008).

Outlook

There is no doubting the severity of the global recession. I am confident, however, that our group is well placed to record good performance in 2009. Our year-end backlog and recent contract awards provide a sound operational and financial basis, and the prospects for the future are excellent.

In order to turn those prospects into performance, we will continue to work closely with customers, shareholders, partners and suppliers. I thank all of these stakeholders for their support in the past and look forward to sharing our success with them in 2009 and beyond.



Rodney Chase
Chairman

[1] Employee numbers include the group's share of joint venture employees.

Interview with the Group Chief Executive

Petrofac's Group Chief Executive, Ayman Asfari, comments on the progress made by the Company during 2008 and its plans for the future.

2008 was another very successful year for Petrofac. What are the main factors behind this achievement?
I am very proud of our performance during the year, which was the direct result of the expertise and commitment of our workforce around the world. Our people set themselves the highest standards and do their utmost to achieve them, at all times and on every project we work on.

Petrofac has always had an entrepreneurial culture and this is something that we strive to maintain. We try and do things differently and are open to new ideas and new commercial models that deliver more value for our customers, as well as for our shareholders. For example, we can provide our services through a number of commercial formats. From straightforward reimbursable arrangements with or without an element of performance-based income to lump-sum turnkey agreements, all the way through to co-investing with our customers in upstream and infrastructure projects where that meets their needs and ours.

Another important factor behind our success is the number of our people who own shares in the Company and therefore have a direct, personal interest in delivering long-term and sustainable value. More than 40% of our shares belong to employees and approximately one in five of our employees are either shareholders or participate in our share award schemes.

How is the economic downturn impacting on Petrofac?
Triggered by the liquidity crisis in the banking sector, the broader macroeconomic environment clearly changed very dramatically during the second half of 2008 and, although governments across the world have taken concerted action to support the banking system and to stimulate demand, confidence remains low and the near-term prospects for the global economy continue to be uncertain. In response to rapidly falling forecasts of economic activity, all commodity prices, including oil, have fallen dramatically from the all-time highs hit last year.

Against this extremely challenging backdrop I am pleased to say that Petrofac remains in a strong position and, although we cannot ignore external circumstances, I believe we are very well-placed to maintain our growth. Our geographic focus, particularly in the Middle East and Africa, where the cost of oil production is relatively low, the extensive long-term relationships we have established with world-class national and international oil companies and our competitive cost structure all put us in a strong competitive position as we have shown by our continuing success in winning new business.

What have been the key events of 2008?
The Engineering & Construction division continued to execute projects with great skill and resourcefulness. 2008 saw many impressive achievements, including the securing of a major contract to engineer, procure and build a gas pipeline to the Mina Al-Ahmadi refinery in Kuwait and new contracts to construct gas treatment plants for the Ebla and Jihar projects in Syria.

In Operations Services, we completed our first full year of operating Dubai's offshore assets. While our operations continue to progress well, sadly, a helicopter incident occurred approximately 70 kilometres off the Dubai coast on 3 September 2008. There were no Petrofac personnel onboard but the two aircrew and five passengers, who worked for companies contracted to Dubai Petroleum, all lost their lives. This was a terrible tragedy, and the investigation by the authorities in Dubai to identify the cause is still ongoing. We work in some challenging environments and incidents like this show why the safety of our people and all those impacted by our operations is absolutely key to everything we do at Petrofac.

During 2008, Operations Services finalised arrangements to provide turnkey operations services on the Northern Producer, the floating production facility on the Don fields in the North Sea which are being developed by our Energy Developments business, and extended our Duty Holder contracts with BHP Billiton (Irish Sea Pioneer) and Venture Production (Kittiwake).

Energy Developments made significant progress with the Don fields during the year and first oil is expected during the first half of 2009. In Tunisia, the commercial export of gas from the Chergui plant commenced in August. We have been able to expand the plant capacity by more than 20% and have delivered higher than expected productivity from the reservoir. As a result we are negotiating a revised higher volume gas sales contract with the offtaker.

What does the sales pipeline look like for 2009 and beyond?
It continues to look very good indeed. Our customers, especially those in our key geographies of the Middle East and North Africa, are making long-term decisions based on relatively low long-range forecasts for oil prices. So far in 2009 we have secured contract awards of around US$2.8 billion* (see page 32).

Looking at the medium-term, where and how do you expect Petrofac to grow?
For the last five years, we have achieved very healthy growth in revenue in excess of 35% per annum and I believe we can maintain good growth over the medium-term, considering the strength of our backlog and the visibility this gives to our earnings.

We will retain our focus on the Middle East and Africa, the Commonwealth of Independent States, the UK Continental Shelf (UKCS) and the Asia Pacific region. These are areas where we have a wealth of established relationships and a proven track record. We will continue to grow organically as well as through selective acquisitions that add depth and breadth to our capability.

* Subsequent to the approval of the 2008 Annual Report and Accounts by the Directors on 6 March 2009, the group announced a further lump-sum EPC award for the El Merk project in Algeria, with a contract value of US$2.2 billion. This takes the total of the group's new contract awards in 2009 to US$5.0 billion.

Interview with the Group Chief Executive continued

In what way will the strategy develop over the short to medium-term?

Our strategy is clear and unchanged. We will maintain our focus on oil & gas while also broadening our capability into areas such as offshore engineering and liquefied natural gas as well as expanding our geographic footprint into markets including Saudi Arabia and West Africa.

This strategy is delivering tremendous opportunities for organic growth, however, at the same time, we will continue to look for acquisitions that fit with our strategic objectives. Caltec and Eclipse came into the group in 2008 and I am pleased to say that both are adding valuable depth to the services we provide to our customers and have improved our capability to deliver projects through the Production Solutions business unit using a gain-share model.

Partnership will also remain a key element in the strategy. The year saw us form joint ventures in Indonesia with IKPT and in Abu Dhabi with Mubadala Petroleum Services Company.

Are you making progress on providing more integrated capabilities to projects?

Many customers are keen to access a wider range of our services on specific projects and we have continued to work hard to integrate our capabilities more closely.

There are numerous examples of our three divisions working together to deliver benefits to customers. For example, at the Chergui gas plant in Tunisia we are not only co-investing, thereby sharing the risk and aligning ourselves with our customer's interests, but we have also provided engineering, design, procurement and build expertise and are currently supporting the ongoing operations.

Through Production Solutions, a new business unit created by our recent restructuring, we are now extending the group's offering by packaging our services and delivering them to customers on a quasi-equity or gain-share basis, where our returns are directly related to the value added to the customer through enhanced production.

What is the rationale behind the recent restructuring?

The new organisational structure that was implemented on 1 January 2009 will be the basis for growth in the medium-term. A key driver for our current success has been our differentiated offering in the marketplace and it is important that we build on this model by promoting collaboration and co-operation between our various business units.

Following extensive debate among the executive team and senior management throughout 2008, it became clear that we needed to evolve our structure in order to improve integration and create a broader platform for growth. The new structure is outlined in detail on pages 18 and 19.

How would you summarise the year and the outlook?

Overall, 2008 was an excellent year for Petrofac. Our backlog, continued geographic focus, new structure and strong bidding pipeline combined with the commitment and dedication of our people around the world are the foundations for what I believe will be a very successful future.

Ayman Asfari
Group Chief Executive

1. Northern Producer, Don field
2. Ebla, Syria
3., 4. Chergui, Tunisia

Management structure
1 January 2009

Ayman Asfari*
Group Chief Executive

Maroun Semaan*
Group Chief Operating Officer

Robin Pinchbeck
Group Director of Strategy and Corporate Development

Subramanian Sarma
Managing Director
Engineering & Construction

From our headquarters in Sharjah UAE, and with support from several other regional engineering offices, Engineering & Construction provides tailored and integrated engineering, procurement and construction (EPC) solutions for onshore projects while adhering to strict principles of safety and quality of design. We provide project execution services through a variety of contracting models to suit the individual requirements of the customer and the projects, with most of our current portfolio of projects being undertaken on a lump-sum turnkey basis.

Marwan Chedid
Managing Director
Engineering & Construction Ventures

As part of our value offering to customers, Engineering & Construction Ventures has established strategic companies and joint ventures with complementary organisations in order to drive growth in new markets and across new product lines. Already adding value to Petrofac's suite of services, the three key elements of Engineering & Construction Ventures are:

- Petrofac Emirates – a joint venture with Mubadala Petroleum Services Company in Abu Dhabi
- Petrofac IKPT – a joint venture with Indonesia's IKPT pursuing LNG opportunities
- Petrofac Saudi Arabia

Rajesh Verma
Managing Director
Engineering Services

Drawing on extensive engineering, construction, procurement and operations experience, our engineering services blend practical experience with the latest advances in technical innovation across conceptual, front end engineering and detailed design. With a pool of resources that includes a full range of discipline engineers and specialists, we work closely with our customers to establish project teams with the optimum combination of skills and experience. Our aim is to ensure that the best development solution is identified in order to provide maximum value to our customers.

*Executive members of the Petrofac Limited Board.

At the end of 2008 we announced a restructuring within our group which took effect on 1 January 2009. The structure has been created to improve integration and provide a platform for future growth. Our services are now delivered through seven business units, five of which are led by Maroun Semaan as Group Chief Operating Officer, and the other two, by Amjad Bseisu, Chief Executive, Energy Developments.

Group Chief Executive's Committee

Keith Roberts*
Chief Financial Officer

Richard Milne
Group Director of Legal and Commercial Affairs

Amjad Bseisu*
Chief Executive
Energy Developments

Bill Dunnett
Managing Director
Offshore Engineering & Operations

We provide a full range of services including operations management, offshore engineering, construction and maintenance:

- Brownfield – provides engineering & construction modifications for brownfield sites; and through Atlantic Resourcing, provides an international recruitment and selection service
- Operations Management – offers a variety of facilities management solutions for both on and offshore installations
- Offshore Engineering & Projects – delivers project management and engineering services to the offshore and sub-sea development market

Leigh Howarth
Managing Director
Petrofac Training

We have capabilities in three core areas: the provision of competence-led training services; consultancy services to identify or assess competency gaps or risks within an organisation; and outsourced tailored management solutions. Our integrated approach to training and competence enables our customers to achieve competent, safer and more efficient workforces. With a global footprint we operate or manage a total of 16 training centres in eight countries and annually train more than 50,000 individuals in the areas of safety, technical, operations and emergency response while managing the training requirements for many thousands more on behalf of our customers.

Gordon East
Managing Director
Production Solutions

We offer our customers a single-point of access to a wide range of production improvement services provided under value-aligned commercial structures. Our specialist engineers and consultants use innovative technologies, combined with knowledge and experience, to help improve production, profitability, operational efficiency, asset integrity and the recovery of marginal reserves. Our specialist service providers, Eclipse, Caltec, i-Perform, SPD and Plant Asset Management enable us to provide services either independently or as part of a wider integrated service.

Rob Jewkes
Managing Director & EVP
Project Development & Operations
Energy Developments

We co-invest in oil & gas production, processing and transportation assets, leveraging the extensive engineering and operations capability of the Petrofac group to better understand and help mitigate development risks, and enhance project returns in complete alignment with our partners. Our Energy Infrastructure and Upstream teams bring considerable technical, operational, commercial and asset management skills backed by the strong financial resources of the group.

Operating review

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

Photograph: Mesaieed complex, Qatar

Strategy

Petrofac aims to generate sustainable growth in value for its shareholders by leveraging its core competencies, being the ability to engineer, build and operate oil & gas infrastructure, and the ability to create and deliver value-adding investments.

This means:

working to world-class standards

focusing always on customer satisfaction

respecting the environment and being sensitive to the communities in which the group works

promoting and rewarding on merit

Strategy continued

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

Maintaining and improving on high safety standards

- Petrofac operates in some difficult and hazardous environments and the safety of the group's people is paramount at all times
- In 2008, the group's employees and subcontractors completed 67 million man-hours (2007: 60 million) of activity. The group's recordable incident frequency rate was 0.32 per 200,000 man-hours (2007: 0.35). For the sixth year in a row this frequency rate has reduced. The group's lost time injury frequency rate was 0.03 (2007: 0.07) which compares well with industry published data; however, further action is being taken to continue to improve performance
- The group's health and safety performance is reviewed in full on pages 49 and 50 in the Corporate Social Responsibility Report

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

- The group is increasingly focused on the provision of an integrated service, which was a major driver of its recent group reorganisation (see pages 18 and 19 for details). For example:
  - In Tunisia, the Chergui gas plant, in which Energy Developments has a 45% operated interest, achieved first gas in June 2008, less than 18 months from investing in the project. The project required the completion of a part-built gas plant on Kerkennah Island and construction of a 60km pipeline, approximately half of which is beneath the sea. The Engineering & Construction division project-managed the completion of the pipeline and facilities, while the Operations Services division provided emergency response and health and safety training, commissioned the plant and is now operating the completed development
  - In the UKCS, the group's businesses are working together to bring the Don Southwest and West Don projects onstream (through Energy Developments, the group has a 60% interest in Don Southwest and a 28% interest in West Don). In January 2008, Energy Developments announced that it had signed an agreement, as operator, on behalf of itself and its co-venturers, for the provision of the Northern Producer floating production facility. Modifications to the Northern Producer were carried out during the year to refurbish and extend the life of the vessel, which was safely moored on location in November 2008. The Operations Services division will provide operations services and will be the Duty Holder for the Northern Producer. The Engineering & Construction division continues to manage the sub-sea infrastructure scope. The Don projects remain on budget and on schedule to achieve first oil during the first half of 2009

Generating predictable, long-term returns from a diversified portfolio of investments, leveraging the group's service capabilities in order to understand and manage better the risks involved

- The Energy Developments division provides the platform through which customers can access the group's services under innovative commercial structures that ensure complete alignment. The division delivers investment support on upstream and infrastructure projects where the group is providing engineering and construction or operations services. Through being a hands-on investor, the group is able to better understand and manage the risks involved and therefore earn a differentiated return
- Energy Developments continues to appraise a number of upstream and energy infrastructure opportunities. The group has a strong balance sheet and is well placed to take advantage of any appropriate opportunities that may arise from the current operating environment
- Details of Energy Developments' existing portfolio are included on pages 36 and 37

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

- The group remains focused on its key markets of the UKCS, the Middle East and Africa, the Commonwealth of Independent States (particularly the Caspian region) and the Asia Pacific regions
- While there are many attractive opportunities in other regions, these key areas account for approximately 70% of the world's proven oil reserves and 85% of its gas reserves[1] and significant capital and operational expenditures are expected to be focused in these regions. The group considers there to be more than enough opportunities in its core markets to underpin its medium to long-term growth plans

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

- As noted in the 2007 Annual Report, Saudi Arabia was identified as a potentially significant market for the Engineering & Construction division over the medium to long-term. The division was actively bidding for projects in the Kingdom during 2008 and was awarded a project with Saudi Aramco in early 2009 for the utilities and cogeneration package for the Karan gas development. The division has established a subsidiary in-Kingdom and aims to develop a long-term engineering and project management capability in the Kingdom
- In September 2008, the Engineering & Construction division announced the establishment of Petrofac Emirates, a joint venture with Mubadala Petroleum Services Company LLC, a wholly owned subsidiary of Mubadala Development Company. Petrofac Emirates will be based in Abu Dhabi and will provide a full range of engineering, design, procurement and construction services for onshore oil & gas, refining and petrochemical projects throughout the United Arab Emirates. Selected management and engineering staff from the Engineering & Construction division in Sharjah will be assigned to the joint venture in order to help establish its initial business structure and operating procedures. With a strong bidding pipeline of opportunities in Abu Dhabi, the division expects to have a world-class engineering centre in Abu Dhabi with several hundred full-time staff within the next few years
- In January 2009, the Engineering & Construction division announced a US$2.3 billion award with Abu Dhabi Company for Onshore Oil Operations (ADCO) (see page 32), which will help the division to establish what it hopes will be a long-term and successful business in the Emirate

1 As per the Energy Information Administration of the US Department of Energy, as at 9 February 2009. Oil reserves include 173 billion barrels of Canadian oil sand reserves.

01
Maintaining and improving on high safety standards

02
Leveraging customer relationships

03
Generating predictable, long-term returns from a diversified portfolio of investments

04
Focusing on regions with major hydrocarbon reserves

05
Expanding Petrofac's established service offering into new countries and regions

06
Assisting customers in achieving their local content goals

07
Improving revenue and earnings stability

08
Attracting and retaining specialists and key personnel

09
Developing complementary businesses

Strategy continued

Assisting customers in achieving their local content goals by increasing the use of local resources and improving the competence and technical skills of national workforces

- A key factor in the delivery of strong execution performance is the group's engagement with local resources, through recruiting in the local market and establishing long-term relationships with local subcontractors, particularly construction subcontractors. These relationships increase the local content on projects and ensure that the group operates responsibly through improving the competence and skills of local workforces
- Petrofac Training plays an important role in developing the competence and technical skills of national workforces. During the year, Petrofac Training continued to expand the international delivery of its competence-led training services, including: the opening of a new technical training centre on Sakhalin Island; the opening of a health and safety and major emergency management training centre in Houston; securing a contract, for a minimum of three years, to manage the Chemical Process Technology Centre (CPTC) in Singapore; and, establishing the Dubai Petroleum Training Centre (DPTC), a joint venture with Dubai Petroleum. The Training business now manages 16 training facilities in eight countries

Improving revenue and earnings stability through a diversified and complementary business model

- The majority of the group's large-scale engineering, procurement and construction (EPC) contracts are executed on a lump-sum basis, though the construction elements of these contracts may alternatively be undertaken on a reimbursable or fee basis (construction management). Large-scale EPC contracts typically take two to three years to complete
- Operations, maintenance and training services and conceptual, front-end and offshore engineering services are typically delivered on a cost-plus/reimbursable basis; however, a growing contribution from these services is linked to the achievement of key performance indicators (KPIs). Many of these contracts are long-term (typically three to five years) and in the case of the group's operations management (for example, Duty Holder) contracts, are often life-of-field
- Through Energy Developments, the group is prepared, selectively, to invest its own capital, alongside that of its customers and partners and, in so doing, ensure complete alignment with the objectives of a development. Such exposure to the risks, as well as rewards, of a development's performance can be structured in a number of ways, including quasi-equity structures or direct equity investments

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

- Although skilled personnel have been in unprecedented demand, the group has been successful in growing its employee base from approximately 9,800 at 31 December 2007 to approximately 11,100 at 31 December 2008
- The majority of the growth has been in the Engineering & Construction division, where employee numbers have increased to approximately 4,900 (31 December 2007: 3,900[1]). The group has achieved this strong growth through:
  - Accessing international labour markets, including through graduate recruitment, in particular in the Middle East, the Indian Subcontinent and Asia, for example:
    - The group opened a new office in Chennai in April 2007 to support the Engineering & Construction division, which now has over 450 employees and is considering further new office locations in India
    - In early 2008, the Engineering & Construction division agreed to establish a joint venture with IKPT, an Indonesian engineering and construction company. The joint venture will provide project management, engineering, procurement and construction management services for oil, gas and petrochemical projects outside Indonesia
  - The management of employee attrition by focusing on promoting and rewarding on merit, expanding employee share ownership (see page 51 for details), the group's commitment to training, its involvement in world-class projects and exciting prospects for continued growth
- The group has taken steps to broaden the group's senior management, which is critical to the group's plans for further growth. One such appointment during the year was the new position of Group Head of Human Resources (HR), who will assist the group in further developing its HR strategy, including timely consideration of succession management
- Going forward, the group may look to benefit from any softening in the recruitment market as a result of the recent change in the general business environment, particularly in Engineering & Construction, where the division may look to increase headcount, particularly in relation to its construction management capability
- As noted on page 34 and below, the group made two acquisitions during the year, which, while not adding a large number of employees, brought highly skilled production engineering and technology specialists into the group

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

- As well as strong organic growth, the group has a history of broadening its capability through the acquisition of complementary businesses
- In July 2008, the group completed the acquisition of Eclipse Petroleum Technology Limited (Eclipse), a production engineering specialist, for an initial consideration of £7 million. Eclipse's life-of-field services include: field development, production modelling and optimisation, well lifecycle risk management and petroleum engineering functional consulting
- In August 2008, the group completed the acquisition of Caltec Limited (Caltec) for an initial consideration of £15 million. Caltec is a specialist production technology company with products aimed at the enhancement of production from mature fields. These include the Wellcom system which boosts production flowrates by splitting and separately boosting the components of multi-phase flows and the I-SEP system which separates gas and liquids utilising only the energy from the incoming process stream
- These recent acquisitions complement the well construction and well management services provided by SPD Group, which was acquired in January 2007 and, along with other existing group businesses, will offer the group's customers significant production, recovery and longevity improvements, particularly for mature fields, as part of the newly formed Production Solutions business

1 Including the group's share of around 100 joint venture employees.

1. Mechanical Services Centre, Dubai
2. En route to Cendor MOPU offshore facility, Malaysia

Key performance indicators

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

Return on capital employed (ROCE)

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

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

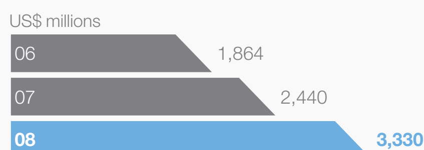
%

Revenue

Measures the level of operating activity and growth of the business.

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

US$ millions

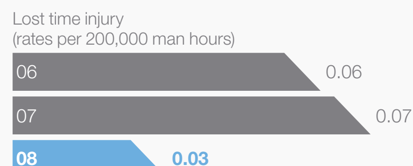


Lost time injury and recordable injury frequency rates

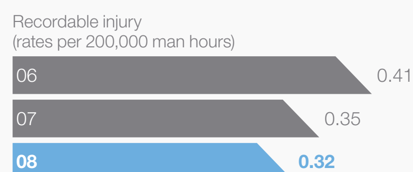
Provides a measure of the safety performance of the group, including partners.

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

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



Recordable injury
(rates per 200,000 man hours)

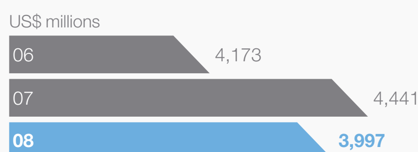


*as restated

Backlog

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

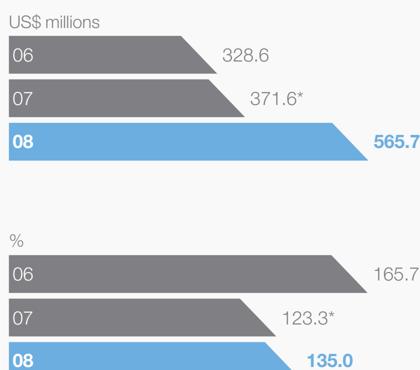
Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering services and facilities management contracts, the estimated revenue attributable to the lesser of the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



Cash generated from operations and cash conversion

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

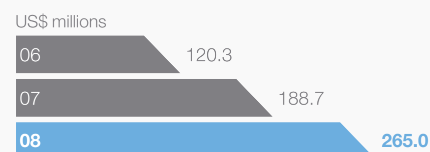
Cash generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA.



Net profit

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

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



Employee numbers

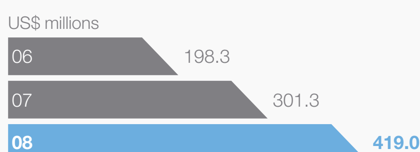
Provides an indication of the group's service capacity.

For the purposes of the Annual Report, employee numbers include agency, contract staff and the group's share of joint venture employees (in previous years the Annual Report has excluded the group's share of joint venture employees, however, these may become material following joint venture relationships established during the year).

EBITDA

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

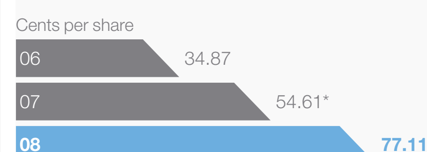
EBITDA is calculated as profit before tax and net finance income (as per the consolidated income statement) adjusted to add back charges for depreciation, amortisation and impairment charges (as per note 3 to the financial statements).



Earnings per share (diluted) (EPS)

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

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



*as restated

Key risks and uncertainties

There are a number of risks and uncertainties which may have an impact on the accuracy of forward-looking statements, the financial performance of the group and its share price. These are explained below, along with the approach to managing the risk or uncertainty.

The list below does not purport to be exhaustive. There may be other risks and uncertainties, not presently known to the group or that the group currently deems to be immaterial, that could affect the performance of the business.

Operational risk

Performance of contracts

The group's financial performance could be materially affected by the performance of a relatively small number of large contracts, particularly those which are lump-sum. Furthermore, the group's operational performance is important in maintaining its reputation for successful project delivery. The group has a strong track-record of successful project execution which reflects its rigorous approach to risk identification and mitigation, from tender through to project completion. An internal control framework, which exists to ensure that the quality, schedule and budget of projects, is regularly reviewed. The progress made on key projects is formally reported to the Board and senior management on a regular basis. As regards financial performance, the group does not recognise profits in the early stages of lump-sum contracts and maintains contingencies to cover any estimated excess of contract costs over related revenues.

Loss of essential executive or project staff

The availability of skilled personnel remains one of the most significant challenges facing the oil & gas industry. The group remains confident that its efforts to promote and reward on merit, targeted employee share ownership, management and technician training programmes and recruitment strategies, access to international labour markets, in particular the Middle East, Indian Subcontinent and Asia, involvement in world-class projects and exciting prospects for continued growth will enable the group to attract and retain the necessary skilled personnel to undertake its projects in hand. The availability of skilled personnel may ease over the short-term due to the recent change in economic conditions and the group will assess opportunities to increase headcount where appropriate.

Health, safety and environmental performance

Petrofac's strong culture of health, safety and environmental (HSE) awareness is central to its operational and business activities and is vital to the group's system of business management and integral to delivery of quality and business excellence. Particularly, as the group enters new geographical markets, sometimes with new customers and partners, and assumes responsibility for new infrastructure, it is imperative that its focus on HSE is maintained. The group's financial exposure to a significant HSE incident is generally mitigated through its commercial arrangements and insurance programme, though an incident may have a financial impact on the group's KPI income. The group's main exposure to such an incident is the reputational risk.

Business continuity

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

Regulatory/compliance risk

Breach of legal or regulatory code

The group recognises the potential financial and reputational risk that could result from a failure in its system of internal controls, particularly with respect to HSE, employment law, taxation, Listing Rules, ethical standards, bribery, corruption and fraud. As noted in the Corporate Governance report on pages 61 to 65, the group operates a number of policies and procedures to address these risks, including a recently revised Code of Business Conduct.

Market risk

Level of demand for the group's services

The demand for the group's services is linked to the level of expenditure by the oil & gas industry. However, as noted in the section 'Operating Environment', while there is some short-term uncertainty due to the wider economic climate, the group expects the demand for its services to remain robust over the long-term. The group's recent success in securing new and substantial contract awards gives it good visibility of revenues through to 2011.

Change of political, social or economic factors in key regions

Petrofac and its predecessor companies have more than 25 years of experience of working in international markets. A detailed risk review process is undertaken when assessing whether the group should enter into a new contract or country, which is designed to ensure that key risks are identified and monitored and appropriate mitigating actions taken. The group remains exposed to country-specific risks, such as a change in taxation regime, however, the diversity of the group's geographical footprint, the commercial terms of its contracts and, where considered appropriate, its insurance framework, all mitigate against country-specific risks.

Cost inflation

While the majority of the costs of operations and engineering services contracts are reimbursed by customers, either on an actual cost basis or through a periodically revised schedule of rates, the group's largest exposure to cost inflation is in its provision of lump-sum Engineering & Construction services. These exposures are managed before and after bid submission as follows:

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

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

Exchange rates

While the group operates in a number of diverse geographical locations, the majority of its revenues are denominated in US dollars or currencies pegged to the US dollar. In contracts priced in US dollars (or currencies pegged to the US dollar) where the group is procuring equipment or incurring costs in other currencies, these exposures are actively managed at a project level using forward currency contracts. The bulk of the Operations Services division's revenues and costs are denominated in Sterling, however, as a policy, the group does not hedge the Sterling profits generated by these activities as they are substantially matched by Sterling group overhead costs. While the group reports its results in US dollars, its share price is quoted in Sterling. The share price may therefore be impacted by changes to the US dollar/Sterling exchange rate.

Oil price

Long-term expectations of the price of oil & gas may have an impact on the level of new investment in the industry and may therefore affect demand for the group's services; however, the service divisions should not be significantly impacted by short-term fluctuations in the oil price (see 'Operating Environment'). The financial performance of the Energy Developments division is more heavily leveraged to the price of oil & gas through its co-investment in upstream oil & gas assets. Where oil price risk exists, for example, on the Cendor project, where the division benefits from approximately 30% of the upside of the oil price above an agreed base price, the group will look to hedge an appropriate proportion of the exposure, typically between 50% and 75% of its lower estimate of forecast production. The group will not consider hedging until an asset has achieved steady-state production.

Credit risk

Given the recent change in economic conditions, there is an increased risk of counterparties defaulting on payment terms. The group receives advance payments on the majority of its lump-sum contracts, which generally have positive cash flow profiles over the duration of the contract. This gives the group added protection in the unlikely event that a customer seeks to cancel or dispute the terms of a contract. In the Operations Services division, Duty Holder contracts[1] are generally neutrally-funded. In general, services provided by the group are critical to ensure that customers continue production and, consequently, customers are likely to honour payment terms. In the Energy Developments division, remuneration is from oil & gas sales to a range of customers, including National Oil Companies (NOCs), who are generally well-funded. Nonetheless, the group continues to regularly monitor its receivable balances and take appropriate action where necessary.

With respect to credit risk arising from other financial assets, the group regularly monitors its exposures and ensures that its financial assets are spread across a large number of creditworthy financial institutions.

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

1 That is contracts where the group takes full responsibility for managing a customer's asset and is responsible for the safety case of the asset, reporting to the Department of Energy and Climate Change.

Operating environment

Long-term drivers remain robust

Despite recent events which have led to a downturn in expectations for short to medium-term growth rates for the global economy, the long-term factors that drive demand for the group's services remain robust.

While there is expected to be a decline in the global demand for oil & gas in 2009 compared to 2008[1], the International Energy Agency (IEA) estimates that global demand for oil will increase by 25% from current levels of around 85 million barrels per day (bpd) to around 106 million bpd by 2030[2], while global demand for gas is expected to increase by just over 50% from around 49 million bpd of oil equivalent to 74 million bpd of oil equivalent over the same period. Population growth and increasing energy intensity, particularly in countries such as China and India, and to a lesser extent in the Middle East, are expected to drive the majority of this increase.

On the supply side, the IEA estimates that mature production will decline by around 9%[3] per annum without intervention. Even with intervention to arrest the decline, the IEA estimates that depletion rates are running at around 6.5% per annum, broadly equivalent to losing the existing production of Saudi Arabia every two years.

Therefore, over the long-term, significant investment is required to replace existing production and to build new capacity.[4] Consequently, demand for the group's Engineering & Construction services is expected to remain robust over the long-term.

Sharp fall in oil price creates uncertainty over timing of capital expenditures

The recent change in global economic conditions has resulted in a significant fall in the oil price, as weakening demand has resulted in excess production capacity. With more uncertain economic conditions, difficult access to funding, a lower oil price, and more importantly, uncertainty regarding future expectations of the oil price, some upstream oil & gas projects have been subject to cancellation or postponement. The majority of project cancellations, however, have been in high-cost production areas (which are not focus areas for the group), such as Canadian oil sands or deepwater developments. It would seem likely, given the long-term drivers outlined above, that these projects will still proceed at some point in the future, albeit the timing may be less certain. Even where projects are economic at lower oil prices, there is evidence that customers have postponed capital expenditure decisions as they adjust to the recent change in economic conditions and try to benefit from lower external supplier costs.

The group's core markets for its Engineering & Construction business are in areas where development and production costs are generally lower than average, such as onshore developments in the Middle East and Africa. The group expects that the majority of key strategic projects in these regions will progress, as customers take a long-term view on the economic outlook and the oil price.
In particular, many NOCs in the region are well-financed and do not have to address the challenges faced by International Oil Companies (IOCs) in allocating funds between capital expenditure programmes and paying dividends to shareholders. NOCs remain important customers for the group, though it should also be recognised that IOCs often partner with NOCs on major projects. Nonetheless, the group considers that its exposure to NOCs and to lower-cost developments positions it well. Furthermore, the group's recent Engineering & Construction awards provide good visibility of revenues for 2009 and 2010 and, consequently, of equal focus for the coming months is continuing the group's excellent track-record of project execution.

Operational expenditures expected to remain robust

Approximately 29% of the group's revenue in 2008 was generated by the Operations Services division, where activities are principally focused in the UKCS and the UAE. Operating expenditures are generally expected to remain robust, as the group expects to maintain services to its customers as they continue to operate their facilities. Should customers take a view on long-term oil & gas prices such that continued production is considered uneconomic, they may decide to cease production; however, this could lead to opportunities for the group to provide services in relation to ready-for-shutdown and decommissioning activities. The group does not consider this to be a likely scenario in the short-term.
The group's businesses that are more reliant upon customers' discretionary spend, such as parts of Training and some of the group's consultancy businesses, are expected to face a more challenging environment over the next few months.

Opportunities for Energy Developments

With more challenging access to debt and equity markets, a number of smaller independent oil companies, may face difficulties in obtaining the funding they require to complete developments. With its strong balance sheet, this may give the group, through its Energy Developments division, opportunities to invest in development assets and to provide services to bring development projects onstream.

Conclusion

Notwithstanding current economic conditions, the group considers itself well positioned. The group has a strong balance sheet, with more than US$550 million of net cash at 31 December 2008 and expects to be able to fund its continued growth plans from cash generated by the business. The geographic areas in which the group's Engineering & Construction services are focused should ensure that its long-term prospects remain robust. In the short to medium-term, the group's recent awards provide good visibility of revenues through to 2011.

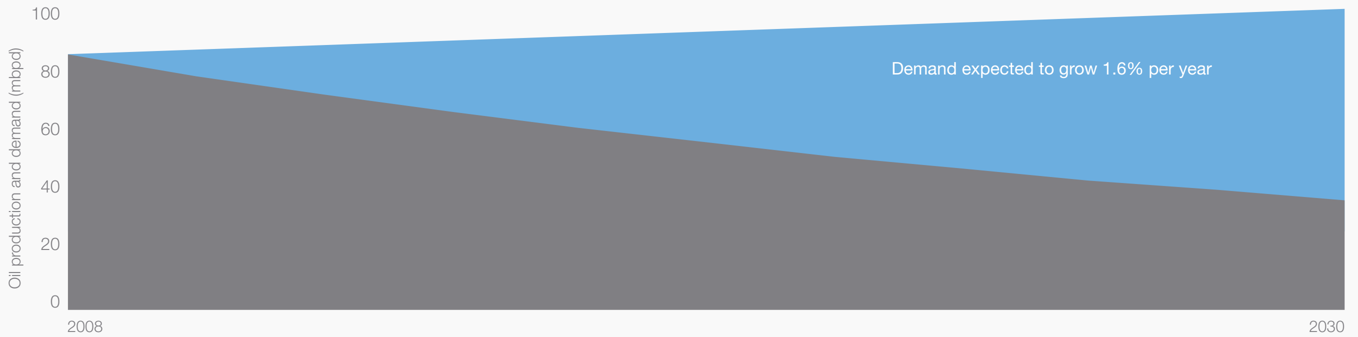
1 From 85.7 million bpd in 2008 to 84.7 million bpd in 2009, International Energy Agency 'Oil Market Report', 11 February 2009.

2 International Energy Agency, 'World Energy Outlook 2008', November 2008.

3 For post-peak fields, International Energy Agency, 'World Energy Outlook 2008', November 2008.

4 The IEA estimates that in total US$11.8 trillion (in 2007 terms) requires to be spent on oil & gas infrastructure over the period 2007-2030, 'World Energy Outlook 2008', November 2008.

Forecast demand growth and supply decline



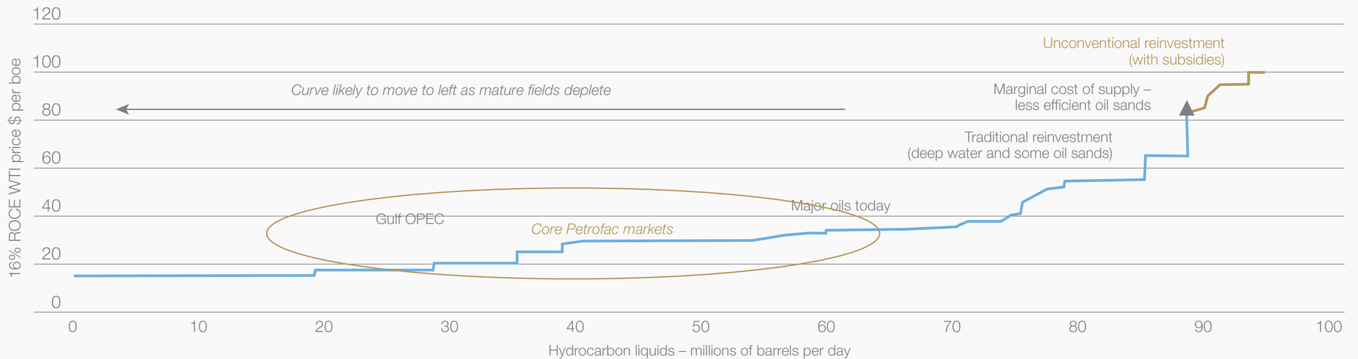
Source: Compiled from IEA data, World Energy Outlook 2008

■ Existing production
■ New production
By 2030, new production capacity of more than 70% of the existing base will be required to meet demand

Energy intensity by region

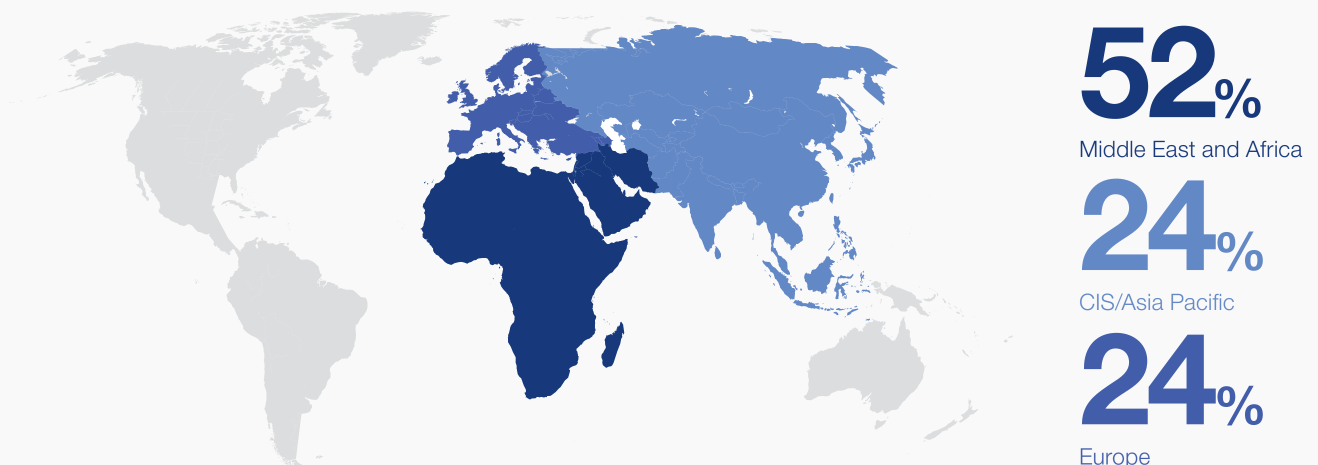
	2006 oil demand (mbbls/year)	Population (millions)	Oil consumption per capita (bbls)
North America	9,100	450	20
Europe	5,200	540	10
OECD	**17,300**	**1,190**	**15**
Middle East	2,200	190	12
China	2,600	1,320	2
India	1,000	1,130	1

Cost structure of existing production



Source: Credit Suisse research, 2008, arrow, oval and italicised text added

2008 revenue by geographic region



Review of operations

Engineering & Construction

The Engineering & Construction division achieved strong growth and continued to deliver good operational performance during the year. Order intake in 2008 totalled in excess of US$2.0 billion and the division has continued to be active in bidding activity on a number of other prospects, which has resulted in securing a further US$2.8 billion of new contract awards since the year end*.

Middle East and North Africa

The division made good progress on its current portfolio of contracts in the Middle East and North Africa, including:

- mobilisation activities, detailed engineering and early construction work on the In Salah gas compression project in Algeria for Sonatrach, BP and StatoilHydro, which was awarded in late 2007
- further progress on the Harweel cluster development project for Petroleum Development Oman (PDO), which is scheduled for completion around the end of 2009
- significant progress on the Salam and Hasdrubal gas plants in Egypt and Tunisia, for Khalda Petroleum and BG Group respectively, which are both scheduled for completion in the first half of 2009
- substantial completion of the Kuwait Oil Company (KOC) facilities upgrade project in Kuwait

Furthermore, the division secured three new EPC awards in the region during the year:

Jihar gas plant, Syria

In March 2008, the division was awarded a US$454 million lump-sum EPC contract to build the Jihar gas treatment plant for the Hayan Petroleum Company (a joint venture between the state-owned Syrian Petroleum Company and INA Industrija Nafte d.d.-Naftaplin of Croatia), which is scheduled to be delivered in the first quarter of 2011.

Ebla gas plant, Syria

In April 2008, the division secured a further award in Syria for the US$556 million (including variation orders for novated items received shortly after award) lump-sum EPC contract to build the Ebla gas treatment plant for Petro-Canada, which is expected to be completed in the first half of 2010.

Mina Al-Ahmadi refinery pipelines, Kuwait

In November 2008, the division announced that it had been awarded a US$543 million lump-sum EPC contract by the Kuwait Oil Company (KOC). The contract is for a new gas pipeline running from KOC's Booster Station 131 in North Kuwait to its liquefied petroleum gas plant located at the Mina Al-Ahmadi refinery. The project is expected to run for 21 months.

Commonwealth of Independent States

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

- on the Karachaganak development, the division has largely completed the engineering and procurement contract and has undertaken early works under the construction management contract for the fourth stabilisation and sweetening train, which was awarded in January 2007
- also on the Karachaganak development, the division has commenced the fourth stage of the Phase III development FEED study, the division's largest FEED study to date. Following BG Group and KazMunaiGas's review of alternative phasing of the full Phase III capital commitment, the division expects to continue to provide reimbursable services well into 2009, albeit with a reduced number of personnel
- on the Kashagan project, the construction management contract in relation to the oil, gas and sulphur processing facilities, which was awarded in January 2006, has been extended for a further 12 months to the end of 2009, with a further 12-month option
- substantial progress was made on the engineering, procurement and construction management contract for the Kashagan third oil train, awarded in late 2007
- the FEED study for the Kharyaga development, awarded in late 2007, has been substantially completed

The division secured a further EPC award in the region during the year:

Kashagan fourth sales gas compressor train and debottlenecking modifications, Kazakhstan

In April 2008, the division secured further work on the Kashagan field development project with the award of a lump-sum scope US$105 million project (and a US$10 million optional scope) to engineer and procure a fourth sales gas compressor train within the Kashagan gas and liquefied petroleum gas (LPG) plant and undertake debottlenecking modifications to tranches 1 and 2 of the gas treatment plant. The project is necessary to accommodate the additional gas associated with the processing of the production from the third oil train.

Since the end of 2008, the division has been successful in securing the following new awards:

Asab field development, Abu Dhabi

In January 2009, the division secured its largest contract to date with the award of a US$2.3 billion contract with Abu Dhabi Company for Onshore Oil Operations (ADCO) for the development of the onshore Asab oil field. Under the 44-month lump-sum contract, the division will provide EPC services to upgrade the production capacity of the Asab field, upgrade the facility's capacity to accept increased production from other fields and upgrade the associated utilities and water handling facilities.

Karan utilities and co-generation package, Saudi Arabia

In February 2009, the division was awarded an EPC contract for Saudi Aramco's Karan utilities and co-generation package. The project forms part of the Karan gas development programme which will expand the Khursaniyah gas plant, in the Eastern Province of Saudi Arabia, to accommodate around 1.8 billion standard cubic feet per day of high pressure sour gas from the offshore Karan field. The division will also upgrade the plant's process controls, electrical systems and support facilities.

Results

The Engineering & Construction division achieved strong revenue growth in the year due to high levels of activity on the division's lump-sum EPC projects in hand at the beginning of the year and on new projects secured during the year. Revenue increased by 56.9% to US$2,219.4 million (2007: US$1,414.9 million). Net margin increased to 10.1% (2007: 9.7%) as the division continued its strong execution performance. The strong growth in revenue and net margin improvement led to an increase in net profit of 63.5% to US$224.1 million (2007: US$137.1 million). The main contributors to revenue in the lump-sum EPC business were: the Ebla gas plant in Syria; the Harweel project in Oman; the Hasdrubal gas plant in

* Subsequent to the approval of the 2008 Annual Report and Accounts by the Directors on 6 March 2009, the group announced a further lump-sum EPC award for the El Merk project in Algeria, with a contract value of US$2.2 billion. This takes the total of the group's new contract awards in 2009 to US$5.0 billion.

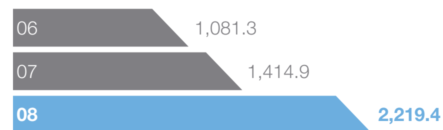
[1., 2.] Ebla, Syria
[3.] Kashagan, Kazakhstan

Tunisia; the In Salah gas compression project in Algeria; the third oil and fourth sales gas compressor trains on the Kashagan development in Kazakhstan; the Karachaganak fourth stabilisation and sweetening train in Kazakhstan; and, the Salam gas plant in Egypt.

During the year, the Engineering & Construction division grew its headcount by approximately 1,000 to approximately 4,900 at 31 December 2008 (31 December 2007: 3,900) due to a significant increase in the number of employees across the division's project sites and the addition of more than 250 personnel in the Chennai office, which opened in April 2007, and now has approximately 450 employees.

The division's backlog was US$2.4 billion at 31 December 2008 (31 December 2007: US$2.5 billion) and a further US$2.8 billion* of contracts have been added to backlog to date in 2009.

Engineering & Construction revenue
US$ millions



Year	Value
06	1,081.3
07	1,414.9
08	**2,219.4**

Engineering & Construction net profit margin
%

Year	Value
06	8.8
07	9.7
08	**10.1**

Engineering & Construction backlog
US$ millions

Year	Value
06	2,228
07	2,540
08	**2,408**

Review of operations continued

Operations Services

During the year, the Operations Services division continued to make good progress on its current portfolio of projects, secured an additional Duty Holder contract for the Northern Producer floating production facility and established a number of new training centres. The acquisition of a production engineering company and a technology company in the second half of the year will position the group, in conjunction with a number of its existing businesses, to deliver solutions that enhance and improve production for its customers, particularly in mature fields.

Dubai Petroleum

The division's largest project is the Dubai Petroleum service operator contract, which commenced in April 2007. The core contract continues to progress well with particular focus on production efficiency and integrity and there were significant levels of brownfield engineering and drilling activity during the year. Furthermore, the Dubai Petroleum Training Centre (DPTC), a joint venture between Petrofac Training and Dubai Petroleum, was formally opened at the end of August 2008. The DPTC is fully equipped to meet the technical safety training needs of the energy sector throughout the Middle East and supports a full calendar of courses.

Other Facilities Management

In June 2008, the Facilities Management business was awarded a Duty Holder contract to provide turnkey operations services for the Northern Producer, the floating production facility for the Petrofac Energy Developments-operated Don fields in the UK North Sea (see page 36). The contract is worth approximately US$30 million per annum. The Northern Producer is well known to the Operations Services division as it marked the commencement of the division's pioneering Duty Holder model on the Galley field, more than ten years ago, latterly for Talisman, before the facility was demobilised from the field in late 2007. The Facilities Management business was successful in securing a two-year extension of its Duty Holder contract with Venture Production for the Kittiwake platform, effective from November 2008, and with BHP Billiton for the Irish Sea Pioneer, to the end of 2009.

In addition to work with Dubai Petroleum, the Brownfield engineering business secured a number of new awards during 2008, including follow-on work with Venture Production in the Greater Kittiwake area, and internationally in Abu Dhabi and Tunisia. Brownfield engineering has now developed the capability to undertake larger-scale international projects.

Petrofac Training

In addition to the Dubai Petroleum Training Centre referred to above, Petrofac Training has continued to expand the international delivery of its training services, including the opening of: a new technical training centre on Sakhalin Island; a health and safety and major emergency management training centre in Houston; a major emergency management facility in Kuala Lumpur; and, a new safety training centre in Baku, Azerbaijan. Furthermore, in June 2008, Petrofac Training secured a contract, for a minimum of three years, to manage the Chemical Process Technology Centre (CPTC) in Singapore. The CPTC is a world-class training centre, owned by the Economic Development Board of Singapore, with facilities which include a full-scale hydrocarbon processing plant and specialist equipment laboratories, which facilitates operations and maintenance training, including start-up, shutdown and emergency response exercises. Petrofac Training now manages 16 training facilities in eight countries.

Acquisitions

In July 2008, the division completed the acquisition of Eclipse Petroleum Technology Limited (Eclipse), a production engineering specialist, for an initial consideration of £7 million. Further consideration in cash and shares will be determined by the level of future profitability of Eclipse, which could increase the total consideration up to a maximum of £16 million. Eclipse was founded in 1999 and has approximately 50 employees operating from five offices worldwide: Aberdeen, London, Stavanger, Houston and Dubai. Its life-of-field services include: field development, production modelling and optimisation, well life-cycle risk management and petroleum engineering functional consulting.

In August 2008, the division completed the acquisition of Caltec Limited (Caltec), a specialist production technology company, for an initial consideration of £15 million. Further consideration in cash and shares will be determined by the achievement of agreed milestones, with the total consideration being capped at £30 million. Caltec was founded in 2003, after some years as a part of the British Hydromechanics Research Group Limited, an independent private company with close ties to Cranfield University. The company has approximately 20 members of staff operating from both Cranfield and Aberdeen. Its technologies include a number of products aimed at the production enhancement of mature fields, including the Wellcom system which boosts production flowrates by lowering wellhead pressures, and the I-SEP system which allows the partial separation of water from high water-cut production streams. In combination, these systems are capable of significant production, recovery and longevity improvements for mature fields.

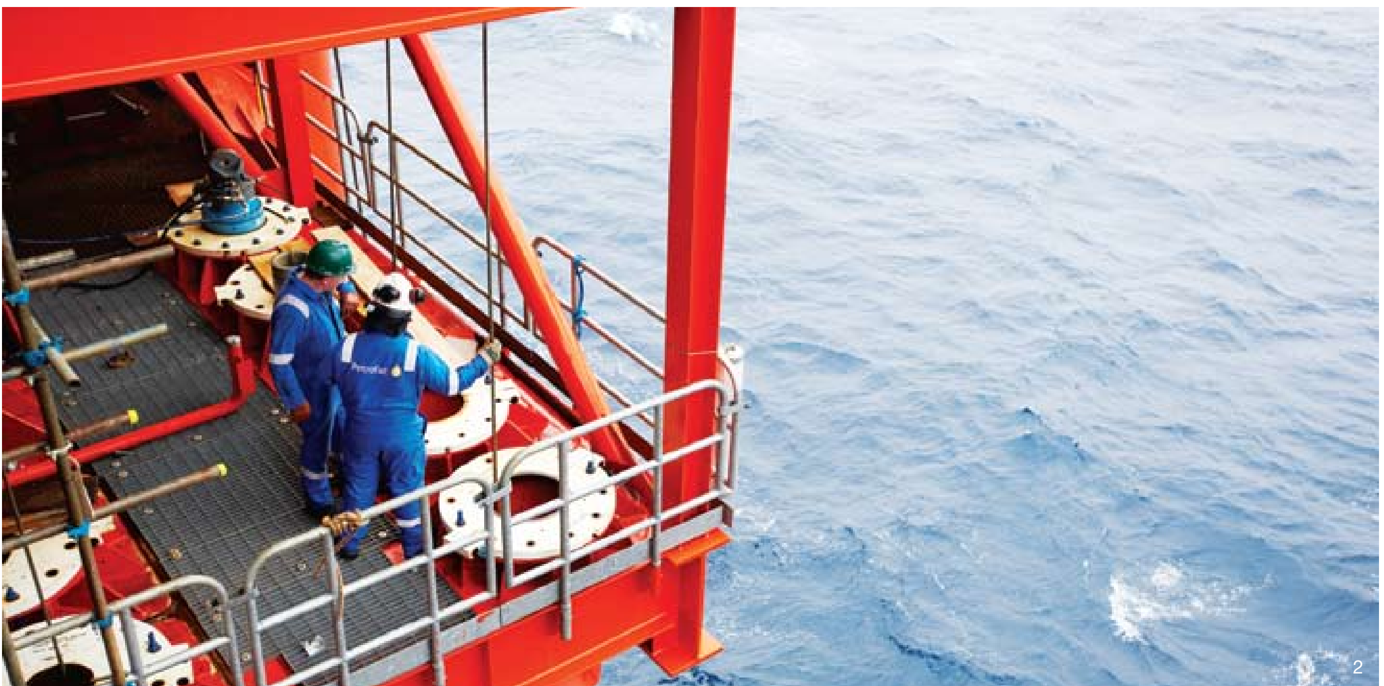
These acquisitions complement the division's well operations management business, SPD, acquired in January 2007, and will combine with SPD and other existing businesses to further broaden the group's capability, which now extends from the management of surface facilities and well operations, to the ability to deliver solutions that enhance and improve production, particularly in mature fields. Going forward, these businesses will form the foundations of the new Production Solutions business unit (see pages 18 and 19).

Results

Revenue for the Operations Services division increased to US$982.4 million (2007: US$911.0 million), an increase of 7.8%. Revenue excluding "pass-through" revenue[1] increased by 3.3%, though on a constant-currency basis the increase was approximately 11%[2], primarily due to: a full year contribution from the Dubai Petroleum contract; strong growth in SPD; new training facilities operated by Petrofac Training; the opening of a mechanical service centre in the Jebel Ali Free Zone in the United Arab Emirates; and, the contribution from the newly acquired Eclipse and Caltec businesses. Net profit increased by 10.1% to US$31.8 million[3] (2007: US$28.9 million), representing a net margin on revenue excluding pass-through revenue of 4.5% (2007: 4.2%). The underlying net margin, adjusted to eliminate amortisation of intangible assets and finance costs relating to deferred consideration, increased to 5.1% (2007: 4.7%) due principally to improved margins in the Facilities Management business in the UK and internationally, which more than offset slower than anticipated build-up in activity in some of the new training facilities opened during the year, where the business model is more highly operationally geared.

Operations Services' employee numbers grew to approximately 5,800 at 31 December 2008 (31 December 2007: 5,500).

The division's backlog was US$1.6 billion at 31 December 2008 (2007: US$1.9 billion), however, the majority of the division's backlog is denominated in Sterling and on a constant currency basis (at 31 December 2007 exchange rates) increased marginally to US$2.0 billion.



1. Dubai Petroleum Training Centre
2. Northern Producer, Don field

Operations Services revenue
US$ millions

Year	US$ millions
06	729.2
07	911.0
08	**982.4**

Operations Services net profit margin excluding pass-through revenue
%

Year	%
06	3.6
07	4.2
08	**4.5**

Operations Services backlog
US$ millions

Year	US$ millions
06	1,945
07	1,901
08	**1,589**

1 Pass-through revenue refers to the revenue recognised from low or zero-margin third-party procurement services provided to customers.
2 The majority of the Operations Services division's revenues are denominated in Sterling. The average US dollar to Sterling exchange rate for 2008 was 1.85 compared to 2.01 in 2007.
3 On a constant currency basis (at 31 December 2007 exchange rates) net profit would have increased by 22.8% to US$35.5 million. Note that the majority of the division's net profits are earned in the second half of the year (due to the timing of recognition of incentive income).

Review of operations continued

Energy Developments

The Energy Developments division's portfolio of developed assets continued to perform well throughout the year and now includes the Chergui gas plant in Tunisia, which was completed and produced first gas during the year. In addition, the division made substantial progress on the Don development, which is scheduled to commence production during the first half of 2009. Analysis of the division's oil & gas reserve entitlements is presented on page 132.

Developed assets

Cendor PM304, Malaysia

The division is operator and has a 30% interest in the Production Sharing Contract (PSC) for the Cendor field in Block PM304, offshore Peninsular Malaysia. The other partners to the Production Sharing Contract (PSC) are: Petronas Carigali; PetroVietnam E&P; and, Kuwait Foreign Petroleum Exploration Company (KUFPEC). The Cendor field averaged production of approximately 14,700 barrels per day during the year (2007: 14,300) and achieved production uptime of over 99%.

Development of the conceptual design work for the second phase of the Cendor field is progressing, with a final investment decision expected during the second half of 2009. As part of the assessment of a second phase, an appraisal drilling programme was recently undertaken, which has yielded promising results.

Ohanet, Algeria

The division, in joint venture with BHP Billiton (as joint venture operator), Japan Ohanet Oil & Gas Co, and Woodside Energy (Algeria), has invested in excess of US$100 million for a 10% share in a Risk Service Contract (RSC) with Sonatrach, Algeria's national oil company. The Engineering & Construction division undertook the EPC contract for the gas processing facilities in joint venture with ABB Lummus and the Operations Services division was responsible for part of the on-site commissioning works. First gas for export began flowing in late 2003.

The plant continued to perform well in 2008. Overall production was broadly comparable to the prior year at an average of approximately 147,000 bpd of oil equivalent (2007: 153,500 bpd of oil equivalent). On average, the division earned its share of the monthly liquids production by the 7th day of the month (2007: 8th), reflecting higher average oil & gas prices[1]. It is expected that the division will earn its defined return by November 2011, at which point the contract will terminate.

KPC refinery, Kyrgyzstan

The division owns a 50% share in the Kyrgyz Petroleum Company (KPC) which is engaged in the refining of crude oil and the marketing of oil products from the KPC refinery. The Operations Services division operates the refinery on behalf of the joint venture partners on a reimbursable basis. During 2008, the 10,000 bpd capacity refinery performed ahead of expectations, with improved access to feedstock and increased export demand, producing an average of approximately 2,800 bpd (2007: 2,500 bpd) of principally gasoline, diesel and fuel oil.

Chergui field, Tunisia

In February 2007, the division completed its acquisition of a 45% operated interest in the Chergui concession from Entreprise Tunisienne d'Activités Pétrolières (ETAP), the Tunisian national oil company, which holds the remaining 55% interest. Under the terms of the agreement, the division agreed to share the costs to complete the central production facility, pipeline to shore and associated infrastructure, which was managed by the Engineering & Construction division. The Operations Services division commissioned the plant and now operates the facility on behalf of the division.

First gas was achieved in June 2008, 15 months after first access to the site. Following completion of the export pipeline, the commercial export of gas commenced in August 2008, with the facility reaching and maintaining production near its nameplate capacity of 20 million standard cubic feet per day (mmscfd) shortly thereafter. Produced gas is sold to the national gas company, Société Tunisienne d'Electricité et Gaz (STEG), under a gas pricing formula fixed by existing law, in which the price of gas is linked to free-on-board Mediterranean (FOB Med) fuel oil prices.

Following commissioning of a new refrigeration unit in early 2009, the plant capacity has been increased by over 20%. As a result, it is anticipated the division will negotiate a revised higher volume gas sales contract with the offtaker. In addition, the division is currently undertaking seismic work to assess further development of the Chergui field.

Assets under development

Don Southwest and West Don, UKCS

In the UKCS, Petrofac Energy Developments, as operator, and on behalf of its co-venturers, is managing the development of the Don fields. Field Development Programme (FDP) approval was received from the Department of Business Enterprise and Regulatory Reform (now under the remit of the Department of Energy and Climate Change) for the Don Southwest (Petrofac interest 60.0%) and West Don (Petrofac interest 27.7%) fields in May 2008. A key component of the FDP is the Northern Producer floating production facility, which the division secured on a tariff basis from Sea Production Limited, a wholly owned subsidiary of Northern Offshore Limited, in January 2008.

The Northern Producer contract has an innovative commercial arrangement, such that the division, as operator, will pay a variable tariff linked to the oil price, which will range from a minimum of US$2 per barrel (if Brent is US$30 or less) to a maximum of US$6 per barrel (if Brent is US$90 or more). The Northern Producer has a capacity of 55,000 barrels of oil per day and associated gas compression, water injection and export processing facilities. A major campaign of fatigue life enhancement works and equipment refurbishment was undertaken on the Northern Producer, which, together with the development of the sub-sea infrastructure, was managed with the assistance of the group's service divisions.

The drilling programme commenced in August 2008, with the arrival of the John Shaw semi-submersible drilling rig. A second drilling rig, the Stena Spey, is being mobilised in the first quarter of 2009, to enable the drilling schedule to be maintained despite unfavourable weather conditions. First oil from the West Don and Don Southwest fields remains on target with the original schedule, with both expected to start production during the first half of 2009. The development remains on budget.

The division expects that both the West Don and Don Southwest fields would generate a positive return at current oil prices.

The division's estimate of proven reserves (net entitlement) for the Don Southwest and West Don developments is 12.2 million barrels (2007: 12.2 million barrels), while its estimate of proven and probable reserves (net entitlement) is 22.2 million barrels (2007: 23.6 million barrels). The minor revision is due principally to a lower oil price assumption, following the recent change in economic conditions. There is further development potential in

1 For example, Brent, a benchmark crude oil, averaged US$97 per barrel for 2008 (2007: US$72 per barrel).

1. John Shaw drilling rig, Don field
2. Cendor MOPU, Malaysia

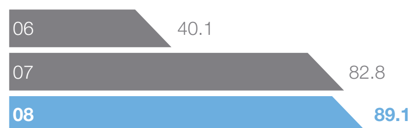
the Greater Don area, where the division has interests in Blocks 211/17, 211/18 and 211/18c.

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

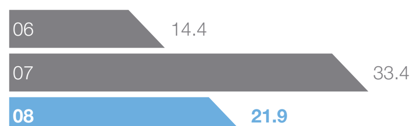
The Heron-2 well was drilled in late 2007 and following disappointing results which gave rise to uncertainties surrounding the commercial outcome, an impairment provision of US$8.7 million was made at 31 December 2007. The partners continue to review the options for the Heron-3 appraisal well and the commerciality of an LNG or methanol project (which could depend upon the proving of reserves by other operators in the area). Following a further impairment review of the carrying value of the asset, which indicated a wide range of potential commercial outcomes, a further impairment provision of US$5.0 million was made at 31 December 2008. The carrying value of the asset is now US$4.8 million.

Other
In April 2008, the division announced in conjunction with the Engineering & Construction division's award of the lump-sum EPC contract for the Ebla gas plant in Syria (see page 32) that it had an opportunity to acquire a 10% equity interest in the Ebla development. After a thorough review of the opportunity the division decided not to invest in the development.

Energy Developments EBITDA
US$ millions



Energy Developments net profit
US$ millions



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

Results

Divisional revenue increased to US$153.4 million (2007: US$132.8 million) due to the commencement of exports from the Chergui gas plant and improved performance at the KPC refinery. Revenue from the Cendor field and the Ohanet gas plant was broadly in line with 2007, despite the impact of higher average oil prices. Under the terms of the Cendor PSC the division only benefits from 30% of the upside above the base oil price[1] and there was lower cost oil recovery in 2008 than in the prior year (during which the balance of the initial cost of the development was recovered). Under the terms of the Ohanet RSC, the division's return is capped upon earning its share of monthly liquids production.

Net profit for the year was US$21.9 million (2007: US$33.4 million), after:

- a US$8.2 million charge in relation to a currency hedge for capital expenditure on the Don area development, which, while being an economic hedge, has been deemed an ineffective cash flow hedge under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement'
- an impairment provision of US$3.5 million (US$5.0 million less a tax credit of US$1.5 million) against the division's investment in Permit NT/P68
- costs of US$4.9 million (US$9.8 million less a tax credit of US$4.9 million) in relation to the unsuccessful Prospero well in the Greater Don area

Adjusting for these non-recurring items, net profit for the year was US$38.5 million (2007: US$30.8 million after adjusting for an impairment provision of US$8.7 million against the division's investment in Permit NT/P68 and the recognition of a net tax asset of US$11.3 million in relation to the trigger of a ring fence trade allowing UKCS pre-trading expenditure to be recognised as a deferred tax asset and the recognition of a net tax asset in relation to NT/P68 expenditure). Overall, the net profit contribution from Cendor and Ohanet was broadly consistent with 2007, while the increase in adjusted net profit was driven by commencement of the Chergui project and improved performance at the KPC refinery.

1 The base price for 2008 averaged approximately US$37 per barrel.

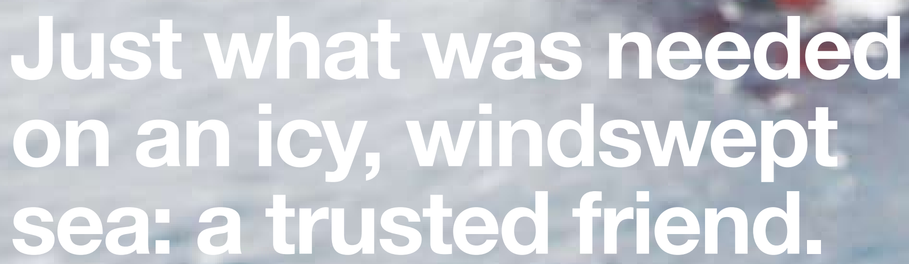
Extreme weather conditions. Limited infrastructure. Getting on-site is the first challenge.

Karachaganak, Caspian region

As existing easily accessible fields deplete and oil & gas become progressively more difficult to extract, producers have to maintain their focus on reserves in the world's more hostile and remote locations – environments where Petrofac has proven capabilities.

The Caspian region is one of the most important oil & gas producing areas in the world. It also poses some of our industry's most significant environmental and logistical challenges. At Karachaganak in western Kazakhstan, close to the Russian border, we are currently working on our largest front end engineering and design (FEED) project to date. On a remote site with facilities spread over an area the size of central London, the Karachaganak project will be faced with significant challenges including limited infrastructure, sour gas and extremely low temperatures.

Ultimately, Karachaganak could see a significant number of construction workers on site. To meet their needs large-scale infrastructure upgrades will have to be undertaken in addition to the construction of dedicated accommodation and a power station. We are also exploring the use of special tent-like heated habitats under which work can be carried out while protecting the teams from the extreme weather conditions.


Just what was needed
on an icy, windswept
sea: a trusted friend.

Northern Producer, UK North Sea

At Petrofac, we have a track record of bringing unconventional thinking to projects in order to overcome logistical and technical challenges in the harshest environments.

The innovative decision to use the Northern Producer floating production facility, rather than a host platform, on the Don development in the UK North Sea has reduced the amount of offshore work involved in the project, saving costs and improving safety. Previously employed on Talisman's Galley field, the Northern Producer was refurbished and upgraded for the Don development and successfully moored in position towards the end of 2008, following a 48 hour journey to the field from the Cromarty Firth. The refurbishment involved vessel life extension, maintenance upgrades and Don-specific enhancements.

The West Don and Don Southwest fields are being developed by Petrofac in partnership with Valiant Petroleum, First Oil, Stratic Energy and Nippon Oil. Through our Facilities Management business, we were awarded a Duty Holder contract to provide turnkey operations services for the Northern Producer by the vessel's owner, Sea Production Limited. First oil is anticipated during the first half of 2009.

Fast track execution in a remote location. 1,100 contractors to train. 22 months to first gas.

Ebla gas plant, Syria

We are committed to ensuring that we have trained people able to work safely at all times – even when we are working to the most demanding timescales.

At the Ebla gas treatment plant in Syria, our team is working with local construction contractors to deliver a complex project to a demanding production schedule. There is no compromise in safety despite a remote mountainous location and temperatures that range from -14°C at night to +45°C at midday.

Under the guidance of our on-site team and supported by additional Petrofac people in Sharjah and Mumbai, the contractor workforce of around 1,100 has undertaken extensive training in HSSE and job-specific skills. With our customer seeking production within 22 months from the award of the contract, we were also tasked with major procurement and logistics issues. Key items of equipment were air-freighted, with vendors incentivised and assisted to streamline and speed the delivery process.

Ebla is currently on schedule, with first gas anticipated in 2010. At the time of publication, the team had worked more than 2.5 million man-hours without a Lost Time Incident.

Financial review

Revenue

Group revenue increased by 36.4% to US$3,329.5 million (2007: US$2,440.3 million) due to growth in all three divisions, but primarily due to strong growth in the Engineering & Construction division, which accounted for approximately two-thirds of the group's revenue. The increase in the Engineering & Construction division was as a result of high levels of activity on ongoing lump-sum EPC contracts, including new projects awarded during the year.

Operating profit

Group operating profit increased by 43.1% to US$355.6 million (2007: US$248.5 million) and operating margins increased to 10.7% (2007: 10.2%). Operations Services and Energy Developments operating profit increased marginally, though Operations Services operating margins were marginally lower due to an increase in the proportion of pass-through revenue[3], while Energy Developments operating margins were lower due to an impairment charge against Energy Developments' interest in Permit NT/P68 and costs in relation to the unsuccessful Prospero well in the Greater Don area. The Engineering & Construction operating profit increased by 68.1% to US$265.9 million (2007: US$158.2 million) due to strong growth in activity levels and continued excellent operational performance.

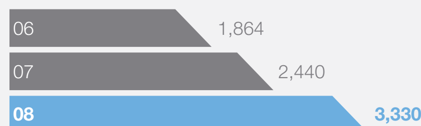
Net profit

Net profit increased to US$265.0 million for the year ended 31 December 2008 (31 December 2007: US$188.7 million), an increase of 40.4%, driven primarily by strong growth and margin improvement in the Engineering & Construction division. The net margin for the group increased to 8.0% (2007: 7.7%), broadly in line with the increase in the group's operating margin.

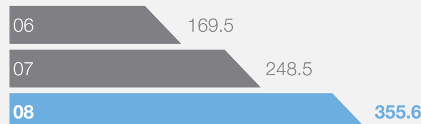
EBITDA

EBITDA increased to US$419.0 million (2007: US$301.3 million), representing an EBITDA margin of 12.6% (2007: 12.3%). The Engineering & Construction division EBITDA margin increased on the back of strong operational performance, which more than offset a marginal decrease in the Operations Services division due to an increase in the proportion of pass-through revenue, and in the Energy Developments division due in part to the terms of the Cendor PSC.

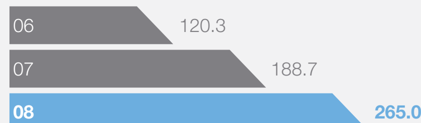
Revenue
US$ millions



Operating profit
US$ millions



Net profit
US$ millions



Net profit margin
%

Results for the year

	Revenue		Operating profit[1]		Net profit[2]		EBITDA	
US$ million	2008	2007	2008	2007	2008	2007	2008	2007
Engineering & Construction	2,219.4	1,414.9	265.9	158.2	224.1	137.1	285.1	173.9
Operations Services	982.4	911.0	46.7	44.9	31.8	28.9	53.8	51.2
Energy Developments	153.4	132.8	51.7	51.6	21.9	33.4	89.1	82.8
Corporate, consolidation & elimination	(25.7)	(18.4)	(8.7)	(6.2)	(12.8)	(10.7)	(9.0)	(6.6)
Total	3,329.5	2,440.3	355.6	248.5	265.0	188.7	419.0	301.3

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis	2008	2007	2008	2007	2008	2007	2008	2007
Engineering & Construction	56.9%	30.9%	12.0%	11.2%	10.1%	9.7%	12.8%	12.3%
Operations Services	7.8%	24.9%	4.8%	4.9%	3.2%	3.2%	5.5%	5.6%
Energy Developments	15.5%	113.8%	33.7%	38.9%	14.3%	25.1%	58.1%	62.3%
Total	36.4%	30.9%	10.7%	10.2%	8.0%	7.7%	12.6%	12.3%

1 Profit from operations before tax and finance costs.
2 Attributable to Petrofac Limited shareholders.
3 Pass-through revenue increased to 28.1% of Operations Services revenue in 2008 (2007: 24.9%).

While EBITDA increased marginally in Operations Services and Energy Developments, it increased by 63.9% in Engineering & Construction due to the division's excellent operational performance. Consequently, the Engineering & Construction division's share of group EBITDA, excluding the effect of corporate, consolidation and elimination adjustments, increased to 66.6% (2007: 56.5%), while the Operations Services and Energy Developments decreased to 12.6% (2007: 16.6%) and 20.8% (2007: 26.9%) respectively.

Backlog

The group's combined backlog at 31 December 2008 was approximately US$4.0 billion (31 December 2007: US$4.4 billion). A significant proportion of the Operations Services division's backlog is denominated in Sterling, which depreciated significantly against the US dollar during the second half of 2008. On a constant-currency basis, the group's backlog remained broadly comparable with the prior year. While not included in the year-end backlog, a further US$2.8 billion of new contracts have been secured to date in 2009*.

Exchange rates

The group's reporting currency is US dollars. During the second half of 2008, there was a significant depreciation of Sterling against the US dollar and there was therefore a significant impact on the reported results of the group's UK trading activities, principally within the Operations Services division. The impact on the results of the Operations Services division is discussed further on pages 34 and 35. The table below sets out the average and year-end exchange rates for the US dollar and Sterling for the years ended 31 December 2008 and 2007 as used by the group for financial reporting purposes.

Interest

Net finance income, excluding finance charges in relation to hedges deemed ineffective under IAS 39, for the year was US$10.9 million (2007: US$9.7 million), due principally to the group's higher average cash balances during 2008.

Taxation

An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge as a percentage of profit before tax in 2008 was lower at 26.1% (2007: 26.9%). The marginal decrease in the effective tax rate compared to the prior year is due principally to:

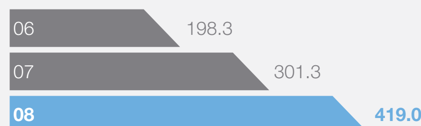
- the Engineering & Construction division contributing a greater proportion of the group's profit leading to a higher proportion of the group's profits being earned in lower tax jurisdictions, which more than offset;
- an increase in the effective tax rate for the Energy Developments division due to the recognition in 2007 of a deferred tax asset in relation to UKCS pre-trading expenditure and no tax relief being available in the current year on a charge in relation to a cash flow hedge deemed ineffective under IAS 39

Earnings per share

Fully diluted earnings per share increased from 54.61 cents per share in 2007 (as restated) to 77.11 cents in 2008, an increase of 41.2%, reflecting the group's significant increase in profitability in 2008.

* Subsequent to the approval of the 2008 Annual Report and Accounts by the Directors on 6 March 2009, the group announced a further lump-sum EPC award for the El Merk project in Algeria, with a contract value of US$2.2 billion. This takes the total of the group's new contract awards in 2009 to US$5.0 billion.

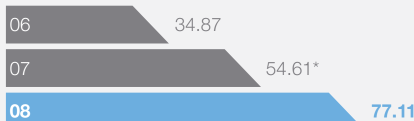
EBITDA
US$ millions



EBITDA margin
%

Backlog
US$ billions

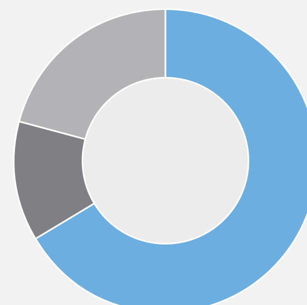
Earnings per share (fully diluted)
US cents



*as restated

2008 EBITDA by division

1 Engineering & Construction 66.6%
2 Operations Services 12.6%
3 Energy Developments 20.8%



Financial reporting exchange rates

US$/Sterling	2008	2007
Average rate for the year	1.85	2.01
Year-end rate	1.46	1.99

Financial Review continued

Operating cash flow and liquidity

Cash generated from operations was US$565.7 million (2007 restated: US$371.6 million), representing 135.0% of EBITDA (2007 restated: 123.3%). The increase in net cash inflows was due principally to the increase in operating profit during the year and a reduction in net working capital utilisation. The movement in net working capital arose principally from timing differences at the year end in respect of the customer billing and supplier payment positions on long-term engineering and construction contracts.

The group increased its levels of interest-bearing loans and borrowings to US$142.6 million (2007: US$110.1 million), resulting in an increase in the group's gross gearing ratio to 25.5% at 31 December 2008 (2007: 21.1%). The group continues to hold significant net cash balances.

The group's total gross borrowings before associated debt acquisition costs at the end of 2008 were US$148.0 million (2007: US$112.4 million), of which 45.9% was denominated in US dollars (2007: 39.3%), 51.8% was denominated in Sterling (2007: 55.3%) and the majority of the balance, 2.3%, was denominated in Kuwaiti Dinars (2007: 5.3%).

As detailed in note 31 to the financial statements, the group maintained a balanced borrowing profile with 36.8% of borrowings maturing within one year and 63.2% maturing between one and five years (2007: 25.3%, 54.5% and 20.2% maturing in more than five years). The decrease in the average duration of borrowings reflects the existing repayment terms of the group's facilities with the Royal Bank of Scotland/Halifax Bank of Scotland and an increase in the group's overdraft facilities to manage its working capital requirements. The borrowings repayable within one year include US$45.3 million of bank overdrafts and revolving credit facilities (representing 30.6% of total gross borrowings, see note 31 to the financial statements), which are expected to be renewed during 2009 in the normal course of business (2007: US$22.2 million and 19.7% of total gross borrowings).

The group's policy is to hedge between 60% and 80% of interest arising on floating rate interest bearing loans and borrowings. At 31 December 2008, 65.1% of the group's floating rate interest-bearing loans and borrowings were hedged (2007: 69.1%). An analysis of the derivative instruments used by the group to hedge its interest rate and other exposures is contained in note 31 to the financial statements.

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

Capital expenditure

Capital expenditure on property, plant and equipment during the year was US$255.5 million (2007: US$117.2 million). The principal elements of capital expenditure were:

- additions to oil & gas assets in relation to Energy Developments' interest in the Don assets of US$167.3 million
- completion of the group's new office building in Sharjah of US$40.5 million
- completion of the Chergui gas plant in Tunisia of US$21.9 million

Capital expenditure on intangible oil & gas assets during the year was US$37.0 million (2007: US$49.7 million) which was principally in respect of capitalised expenditure on near field appraisal wells in relation to Energy Developments' interest in Block PM304, offshore Malaysia, of US$24.7 million and costs of US$9.8 million in relation to the unsuccessful Prospero well (which were subsequently written-off).

Shareholders' funds

Total equity at 31 December 2008 was US$559.0 million (2007 restated: US$523.0 million). The main elements of the net movement were the increase in retained earnings for the year of US$200.3 million, less the net gain on the maturity of cash flow hedges recognised in the income statement of US$32.1 million, a loss on foreign currency translation of US$84.2 million and the net change in fair value of derivatives of US$25.9 million, plus an increase in the share-based payments reserve of US$16.0 million and a net increase in the cost of treasury shares held by the Company in relation to employee share scheme awards of US$39.5 million.

Return on capital employed

The group increased its return on capital employed for the year ended 31 December 2008 to 52.7% (2007 restated: 45.7%).

Dividends

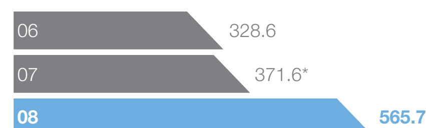
The Company proposes a final dividend of 17.90 cents per share for the year ended 31 December 2008 (2007: 11.50 cents), which, if approved, will be paid to shareholders on 22 May 2009 provided they were on the register on 24 April 2009. Shareholders who have not elected (before 9 March 2009) to receive dividends in US dollars will receive a Sterling equivalent of 12.57 pence per share. Given the strong cash generation of the group, the Board has taken the decision to revise the Company's dividend policy, increasing the percentage of earnings to be distributed by way of dividend to approximately 35% of full year post tax profits (previously 30%), which will continue to be paid approximately one-third as an interim dividend and two-thirds as a final dividend.

Forward-looking statements

The Business Review (pages 12 to 47) contains forward-looking statements with respect to the financial condition, results, and operations of the group. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in the Business Review regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Petrofac Limited undertakes no obligation to update the forward-looking statements contained in this review or any other forward-looking statements made.

1. Staff in the Aberdeen office
2. Staff in the Kuala Lumpur office
3. Northern Producer, Don field

Cash generated from operations
US$ millions



EBITDA to cash conversion
%

Return on capital employed
%

*as restated

Gearing ratio

US$ millions (unless otherwise stated)	2008	2007 (restated)
Interest-bearing loans and borrowings (A)	142.6	110.1
Cash and short-term deposits (B)	694.4	581.6
Net cash/(debt) (C = B – A)	551.8	471.5
Equity attributable to Petrofac Limited shareholders (D)	558.8	522.8
Gross gearing ratio (A/D)	25.5%	21.1%
Net gearing ratio (C/D)	Net cash position	Net cash position

Corporate social responsibility

Adding value to our people and our communities

The Company plays an integral role in the lives of its people, in the communities in which we operate and in the broader world. We have a clear responsibility to play our part positively and recognise the importance of winning and retaining stakeholder support.

Our approach to Corporate Social Responsibility (CSR) is central to the successful delivery of business performance:

- we aim to be acknowledged as a leader in the management of health, safety, security, environment and integrity assurance (HSSEIA) and an expert in delivering high performance from diverse workforces in geographically challenging operational conditions
- we conduct business in a manner which is consistent with long-established values: being safe; ethical; innovative; cost-conscious; responsive to customers and relentlessly focused on delivering results
- we provide a quality service to customers and make a positive contribution to the communities where we operate

During 2008 we revised our CSR-related policies and these are again being updated for 2009. The most recent policies on the following areas can be viewed in full at www.petrofac.com

– Responsibility
– Health and safety
– Security
– Integrity assurance
– Environment

Health, safety and security

Being safe is a core Petrofac value. We have well-established safety management systems in each division and during 2008 these were complemented by a complete review of group processes and procedures, with the overall objective of cascading improvement throughout the Company. We now have a group-wide Review Board for Major Hazard Incidents which met quarterly during 2008.

Recordable incidents

The reduction and ultimately the elimination of accidents and injuries is a key, albeit demanding, target for the Company. In 2008, we launched our Horizon Zero initiative across the whole group, supported by a dedicated online resource area. A Horizon Zero toolkit was issued to all supervisors, containing tools to help raise awareness of occupational safety. The toolkit can be personalised to meet local needs. The year also saw the launch of the Petrofac Guide to Safety Leadership which provides supervisors with thoughtful and structured advice for the day-to-day issues they may face.

In 2008, the group's employees and subcontractors completed 67 million man-hours (2007: 60 million) of activity. During the year the group experienced a recordable incident frequency rate of 0.32 per 200,000 man-hours (2007: 0.35). For the sixth year in a row this frequency rate has reduced. During 2008 a lost time injury frequency rate of 0.03 (2007: 0.07) was experienced. This compares well with industry published data but further action is again being taken to continue to improve during the current year.

In Europe, we have maintained an accident and incident database for a number of years, which helps us to track events and the actions that arise from them. This is now being rolled-out across all of our operations and project locations.

Major events

In September, there was an incident involving a helicopter departing the Maersk Resilient jack-up drilling rig which was under contract to our customer, Dubai Petroleum Establishment, in the Rashid field approximately 70km offshore Dubai. The helicopter, which was carrying two crew members and five passengers on a routine flight, crashed during take-off. Tragically, there were no survivors and our deepest sympathies are with the families, friends and colleagues of those involved. The incident affected many people and sincere thanks are due to those Maersk, Dubai Petroleum and Petrofac staff and all others who responded to the incident so effectively. An accident investigation is currently being conducted under the direction of the government authorities of Dubai.

During the year, 17 major potential hazard events (2007: 24) were recorded and although very few of these resulted in personal injury we continue to examine such incidents very carefully in order to identify – and thereby address – the underlying causes. A new group level Review Board was formed during 2008 under the chairmanship of the Group Chief Operating Officer. This board, which meets quarterly, assesses incident and accident investigations taking particular note of recommended improvement actions and provides challenge and support to the organisation to ensure effective lessons are learned. The new driver and passenger code of conduct referred to in the next section was issued as a direct result of the work of this board. Customer representatives have also provided input when accidents occur on a location not under the direct management of Petrofac. This mutual learning has also proved to be beneficial.

Vehicle incidents

In 2008 we introduced a code for drivers and passengers travelling in Company vehicles. This helped to reduce significantly the number of serious or major potential incidents involving vehicles on project sites or travelling between locations to give a driving incident frequency rate of 0.22 (2007: 0.98) major or serious vehicle incidents per million kilometres driven. Driving related accidents are a major risk area for the business and the very significant reduction in vehicle incident frequency rates is both an encouraging and notable achievement.

Staff welfare

The health and welfare of staff is essential to the smooth operation of the business. Measures are in place to assess the health and fitness of senior management in all divisions. The group health programme continues to provide comprehensive medical assessments for those at risk, particularly employees involved in offshore and overseas assignments. Health suites manned by medical professionals are available at the majority of our project and operational sites as well as within two of our main operating centres, in Sharjah and Aberdeen.

Safeguarding our people

Our people work in remote and potentially dangerous environments where security can be a real challenge. We are committed to creating a safe working environment for everyone.

We were happy with the response of our crisis and communications processes in the wake of the terrorist attacks in Mumbai in September 2008. Petrofac had over 500 people in the city including visitors at the time of the attacks and all were quickly accounted for.

Corporate social responsibility
continued

A comprehensive monthly security briefing is provided to all divisional management teams and this is also factored into the general risk review process as new projects and their locations are evaluated. Further development of systems and procedures to safeguard the security of the Company's staff and subcontractors will continue during 2009.

Environment

Protecting the environment remains a priority for the group. We are committed to conducting operations in a way that minimises our impact, with a target of zero environmental incidents.

During 2008 we decided to streamline the decision-making process and improve accountability across the business by disbanding the Environmental Committee and devolving responsibility to the Group Head of HSSEIA, who reports to the Board and has a team of environmentalists positioned throughout the group. As a result a carbon management steering group has been formed and is led by the Group Head of HSSEIA. This forum is primarily charged with developing our carbon strategy and shall report progress to the Board during 2009.

A number of environmental initiatives were launched during the year.

Planet Petrofac

Launched in November 2008, 'Planet Petrofac – our gold standard for the environment' is an internal campaign aimed at increasing awareness of environmental issues, improving environmental behaviours and minimising the damage that we, as a business and as individuals, have on the environment. The campaign has been supported by extensive communications which focus on the fact that 'small steps can make a big difference'.

As part of Planet Petrofac, we held our first group-wide Environment Month in November 2008. In previous years, successful environmental initiatives have been held in Sharjah and Aberdeen, but this was the first time that activities across the group have been held simultaneously. Events were organised under four themes: reduce; recycle; educate; and replace. A huge range of activities took place, and included the planting of more than 1,000 trees within the locations of Sharjah, Woking, Aberdeen and Chennai.

Carbon footprint

We have introduced a focus on our carbon footprint. Baselines are now established and in 2008, as a group, we emitted 184,844 tonnes of carbon dioxide (tCO_2) (2007: 119,576 tCO_2). These figures have been independently verified. Our baselines cover emissions relating to vehicle and construction activity and energy usage at our various project and office locations. This information also includes our equity ownership activities (on a net basis) but does not include locations where we manage facilities on behalf of our customers. These statistics are included within our customers' own reports.

As we committed in last year's Report, we have formal environmental management systems for each relevant part of our business and these operate within the framework of BS EN ISO 14001:2004 approval. As part of these approvals our environmental performance is continually assessed by the verifier Lloyds Register Quality Assurance.

External certification

During the year, the Emergency Response Service Centre in Aberdeen successfully passed its ISO 9001 audit. This is the only such centre in the UK and it provides an integrated response capability to a range of customers. The audit demonstrates that the centre has met the ever-growing customer demand for the highest level of excellence.

In 2008 First Point Assessment Limited (FPAL) independently assessed the group's Facilities Management business environmental performance and gave a ranking of nine (out of ten) one of the highest ever given to a contractor. These scores show continual improvement since the last certificate was issued in 2006.

Integrity assurance

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

The more mature assets which we manage continue to present significant challenges and we are addressing these through a comprehensive approach to asset integrity.

Review Board

In 2008 we established an Asset Integrity Review Board which met monthly throughout the year and will continue to do so in 2009. We utilise a traffic light reporting tool to analyse each asset based on a number of process safety factors relating to design, technical and operational integrity. During the year we completed detailed inspections of the Kittiwake platform, North Sea and Dubai Petroleum assets, UAE which are under Petrofac management and will complete inspections of all other assets in 2009. The findings are tracked on a monthly basis and reported to the Review Board, with the results also being reported to the Board of the Company.

Industry involvement

We are major players in our industry and seek to contribute our experience and expertise in many areas, including asset integrity.

During 2008 our Group Head of HSSEIA was co-chair of Step Change in Safety, an industry body associated with the oil & gas industry in the UK. This organisation is responsible for working across the industry with duty-holders and the broader community in the North Sea. It sets standards for occupational safety and asset integrity.

In November, we held a safety conference in Sharjah. This was attended by 75 employees, including the Group Chief Executive and many senior managers.

1. Tree planting in Sharjah
2. Staff in the Kuala Lumpur office

People

Strategy

As part of our vision for 2012 Petrofac aims to become a best-in-class employer in the diverse markets in which we operate. In order to achieve this we need to combine a clear organisational structure with good processes and policies, as well as a strong framework of behaviours.

The link between organisational clarity (where staff clearly understand the Company's structure and their role in it) with good performance (allowing people to develop and do their best within, and for, the organisation) is widely recognised. Our philosophy is to ensure that our structure, processes and behaviours all work together to make Petrofac an employer of choice within our chosen sectors and a Company that people are proud to work for.

While we hope that over the course of the next few years these elements will become more recognisable across the group, we also strongly believe it is, and will remain, appropriate for there to be differences between locations and business units. We need to understand where overall consistency in what we do is appropriate and where it is not.

The HR challenge lies in getting that balance right over the next few years. This involves looking in detail and further improving how we recruit, retain, performance-manage and develop our people, together with assessing the overall work environment and the processes, policies and systems we have in place. We need to take a long-term view and one which we hope will enable us to achieve the strategic vision to which we aspire.

2008 review

The year once again saw an increase in headcount, from 9,800 at the end of 2007 to 11,100 at the end of 2008, through principally organic growth.

We believe that our workforce and recruitment practices should reflect the diverse communities in which we operate and this is demonstrated through our graduate recruitment programme. To support our ongoing growth we continue to place importance on recruiting and developing talented graduates and recruited around 100 in 2008, from Europe, the Middle East and Asia.

A key highlight of the year – and an expression of our commitment to our people – was the appointment of our first Group Head of Human Resources.

Approximately 27% of employees[1] across the world now participate in at least one of our share incentive schemes. Further details can be found in the Remuneration Report, on pages 66 to 74 of this report.

We also encourage our people to engage with the Company on other, less mainstream, levels. For example, we launched the Picture Petrofac competition in 2008. Open to all employees, this photography competition resulted in the creation of a 2009 calendar. The theme was left open while being mindful of Petrofac's core values – being safe, ethical, innovative, cost-conscious,

1 Excluding agency and contractor staff and the group's share of joint venture employees.

Corporate social responsibility continued

responsive to customers and focused relentlessly on delivering results. The winner, Monzer Chammas, who is based in the Sharjah office said: "The competition is a great initiative, it has improved my sense of belonging and attachment to the Petrofac brand and reinforces for me that we all have what it takes to do and achieve anything if we set our minds to the task." Plans are already underway to run the competition again in 2009.

Code of Business Conduct

We reviewed the Code of Business Conduct during 2008.

Ethical behaviour in business is a subject which has engaged governments and regulators increasingly in recent years. It is no different within Petrofac where the Board considers this to be one of its main responsibilities.

We have more than 11,000 personnel working in some of the most challenging environments across the world. In these circumstances it is essential that we establish a set of common principles and minimum standards of business conduct to guide us. The Code of Business Conduct sets out the behaviours that we expect our employees, suppliers, contractors, agents and partners to comply with in undertaking business for and with Petrofac. The Code also establishes the general principles that inform the way in which we work with each other and with external parties. Finally, it provides practical advice designed to help to protect our employees in their day-to-day work and to maintain the reputation of Petrofac.

The revised Code will be launched in the first half of 2009, supported by a poster campaign and an e-learning initiative, each of which will focus on ensuring that all staff understand the importance of the Code.

Developing our people

Employee retention is as important as attracting high quality individuals to join Petrofac in the first place. We have a Professional Development Programme to address the needs of postgraduates and young professionals, focusing on improving mobility across the group, sharing learning and best practice, and providing fast-track career plans for high potential individuals.

A major objective for the Petrofac Academy, which was launched in 2006 to develop Petrofac managers and leaders of the future, is to increase awareness and understanding of the technical standards and behaviours that make up the Petrofac Way. More than 70 workshops were held during the year to achieve this.

The challenge of providing consistent and quality training has been improved by the introduction of a comprehensive e-learning programme. Initially piloted in our Engineering & Construction division, we now plan to extend this across the organisation during 2009. The objective of e-learning is to support other development activities and also to provide learning opportunities to employees in remote locations. More than 1,000 of our people are already using e-learning.

Continuous development of our people at all levels remains integral to our approach. We strive to ensure that all Petrofac people have the highest levels of competence. The majority of our workforce is now assessed against technical and behavioural competencies and this initiative is scheduled for completion during 2009.

Our focus on developing people extends beyond our own organisational boundaries. In the UK, employees from our Woking office are helping to train the engineers of the future, by delivering interactive workshops in local schools. The Science and Engineering Ambassadors programme run by the Surrey Science and Technology Regional Organisation is aimed at supporting teachers to inspire young people about science, technology, engineering and maths. This year, nine of our graduates took part in two half-day workshops at Broadmere Community Primary School in Sheerwater, to help Year 6 pupils learn about LogIT Data Logging technology.

Communications

Effective communication is the bedrock of a successful HR strategy. During 2008, we maintained the momentum behind recent communications initiatives while also making significant progress with new ones.

Petrofacts, our company-wide magazine, continued to be published quarterly, with the addition of a special internal issue in November, which introduced the important organisational changes outlined elsewhere in this Report.

As we committed in last year's Report, we completed a new global intranet during 2008 which will be launched in the first half of 2009. PetroNet will be the home for a wide range of useful information to help employees navigate their way around our growing organisation. They will be able to find the latest news and information from across the group as well as useful tools such as office addresses, brand guidelines and company brochures. PetroNet also features an opportunity for employees to have their say on a range of topics.

For 2009, we will continue to keep all employees up-to-date with business activities and performance plus group policies and initiatives.

1. Atmonatti Vidya Mandir school, Khopoli, India
2. Nakta Secondary School, Tunisia
3. Learning centre in Kitgum, Sudan

Community

At Petrofac, we are mindful of our responsibilities to the communities where we operate. We work hard to ensure that relationships with customers, suppliers, communities, non-governmental organisations (NGOs) and governments are founded on mutual respect.

During 2008, we continued to make progress with our community-based activities, particularly in the international arena where activities have been less well-established compared with some of our longer-running UK-based programmes. It has been pleasing to see the increased integration of community relations into our business processes and the evaluation of these activities being directly related to business objectives and values.

Petrofac's membership of UK-based Business in the Community (BitC) continues. This organisation has over 850 member companies. We derive great value from membership and are increasingly able to avail ourselves of the programmes BitC offers as our activities increase. Specifically, during the year, we have been able successfully to utilise the services of its Global Partner Network to seek advice and source reputable international NGOs.

Our community relations programme continues to be centred on initiatives that support training and education. Here is a summary of some of the more significant projects from the year.

Corporate social responsibility
continued

Helping to build 60 schools in Sudan

Our education project in Sudan with international NGO, BRAC, is bringing much-needed educational opportunities to the country's children. Formally launched on 1 May 2008, the project aims to build 60 schools for approximately 1,800 children aged 8-14.

The project is being operated in close collaboration with the Ministry of Education and follows the government curriculum for Southern Sudan. It aims to provide access to cost effective, good quality primary education for the poorest and most disadvantaged children in Central Equatoria (Juba) and Eastern Equatoria (Torit). The project is expected to increase significantly the numbers of children that enrol into schools, particularly girls, and reduce drop-out rates. It also creates employment for women within the local communities as all the teaching and support staff are female.

In Juba, 30 schools were opened before the end of 2008 with some 900 students enrolled in the schools; more than 55% of them are girls, who are particularly disadvantaged. In Torit, 20 schools will open early in 2009.

Children from all backgrounds have enrolled into these schools including orphans, children from very poor families, children that had previously dropped out and children that were not already in school.

Tunisia. During 2008, we completed the classroom extension at the 600-pupil secondary school in the town of Nakta, providing a valuable facility for the students to undertake their studies and homework. Petrofac, along with construction partner Pireco, also donated two ambulances to the local hospital in Sfax. During our Environment Month in November, exceptionally high levels of engagement and commitment were demonstrated by the Hasdrubal team to the campaign, something that was greatly appreciated by the local community. During the month, the team also involved the Nakta school in a comprehensive environmental awareness programme which included activities such as litter collection.

Egypt. Two schools in the Matrouh area in the Western Desert have been built and furnished by Petrofac, in conjunction with our customer Apache, for local Bedouin children. Following the success of this programme, approvals are now in place to build a further two schools, this time in the Salam area of the Western Desert, for completion in mid-2009. The one-room schools, equipped with running water and electricity, feature a large classroom as well as living accommodation for two resident school teachers. The schools each provide primary education for around 45 children between the ages of four and 13.

Algeria. Towards the end of 2008, after conducting a needs analysis with the local authorities, we began implementing a programme to provide whiteboards to all the schools in the In Salah region, a total of 38 schools and 341 classrooms. This programme is scheduled for completion in early 2009.

India. Education for the underprivileged is also a primary focus for our Indian operations. In collaboration with the Arvind Gandbhir Secondary School in Jogeshwari in northern Mumbai, our scholarship programme has continued to grow in strength. During 2008, we sponsored 68 students and the reputation of the programme within the local Jogeshwari community is creating additional interest and support for the school. During the later part of 2008, the Mumbai office also established a second scholarship programme with a school in Khopoli, in the Indian state of Maharashtra, approximately 100km from Mumbai. Currently 55 students are receiving financial support and, in common with the Arvind Gandbhir programme, they have to maintain a high standard of academic excellence to retain their scholarship.

Petrofac is also funding a programme to build classrooms and a community hall for a school near Khopoli. This is a residential school for tribal children who live in remote areas. Their parents have no fixed income and live well below the poverty line. The students currently live, sleep and study in the same room; there are no separate classrooms. As well as education, health, well-being and hygiene are an integral part of the Khopoli programme.

Kyrgyz Republic. We have contributed to the financial support of eight talented students who would not otherwise be able to pursue a university education. Five of the students will undertake full academic courses and three will undertake intensive English language courses. The candidates, many of whom are from disadvantaged backgrounds were selected by Kyrgyz Petroleum Company senior management in conjunction with the American University of Central Asia because of their academic ability and achievements. The students have also been given the opportunity to work in the Bishkek and Jalalabat offices during their vacation periods.

Malaysia. Our Malaysia programme is part of the global programme of Chevening Scholarships awarded by the British Government. We have agreed to make a financial contribution which has been matched by the British Government to support a Malaysian student currently studying for an MSc in Renewable Systems Technology at Loughborough University.

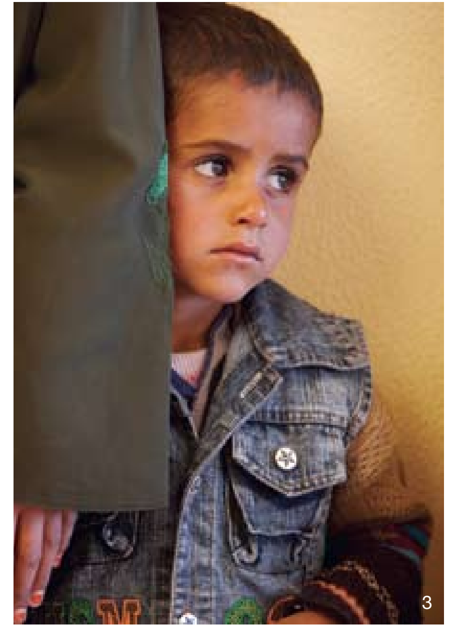
UK. In 2007, we launched a Payroll Giving Scheme to enable UK based Petrofac employees to make charitable donations through their monthly payroll, with the additional commitment that 50% of their donations would be matched by the Company. Keen to support a charity which reflected the group's policy, for 2008 the participants chose to support Learning for Life UK Ltd. This organisation is part of the global campaign for education for all and works with local partners to provide education and opportunities for children in South Asia who are disadvantaged by poverty, geography, conflict or social and economic circumstances.

2008 was the 10th anniversary of the education/industry partnership between Petrofac and Kincorth Academy in Aberdeen, Scotland. The partnership has benefited both pupils and teachers at the school and enabled our people to provide significant support to their local community. This partnership model has been replicated throughout Scotland and was instrumental in shaping the Scottish Government's 'Determined to Succeed' initiative. This year the partnership won 'The Schools Award' at the Children & Young People Services Awards. The partnership was also honoured this year by Aberdeen City Council at a civic reception to celebrate the 'Determined to Succeed' school and business partnership.

In a further example of our commitment to education, our Woking office is helping to train the engineers of the future (see People section, on pages 51 and 52).

Community involvement

In addition to our support for education, we also play our part in the broader community. 2008 saw a number of charitable and sporting initiatives which demonstrated the close bonds between our people and the communities in which they live and work, full details of which are provided on our website.



1. Nakta Secondary School, Tunisia
2. Anudanit Adivasi Prathamik Ashramshala school, Chive village, Khopoli, India
3. Matrouh School, Eygpt
4. Atmonatti Vidya Mandir school, Khopoli, India

Board of Directors

1

2

3

4

5

6

7

8

9

1 **Rodney Chase**
Non-executive Chairman [c]
Rodney Chase was appointed non-executive Chairman of Petrofac in June 2005. Rodney spent 38 years at BP plc, of which 11 were served on its board. He was deputy group CEO on his retirement from the BP group in May 2003. He also spent time as CEO of the exploration and production, and marketing and refining divisions. He continues to serve as non-executive deputy chairman of Tesco plc; non-executive director of Computer Sciences Corporation; non-executive director of Nalco Company and non-executive director of Tesoro Corporation. He has previously held positions as a board member of BOC plc and Diageo plc. Age 65.

2 **Ayman Asfari**
Group Chief Executive [c]
Ayman Asfari joined Petrofac in 1991 to establish Petrofac International. Ayman has more than 28 years' experience in the oil & gas industry and served as Chief Executive Officer of Petrofac International until his appointment as Group Chief Executive of Petrofac Limited in January 2002. Ayman previously worked as the managing director of a major civil and mechanical construction business based in Oman. Ayman currently serves as a member of The Board of Trustees of The American University of Beirut. Age 50.

3 **Michael Press**
Senior Independent Director, Non-executive Director [a b c d]
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. Michael is chairman of TWMA, an Aberdeen based global drilling waste management firm and continues to serve as senior independent director of Chart Industries Inc. Age 61.

4 **Maroun Semaan**
Group Chief Operating Officer
Maroun Semaan joined Petrofac in 1991 to establish Petrofac International. From 1977 to 1991, Maroun held various project positions with Consolidated Contractors International Co, based in the Middle East, where he was involved in the management of oil & gas pipeline, process facilities and civil works projects in Oman and Bahrain. Having previously been Chief Executive of Petrofac Engineering & Construction, he was appointed Group Chief Operating Officer in January 2009 following the group reorganisation. Maroun currently serves as a member of The Board of Trustees of The American University of Sharjah. Age 53.

5 **Bernard de Combret**
Non-executive Director [b c d]
Bernard de Combret was appointed to the Petrofac Board in November 2003. Bernard was deputy chairman of Total's executive committee until his retirement in 2002. Following senior positions in both the French Ministry of Foreign Affairs and Ministry of Finance, he spent 24 years with Elf and subsequently Total where he was CEO of refining marketing; CEO for gas, power, new energies; and CEO for trading and shipping. He is currently non-executive chairman of Coastal Energy in addition to serving as a non-executive director of Winstar Resources Ltd and a member of the international advisory board of Grupo Santander. He has previously held positions as a board member of Renault VI, CEPSA and Banco Central Hispano. Age 66.

6 **Keith Roberts**
Chief Financial Officer
Keith Roberts joined Petrofac in March 2002 as Chief Financial Officer having spent most of his working life as an investment banker based in the City of London. After positions in commercial banking with Standard Chartered Bank and then with County Bank, the merchant banking subsidiary of National Westminster Bank, Keith moved into corporate finance with Hawkpoint Partners where he was a managing director and a member of the operating committee. He has previously served as a non-executive director of the Peacock Group plc. Age 52.

7 **Kjell Almskog**
Non-executive Director [a c d]
Kjell Almskog was appointed to the Petrofac Board in March 2005. Kjell has held a number of senior executive positions including 13 years at the international ABB group - most latterly as deputy group CEO and Head of its Oil, Gas & Petrochemicals division. He was then Chief Executive of Kvaerner from 1998 until its merger with Aker in 2001. Kjell was appointed non-executive chairman of Intex Resources ASA, a Norwegian listed mining and exploration company in November 2007. He continues to serve as non-executive deputy chairman of Kverneland Group ASA and as a senior advisor of the Taylor Group. Age 68.

8 **Amjad Bseisu**
Chief Executive, Energy Developments
Amjad Bseisu joined Petrofac in 1998 and founded the Energy Developments' business. In 2007, Amjad rejoined the Petrofac Board having previously served for several years prior to the Company's admission to listing on the London Stock Exchange in 2005. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), ultimately as head of International Marketing, Negotiations and Business Development and president of ARCO Petroleum Ventures and ARCO Crude Trading, Inc. Amjad was a founding non-executive director of Serica Energy plc and Stratic Energy Corporation. Age 45.

9 **Rijnhard van Tets**
Non-executive Director [a b d]
Rijnhard van Tets was appointed a non–executive Director of Petrofac in 2007. Rijnhard is currently general partner of Laaken Asset Management NV. He was an adviser to the managing board of ABN Amro between 2002 and 2007, having previously served as a member of ABN Amro's managing board for 12 years. Rijnhard occupied a number of very senior executive positions at ABN AMRO, most latterly as chairman of ABN AMRO's Wholesale Clients and Investment Banking Group between 1996 and 2002. Rijnhard currently serves as a non-executive chairman of the boards of Arcadis NV; Euronext Amsterdam NV; Euronext NV and Equity Trust Holdings SARL and is a non-executive director of IFF Europe; NYSE Euronext Inc; Stichting Administratiekantoor Bührmann NV; and a number of charitable organisations. Age 61.

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

Senior management team*

1 **Robin Pinchbeck**
Group Director of Strategy and Corporate Development

2 **Richard Milne**
Group Director of Legal and Commercial Affairs

3 **Marwan Chedid**
Managing Director, Engineering & Construction Ventures

4 **Bill Dunnett**
Managing Director, Offshore Engineering & Operations

5 **Gordon East**
Managing Director, Production Solutions

6 **Leigh Howarth**
Managing Director, Petrofac Training

7 **Rob Jewkes**
Managing Director & EVP Project Development & Operations, Energy Developments

8 **Subramanian Sarma**
Managing Director, Engineering & Construction

9 **Rajesh Verma**
Managing Director, Engineering Services

* These titles reflect the new organisational structure which was implemented on 1 January 2009

Photograph: Kittiwake platform, North Sea

Corporate governance report

The Company is incorporated in Jersey, where there is no formal Code relating to corporate governance. However, the Board recognises that it has a responsibility to ensure good governance of the Company in order to help it fulfil its obligations to all its stakeholders, not just shareholders. It is therefore strongly committed to the highest standards of corporate governance and has decided to adhere, wherever possible, to the provisions of The Combined Code on Corporate Governance published in 2006 (the Combined Code), in the same way as if the Company was incorporated in the United Kingdom. The Company has prepared an additional report on its Corporate Social Responsibility (pages 48 to 55), which sets out its engagement with society in general. This Report, however, together with the Nominations Committee Report, Audit Committee Report and Remuneration Committee Report, is the Company's formal report on its corporate governance framework and has been prepared by reference to the Combined Code. The Directors consider that throughout 2008 and up to the date hereof, the Company has fully complied with the provisions of the Combined Code.

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

- directors
- directors' remuneration
- accountability and audit
- relations with shareholders

Directors

The Board

The Board is responsible to shareholders for the control and leadership of the group and for safeguarding the Company's reputation. The Board currently has nine members and details of the individuals' skills and experience are contained in the Directors' biographies on page 57.

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

The Board met regularly during the year. The Board met in person at six meetings, which had been scheduled well in advance. In 2008, the Board held three such meetings in Continental Europe; one meeting in Sharjah, the United Arab Emirates, where the group has its largest office; one meeting in Jersey where the Company is incorporated; and one meeting in Tunisia where the group has significant business operations. In addition, the Board held a number of telephone conference Board meetings at relatively short notice, which arose as a result of specific business, usually in relation to a particular commercial project, between scheduled Board meetings. The agenda for each scheduled Board meeting allows the Chairman and Non-executive Directors to meet without the executive Directors present. In addition, the Board attended a strategy and business planning day with members of senior management.

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

Number of meetings	**6**
Rodney Chase Non-executive Chairman	6
Michael Press Senior Independent Director	6
Bernard de Combret Non-executive Director	6
Kjell Almskog Non-executive Director	6
Rijnhard van Tets[1] Non-executive Director	5
Ayman Asfari Group Chief Executive	6
Maroun Semaan Group Chief Operating Officer (formerly Chief Executive, Engineering & Construction)	6
Keith Roberts Chief Financial Officer	6
Amjad Bseisu Chief Executive, Energy Developments	6

1 Rijnhard van Tets missed one meeting due to a long standing prior commitment arranged before his appointment to the Board in 2007.

Chairman and Group Chief Executive

The roles of Chairman and Group Chief Executive are clearly separated and set out in writing. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda and for ensuring that there is effective communication with all shareholders. The Chairman also facilitates the effective contribution of all Directors and ensures that there is a constructive relationship between the executive and Non-executive Directors. The role of the Group Chief Executive is to implement strategy by developing manageable goals and priorities; provide leadership and motivation to the management teams running the group's businesses; and develop proposals for the Board to consider in all areas reserved for its judgement.

Board balance and independence

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

Corporate governance report continued

The Board is assisted by various committees, principally the Nominations, Audit, and Remuneration Committees. Reports for 2008 from each of these committees are provided from pages 64 to 74. The Board keeps the membership of the committees under review.

Appointments to the Board

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

Information and professional development

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

The Company has a formal programme of training for its Directors, which is designed both to increase familiarity with the group's business operations as well as to develop technical skills and knowledge. The Company is committed to providing continuing education to Directors in relation to its business and as such ensures that members of senior management give regular presentations to the Board on significant areas of business operations. In 2008, presentations were made at three of the scheduled board meetings on the following aspects of the group's activities: its Brownfield business; its activities in the Commonwealth of Independent States; and its Tunisian business, which included a visit to a gas processing/LPG and condensate plant in Hasdrubal where the Engineering & Construction division was nearing completion of a significant engineering, procurement, construction and commissioning contract for BG Tunisia Limited. For 2009, the Chairman and Group Chief Executive will agree further business presentations and at least one site visit, having due regard not only to previous presentations but also the group's evolving strategy. As well as assisting Directors in their understanding of the group's business, the Company is committed to ensuring that its Directors' technical knowledge, particularly in relation to the governance requirements for a UK listed company, remains up to date. The Secretary to the Board provides regular technical updates to the Board and its formal committees. Once a year, the Chairman formally requests each Director to consider whether or not he requires any specific training on any aspect of the Company's activities. Further, any Director may request the Secretary to the Board to arrange any individual training or professional development if he feels that this would be helpful to him in discharging his responsibilities. In 2008, the Secretary to the Board arranged for the Company's legal advisers to provide Directors with a refresher session on the legislative and regulatory framework for share dealing by Directors and senior employees.

In the event that the Board appoints a new Director, the Chairman works with the individual and the Secretary to the Board to develop a tailored induction programme to take account of the individual's specific needs.

Performance evaluation

Having used an external facilitator to help evaluate the Board, its Committees and Directors in 2006, the Board decided that it would undertake internal reviews in 2007 and 2008. During the year, the Chairman and Secretary to the Board periodically followed up on action points identified during the 2007 evaluation process. Most action points were discharged during the year but a small number remained either partially or wholly unresolved at the year end.
In the last quarter of 2008, each Director completed an extensive questionnaire prepared by reference to the Combined Code and the Secretary to the Board collated the results. The Chairman subsequently led a formal discussion of all Directors as a consequence of which a list of actions, including those that remained undischarged from 2007, were agreed for the forthcoming year. The Chairman will review the Board evaluation process in 2009. Michael Press, the Senior Independent Director, led a separate evaluation of the Chairman through a series of questionnaire led interviews with other members of the Board and senior management before providing feedback to the Chairman in a one-to-one appraisal. Board evaluation will continue on an annual basis.

Re-election of Directors

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

Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting solely of independent Non-executive Directors, is responsible for determining the remuneration and conditions of employment of executive Directors and certain members of senior management. A Report on the Directors' remuneration, including a more detailed description of the role and activities of the Remuneration Committee is set out on pages 66 to 74.

Accountability and audit

Internal control

The Board is responsible for reviewing the effectiveness of the group's system of internal control, including financial, operational and compliance controls and systems for the identification and management of risk. The Audit Committee routinely meets with both the internal and external auditors and discusses matters of internal control. In addition, the Audit Committee, on behalf of the Board, conducted a specific review of the internal control environment following the year end. The Risk Committee, a committee of the Board, complements the Audit Committee by focussing in more detail on the group's operational controls and risk management framework. The group's system of internal control can only provide reasonable, and not absolute, assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. However, the focus on risks and controls by these two Committees of the Board ensures a strong oversight process for the full Board.

The group has an ongoing process for identifying, evaluating and managing significant risks faced by the group, which has been in place for the year under review and up to the date of this Annual Report and is in accordance with the Revised Turnbull guidance.

The key elements which make up a robust system of internal control in a business may be characterised by the business' control environment and its risk management and assurance process. A description of each of these elements for the group is given below.

Control environment

The Board ensures that the group has a clear organisational structure for the control and monitoring of its businesses, including defined lines of responsibility and delegation of authority. Each of the group's businesses operates and maintains its own business management system designed to ensure the application of sound processes of control to all projects and business activities; such systems encompass policies and procedures relating to all major areas of risk, including matters relating to contract execution; health and safety; security; and the environment. The Company has a Group Head of Health, Safety, Security, the Environment and Integrity Assurance (HSSEIA) who heads a team with responsibility for overseeing the development of appropriate HSSEIA management systems and ensuring compliance with them, across the group. The role of Group Head of HSSEIA was created in 2007, management having taken the decision to expand the remit of the Group Head of Health, Safety and Security to include responsibility for the group's environment and integrity assurance management systems. Prior to this, the Board had taken the decision to form an Environmental Committee, partly in response to the lack of any dedicated group resource with overall responsibility for managing environmental matters. Although the Committee's primary role was that of oversight in relation to the group's environmental policy, environmental management systems, environmental targets and key performance indicators, it often took the initiative in seeking to implement group environmental management systems and targets. The Committee was able to do this effectively as the majority of its members were executive Directors albeit Rodney Chase acted as chairman. However, following the appointment of the Group Head of HSSEIA, the Board agreed that the individual concerned would as part of his role, take on responsibility for a group approach to management of environmental matters and provide formal updates to the full Board twice a year; the full Board henceforth restricting itself to responsibility for the oversight of environmental matters. As a result, the Environmental Committee was viewed as redundant and it was therefore disbanded during the year. The Board considers that the Environmental Committee provided a vital, initial impetus for the consideration of group environmental matters but that the new environmental reporting structure taken in conjunction with the additional resourcing provided, is a more appropriate framework for the development of the group's environmental management.

For details about environmental progress, refer to page 50 of the Corporate Social Responsibility Report. The Company has a Code of Business Conduct (Code), which amongst other matters, includes policies for the Company and its employees on health and safety; security; the environment; and areas of legal compliance. Towards the end of 2008, the Board approved a revised Code which management had extensively re-drafted, not only to ensure compliance with current best practice and new legislation but also to make it easier for employees to understand. Management will focus on increasing employee awareness and understanding of the revised Code following its publication in 2009. The group has a procedure in place to ensure that employees may raise ethical concerns in confidence.

Risk management

Each of the group's individual businesses operates and maintains a business management system incorporating policies and procedures in relation to risk management. In addition, each business is required to produce a risk matrix which identifies key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken in order to manage and mitigate those risks. The Head of Enterprise Risk Management has access to the risk matrices for the businesses and furthermore receives regular reports from the management team for each business. He provides regular and detailed formal updates to the full Board both on the most material of these individual business risks as well as any risks separately identified by the group's most senior management, which are judged to have the potential to affect the whole enterprise. Historically, there has been no dedicated management forum in which such enterprise risks have been identified and considered but management has decided to introduce such a forum in 2009.

The Board has a Risk Committee whose members are the following independent Non-executive Directors: Kjell Almskog (Chairman), Bernard de Combret, Michael Press and Rijnhard van Tets. The Committee met three times during the year and is supported by the Head of Enterprise Risk Management. It has formal terms of reference, which are reviewed annually by the Committee and are available on the Company's website. The Secretary to the Board acts as secretary to the Committee. Minutes for all meetings are circulated to all Directors and supplemented by an oral report from the Committee's Chairman at the next Board meeting. The Committee takes primary responsibility for:

- reviewing proposed group risk policy and procedures and recommending that they be adopted by the Board
- overseeing group operational risk management systems including insurance management
- reviewing any external disclosures made by the group in relation to its risk management

As well as considering existing risks, a rigorous process exists for the consideration of risks associated with undertaking new business via individual business and group risk review committees. Further, during the year management strengthened the process by which it reviews ongoing risks associated with ongoing major projects.

Details of the principal risks and uncertainties facing the business are disclosed on pages 28 and 29.

Assurances

The Board receives 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 and the Risk Committee
- the close involvement of the executive Directors in all aspects of the group's day-to-day operations, including regular meetings each month with the head of each business unit
- customer audits
- reports and presentations to the Board by senior management including the Group Director of Legal and Commercial Affairs; the Group Director of HSSEIA; the Head of Enterprise Risk Management; and the Group Head of Tax
- copies of minutes from group risk review committee meetings

Relations with shareholders

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

Corporate governance report continued

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

The principal method of communicating with the majority of shareholders is via the Annual Report and financial statements and the Company's website which contains details of financial presentations to analysts and other information about the group. All shareholders have the opportunity to attend the Annual General Meeting. All Directors were present at the 2008 Annual General Meeting and all intend to be present at the 2009 Annual General Meeting to answer shareholders' questions. Details of the meeting are set out in the Notice of Meeting which is sent to shareholders, and which contains the text of resolutions to be proposed and explanatory notes, where necessary. Shareholders attending will be advised of the number of proxy votes lodged for each resolution, in the categories "for" and "against", together with the number of "votes withheld". All resolutions will be voted on by taking a poll, the results of which will be announced to the London Stock Exchange and published on the Company's website.

As a company incorporated in Jersey, shareholders are required under the UK Listing Authority to notify the Company in the event that they can exercise 5% or more of the Company's voting rights. If the Company were incorporated in the UK, shareholders would be required to notify the Company in the event that they could exercise 3% or more of the Company's voting rights. As a matter of principle, the Company has tried wherever possible to govern itself as if it were incorporated in the UK rather than Jersey and for this reason, adopted Articles of Association which currently require its shareholders to notify the Company in the event that a shareholder acquires voting rights in 3% or more in the Company's share capital. The Company currently has 345,434,858 shares in issue and each share has one vote. One shareholder has notified the Company as at 13 February 2009 that it has an interest in 3% or more of the Company and is as follows:

	Number of ordinary shares	Percentage of allotted share capital
Legal & General Group Plc	13,900,929	4.02%

In addition to the above, Ayman Asfari and Maroun Semaan together with their respective close families held major shareholdings, details of which are disclosed in the Remuneration Report on page 74.

This Report was approved by the Board on 6 March 2009.

Nominations Committee Report

Membership of the Nominations Committee during the year and to the date of this Report is as follows:
- Rodney Chase (Chairman)
- Ayman Asfari
- Kjell Almskog
- Michael Press
- Bernard de Combret

The Committee's powers are conferred on it under the Company's Articles of Association. It has formal terms of reference, which have been drafted in accordance with the Combined Code, are reviewed annually by the Committee and are available on the Company's website. The Secretary to the Board acts as secretary to the Committee. Minutes for all meetings are circulated to all Directors unless there is deemed to be a conflict of interest and supplemented by an oral report from the Committee's Chairman at the next Board meeting. The Committee's principal roles and responsibilities include the following:
- consider and make recommendations to the Board on all new appointments of Directors taking into account the overall size, balance and composition of the Board
- consider succession planning
- make recommendations to the Board concerning the re-appointment of any Director following conclusion of his specified term in office

Meetings are held as deemed necessary by the Chairman and during the course of 2008, two meetings were held and all members attended. The Committee considered its terms of reference; the Board's size and composition; management's succession planning; training; and the proposed re-election of Kjell Almskog, Amjad Bseisu and Maroun Semaan at the 2009 Annual General Meeting. The Committee recommended to the Board that all three Directors offering themselves for re-election should be proposed for re-election by the Company's shareholders having taken into account their individual performances, which were considered as part of the annual Board evaluation exercise.

This Report was approved by the Board on 6 March 2009.

Rodney Chase
Chairman

Audit Committee Report

Membership of the Audit Committee during the year and to the date of this Report is as follows:
- Rijnhard van Tets
- Kjell Almskog
- Michael Press

Both Rijnhard van Tets and Kjell Almskog have recent and relevant financial experience and are deemed to have competence in accounting.

The Committee's powers are conferred to it under the Company's Articles of Association. It has formal terms of reference, which have been drafted in accordance with the Combined Code, are reviewed annually by the Committee and are available on the Company's website. The Committee's principal roles and responsibilities include:
- monitoring the integrity of the Company's financial statements and announcements relating to its financial performance and reviewing significant financial reporting judgements
- keeping under review the effectiveness of the Company's internal control and risk management systems
- monitoring the effectiveness of the internal audit function and reviewing its material findings
- overseeing the relationship with the external auditors, including agreeing their remuneration and terms of engagement, monitoring their independence, objectivity and effectiveness and ensuring that policy surrounding their engagement to provide non-audit services is appropriately applied

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

Attendance at the Committee meetings is at the invitation of the Chairman of the Committee. However, the Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit and the external auditors generally attend some or all of the Committee meetings. The Group Head of Internal Audit and the external auditors have the right to speak directly to the Chairman of the Committee at any time and have the opportunity to meet the Committee without management present at least once a year. The Secretary to the Board acts as secretary to the Committee.

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

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

Financial reporting

The Committee reviewed the 2007 Annual Report and financial statements and the 2008 Interim Report issued in September 2008 before recommending their publication to the Board. As part of this overall review, the Committee considered the draft preliminary announcements in respect of the Company's 2007 final and 2008 interim results. The Committee discussed with the Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements in preparing the Company's 2007 Annual Report and financial statements and 2008 Interim Report. In addition, the Committee reviewed drafts of trading statements and interim management statements before recommending their publication to the Board.

Internal controls and risk management systems

The Committee has responsibility for reviewing the Company's internal controls and it primarily discharges this responsibility through its engagement with the group's internal and external auditors. An annual internal audit plan, drawn up on a risk-based approach, is presented to the Committee for its review and approval at the start of the financial year. The Group Head of Internal Audit provides the Committee with an interim progress report part way through the year, as a result of which the audit plan may be revised, before returning to the Committee with his final report for the year at the start of the subsequent year. At the same time as the final report for the previous year is presented, an audit plan for the current year is proposed and so the ongoing process of internal control review is continued. In 2008, the internal audit department completed a total of 39 assignments across a broad cross-section of activities.

In addition, the Committee also received presentations or reports during the year in relation to the group's whistle blowing policy (known as the "speaking up" policy by employees) and its effectiveness; and the group's use of an aircraft owned by an offshore trust in which the Group Chief Executive has a beneficial interest.

Internal audit

The Committee evaluated the performance of internal audit from the quality of reports from the Group Head of Internal Audit; feedback from management; and, an assessment of work planned and undertaken. During the year, the Group Head of Internal Audit recruited two additional members of staff so that the department is currently staffed by six individuals including the Group Head of Internal Audit. The members of the department include accountants, IT specialists and an oil & gas engineer. The Committee will continue to keep the resourcing of the department under review but currently believes it is adequate both in terms of head count, experience and capability.

External Audit

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

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

Attendance at the meetings during the year was as follows:

Number of meetings	6
Rijnhard van Tets Chairman	6
Kjell Almskog[1]	5
Michael Press	6

1 Kjell Almskog was unable to attend one meeting due to a prior commitment.

This Report was approved by the Board on 6 March 2009.

Rijnhard van Tets
Committee Chairman

Directors' remuneration report

Introduction

This Report has been prepared by the Remuneration Committee in accordance with Schedule 7A to the Companies Act 1985 and approved by the Board. The Directors are not required under Jersey law to prepare a Remuneration Committee Report but in accordance with the principles of good corporate governance, as outlined in the Combined Code, have chosen to do so.

This Report sets out the remuneration policy and principles under which the Directors and senior managers are remunerated and details the remuneration and share interests of each Director for the year ended 31 December 2008.

Shareholders will be invited to approve this Report at the Annual General Meeting. The vote on the resolution will have advisory status only, will be in respect of remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. The members of the Remuneration Committee will be available at the Annual General Meeting to answer shareholders' questions about the Directors' remuneration.

The sections of this Report dealing with Directors' emoluments and share interests have been audited (pages 73 and 74) by the group's external auditors.

Information not subject to audit

Composition of the Committee

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

- Bernard de Combret
- Michael Press
- Rijnhard van Tets

Given their diverse backgrounds and experience, the Board believes that the current Committee members provide a suitably balanced perspective on executive remuneration matters. None of the Directors who served during the year had or has any personal interest in the matters to be decided (other than as 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.

Role of the Remuneration Committee

The Remuneration Committee is a formal committee of the Board, and has powers delegated to it under the Articles of Association. Its remit is set out in terms of reference formally adopted by the Board, which were last reviewed in December 2008. A copy of the terms of reference is available on the Company's website. The primary purposes of the Remuneration Committee are set out in its terms of reference and are to:

- recommend to the Board the broad policy in respect of senior management remuneration
- ensure that the levels of remuneration are appropriate in order to encourage enhanced performance
- approve the design and set the targets for any performance related pay scheme
- review the design of all share incentive plans before approval by the Board and shareholders, to monitor the application of the rules of such schemes and the overall aggregate amount of such awards
- set the remuneration of all executive Directors, members of senior management and the Chairman including annual cash bonus and share incentive payments

During 2008, the Group Chief Executive, Ayman Asfari, attended meetings at the invitation of the Chairman in order to provide advice on setting remuneration for other executive Directors and members of senior management. He attended no part of a meeting at which his own remuneration was being discussed. During the year, the Company appointed a Group Head of Human Resources, Geoffrey Tranfield. Mr Tranfield and the Group Director of Legal and Commercial Affairs, Richard Milne, attended meetings to provide advice in relation to the Company's share incentive schemes. The Secretary to the Board acts as secretary to the Committee and therefore attended all meetings.

The Committee appointed Norton Rose and Deloitte LLP to provide independent advice on remuneration matters during the year. Norton Rose acts as general legal advisors to the group. In 2008, Deloitte LLP did not provide any other assistance to the Company. Minutes of the meetings of the Committee are circulated to all Directors unless any Director is the subject of debate by the Committee, in which case the minutes will not be sent to him. The Chairman supplements the formal circulation of the minutes by an oral update from the Committee Chairman at the Board meeting following a Committee meeting.

Activities of the Remuneration Committee

The Committee met three times in the year and reports herewith its material findings. Attendance at the meetings during the year was as follows:

Number of meetings	3
Bernard de Combret Chairman	3
Michael Press	3
Rijnhard van Tets	3

In addition to its routine business, the Committee also undertook the following activities during the year and in the period to the date of this Report in discharging its responsibilities:

- review of the group's policy in respect of senior management remuneration
- consideration of management's strategic approach to the retention and motivation of personnel identified as key to the delivery of the group's overall strategy including consideration of the continued appropriateness of the group's current share incentive schemes

The conclusions from these reviews are outlined below.

In addition, written resolutions were passed by the Committee, which approved: awards under the Company's Performance Share Plan and Deferred Bonus Share Plan, as part of the Company's annual cycle of share awards; and, various awards throughout the year under the Restricted Share Plan. See pages 69 to 71 for details of these share incentive schemes.

Good governance

The Board and the Committee consider that throughout 2008 and up to the date of this Report the Company has complied with the provisions of the Combined Code relating to Directors' remuneration.

Remuneration policy and practice

Non-executive Directors

The Board, with the assistance of independent professional advice, determines the fees of the independent Non-executive Directors. The Board agreed during the year that it would now review Non-executive Director fees annually. When deciding an appropriate fee level for each independent Non-executive Director, the Board takes into account the level of fees generally paid to Non-executive Directors serving on boards of similarly sized companies listed in the United Kingdom and further considers the responsibility and time commitment required of each individual.

Executive Directors and members of senior management

The Committee aims to establish a level of remuneration, which is sufficient to attract, retain and motivate Directors and key executives of the calibre required to achieve the group's objectives; and which furthermore, reflects the size and complexity of the group's business together with an executive's individual contribution and geographical location.

Executive Directors' remuneration packages currently include the following elements:

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

Directors' remuneration report continued

Historically, the Committee has been guided by the general principles that:

- the overall maximum remuneration of executive Directors should be split broadly equally between the following three components: basic salary; annual cash bonus; and awards under the PSP; and
- the annual cash bonus and PSP awards do not exceed 100% or, in exceptional circumstances, 150% of basic salary

These principles have been applied in 2008.

In 2007, the Committee agreed that its remuneration policy for executive Directors and members of senior management going forward will be that basic salaries will be median or below against a relevant benchmarking group but that the variable element of remuneration will be structured so that individuals can achieve total remuneration that is upper quartile subject to achievement of challenging performance standards.

In formulating its remuneration policy, the Committee believes that the most appropriate benchmarking group for the executive Directors and members of senior management are:

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

The Committee believes that such a remuneration policy which sets the fixed elements at median or below and provides incentives capable of delivering upper quartile pay for delivery of superior performance is the most effective way in which to ensure that the executive Directors and members of senior management are incentivised to deliver the group's strategic goals and thus deliver long-term shareholder value.

The Committee intended to review in 2008 whether or not the broadly equal split between the three components making up senior management remuneration remained appropriate if potential upper quartile remuneration were to be delivered. However, the end of 2008 witnessed the near systemic failure of international banking systems, turmoil in the world's financial markets and uncertainty about the global economic outlook. Due to the prevailing economic conditions, the Committee postponed further development of the Company's remuneration policy and for the time being retains its existing broadly equal split between basic salary, cash bonus and PSP awards. The Committee intends to keep this matter under review in 2009 having regard both to the global economic environment and the outlook for the oil & gas services industry.

Basic salary, cash allowances and non-cash benefits

Basic salary

Ordinarily, the Committee determines an executive Director's basic salary at the beginning of each year and any change is applied with effect from 1 January.

Petrofac has had strong growth in profit since its initial public offering (IPO). At the time of the IPO, the Committee set salary levels appreciably below prevailing market rate. Since the Company has grown significantly in 2008, the rate of increase for basic salary increases for executive Directors were between 21.2% and 23.8%. These salary increases with effect from 1 January 2008 were required to bring basic salaries closer to market median levels. In reaching its decision, the Committee was guided by the benchmarking exercise it had conducted with the assistance of Deloitte LLP in 2007.

The Committee has awarded executive Director basic salary increases for 2009, in line with nearly all Petrofac employees, of 3-6%. The one exception is Maroun Semaan, who has received a 12.5% increase to reflect his promotion to Group Chief Operating Officer, with effect from 1 January 2009.

The Committee will monitor the economic climate as well as Company and individual performances in deciding executive Director salary increases in future years.

Cash allowances

In addition to basic salary, UK resident executive Directors receive a cash allowance in place of benefits including, but not limited to car allowances and pension contributions.

In 2008, Ayman Asfari received a cash allowance of £40,000 whilst the other UK based executive Directors received £30,000. The cash allowances were increased at the start of the year because no increases had been awarded to executive Directors for the previous three years and were made with due regard to the benchmarking exercise carried out in 2007. Cash allowances for 2008 remain below median.

None of the Directors is eligible to receive pension contributions from the Company.

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

The Company also pays a cash allowance in respect of housing and transport for Maroun Semaan in line with local market practice. In 2008, Maroun Semaan received a cash allowance of US$150,000 for the year.

Non-cash benefits

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

Annual cash bonus payments

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

- first, the extent to which the group and, as appropriate, the business division for which the individual Director is primarily responsible, have achieved annually established budgets and targets
- second, the extent to which the individual has met personal objectives, which are agreed at the start of each year in question and which are established with the aim of achieving the group's business strategy. Each executive Director's personal objectives include health and safety targets. In addition, some executive Directors have additional targets in relation to succession planning; risk management; and the development and implementation of the group's social, environmental and ethical programme. In this way, the Remuneration Committee considers that it has in place an incentive structure for members of senior management, which promotes responsible behaviour

For 2008, in line with the stated policy, the Committee set the maximum bonus potential at 100% of basic annual salary for achievement of corporate and personal targets but retained the ability to increase this to 150% of basic annual salary if outstanding performance were to be achieved.

Cash bonus awards in respect of 2008 to executive Directors ranged from 96% to 102% of salary due to strong Company and individual performances. The exception to this was Maroun Semaan, who received a bonus of 137.5% of salary. This level of award was considered appropriate in order to recognise his outstanding contribution to the financial performance of the group and the Engineering & Construction division during the course of the year and in addition the achievement of all his personal objectives.

Actual cash bonuses for the year are disclosed in the table set out on page 73 and taken in conjunction with awards to Directors under the Company's PSP, reflect the Remuneration Committee's assessment of each Director's achievement of his objectives in 2008 and his contribution to the group's performance in the year. Details of awards to Directors under the Company's PSP are outlined on page 73 of this Report.

Share incentive schemes

Performance Share Plan (PSP)

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

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

In 2008 and 2009, exceptional award levels have been granted to two individuals. Maroun Semaan and Ayman Asfari received grants in excess of 100% of salary in 2008 and 2009 to reflect their outstanding individual contribution to the growth of the Company in the last two years:

- Maroun Semaan – 124% of salary in 2008 and 122% of salary in 2009
- Ayman Asfari – 123% of salary in 2008 and 131% of salary in 2009

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

Vesting of PSP grants to date have been made subject to two performance measures calculated over the three years following the grant of the award:

(i) Total Shareholder Return (TSR) relative to an index of a comparator group of UK and international companies for 50% of the award; and

(ii) Earnings Per Share (EPS) growth relative to predefined targets for 50% of the award.

Directors' remuneration report continued

The TSR index was composed of 17 companies for grants made in 2006 and 18 companies for 2007 and 2008 (see table below). This index will consist of 16 companies for the 2009 PSP award due to the de-listing of two companies during 2008.

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

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

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

1 Vesting is subject to achievement of EPS growth over the period of at least Retail Price Index plus 3% over the three year vesting period.
2 In 2006, the companies from which the comparator index is composed were as follows: Abbot Group PLC; Aker Kvaerner ASA; AMEC PLC; Helix Energy Solutions Group, Inc (formerly Cal Dive International Inc); Chicago Bridge & Iron Co NV; Entrepose Contracting; Expro International Group PLC; Halliburton Co; JGC Corp; Saipem SpA; Schlumberger Limited; SNC-Lavalin Group Inc; Technip SA; Wood Group (John) plc; Fluor Corporation; Foster Wheeler Limited; and WorleyParsons Limited. For grants made in 2007 and 2008, the comparator index included the above listed companies and in addition, Tecnicas Reunidas SA. For the 2009 grant, the 2008 comparator group will be used, excluding Abbot Group PLC and Expro International Group PLC.
3 The Committee is authorised under the rules of the PSP to make retrospective adjustment(s) to the comparator index for any year of award in the event that one or more of the constituent companies are subject to any of the following: de-listing; merger; acquisition or other such event. In 2008, Abbot Group PLC and Expro International Group PLC ceased to exist as independent companies. The Committee therefore decided that these two entities would be removed from the comparator index with effect from the respective months in which they ceased to be independent companies.
4 It is assumed that £100 is notionally invested at the start of the performance period equally amongst all the companies making up the TSR index. At the end of the vesting period, the index will represent the value of what the initial notional investment of £100 would have returned over the period. This will be representative of the average return made by the Company's competitors. This is then compared to the return by an equivalent notional investment of £100 in Petrofac over the same period.

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

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

As part of its remit, the Committee regularly reviews not only the overall suitability of the group's share incentive schemes but also any performance conditions attached to such schemes. The Committee will therefore undertake a general review of the group's schemes in 2009 but particularly the PSP in light of the Committee's goal to adopt a detailed policy for executive Directors and senior management which will permit the delivery of upper quartile pay, subject to the satisfaction of stretching performance conditions. The Committee reviewed PSP performance conditions early in 2009 and concluded that they remain appropriate for grants scheduled as part of the annual cycle of awards to be made in March 2009 albeit the TSR index will be reduced to those 16 companies of the index which remain independent.

Other senior management, management and all-employee schemes

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

Deferred Bonus Share Plan (DBSP)

Under the DBSP, selected employees are invited, or in some cases required, to defer a proportion of their annual cash bonus into Company shares. Under the plan, the shares which are acquired with a participant's cash bonus are called "Invested Shares". Following such an investment, the Company will generally grant the participant an additional award over a number of shares being a specified ratio to the number of his or her invested shares and these awards are called "Matching Shares". To date, Matching Shares have been awarded to participants on the basis of a 1:1 ratio, the sole exceptions to this being two awards made in 2006 to an executive Director and senior executive, respectively: in these particular cases, it was felt to be inappropriate to grant any Matching Shares.

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

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

Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis throughout the year. The Committee intends that the scheme is used primarily, but not exclusively, to make awards to individuals who join the group part way through the year, having left accrued benefits with a previous employer. The Committee periodically monitors the level of awards. Executive Directors are not eligible to participate in the scheme.

The Petrofac approved Share Incentive Plan (SIP)

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

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

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

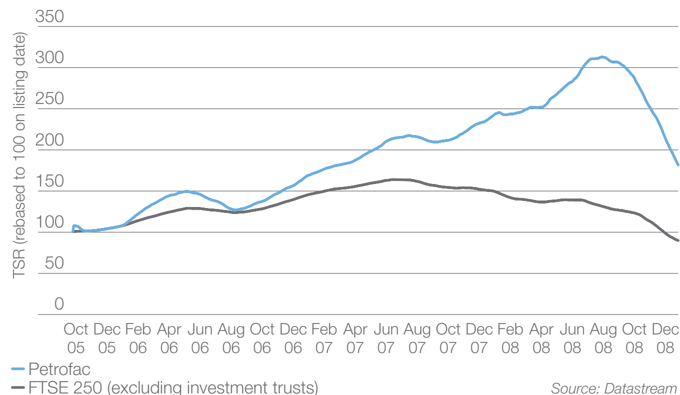
Participants in the SIP receive dividends in respect of their shares like any other shareholder. The trustee invites participants prior to a general meeting to indicate how he or she wishes the trustee to vote in respect of his or her shares on any resolution(s) to be put to shareholders in general meeting.

Funding policy in relation to PSP, DBSP and RSP

In 2007, the Board approved a funding policy in relation to the Company's employee benefit trust, which holds shares to be used to satisfy awards under the Company's DBSP, PSP and RSP. The Company reviews its contingent obligations under the above share incentive schemes on a quarterly basis with a view to ensuring that the employee benefit trust should purchase and hold shares, under a loan arrangement with the group, sufficient to cover between 80% to 100% of its maximum liability at any time under the three schemes.

Performance graph

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



Source: Datastream

Governance

Directors' remuneration report continued

Executive Directors' service contracts

Each of the executive Directors has a twelve month rolling service contract with the Company and is contractually restricted to a termination payment equal to 12 months' salary and benefits. Further, each executive Director is subject to re-election by shareholders at least every three years. None of the executive Directors is currently subject to a contractual retirement date. Details of the Directors' service contracts are disclosed in the table below:

				Number of months' notice	
Name of executive Director	Date of service contract (and date first appointed)	Last re-elected	Next due for re-election	Company	Director
Ayman Asfari	13 September 2005 (11 January 2002)	2008 AGM	2011 AGM	12	12
Maroun Semaan	13 September 2005 (11 January 2002)	2006 AGM	2009 AGM	12	12
Amjad Bseisu	13 September 2005 (11 May 2007)	2007 AGM	2009 AGM	12	12
Keith Roberts	13 September 2005 (6 April 2002)	2008 AGM	2011 AGM	12	12

Executive Directors are entitled to accept up to one Non-executive Directorship outside and unconnected to the group provided prior permission is sought from the Board. Any fees earned from such an appointment are retained by the Director. No executive Director currently holds any such external directorships.

Non-executive Directors

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

Name of Director	Date of latest letter of appointment (and date first appointed)	General meeting at which last re-elected	Next due for re-election	Required notice from Company (in months)
Rodney Chase	13 September 2005 (21 June 2005)	2008 AGM	2011 AGM	3
Kjell Almskog	13 September 2005 (23 March 2005)	2007 AGM	2009 AGM	3
Bernard de Combret	13 September 2005 (19 November 2003)	2007 AGM	2010 AGM	3
Michael Press	13 September 2005 (30 April 2002)	2007 AGM	2010 AGM	3
Rijnhard van Tets	2 February 2007 (11 May 2007)	2007 AGM	2010 AGM	3

In 2008, with the exception of the Chairman, Non-executive Directors were paid a basic annual fee of £45,000 for their role on the Board and a further annual fee of £7,000 per chairmanship of a committee, if applicable. The Board as a whole is responsible for deciding Non-executive Directors' fees unless such fees exceed £500,000 in aggregate, in which case shareholder approval in general meeting would be sought.

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The Chairman's fee is all inclusive and is currently £100,000 per year, having been reduced during the year from £105,000 following the disbandment of the Environmental Committee.

Audited information

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

The remuneration of each Director in respect of 2008 (with 2007 comparison) comprised:

	Salaries and fees US$'000	Cash allowances US$'000[1]	Benefits US$'000[2]	Cash bonus US$'000	2008 Total US$'000	2007 Total US$'000
Executive Directors						
Ayman Asfari[3]	813	74	75	832	**1,794**	1,740
Maroun Semaan	400	183	56	550	**1,189**	1,016
Amjad Bseisu[3,4]	481	55	1	462	**999**	496
Keith Roberts[3]	499	55	1	497	**1,052**	953
Non-executive Directors						
Rodney Chase[5]	188	–	–	–	**188**	209
Kjell Almskog	95	–	–	–	**95**	91
Bernard de Combret	95	–	–	–	**95**	96
Michael Press	82	–	–	–	**82**	88
Rijnhard van Tets	95	–	–	–	**95**	61
	2,748	**367**	**133**	**2,341**	**5,589**	4,750

1 Payment in lieu of pension allowance and other benefits for UK resident Directors and end of service indemnity and various allowances for the UAE resident Director. None of the Directors is eligible to receive pension contributions from the Company.
2 Benefits vary depending upon the Director.
3 UK based Directors are paid in Sterling. Amounts have been translated to US dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for the year.
4 Amjad Bseisu was appointed on 11 May 2007 with the result that remuneration disclosed for him in 2007 is in respect of just over seven months.
5 Rodney Chase's fee for 2008 was lower than 2007. His fee was reduced part way through 2008 following the disbandment of the Environmental Committee of which he had acted as chairman.

Awards of shares under the PSP

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

Director and date of grant	% of basic salary in year of grant	Number of shares at 31 December 2007	Shares granted in year under annual award cycle	Dividend shares granted in the year[1]	Number of shares at 31 December 2008[2]	Date from which shares vest	Market price on date of grant
Ayman Asfari							
24 April 2006	71.4	71,475	–	1,419	**72,894**[3]	24 April 2009	353p
19 March 2007	100.0	91,420	–	1,815	**93,235**[4]	19 March 2010	415p
19 March 2008	122.7	–	99,410	1,973	**101,383**[4]	19 March 2011	522p
Maroun Semaan							
24 April 2006	70.0	38,120	–	757	**38,877**[3]	24 April 2009	353p
19 March 2007	100.0	43,196	–	857	**44,053**[4]	19 March 2010	415p
19 March 2008	123.75	–	45,629	905	**46,534**[4]	19 March 2011	522p
Amjad Bseisu							
24 April 2006	72.8	45,268	–	899	**46,167**[3]	24 April 2009	353p
19 March 2007	100.0	53,328	–	1,058	**54,386**[4]	19 March 2010	415p
19 March 2008	92.3	–	44,182	877	**45,059**[4]	19 March 2011	522p
Keith Roberts							
24 April 2006	71.4	47,650	–	946	**48,596**[3]	24 April 2009	353p
19 March 2007	100.0	55,868	–	1,109	**56,977**[4]	19 March 2010	415p
19 March 2008	88.9	-	44,182	877	**45,059**[4]	19 March 2011	522p

1 Dividends awarded on the shares granted under the PSP are reinvested to buy further shares.
2 The number of shares disclosed are the maximum number which can vest under the performance conditions attached to awards made under the PSP. The performance conditions under which these awards would vest in full are explained on pages 69 and 70.
3 No shares awarded to executive Directors under the PSP have either lapsed or vested during the year. However, shares awarded on 24 April 2006 have satisfied their performance conditions in full, the end of the relevant three year performance period having concluded at 31 December 2008. Shares awarded on 24 April 2006 will therefore vest 100% on 24 April 2009. Based on a share price of 484p, which is the share price at 13 February 2009 being the latest practicable date prior to the adoption of this Report by the Remuneration Committee, the values of PSP awards made to the executive Directors on 24 April 2006 would be as follows: Ayman Asfari: £352,806; Maroun Semaan: £188,168; Amjad Bseisu: £223,448; and Keith Roberts: £235,204.
4 Shares awarded on 19 March 2007 and 19 March 2008 are not due to vest until 19 March 2010 and 2011, respectively. It is too early, in the Committee's opinion, to provide shareholders with a meaningful assessment to the extent that these shares will vest, if at all.

Directors' remuneration report continued

Award of shares under the DBSP

Keith Roberts was granted 31,153 shares under the DBSP on 24 April 2006. The award was made solely in respect of Invested Shares. No Matching Shares were granted. Following the award of dividend shares in 2006, 2007 and 2008 the number of Invested Shares was 31,768 shares and 32,399 shares, respectively, on 31 December 2007 and 31 December 2008. The award will vest on the third anniversary of grant subject to Keith Roberts' continued employment. The market price at the date of grant was 353p.

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

No sums were paid to third parties in respect of any executive Director's services (2007: nil).

Directors' beneficial shareholdings

Directors' personal shareholdings, which include family interests and which are not related to their remuneration, have been disclosed under the requirements of the UKLA listing rules and are as follows:

	Number of shares as at 31 December 2008	Number of shares as at 31 December 2007
Executive Directors		
Ayman Asfari	53,782,114	69,282,114
Maroun Semaan	30,568,799	33,068,799
Keith Roberts	2,120,000	2,120,000
Non-executive Directors		
Rodney Chase	800,000	1,000,000
Kjell Almskog	400,000	400,000
Bernard de Combret	700,000	600,000
Michael Press	240,000	240,000
Rijnhard van Tets	100,000	100,000

The Company's share price at the end of the financial year was 346.00 pence and the market price during the year was in the range 289.25 pence to 738.50 pence.

Changes since the year end

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

Annual General Meeting approval

The Remuneration Report will be submitted for approval to the Annual General Meeting to be held on Friday, 15 May 2009.

On behalf of the Board

Bernard de Combret
Chairman of the Remuneration Committee
6 March 2009

Statement of Directors' responsibilities

Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- specify which generally accepted accounting principles have been adopted in their preparation
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

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

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

Directors' approach

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

Going concern

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

Independent auditors' report
to the members of Petrofac Limited

We have audited the group financial statements of Petrofac Limited ('the Company') and its subsidiaries (together 'the group') for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 32. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable Jersey law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for the preparation of the Corporate Governance Report, which they have chosen to prepare.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

The Company has also instructed us to review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2006 Combined Code which, for a listed UK-incorporated company, are specified for review by the company's auditor by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, the Interview with the Group Chief Executive, the Operating and Financial Review, the Corporate Social Responsibility Report, the Directors' Information, the Corporate Governance Report, the unaudited part of the Directors' Remuneration Report, the Shareholder Information and the Oil & Gas Reserves (unaudited). We consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP
London
6 March 2009

Consolidated income statement
For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Revenue	4a	3,329,536	2,440,251
Cost of sales	4b	(2,751,063)	(2,029,772)
Gross profit		578,473	410,479
Selling, general and administration expenses	4e	(227,765)	(165,308)
Other income	4c	7,421	3,951
Other expenses	4d	(2,543)	(621)
Profit from operations before tax and finance income/(costs)		355,586	248,501
Finance costs	5	(13,906)	(8,527)
Finance income	5	16,688	18,259
Profit before tax		358,368	258,233
Income tax expense	6	(93,379)	(69,517)
Profit for the year attributable to Petrofac Limited shareholders		264,989	188,716

			As restated
Earnings per share (US cents)	7		
Basic		78.03	55.14
Diluted		77.11	54.61

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

Consolidated balance sheet
At 31 December 2008

	Notes	2008 US$'000	As restated 2007 US$'000
Assets			
Non-current assets			
Property, plant and equipment	9	413,064	256,237
Goodwill	11	97,534	71,743
Intangible assets	12	38,353	9,010
Available-for-sale financial assets	14	566	1,586
Derivative financial instruments	15	7,227	1,775
Other financial assets	15	1,899	23
Deferred income tax assets	6c	46,444	11,472
		605,087	351,846
Current assets			
Inventories	16	4,077	2,256
Work in progress	17	252,695	270,181
Trade and other receivables	18	700,931	509,025
Due from related parties	30	2,907	3,147
Derivative financial instruments	15	5,631	27,298
Other financial assets	15	4,078	2,702
Cash and short-term deposits	19	694,415	581,552
		1,664,734	1,396,161
Total assets		2,269,821	1,748,007
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	8,636	8,636
Share premium		68,203	68,203
Capital redemption reserve		10,881	10,881
Shares to be issued	10	1,988	–
Treasury shares	21	(69,333)	(29,842)
Other reserves	23	(39,292)	87,433
Retained earnings		577,739	377,450
		558,822	522,761
Minority interests		209	209
Total equity		559,031	522,970
Non-current liabilities			
Interest-bearing loans and borrowings	24	88,188	81,640
Provisions	25	29,663	19,046
Other financial liabilities	26	32,265	13,870
Deferred income tax liabilities	6c	38,196	34,137
		188,312	148,693
Current liabilities			
Trade and other payables	27	513,329	408,017
Due to related parties	30	559	744
Interest-bearing loans and borrowings	24	54,412	28,455
Other financial liabilities	26	6,362	864
Income tax payable		110,428	47,577
Billings in excess of cost and estimated earnings	17	285,527	208,105
Accrued contract expenses	28	551,861	382,582
		1,522,478	1,076,344
Total liabilities		1,710,790	1,225,037
Total equity and liabilities		2,269,821	1,748,007

The financial statements on pages 77 to 118 were approved by the Board of Directors on 6 March 2009 and signed on its behalf by Keith Roberts – Chief Financial Officer.

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

Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 US$'000	As restated 2007 US$'000
Operating activities			
Profit before tax		358,368	258,233
Adjustments for:			
Depreciation, amortisation, impairment and write-off	4b, 4e	63,366	52,758
Share-based payments	4f	9,448	5,412
Difference between other long-term employment benefits paid and amounts recognised in the income statement		9,007	5,852
Net finance (income)	5	(2,782)	(9,732)
Loss (gain) on disposal of property, plant and equipment	4b,4c	41	(8,834)
Gain on disposal of held for sale assets	4c	–	(243)
Other non-cash items, net		11,303	1,756
Operating profit before working capital changes		448,751	305,202
Trade and other receivables		(194,817)	(170,531)
Work in progress		17,486	97,688
Due from related parties		240	4,578
Inventories		(1,821)	(313)
Other current financial assets		(1,680)	(395)
Trade and other payables		104,708	64,044
Billings in excess of cost and estimated earnings		77,422	83,115
Accrued contract expenses		117,505	(12,455)
Due to related parties		(185)	562
		567,609	371,495
Other non-current items, net		(1,927)	133
Cash generated from operations		565,682	371,628
Interest paid		(11,526)	(7,004)
Income taxes paid, net		(67,418)	(32,417)
Net cash flows from operating activities		486,738	332,207
Investing activities			
Purchase of property, plant and equipment	9	(255,542)	(117,157)
Acquisition of subsidiaries, net of cash acquired	10	(40,774)	(4,902)
Payment of deferred consideration on acquisition	10	–	(64)
Purchase of intangible oil & gas assets	12	(37,036)	(48,604)
Purchase of available-for-sale financial assets		–	–
Proceeds from disposal of property, plant and equipment		1,031	12,166
Interest received		16,704	18,562
Net cash flows used in investing activities		(315,617)	(139,999)
Financing activities			
Proceeds from interest-bearing loans and borrowings		25,000	–
Repayment of interest-bearing loans and borrowings		(6,213)	(2,767)
Shareholders loan note transactions, net		–	216
Treasury shares purchased	21	(42,500)	(21,698)
Equity dividends paid		(64,135)	(39,479)
Net cash flows used in financing activities		(87,848)	(63,728)
Net increase in cash and cash equivalents		83,273	128,480
Cash and cash equivalents at 1 January		565,886	437,406
Cash and cash equivalents at 31 December	19	649,159	565,886

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

Consolidated statement of changes in equity
For the year ended 31 December 2008

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Shares to be issued US$'000	Treasury* shares US$'000 (note 21)	Other reserves US$'000 (note 23)	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2008 as previously reported	8,636	68,203	10,881	–	(29,842)	50,467	377,450	485,795	209	486,004
Restatement	–	–	–	–	–	36,966	–	36,966	–	36,966
Balance at 1 January 2008 as restated	8,636	68,203	10,881	–	(29,842)	87,433	377,450	522,761	209	522,970
Foreign currency translation	–	–	–	–	–	(84,232)	–	(84,232)	–	(84,232)
Net gains on maturity of cash flow hedges recycled in the year	–	–	–	–	–	(32,103)	–	(32,103)	–	(32,103)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	–	–	–	–	(25,907)	–	(25,907)	–	(25,907)
Net changes in the fair value of available-for-sale financial assets	–	–	–	–	–	(879)	–	(879)	–	(879)
Impairment of available-for-sale financial assets	–	–	–	–	–	355	–	355	–	355
Total income and expenses for the year recognised in equity	–	–	–	–	–	(142,766)	–	(142,766)	–	(142,766)
Net profit for the year	–	–	–	–	–	–	264,989	264,989	–	264,989
Total income and expenses for the year	–	–	–	–	–	(142,766)	264,989	122,223	–	122,223
Shares to be issued on acquisition (note 10)	–	–	–	1,988	–	–	–	1,988	–	1,988
Share-based payments charge (note 22)	–	–	–	–	–	9,448	–	9,448	–	9,448
Shares vested/forfeited during the year (note 21)	–	–	–	–	3,009	(3,009)	–	–	–	–
Treasury shares purchased (note 21)	–	–	–	–	(42,500)	–	–	(42,500)	–	(42,500)
Transfer to reserve for share-based payments (note 22)	–	–	–	–	–	9,602	–	9,602	–	9,602
Dividends (note 8)	–	–	–	–	–	–	(64,700)	(64,700)	–	(64,700)
Balance at 31 December 2008	**8,636**	**68,203**	**10,881**	**1,988**	**(69,333)**	**(39,292)**	**577,739**	**558,822**	**209**	**559,031**

* Shares held by Petrofac Employee Benefit Trust.

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

Consolidated statement of changes in equity

	Attributable to shareholders of Petrofac Limited								
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Treasury* shares US$'000 (note 21)	Other reserves US$'000 (note 23)	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2007 as previously reported	8,629	66,210	10,881	(8,144)	19,611	227,508	324,695	209	324,904
Restatement	–	–	–	–	19,213	–	19,213	–	19,213
Balance at 1 January 2007 as restated	8,629	66,210	10,881	(8,144)	38,824	227,508	343,908	209	344,117
Foreign currency translation	–	–	–	–	(72)	–	(72)	–	(72)
Net gains on maturity of cash flow hedges recycled in the year	–	–	–	–	(22,183)	–	(22,183)	–	(22,183)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	–	–	–	59,487	–	59,487	–	59,487
Net changes in the fair value of available-for-sale financial assets	–	–	–	–	(140)	–	(140)	–	(140)
Total income and expenses for the year recognised in equity	–	–	–	–	37,092	–	37,092	–	37,092
Net profit for the year	–	–	–	–	–	188,716	188,716	–	188,716
Total income and expenses for the year	–	–	–	–	37,092	188,716	225,808	–	225,808
Share-based payments charge (note 22)	–	–	–	–	5,412	–	5,412	–	5,412
Shares issued on acquisition (note 20)	7	1,993	–	–	–	–	2,000	–	2,000
Treasury shares purchased (note 21)	–	–	–	(21,698)	–	–	(21,698)	–	(21,698)
Transfer to reserve for share-based payments (note 22)	–	–	–	–	6,105	–	6,105	–	6,105
Dividends (note 8)	–	–	–	–	–	(38,774)	(38,774)	–	(38,774)
Balance at 31 December 2007 as restated	8,636	68,203	10,881	(29,842)	87,433	377,450	522,761	209	522,970

* Shares held by Petrofac Employee Benefit Trust.

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

Notes to the consolidated financial statements
At 31 December 2008

1 Corporate information

The consolidated financial statements of Petrofac Limited (the "Company") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 6 March 2009.

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 Company's 31 December 2008 financial statements are shown on pages 120 to 131. 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, and joint venture companies, is contained in note 32 to these consolidated financial statements.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets which have been measured at fair value. The presentation currency of the consolidated financial statements is United States dollars and all values in the financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated. Certain comparative information has been reclassified to conform to current period presentation and prior period earnings per shares numbers have been revised to be consistent with the current period presentation.

Statement of compliance

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

Basis of consolidation

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

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

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

New standards and interpretations

The group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2008. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IFRIC 11 'IFRS 2 Group and Treasury Share Transactions'
This interpretation clarifies that where any arrangement is made whereby an employee is granted rights to an entity's equity instruments; it is to be accounted for as an equity-settled scheme. This treatment would also hold true where the entity buys the instruments from an existing shareholder or any other party to provide the equity instruments to the employee. The adoption of this interpretation did not affect the group's operating results or financial position for the year ended 31 December 2008.

IFRIC 14 'IAS19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The adoption of this interpretation did not affect the group's operating results or financial position for the year ended 31 December 2008 as the group does not have any defined benefit schemes for its employees.

IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS7 'Financial Instruments: Disclosures – Reclassification of Financial Assets (Amendments)'
These amendments in IAS 39 and IFRS7 permit reclassification of certain financial instruments held for trading and available for sale categories. These amendments did not affect the group's operating results or financial position for the year ended 31 December 2008.

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the group's accounting periods beginning on or after 1 January 2009 or later periods which the group has not early adopted. Those that are applicable to the group are as follows:

- **IAS 1 'Presentation of Financial Statements (Revised)'** effective for annual periods beginning on or after 1 January 2009, has been revised to enhance the usefulness of information presented in the financial statements. Management is considering the approach to meeting this requirement
- **IFRS 2 'Amendments to IFRS 2 – Vesting Conditions and Cancellations'** is required to be applied to periods beginning on or after 1 January 2009. This amendment clarifies the definition of non-vesting conditions and prescribes accounting treatment of an award that is cancelled because a non-vesting condition is not satisfied. This will have no significant impact on the group's financial statements
- **IFRS 3 'Business Combinations (Revised)' and the amended version of IAS 27 'Consolidated and Separate Financial Statements'**, effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other matters, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100 per cent of

the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the group is not expected to be significant
- **IFRS 8 'Operating Segments'** introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the group's Chief Operating Decision Maker in order to assess each segment's performance and allocate resources to them. The adoption of this standard does not have any impact on the financial position of the group. However, the segment information disclosed will change as a result of the recent internal restructuring of the group which is further discussed on page 18
- **revisions to IAS 23 'Borrowing costs'** have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. This will have no significant impact on the group
- **IAS 27 'Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)'** effective for annual periods beginning on or after 1 January 2009, has deleted the use of the 'cost method' of accounting for investments with respect to holding companies' separate financial statements. Also, in cases of reorganisations where a new parent is introduced above an existing one, the cost of the subsidiary is the previous carrying amount rather than its fair value. This will impact the separate financial statements of parent companies within the group, but does not have any impact on the consolidated financial statements of the group
- **IAS 32 'Financial Instruments: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)'** effective for annual periods beginning on or after 1 January 2009, requires the classification of puttable financial instruments as equity if they have certain specified features. This will have no impact on the group
- **IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'** this interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. This interpretation is effective for periods beginning on or after 1 October 2008. The impact on the group is not considered to be significant
- **IAS 39 'Financial Instruments: Recognition and Measurement – Eligible hedged item (Amendment)'** is effective for periods beginning on or after 1 July 2009. This amendment addresses only the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or a portion in particular situations. This will have no impact on the group

Other interpretations and amendments that have been issued but are not yet effective and are not considered applicable to the group are IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate' and IFRS 1 'First-time Adoption of IFRS – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)'.

Significant accounting judgements and estimates

Judgements

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

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

Estimation uncertainty

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

- project cost to complete estimates: at each balance sheet date the group is required to estimate costs to complete on fixed price contracts. Estimating costs to complete on such contracts requires the group to make estimates of future costs to be incurred, based on work to be performed beyond the balance sheet date
- onerous contract provisions: the group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time
- impairment of goodwill: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was US$97,534,000 (2007: US$71,743,000)
- deferred tax assets: the group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised as well as the likelihood of future taxable profits. The carrying amount of recognised tax losses at 31 December 2008 was US$33,165,000 (2007: US$8,512,000)
- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of intangible oil & gas and other intangible assets: the group determines at each balance sheet date whether there is any evidence of impairment in the carrying value of its intangible oil & gas and other intangible assets. This requires management to estimate the recoverable value of its intangible assets for example by reference to quoted market values, similar arms length transactions involving these assets or value in use calculations
- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil & gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. These calculations require the use of estimates and assumptions including the amount of economically recoverable reserves and estimates of future oil & gas capital expenditure

Notes to the consolidated financial statements continued
At 31 December 2008

2 Summary of significant accounting policies continued

Interests in joint ventures

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

Foreign currency translation

The Company's functional and presentational currency is United States dollars. In the accounts of individual subsidiaries, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the group's net investment in subsidiaries. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement.

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

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis other than on oil & gas assets at the following rates.

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

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

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

No depreciation is charged on land or assets under construction.

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

Non-current assets held for sale

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

Borrowing costs

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

Goodwill

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

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with IAS14 'Segment Reporting'.

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

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

Deferred consideration payable on acquisition

When, as part of a business combination, the group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is calculated based on the best estimate of the timing of additional payments discounted back to present value with the discount factor element recognised as a finance cost in the income statement.

Intangible assets – non oil & gas assets

Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill as the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Oil & gas assets

Capitalised costs

The group's activities in relation to oil & gas assets are limited to assets in the evaluation, development and production phases.

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

Evaluation expenditures

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

Development expenditures

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

Changes in unit-of-production factors

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

Decommissioning

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

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the income statement.

Available-for-sale financial assets

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

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

Impairment of assets (excluding goodwill)

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

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

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

Notes to the consolidated financial statements continued
At 31 December 2008

2 Summary of significant accounting policies continued

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

Work in progress and billings in excess of cost and estimated earnings
Fixed price lump sum engineering, procurement and construction contracts are presented in the balance sheet as follows:
- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the balance sheet under "Work in progress"
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as "Billings in excess of cost and estimated earnings" within current liabilities

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

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

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

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

Provisions
Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement as a finance cost.

Derecognition of financial assets and liabilities

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

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

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

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

The group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the group operates, further details of which are given in note 25.

Share-based payment transactions
Employees (including directors) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

Petrofac Employee Benefit Trust

The Petrofac Employee Benefit Trust was established on 7 March 2007 to warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trust has been consolidated in the financial statements in accordance with SIC 12 'Special Purpose Entities'. The cost of shares temporarily held by Petrofac Employee Benefit Trust are reflected as treasury shares and deducted from equity.

Leases

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

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

Revenue recognition

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

Engineering, procurement and construction services (Engineering & Construction)

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

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

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

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

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

Facilities management, engineering and training services (Operations Services)

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

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

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

Oil & gas activities (Energy Developments)

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

Income taxes

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

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Notes to the consolidated financial statements continued
At 31 December 2008

2 Summary of significant accounting policies continued

Income taxes continued

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

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

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

Derivative financial instruments and hedging

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

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement.

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

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

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

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

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges

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

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

Cash flow hedges

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

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

Embedded derivatives

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

3 Segment information

The group's primary operations are organised on a worldwide basis into three business segments: Engineering & Construction, Operations Services and Energy Developments. The accounting policies of the segments are the same as those described in note 2 above. The group accounts for inter-segment sales as if the sales were to third parties, that is, at arms length 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 2008 and 2007. Included within the corporate, consolidation and eliminations columns are certain balances, which due to their nature, are not allocated to segments.

Year ended 31 December 2008

	Engineering & Construction US$'000	Operations Services US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Revenue						
External sales	2,212,704	963,475	153,357	–	–	3,329,536
Inter-segment sales	6,698	18,945	–	–	(25,643)	–
Total revenue	**2,219,402**	**982,420**	**153,357**	**–**	**(25,643)**	**3,329,536**
Segment results	265,853	46,737	51,713	(1,176)	(215)	362,912
Unallocated corporate costs	–	–	–	(7,326)	–	(7,326)
Profit/(loss) before tax and finance income/(costs)	265,853	46,737	51,713	(8,502)	(215)	355,586
Finance costs	(380)	(4,190)	(8,247)	(7,547)	6,458	(13,906)
Finance income	19,522	903	224	8,075	(12,036)	16,688
Profit/(loss) before income tax	284,995	43,450	43,690	(7,974)	(5,793)	358,368
Income tax (expense)/income	(60,919)	(11,641)	(21,810)	(571)	1,562	(93,379)
Profit/(loss) for the year	**224,076**	**31,809**	**21,880**	**(8,545)**	**(4,231)**	**264,989**

Year ended 31 December 2007

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

Notes to the consolidated financial statements continued
At 31 December 2008

3 Segment information continued
Business segments continued
Year ended 31 December 2008

	Engineering & Construction US$'000	Operations Services US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Assets and liabilities						
Segment assets	1,638,278	406,229	450,813	–	(305,049)	2,190,271
Inter-segment assets	(292,538)	(12,117)	(394)	–	305,049	–
Investments	–	–	566	–	–	566
	1,345,740	394,112	450,985	–	–	2,190,837
Unallocated assets	–	–	–	32,540	–	32,540
Income tax assets	6,406	2,395	37,162	919	(438)	46,444
Total assets	**1,352,146**	**396,507**	**488,147**	**33,459**	**(438)**	**2,269,821**
Segment liabilities	1,136,732	271,371	407,711	–	(362,664)	1,453,150
Inter-segment liabilities	(3,846)	(35,726)	(323,092)	–	362,664	–
	1,132,886	235,645	84,619	–	–	1,453,150
Unallocated liabilities	–	–	–	109,016	–	109,016
Income tax liabilities	90,679	11,270	46,231	882	(438)	148,624
Total liabilities	**1,223,565**	**246,915**	**130,850**	**109,898**	**(438)**	**1,710,790**
Other segment information						
Capital expenditures:						
Property, plant and equipment	55,976	8,156	197,718	325	(6,633)	255,542
Intangible oil & gas assets	–	–	37,036	–	–	37,036
Other intangible assets	–	12,009	–	–	–	12,009
Goodwill	–	52,353	–	–	–	52,353
Charges:						
Depreciation	19,253	4,264	22,254	425	(840)	45,356
Amortisation	–	2,829	–	–	–	2,829
Impairment	–	–	5,355	–	–	5,355
Write-off of intangible oil & gas assets	–	–	9,826	–	–	9,826
Other long-term employment benefits	7,870	2,240	60	53	–	10,223
Share-based payments	4,706	2,313	1,059	1,370	–	9,448

Year ended 31 December 2007

	Engineering & Construction US$'000	Operations Services US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Assets and liabilities						
Segment assets	1,222,444	339,682	244,500	–	(86,438)	1,720,188
Inter-segment assets	(82,050)	(4,388)	–	–	86,438	–
Investments	–	–	1,586	–	–	1,586
	1,140,394	335,294	246,086	–	–	1,721,774
Unallocated assets	–	–	–	14,761	–	14,761
Income tax assets	2,895	1,000	13,650	618	(6,691)	11,472
Total assets	1,143,289	336,294	259,736	15,379	(6,691)	1,748,007
Segment liabilities	824,166	219,248	173,303	–	(178,559)	1,038,158
Inter-segment liabilities	(9,621)	(43,731)	(125,207)	–	178,559	–
	814,545	175,517	48,096	–	–	1,038,158
Unallocated liabilities	–	–	–	105,165	–	105,165
Income tax liabilities	53,175	10,147	23,767	1,316	(6,691)	81,714
Total liabilities	867,720	185,664	71,863	106,481	(6,691)	1,225,037
Other segment information						
Capital expenditures:						
Property, plant and equipment	44,683	6,447	66,484	130	(587)	117,157
Intangible oil & gas assets	–	–	49,700	–	–	49,700
Other intangible assets	–	2,369	–	–	–	2,369
Goodwill	–	14,233	–	–	–	14,233
Charges:						
Depreciation	15,654	4,567	22,476	449	(845)	42,301
Amortisation	–	1,771	–	–	–	1,771
Impairment	–	–	8,686	–	–	8,686
Other long-term employment benefits	5,075	1,492	7	31	–	6,605
Share-based payments	2,667	1,382	589	774	–	5,412

Notes to the consolidated financial statements continued
At 31 December 2008

3 Segment information continued

Geographical segments

The following tables present revenue, assets and capital expenditure by geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Middle East & Africa US$'000	CIS/ Asia Pacific US$'000	Europe US$'000	Americas US$'000	Consolidated US$'000
Segment revenue	**1,744,623**	**791,141**	**785,256**	**8,516**	**3,329,536**
Carrying amount of segment assets	**1,355,000**	**325,733**	**581,655**	**7,433**	**2,269,821**
Capital expenditure:					
Property, plant and equipment	72,508	13,802	169,022	210	255,542
Intangible oil & gas assets	–	27,210	9,826	–	37,036
Other intangible assets	–	–	12,009	–	12,009
Goodwill	–	–	52,353	–	52,353

Year ended 31 December 2007

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

4 Revenues and expenses

a. Revenue

	2008 US$'000	2007 US$'000
Rendering of services	**3,214,782**	2,346,431
Sale of crude oil & gas	**102,036**	85,592
Sale of processed hydrocarbons	**12,718**	8,228
	3,329,536	2,440,251

Included in revenues from rendering of services are Operations Services revenues of a 'pass-through' nature with zero or low margins amounting to US$275,947,000 (2007: US$227,048,000).

b. Cost of sales

Included in cost of sales for the year ended 31 December 2008 is US$88,000 (2007: US$8,590,000 gain) loss on disposal of property, plant and equipment used to undertake various engineering and construction contracts. In addition depreciation charged on property, plant and equipment of US$39,143,000 during 2008 (2007: US$37,759,000) is included in cost of sales (note 9).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges of US$11,826,000 (2007: nil).

c. Other income

	2008 US$'000	2007 US$'000
Foreign exchange gains	6,134	3,003
Gain on sale of property, plant and equipment	47	244
Gain on sale of asset held for sale	–	243
Other income	1,240	461
	7,421	3,951

d. Other expenses

	2008 US$'000	2007 US$'000
Foreign exchange losses	1,932	441
Other expenses	611	180
	2,543	621

e. Selling, general and administration expenses

	2008 US$'000	2007 US$'000
Staff costs	125,039	93,915
Depreciation	6,213	4,542
Amortisation (note 12)	2,829	1,771
Impairment (note 12 and 14)	5,355	8,686
Write-off of intangible oil & gas assets (note 12)	9,826	–
Other operating expenses	78,503	56,394
	227,765	165,308

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

f. Staff costs

	2008 US$'000	2007 US$'000
Total staff costs:		
Wages and salaries	682,869	603,324
Social security costs	28,892	29,544
Defined contribution pension costs	11,948	11,927
Other long-term employee benefit costs (note 25)	10,223	6,605
Expense of share-based payments (note 22)	9,448	5,412
	743,380	656,812

Of the US$743,380,000 of staff costs shown above, US$618,341,000 (2007: US$562,897,000) are included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of persons employed by the group during the year was 10,383 (2007: 9,027).

g. Auditors' remuneration

The group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the group:

	2008 US$'000	2007 US$'000
Audit of the group financial statements	1,177	945
Other fees to auditors:		
Auditing the accounts of subsidiaries	236	197
Other services relating to taxation	107	89
All other services	46	95
	1,566	1,326

Notes to the consolidated financial statements continued
At 31 December 2008

5 Finance (costs)/income

	2008 US$'000	2007 US$'000
Interest payable:		
Long-term borrowings	(2,888)	(4,921)
Other interest, including short-term loans and overdrafts	(1,239)	(2,092)
Unwinding of discount on deferred consideration and decommissioning provisions	(1,910)	(1,514)
Ineffective foreign currency cash flow hedge	(8,157)	–
Time value portion of derivatives designated as hedges (note 31)	288	–
Total finance cost	(13,906)	(8,527)
Interest receivable:		
Bank interest receivable	15,989	18,255
Other interest receivable	699	4
Total finance income	16,688	18,259

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2008 US$'000	2007 US$'000
Current income tax		
Current income tax charge	128,243	69,436
Adjustments in respect of current income tax of previous years	4,373	(228)
Deferred income tax		
Relating to origination and reversal of temporary differences	(33,393)	688
Adjustments in respect of deferred income tax of previous years	(5,844)	(379)
Income tax expense reported in the income statement	93,379	69,517

b. Reconciliation of total tax charge

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

	2008 US$'000	2007 US$'000
Accounting profit before tax	358,368	258,233
At Jersey's domestic income tax rate of 20% (2007: 20%)	71,674	51,647
Profits exempt from Jersey income tax	(71,674)	(51,647)
Higher income tax rates of other countries, including withholding taxes	92,922	89,884
Overhead allowances – high rate jurisdiction	(4,484)	(14,456)
Expenditure not allowable for income tax purposes – high rate jurisdiction	6,192	3,256
Income not taxable – high rate jurisdiction	(415)	–
Adjustments in respect of previous periods	(1,470)	(615)
Tax effect of utilisation of tax losses not previously recognised	(312)	(183)
Unrecognised tax losses	946	86
Losses recognised in the period	–	(8,455)
At the effective income tax rate of 26.1% (2007: 26.9%)	93,379	69,517

For the year to 31 December 2008, the Company obtained Jersey exempt company status and was therefore exempt from Jersey income tax on non-Jersey source income and bank interest (by concession). From 1 January 2009, the Jersey exempt company status regime has been abolished and under the new regime the Company will be charged tax in Jersey at the rate of 0%. No material impact to the income tax expense is expected as a result of this change.

c. Deferred income tax

Deferred income tax relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Deferred income tax liabilities				
Fair value adjustment on acquisitions	3,610	1,940	(800)	(453)
Accelerated depreciation	23,065	903	19,778	502
Other temporary differences	11,521	31,294	(18,094)	8,334
Gross deferred income tax liabilities	38,196	34,137		
Deferred income tax assets				
Losses available for offset	33,165	8,512	(28,747)	(6,661)
Decelerated depreciation for tax purposes	5,893	1,558	(3,932)	(655)
Share scheme	2,799	716	(3,024)	(716)
Other temporary differences	4,587	686	(4,418)	(42)
Gross deferred income tax assets	46,444	11,472		
Deferred income tax (credit)/charge			(39,237)	309

d. Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards and tax credits to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group did not recognise deferred income tax assets of US$20,732,000 (2007: US$19,672,000).

	2008 US$'000	2007 US$'000
Expiration dates for tax losses		
On completion of the contract	–	2,600
No earlier than 2022	11,906	11,972
No expiration date	6,534	5,100
	18,440	19,672
Tax credits (no expiration date)	2,292	–
	20,732	19,672

7 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year.

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

	2008 US$'000	2007 US$'000
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	264,989	188,716

	2008 Number '000	2007 Number '000
Weighted average number of ordinary shares for basic earnings per share	339,585	342,246
Effect of diluted potential ordinary shares granted under share-based payment schemes	4,072	3,313
Adjusted weighted average number of ordinary shares for diluted earnings per share	343,657	345,559

Notes to the consolidated financial statements continued
At 31 December 2008

8 Dividends paid and proposed

	2008 US$'000	2007 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2006: 6.43 cents per share	–	22,018
Interim dividend 2007: 4.90 cents per share	–	16,756
Final dividend for 2007: 11.50 cents per share	39,164	–
Interim dividend 2008: 7.50 cents per share	25,536	–
	64,700	38,774

	2008 US$'000	2007 US$'000
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2008: 17.90 cents per share (2007: 11.50 cents per share)	61,831	39,725

9 Property, plant and equipment

	Oil & gas assets US$'000	Oil & gas facilities US$'000	Land, buildings and leasehold improvements US$'000	Plant and equipment US$'000	Vehicles US$'000	Office furniture and equipment US$'000	Capital work in progress US$'000	Total US$'000
Cost								
At 1 January 2007	28,780	124,740	21,462	20,986	6,684	34,445	9,075	246,172
Additions	65,078	631	1,170	6,604	1,092	20,593	21,989	117,157
Acquisition of subsidiaries	–	–	–	–	–	47	–	47
Transfer from intangible oil & gas assets (note 12)	41,657	–	–	–	–	–	–	41,657
Disposals	–	–	(1,642)	(4,514)	(3,378)	(2,187)	–	(11,721)
Exchange difference	–	–	257	(520)	45	522	–	304
At 1 January 2008	135,515	125,371	21,247	22,556	4,443	53,420	31,064	393,616
Additions	189,214	–	35,018	2,935	2,516	25,859	–	255,542
Acquisition of subsidiaries	–	–	190	–	–	534	–	724
Transfer from capital work in progress	–	–	31,064	–	–	–	(31,064)	–
Disposals	–	–	(723)	(683)	(318)	(875)	–	(2,599)
Exchange difference	(45,626)	–	(3,708)	(2,573)	(67)	(9,891)	–	(61,865)
At 31 December 2008	**279,103**	**125,371**	**83,088**	**22,235**	**6,574**	**69,047**	**–**	**585,418**
Depreciation								
At 1 January 2007	(802)	(60,169)	(4,288)	(15,162)	(4,790)	(17,785)	–	(102,996)
Charge for the year	(8,072)	(13,491)	(1,321)	(1,277)	(1,676)	(16,464)	–	(42,301)
Disposals	–	–	1,568	1,637	3,030	2,154	–	8,389
Exchange difference	–	–	(19)	(247)	(31)	(174)	–	(471)
At 1 January 2008	(8,874)	(73,660)	(4,060)	(15,049)	(3,467)	(32,269)	–	(137,379)
Charge for the year	(7,748)	(13,366)	(5,346)	(2,598)	(1,052)	(15,246)	–	(45,356)
Disposals	–	–	544	20	237	726	–	1,527
Exchange difference	435	–	879	1,115	47	6,378	–	8,854
At 31 December 2008	**(16,187)**	**(87,026)**	**(7,983)**	**(16,512)**	**(4,235)**	**(40,411)**	**–**	**(172,354)**
Net carrying amount:								
At 31 December 2008	**262,916**	**38,345**	**75,105**	**5,723**	**2,339**	**28,636**	**–**	**413,064**
At 31 December 2007	126,641	51,711	17,187	7,507	976	21,151	31,064	256,237

No interest has been capitalised within oil & gas facilities during the year (2007: nil) and the accumulated capitalised interest, net of depreciation at 31 December 2008, was US$1,430,000 (2007: US$1,929,000).

Additions to oil & gas assets in the year mainly comprise development expenses capitalised on the group's interest in the Don area assets of US$167,265,000 (2007: US$33,773,000). Depreciation has not been charged on this asset as commercial production has not yet started.

Included in oil & gas assets are US$2,879,000 (2007: US$1,315,000) of capitalised decommissioning costs net of depreciation provided on the PM304 asset in Malaysia, Chergui asset in Tunisia and the Don area assets in the United Kingdom.

Of the total charge for depreciation in the income statement, US$39,143,000 (2007: US$37,759,000) is included in cost of sales and US$6,213,000 (2007: US$4,542,000) in selling, general and administration expenses.

Capital work in progress comprises of expenditures incurred on the construction of a new office building in Sharjah, United Arab Emirates. During 2008, this was transferred to land, buildings and leasehold improvements on commencing use of the building.

10 Business combinations

Acquisitions in 2008

Eclipse Petroleum Technology Limited

On 25 July 2008, the group acquired a 100% interest in the share capital of Eclipse Petroleum Technology Limited (Eclipse), a specialist production engineering company. The consideration for the acquisition inclusive of transaction costs of Sterling 195,000 (equivalent US$388,000), was Sterling 8,150,000 (equivalent US$16,200,000). The consideration of Sterling 7,955,000 (equivalent US$15,812,000), excluding transaction costs, comprised of Sterling 6,000,000 (equivalent US$11,927,000) in cash, Sterling 1,000,000 (equivalent US$1,988,000) to be satisfied with 158,177 ordinary shares vesting in two years' time and the balance being the discounted value of deferred consideration amounting to Sterling 955,000 (equivalent US$1,897,000) payable based on the estimated future profitability of Eclipse. The deferred consideration in no event will exceed an additional amount of Sterling 9,000,000 (equivalent US$17,892,000).

The provisional fair values of the identifiable assets and liabilities of Eclipse on completion of the acquisition are analysed below:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	673	673
Intangible assets	2,402	223
Trade and other receivables	3,407	3,407
Cash and short-term deposits	571	571
Total assets	7,053	4,874
Less:		
Deferred tax liability	(610)	–
Trade and other payables	(2,483)	(2,483)
Total liabilities	(3,093)	(2,483)
Fair value of net assets acquired	3,960	2,391
Goodwill arising on acquisition	12,240	
Consideration at acquisition	16,200	

	US$'000
Cash outflow on acquisition (translated at the payment date):	
Cash acquired with subsidiary	571
Cash paid on acquisition	(12,002)
Legal and professional expenses paid on acquisition	(351)
Net cash outflow on the acquisition of subsidiary	(11,782)

Intangible assets recognised on acquisition comprise a proprietary software system which is being amortised over its remaining economic useful life of six years on a straight-line basis.

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

From the date of acquisition, Eclipse has contributed a net loss of US$436,000 to the net profit of the group after charging US$475,000 of post acquisition costs relating to amortisation of intangibles and finance costs in respect of deferred consideration payable.

Notes to the consolidated financial statements continued
At 31 December 2008

10 Business combinations continued

Acquisitions in 2008 continued

Caltec Limited

On 29 August 2008, the group acquired a 100% interest in the share capital of Caltec Limited (Caltec), a specialist production technology company, for a consideration of Sterling 26,776,000 (equivalent US$48,956,000), including transaction costs of Sterling 596,000 (equivalent US$1,093,000). The consideration of Sterling 26,180,000 (equivalent US$47,863,000), excluding transaction costs, comprised of Sterling 15,699,000 (equivalent US$28,641,000) in cash as initial consideration and working capital adjustments and the balance being the discounted value of deferred consideration of Sterling 10,481,000 (equivalent US$19,222,000) payable based on the expected achievement of future performance targets set for the company. The deferred consideration in no event will exceed an additional amount of Sterling 15,000,000 (equivalent US$27,510,000).

The provisional fair values of the identifiable assets and liabilities of Caltec on completion of the acquisition are analysed below:

	Recognised on acquisition US$'000	Carrying value US$'000
Property, plant and equipment	51	51
Intangible assets	10,021	191
Trade and other receivables	2,105	2,105
Cash and short-term deposits	966	966
Total assets	13,143	3,313
Less:		
Deferred tax liability	(2,753)	–
Trade and other payables	(1,547)	(1,547)
Total liabilities	(4,300)	(1,547)
Fair value of net assets acquired	8,843	1,766
Goodwill arising on acquisition	40,113	
Consideration at acquisition	48,956	

	US$'000
Cash outflow on acquisition (translated at the payment date):	
Cash acquired with subsidiary	966
Cash paid on acquisition	(28,911)
Legal and professional expenses paid on acquisition	(1,047)
Net cash outflow on the acquisition of subsidiary	(28,992)

Intangible assets recognised on acquisition represent patented technology which is being amortised over its remaining economic useful life of ten years on a straight-line basis.

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

From the date of acquisition, Caltec has contributed a net loss of US$657,000 to the net profit of the group after charging US$821,000 of post acquisition costs relating to amortisation of intangibles and finance costs in respect of deferred consideration payable.

If the above combinations had taken place at the beginning of the year, net profit of the group would have been US$262,738,000 and revenue would have been US$3,340,269,000.

Acquisitions in 2007

SPD Group Limited

On 16 January 2007, the group acquired a 51% interest in the share capital of SPD Group Limited (SPD), a specialist provider of well operations services. The consideration for the acquisition of the 51% interest inclusive of transaction costs of US$172,000, was US$7,872,000. Consideration of US$7,700,000 (excluding transaction costs) was settled by a cash payment of US$3,935,000, issuance of loan notes payable of US$1,765,000 and the balance of US$2,000,000 by issuance of 274,938 new ordinary shares of the Company at market value on 19 January 2007 to the vendor over three years in equal instalments on the anniversary of the transaction. On 27 December 2007, the outstanding loan notes of US$1,765,000 were repaid to the vendors.

The terms of the sale and purchase agreement for the remaining 49% interest in the share capital of SPD which convey call option rights on the acquirer and minority shareholder put option rights over these shares and the respective rights to dividends and share of profits of the two parties are such that this transaction has been accounted for as a 100% acquisition of the business by the group. The discounted deferred consideration for the remaining 49% of the share capital of SPD was originally estimated at US$12,025,000 based on the discounted value of an agreed multiple of the future earnings of SPD and the total consideration for the 100% interest therefore, including transaction costs, amounted to US$19,897,000. The fair value of net assets acquired was US$5,664,000, which included intangible assets

recognised on acquisition of US$2,369,000. These intangible assets recognised on acquisition comprise customer contracts which are being amortised over their remaining economic useful lives on a straight-line basis (note 12).

During the year, a charge of US$1,323,000 (2007: US$1,455,000) for the unwinding of interest has been reflected in the income statement as an interest expense (note 5).

The deferred consideration was reassessed at year end in light of latest financial projections for the business and the current carried amount was considered to be appropriate.

The residual goodwill of US$14,233,000 (2007: US$14,233,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the group.

11 Goodwill

A summary of the movements in goodwill is presented below:

	2008 US$'000	2007 US$'000
At 1 January	71,743	56,732
Acquisitions during the year (note 10)	52,353	14,233
Exchange difference	(26,562)	778
At 31 December	97,534	71,743

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

- Facilities Management (comprising Petrofac Facilities Management Limited, Plant Asset Management Limited, SPD, Eclipse and Caltec)
- Training (comprising Petrofac Training Limited and PPS Process Control & Instrumentation Limited)
- Energy Developments (comprising Petrofac Energy Developments International Limited)

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

Facilities Management and Training cash-generating units

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

Energy Developments cash-generating unit

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

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

	2008 US$'000	2007 US$'000
Facilities Management unit	77,086	44,769
Training unit	18,231	24,757
Energy Developments unit	2,217	2,217
	97,534	71,743

Key assumptions used in value in use calculations

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

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

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

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

Notes to the consolidated financial statements continued
At 31 December 2008

11 Goodwill continued

Key assumptions used in value in use calculations continued

Discount rate: management has used a pre-tax discount rate of 16.1% (2007: 9.8%) per annum for Facilities Management cash-generating unit and 15.1% (2007: 9.8%) per annum for Training cash-generating unit which are derived from the estimated weighted average cost of capital of the group. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the group's estimated equity market risk premium and the group's cost of debt.

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

Discount rate: management has used an estimate of the pre-tax weighted average cost of capital of the group plus a risk premium to reflect the particular risk characteristics of each individual investment. The discount rate used for 2008 was 11.4% for each asset (2007: 10.0%).

Oil & gas prices: management has used an oil price assumption of US$55 (2007: US$55) per barrel and a gas price of US$6.40 (2007: n/a) per mcf for the impairment testing of its individual oil & gas investments.

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

Sensitivity to changes in assumptions

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

12 Intangible assets

	2008 US$'000	2007 US$'000
Intangible oil & gas assets		
Cost:		
At 1 January	15,927	16,788
Additions	37,036	49,700
Disposals	–	(8,793)
Asset written-off	(9,826)	–
Transferred to tangible oil & gas assets (note 9)	–	(41,657)
Exchange difference	–	(111)
At 31 December	43,137	15,927
Accumulated impairment:		
At 1 January	(8,686)	–
Impairment	(5,000)	(8,686)
At 31 December	(13,686)	(8,686)
Net book value of intangible oil & gas assets at 31 December	29,451	7,241
Other intangible assets		
Cost:		
At 1 January	3,930	1,561
Additions on acquisition (note 10)	12,009	2,369
Acquired intangible assets (note 10)	414	–
Exchange difference	(2,461)	–
At 31 December	13,892	3,930
Accumulated amortisation:		
At 1 January	(2,161)	(390)
Amortisation	(2,829)	(1,771)
At 31 December	(4,990)	(2,161)
Net book value of other intangible assets at 31 December	8,902	1,769
Total intangible assets	38,353	9,010

Oil & gas asset additions above mainly comprise of US$24,658,000 of capitalised expenditure on near field appraisal wells in the group's 30% interest in Block PM304, offshore Malaysia.

Prior year additions to oil & gas assets included US$32,673,000 in respect of the Don area development and US$15,927,000 of well appraisal costs on Permit NT/P68.

During the year, US$9,826,000 of capitalised development costs were written-off in respect of a dry exploration well.

During the year an impairment provision of US$5,000,000 was made against the group's interest in Permit NT/P68 in Australia due to the continuing uncertainties surrounding the commercial outcome of the project.

There were investing cash outflows relating to capitalised intangible oil & gas assets of US$37,036,000 (2007: US$48,604,000) in the current period arising from pre-development activities. As at 31 December 2008 there were cash and deposits of US$495,000 (2007: US$3,582,000), trade and other receivables of nil (2007: US$3,106,000) and trade and other payables of US$508,000 (2007: US$4,840,000) arising from pre-development activities in the current period.

Other intangible assets comprise the fair values of customer contracts, proprietary software and patent technology (note 10) arising on acquisition. These intangible assets are being amortised over their remaining estimated economic useful life of three, six and ten years respectively on a straight-line basis and the related amortisation charges included in selling, general and administrative expenses (note 4e).

13 Interest in joint ventures

In the normal course of business, the group establishes jointly controlled entities and operations for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 32. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities and operations are as follows:

	2008 US$'000	2007 US$'000
Revenue	28,878	37,140
Cost of sales	(21,481)	(10,990)
Gross profit	7,397	26,150
Selling, general and administration expenses	(1,200)	(1,246)
Finance income, net	87	42
Profit before income tax	6,284	24,946
Income tax	(523)	(819)
Net profit	5,761	24,127
Current assets	38,295	46,991
Non-current assets	3,644	3,883
Total assets	41,939	50,874
Current liabilities	2,446	12,667
Non-current liabilities	–	323
Total liabilities	2,446	12,990
Net assets	39,493	37,884

14 Available-for-sale financial assets

	2008 US$'000	2007 US$'000
Shares – listed	133	1,022
Units in a mutual fund	433	564
	566	1,586

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

During the year, a provision for impairment of US$355,000 (2007: nil) was made against the above listed shares held as an available-for-sale financial asset on the basis that the recent fall in the market value of these shares was considered to be significant.

Notes to the consolidated financial statements continued
At 31 December 2008

15 Derivative financial instruments and other financial assets

	2008 US$'000	2007 US$'000
Non-current		
Fair value of derivative instruments (note 31)	7,227	1,775
Other financial assets		
Restricted cash	1,899	–
Other	–	23
	1,899	23
Current		
Fair value of derivative instruments (note 31)	5,631	27,298
Other financial assets		
Interest receivable	1,047	1,351
Restricted cash	2,736	1,351
Other	295	–
	4,078	2,702

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the group's trading activities and cash in escrow against reimbursed long-term employee benefits charged to a customer. This cash will be released on the maturity of these guarantees and performance bonds and on the transfer/cessation of employment of the relevant employee for which the long-term benefit is held in escrow.

16 Inventories

	2008 US$'000	2007 US$'000
Crude oil	1,669	1,173
Processed hydrocarbons	805	18
Stores and spares	744	732
Raw materials	859	333
	4,077	2,256

Included in the income statement are costs of inventories expensed of US$22,404,000 (2007: US$23,528,000).

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

	2008 US$'000	2007 US$'000
Cost and estimated earnings	3,782,100	2,194,088
Less: billings	(3,529,405)	(1,923,907)
Work in progress	252,695	270,181
Billings	1,509,548	1,114,500
Less: cost and estimated earnings	(1,224,021)	(906,395)
Billings in excess of cost and estimated earnings	285,527	208,105
Total cost and estimated earnings	5,006,121	3,100,483
Total billings	5,038,953	3,038,407

18 Trade and other receivables

	2008 US$'000	2007 US$'000
Trade receivables	608,023	453,256
Retentions receivable	2,241	3,450
Advances	31,977	19,154
Prepayments and deposits	24,849	19,450
Other receivables	33,841	13,715
	700,931	509,025

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$608,023,000 (2007: US$453,256,000) are as follows:

	2008			2007		
	Specific impairment US$'000	General impairment US$'000	Total US$'000	Specific impairment US$'000	General impairment US$'000	Total US$'000
At 1 January	4,086	1,216	5,302	5,073	364	5,437
Charge for the year	1,361	482	1,843	2,948	849	3,797
Amounts written-off	–	(333)	(333)	(3,555)	–	(3,555)
Unused amounts reversed	(1,530)	(15)	(1,545)	(382)	–	(382)
Exchange difference	(219)	(54)	(273)	2	3	5
At 31 December	3,698	1,296	4,994	4,086	1,216	5,302

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

		Number of days past due						
	Neither past due nor impaired US$'000	< 30 days US$'000	31-60 days US$'000	61-90 days US$'000	91-120 days US$'000	121-360 days US$'000	> 360 days US$'000	Total US$'000
Unimpaired	325,844	197,790	45,106	11,012	10,460	12,714	1,319	604,245
Impaired	–	734	86	618	666	3,032	3,636	8,772
	325,844	198,524	45,192	11,630	11,126	15,746	4,955	613,017
Less: impairment provision	–	(190)	(85)	(194)	(249)	(1,640)	(2,636)	(4,994)
Net trade receivables 2008	325,844	198,334	45,107	11,436	10,877	14,106	2,319	608,023
Unimpaired	206,327	176,426	41,030	16,170	1,937	4,580	876	447,346
Impaired	–	162	745	1,865	1,772	4,653	2,015	11,212
	206,327	176,588	41,775	18,035	3,709	9,233	2,891	458,558
Less: impairment provision	–	(162)	(745)	(222)	(947)	(2,040)	(1,186)	(5,302)
Net trade receivables 2007	206,327	176,426	41,030	17,813	2,762	7,193	1,705	453,256

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

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

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

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

Notes to the consolidated financial statements continued
At 31 December 2008

19 Cash and short-term deposits

	2008 US$'000	2007 US$'000
Cash at bank and in hand	107,461	106,454
Short-term deposits	586,954	475,098
Total cash and bank balances	694,415	581,552

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$694,415,000 (2007: US$581,552,000).

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

	2008 US$'000	2007 US$'000
Cash at bank and in hand	107,461	106,454
Short-term deposits	586,954	475,098
Bank overdrafts (note 24)	(45,256)	(15,666)
	649,159	565,886

20 Share capital

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

	2008 US$'000	2007 US$'000
Authorised		
750,000,000 ordinary shares of US$0.025 each (2007: 750,000,000 ordinary shares of US$0.025 each)	18,750	18,750
Issued and fully paid		
345,434,858 ordinary shares of US$0.025 each (2007: 345,434,858 ordinary shares of US$0.025 each)	8,636	8,636

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

	Number
Ordinary shares:	
Ordinary shares of US$0.025 each at 1 January 2007	345,159,920
Issued during the year on acquisition of a subsidiary (note 10)	274,938
Ordinary shares of US$0.025 each at 1 January 2008	345,434,858
Movement during the year	–
Ordinary shares of US$0.025 each at 31 December 2008	**345,434,858**

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

21 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust. All these shares have been classified in the balance sheet as treasury shares within equity.

The movements in total treasury shares are shown below:

	2008		2007	
	Number	US$'000	Number	US$'000
At 1 January	4,052,024	29,842	1,500,135	8,144
Acquired during the year	5,854,194	42,500	2,551,889	21,698
Vested/forfeited during the year	(365,912)	(3,009)	–	–
At 31 December	9,540,306	69,333	4,052,024	29,842

As at 31 December 2008 5,504,819 of the above shares were held by Lehman Brothers in a client custody account which is now being managed by their appointed administrator. The Company is currently in discussion with the administrator to procure the release of these shares.

Included in the above treasury shares are 274,938 shares held in relation to the acquisition of SPD Group Limited in 2007 (note 10).

22 Share-based payment plans

Performance Share Plan (PSP)

Under the Performance Share Plan of the Company, share awards are granted to executive Directors and a restricted number of other senior executives of the group. The shares cliff vest at the end of three years subject to continued employment and the achievement of certain pre-defined non-market and market based performance conditions. The non-market based condition governing the vesting of 50% of the total award, is subject to achieving between 15% and 25% earning per share (EPS) growth targets over a three year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three year vesting period of the plan. The fair value and assumed vesting rates of the EPS part of the scheme are shown below:

	Fair value per share	Trued up vesting rate
2008 awards	**522p**	**98.9%**
2007 awards	415p	97.1%
2006 awards	353p	95.3%

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

	2008 awards	2007 awards	2006 awards
Expected share price volatility (based on median of comparator group's three year volatilities)	**32.0%**	29.0%	28.0%
Share price correlation with comparator group	**22.0%**	17.0%	10.0%
Risk-free interest rate	**3.79%**	5.20%	4.60%
Expected life of share award	**3 years**	3 years	3 years
Fair value of TSR portion	**287p**	245p	234p

The following shows the movement in the number of shares held under the PSP scheme outstanding but not exercisable:

	2008 Number	2007 Number
Outstanding at 1 January	**864,181**	431,194
Granted during the period	**456,240**	449,537
Forfeited during the period	**(21,612)**	(16,550)
Outstanding at 31 December	**1,298,809**	864,181

The number of awards still outstanding but not exercisable at 31 December 2008 is made up of 451,178 in respect of 2008 awards (2007: nil), 436,603 in respect of 2007 awards (2007: 443,070) and 411,028 for 2006 awards (2007: 421,111).

The charge recognised in the current year amounted to US$2,258,000 (2007: US$1,497,000).

Deferred Bonus Share Plan (DBSP)

Executive Directors and selected employees were originally eligible to participate in this scheme although the Remuneration Committee decided during 2007 that executive Directors should no longer continue to participate. Participants may be invited to elect or in some cases, be required, to receive a proportion of any bonus in ordinary shares of the Company ("Invested Awards"). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ("Matching Shares"). The 2006 awards vest on the third anniversary of the grant date provided that the participant did not leave the group's employment, subject to a limited number of exceptions. However, a change in the rules of the DBSP scheme was approved by shareholders at the Annual General Meeting of the Company on 11 May 2007 such that for the March 2007 share awards and for any awards made thereafter, the invested and matching shares would, unless the Remuneration Committee of the Board of Directors determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% on the second anniversary of the date of grant and the final 33.34% of the award on the third anniversary of the date of grant.

Notes to the consolidated financial statements continued
At 31 December 2008

22 Share-based payment plans continued

Deferred Bonus Share Plan (DBSP) continued

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

	Weighted average fair value per share	Trued up vesting rate
2008 awards	**522p**	**95.8%**
2007 awards	415p	91.2%
2006 awards	353p	87.0%

The following shows the movement in the number of shares held under the DBSP scheme outstanding but not exercisable:

	2008 Number*	2007 Number*
Outstanding at 1 January	**2,558,711**	1,104,503
Granted during the period	**1,777,080**	1,582,166
Vested during the period	**(385,700)**	(3,204)
Forfeited during the period	**(194,708)**	(124,754)
Outstanding at 31 December	**3,755,383**	2,558,711

* Includes invested and matching shares.

The number of awards still outstanding but not exercisable at 31 December 2008 is made up of 1,688,558 in respect of 2008 awards (2007: nil), 1,084,602 in respect of 2007 awards (2007: 1,500,298) and 982,223 for 2006 awards (2007: 1,058,413).

The charge recognised in the 2008 income statement in relation to matching share awards amounted to US$5,665,000 (2007: US$3,411,000).

Share Incentive Plan (SIP)

All UK employees, including UK resident Directors, are eligible to participate in the scheme. Employees may invest up to Sterling 1,500 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

Restricted Share Plan (RSP)

Under the Restricted Share Plan scheme, employees are granted shares in the Company over a discretionary vesting period which may or may not be, at the direction of the Remuneration Committee of the Board of Directors, subject to the satisfaction of performance conditions. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair values of the awards granted under the plan at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period. For details of the fair values and assumed vesting rate of the RSP scheme, see below:

	Weighted average fair value per share	Trued up vesting rate
2008 awards	**478p**	**98.1%**
2007 awards	456p	100.0%
2006 awards	278p	96.3%

The following shows the movement in the number of shares held under the RSP scheme outstanding but not exercisable:

	2008 Number	2007 Number
Outstanding at 1 January	**394,216**	161,101
Granted during the period	**811,399**	239,567
Vested during the period	**(5,180)**	–
Forfeited during the period	**(15,724)**	(6,452)
Outstanding at 31 December	**1,184,711**	394,216

The number of awards still outstanding but not exercisable at 31 December 2008 is made up of 795,675 in respect of 2008 awards (2007: nil), 234,387 in respect of 2007 awards (2007: 239,567), and 154,649 for 2006 awards (2007: 154,649).

During the year the Company recognised a charge of US$1,525,000 (2007: US$504,000) in relation to the above.

The group has recognised a total charge of US$9,448,000 (2007: US$5,412,000) in the income statement during the year relating to the above employee share-based schemes (see note 4f) which has been transferred to the reserve for share-based payments along with US$9,602,000 of the bonus liability accrued for the year ended 31 December 2007 which has been voluntarily elected or obliged to be settled in shares granted during the year (2007: US$6,105,000).

For further details on the above employee share-based payment schemes refer to pages 69 to 71 of the Directors' Remuneration Report.

23 Other reserves

	Net unrealised gains/(losses) on available-for-sale-financial assets US$'000	Net unrealised (losses)/ gains on derivatives US$'000	Foreign currency translation US$'000	Reserve for share-based payments US$'000	Total US$'000
Balance at 1 January 2007 as previously reported	738	9,340	4,889	4,644	19,611
Restatement*	–	19,213	–	–	19,213
Balance at 1 January 2007 as restated*	738	28,553	4,889	4,644	38,824
Foreign currency translation	–	–	(72)	–	(72)
Net gains on maturity of cash flow hedges recycled in the year	–	(22,183)	–	–	(22,183)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges as restated*	–	59,487	–	–	59,487
Changes in fair value of available-for-sale financial assets	(140)	–	–	–	(140)
Share-based payments charge (note 22)	–	–	–	5,412	5,412
Transfer during the year (note 22)	–	–	–	6,105	6,105
Balance at 1 January 2008 as restated*	598	65,857	4,817	16,161	87,433
Foreign currency translation	–	–	(84,232)	–	(84,232)
Net gains on maturity of cash flow hedges recycled in the year	–	(32,103)	–	–	(32,103)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	(25,907)	–	–	(25,907)
Changes in fair value of available-for-sale financial assets	(879)	–	–	–	(879)
Impairment of available-for-sale financial assets	355	–	–	–	355
Share-based payments charge (note 22)	–	–	–	9,448	9,448
Transfer during the year (note 22)	–	–	–	9,602	9,602
Shares vested during the year (note 22)	–	–	–	(3,009)	(3,009)
Balance at 31 December 2008	**74**	**7,847**	**(79,415)**	**32,202**	**(39,292)**

* During 2008, the Company has identified that in prior periods certain gains and losses on cash flow hedges have been recycled to accrued contract expenses from other reserves (net unrealised (losses)/gains on derivatives) ahead of the contract costs to which they relate impacting the income statement. As a result US$19,213,000 has been reclassified from contract costs to other reserves at 1 January 2007 and the net changes in fair value in 2007 adjusted by US$17,753,000. The impact on the income statement was immaterial so no adjustment has been made.

Nature and purpose of other reserves

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

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

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges are included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur the gain or loss is transferred out of equity to the income statement. Realised net gains amounting to US$31,713,000 (2007: US$21,475,000) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales, realised net gains of US$63,000 (2007: US$708,000) relating to interest rate derivatives have been classified as a net interest expense and a realised net gain of US$327,000 (2007: nil) was added to revenues in respect of oil derivatives.

The forward currency points element of derivative financial instruments relating to forward currency contracts amounting to a net loss of US$11,826,000 (2007: nil) have been recognised in the cost of sales. The time value portion gain on interest rate derivatives of US$433,000 (2007: nil) and loss on oil derivatives of US$145,000 (2007: nil) were netted off/ and added to interest payable.

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.

Notes to the consolidated financial statements continued
At 31 December 2008

23 Other reserves continued

Nature and purpose of other reserves continued

Reserve for share-based payments

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

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2007 of US$9,602,000 (2006 bonus of US$6,105,000) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 22).

24 Interest-bearing loans and borrowings

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

		31 December 2008 Actual interest rate%	31 December 2007 Actual interest rate%	Effective interest rate%	Maturity	2008 US$'000	2007 US$'000
Current							
Revolving credit facility	(i)	–	US LIBOR + 0.875%	US LIBOR + 0.875%	–	–	6,500
Short-term loan	(ii)	–	KD Discount Rate + 1.50%	KD Discount Rate + 1.50%	–	–	3,627
Bank overdrafts	(iii)	UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 2.00%	UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 1.50%	UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 2.00%	on demand	45,256	15,666
Other loans: Current portion of term loan	(iv)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	4.18% to 4.88% (2007: 4.95% to 5.84%)		9,156	2,662
						54,412	28,455
Non-current							
Revolving credit facility	(v)	US/UK LIBOR +0.875%	US/UK LIBOR + 0.875%	3.74% to 5.02%) (2007: 4.97% to 5.62%)	2013	18,720	8,953
Revolving credit facility	(i)	US LIBOR + 0.875%	US LIBOR +0.875%	3.11%	2010	20,000	–
Term loan	(iv)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	4.18% to 4.88% (2007: 4.95% to 5.84%)	2009-2013	54,847	75,019
						93,567	83,972
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(5,379)	(2,332)
						88,188	81,640

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

(i) Revolving credit facilities

This facility, provided by The Royal Bank of Scotland/Halifax Bank of Scotland (RBS/HBOS), is repayable on 31 December 2010.

(ii) Short-term loan

The short-term loan is denominated in Kuwaiti Dinars (KD) and relates to funding provided for a project in Kuwait. The loan was settled during 2008.

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

(iv) Term loan
The term loan with RBS/HBOS at 31 December 2008 comprised drawings of US$33,998,000 (2007: US$35,310,000) denominated in US$ and US$30,005,000 (2007: US$42,371,000) denominated in Sterling. Both elements of the loan are repayable over a period of five years commencing 31 December 2008 to 30 September 2013.

(v) Revolving credit facility
The drawings against this facility, which is also provided by RBS/HBOS, will be converted to a term loan on 30 September 2010 to be repaid over a period of three years ending 30 September 2013. The drawings at 31 December 2008 comprised US$13,900,000 (2007: US$2,400,000) denominated in US$ and US$4,820,000 (2007: US$6,553,000) denominated in Sterling.

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

25 Provisions

	Other long-term employment benefits provision US$'000	Provision for decommissioning US$'000	Total US$'000
At 1 January 2008	17,218	1,828	19,046
Additions during the year	10,223	1,546	11,769
Unused amounts reversed/paid in the year	(1,216)	–	(1,216)
Unwinding of discount	–	64	64
At 31 December 2008	**26,225**	**3,438**	**29,663**

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

Provision for decommissioning
The decommissioning provision primarily relates to the Company's obligation for the removal of facilities and restoration of the site at the PM304 field in Malaysia, at Chergui in Tunisia and on the Don assets in the United Kingdom. The liability is discounted at the rate of 3.50% on PM304 (2007: 3.50%), 5.25% on Chergui and 3.40% (2007: nil) on Don. The unwinding of the discount is classified as a finance cost (note 5). The Company estimates that the cash outflows against these provisions will arise in 2014 on PM304, in 2018 on Chergui and in 2013 on Don assuming no further development of the asset.

26 Other financial liabilities

	2008 US$'000	2007 US$'000
Other financial liabilities – non-current		
Deferred consideration	32,147	13,622
Fair value of derivative instruments (note 31)	–	130
Other	118	118
	32,265	13,870

	2008 US$'000	2007 US$'000
Other financial liabilities – current		
Interest payable	118	812
Fair value of derivative instruments (note 31)	6,244	52
	6,362	864

Notes to the consolidated financial statements continued
At 31 December 2008

27 Trade and other payables

	2008 US$'000	2007 US$'000
Trade payables	275,058	187,417
Advances received from customers	76,845	61,744
Accrued expenses	149,684	136,514
Other taxes payable	6,876	16,885
Other payables	4,866	5,457
	513,329	408,017

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

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

Included in other payables are retentions held against subcontractors of US$911,000 (2007: US$4,292,000).

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

28 Accrued contract expenses

	2008 US$'000	As restated 2007 US$'000
Accrued contract expenses	543,191	379,356
Reserve for contract losses	8,670	3,226
	551,861	382,582

The reserve for contract losses is to cover costs in excess of revenues on certain contracts.

29 Commitments and contingencies

Commitments

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

At 31 December 2008, the group had letters of credit of US$24,096,000 (2007: US$8,184,000) and outstanding letters of guarantee, including performance and bid bonds, of US$865,120,000 (2007: US$663,292,000) against which the group had pledged or restricted cash balances of, in aggregate, US$1,506,000 (2007: US$1,351,000).

At 31 December 2008, the group had outstanding forward exchange contracts amounting to US$166,412,000 (2007: US$326,442,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 31).

Leases

The group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and seventeen 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:

	2008 US$'000	2007 US$'000
Within one year	59,292	70,870
After one year but not more than five years	72,729	76,493
More than five years	54,787	52,827
	186,808	200,190

Included in the above are commitments relating to the lease of an office building extension in Aberdeen, United Kingdom of US$44,573,000 (2007: US$54,933,000) and the lease of a drilling rig for the Don Southwest project of US$35,744,000 (2007: US$43,200,000).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$26,557,000 (2007: US$21,359,000).

Capital commitments

At 31 December 2008, the group had capital commitments of US$44,035,000 (2007: US$29,630,000) excluding the above lease commitments.

Included in the above are commitments for the development of the Don assets amounting to US$8,610,000 (2007: nil) and commitments relating to the further appraisal and development of wells as part of the Cendor project in Malaysia amounting to US$26,468,000 (2007: US$11,389,000).

30 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 32. Petrofac Limited is the ultimate parent entity of the group.

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

		Sales to related parties US$'000	Purchases from related parties US$'000	Amounts owed by related parties US$'000	Amounts owed to related parties US$'000
Joint ventures	**2008**	**9,081**	**1,858**	**2,907**	**367**
	2007	180	507	3,147	625
Other Directors' interests	**2008**	**–**	**1,277**	**–**	**192**
	2007	–	614	–	119

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

All related party balances will be settled in cash.

Purchases in respect of other Directors' interests of US$1,277,000 (2007: US$614,000) reflect the market rate based costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the group on company business, which is owned by an offshore trust of which the Chief Executive of the Company is a beneficiary.

Compensation of key management personnel

The following details remuneration of key management personnel of the group comprising of executive and Non-executive Directors of the Company and other senior personnel. Further information relating to the individual Directors is provided in the Directors' Remuneration report on pages 66 to 74.

	2008 US$'000	2007 US$'000
Short-term employee benefits	**5,542**	5,063
Other long-term employment benefits	**59**	43
Share-based payments	**1,311**	906
Fees paid to Non-executive Directors	**554**	546
	7,466	6,558

31 Risk management and financial instruments

Risk management objectives and policies

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

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

The Board of Directors of the Company has established an Audit Committee and Risk Committee to help identify, evaluate and manage the significant financial risks faced by the group and their activities are discussed in detail on pages 61 to 65.

The other main risks besides interest rate and foreign currency risk arising from the group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

Notes to the consolidated financial statements continued
At 31 December 2008

31 Risk management and financial instruments continued

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the group's interest-bearing financial liabilities and assets.

The group's exposure to market risk arising from changes in interest rates relates primarily to the group's long-term variable rate debt obligations and its cash and bank balances. The group's policy is to manage its interest cost using a mix of fixed and variable rate debt and specifically to keep between 60% and 80% of its term borrowings at fixed or capped rates of interest. At 31 December 2008, after taking into account the effect of interest rate swaps and collars, approximately 65.1% (2007: 69.1%) of the group's term borrowings are at a fixed or capped rate of interest.

Interest rate sensitivity analysis

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

	Pre-tax profit		Equity	
	100 basis point increase US$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2008	**(882)**	**882**	**(705)**	**(1,615)**
31 December 2007	(1,058)	1,058	272	(670)

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

Year ended 31 December 2008

	Within 1 year US$'000	1 – 2 years US$'000	2 – 3 years US$'000	3 – 4 years US$'000	4 – 5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities (note 24)	–	20,936	4,212	6,552	7,020	–	38,720
Bank overdrafts (note 24)	45,256	–	–	–	–	–	45,256
Term loan (note 24)	9,156	11,250	15,625	18,750	9,222	–	64,003
Interest rate collars (note 31)	1,137	–	–	–	–	–	1,137
Interest rate swap (note 31)	37	–	–	–	–	–	37
	55,586	**32,186**	**19,837**	**25,302**	**16,242**	**–**	**149,153**
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	694,415	–	–	–	–	–	694,415
Restricted cash balances (note 15)	2,736	207	–	–	–	1,692	4,635
	697,151	**207**	**–**	**–**	**–**	**1,692**	**699,050**

Year ended 31 December 2007

	Within 1 year US$'000	1 – 2 years US$'000	2 – 3 years US$'000	3 – 4 years US$'000	4 – 5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities (note 24)	6,500	–	448	2,015	3,134	3,356	15,453
Short-term loan (note 24)	3,627	–	–	–	–	–	3,627
Bank overdrafts (note 24)	15,666	–	–	–	–	–	15,666
Term loan (note 24)	2,662	10,000	11,250	15,625	18,750	19,394	77,681
Interest rate collars (note 31)	–	130	–	–	–	–	130
	28,455	10,130	11,698	17,640	21,884	22,750	112,557
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	581,552	–	–	–	–	–	581,552
Restricted cash balances (note 15)	1,351	–	–	–	–	–	1,351
Interest rate swap (note 31)	–	28	–	–	–	–	28
	582,903	28	–	–	–	–	582,931

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective rate adjustments of US$5,379,000 (2007: US$2,332,000).

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

Derivative instruments designated as cash flow hedges

At 31 December 2008, the group held the following derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings:

				Fair value of asset/(liability)	
Instrument	Nominal amount (US$ equivalent)	Period to maturity	Date commenced	2008 US$'000	2007 US$'000
UK LIBOR interest rate swap	US$2,629,000	9 months	31 December 2004	(37)	28
UK LIBOR interest rate collar	US$30,131,000	1 year	31 December 2007	(705)	(74)
US LIBOR interest rate collar	US$34,138,000	1 year	31 December 2007	(432)	(56)

During 2008, changes in fair value of a loss of US$1,607,000 (2007: US$102,000) relating to these derivative instruments were taken to equity and a gain of US$63,000 (2007: US$708,000) were recycled from equity into interest expense in the income statement. The time value portion of these derivatives of a gain of US$433,000 (2007: nil) was netted-off against interest expense.

Foreign currency risk

The group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The group is also exposed to the translation of the functional currencies of its units to the US dollar reporting currency of the group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US dollar terms, of the group totals.

	2008 % of foreign currency denominated items	2007 % of foreign currency denominated items
Revenues	43.8%	48.6%
Costs	61.6%	68.7%
Current financial assets	57.9%	67.9%
Non-current financial assets	0.0%	0.6%
Current financial liabilities	64.8%	45.8%
Non-current financial liabilities	25.6%	44.0%

The group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

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

	2008		2007	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.85	1.46	2.01	1.99
Kuwaiti Dinars	3.72	3.62	3.51	3.66
Euros	1.48	1.39	1.38	1.46

Notes to the consolidated financial statements continued
At 31 December 2008

31 Risk management and financial instruments continued

Foreign currency sensitivity analysis continued

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

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$'000	–5% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	–5% US dollar rate decrease US$'000
31 December 2008	**(16,355)**	**8,177**	**10,597**	**(6,135)**
31 December 2007	(27,285)	13,642	(35,065)	17,532

Derivative instruments designated as cash flow hedges

At 31 December 2008, the group had foreign exchange forward contracts designated as cash flow hedges with a fair value gain of US$10,165,000 (2007: US$28,657,000) in equity as follows:

	Contract value		Fair value		Net unrealised gain/(loss)	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000	**2008 US$'000**	2007 US$'000
Euro currency (sales) purchases	**(41,655)**	321,264	**(31,783)**	349,964	**9,488**	28,700
Sterling currency purchases	**26,747**	4,500	**19,621**	4,448	**(2,956)**	(52)
Yen currency purchases	**7,465**	678	**8,716**	687	**–**	9
Kuwaiti Dinars sales	**(90,545)**	–	**(86,912)**	–	**3,633**	–
					10,165	28,657

The above foreign exchange contracts mature and will affect income between January 2009 and April 2010 (2007: between January 2008 and February 2009).

At 31 December 2008, the group had cash and short-term deposits designated as cash flow hedges with a fair value loss of US$2,205,000 (2007: gain US$36,966,000) as follows:

	Fair value		Net unrealised gain/(loss)	
	2008 US$'000	2007 US$'000	**2008 US$'000**	2007 US$'000
Euro currency cash and short-term deposits	**269,409**	235,479	**2,653**	35,143
Sterling currency cash and short-term deposits	**15,667**	16,697	**(4,858)**	1,823
			(2,205)	36,966

During 2008, changes in fair value of US$(25,950,000) (2007: US$59,253,000) relating to these derivative instruments and financial assets were taken to equity and US$31,713,000 (2007: US$21,475,000) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portion of the above foreign exchange forward contracts of a loss of US$11,826,000 (2007:nil) was recognised in the income statement (note 4b and 4d).

Commodity price risk – oil prices

The group is exposed to the impact of changes in oil & gas prices on its revenues and profits generated from sales of crude oil & gas. The group did not hedge this risk related to the sale of gas production from its Chergui investment which started production from August 2008 as, in accordance with the group policy, hedging of production should only take place after obtaining sufficiently reliable and regular long-term forecasted production data.

During the year, the group used a zero premium oil price collar to hedge its exposure to fluctuations in oil prices which matured on a monthly basis from 31 January 2008 to 31 December 2008. The collar hedged 240,000 barrels of oil production and during the year a gain of US$327,000 was recognised in the income statement on the maturity of the contract.

On 30 September 2008, the group entered into an oil price collar, with a premium payable of US$87,000 maturing on a monthly basis from 1 January 2009 to 30 June 2009, which hedges 60,000 barrels of oil. The fair value of this oil price collar at 31 December 2008 was US$1,349,000 with a gain recognised in equity of US$1,494,000 being its intrinsic value and an interest expense recognised in the year of US$145,000 on its time value portion.

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

	Pre-tax profit		Equity	
	+10 US$/bbl increase US$'000	–10 US$/bbl decrease US$'000	+10 US$/bbl increase US$'000	–10 US$/bbl decrease US$'000
31 December 2008	**–**	**–**	**251**	**(250)**
31 December 2007	(446)	446	(1,739)	741

Credit risk

The group trades only with recognised, creditworthy third parties. Divisional Risk Review Committees (DRRC) have been set up by the Board of Directors to evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the DRRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2008, the group's five largest customers accounted for 50.7% of outstanding trade receivables and work in progress (2007: 58.0%).

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

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, revolving credit facilities, project finance and term loans to reduce its exposure to liquidity risk. The maturity profiles of the group's financial liabilities at 31 December 2008 are as follows:

Year ended 31 December 2008

	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	49,835	4,577	31,235	62,332	–	147,979	142,600
Trade and other payables (excluding advances from customers)	380,145	56,339	–	–	–	436,484	436,484
Due to related parties	469	90	–	–	–	559	559
Deferred consideration	–	–	29,454	8,894	–	38,348	32,147
Derivative instruments	5,436	808	–	–	–	6,244	6,244
Interest payable	118	–	–	–	–	118	118
Interest payments	1,817	1,817	2,799	4,236	–	10,669	–
	437,820	**63,631**	**63,488**	**75,462**	**–**	**640,401**	**618,152**

Year ended 31 December 2007

	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	19,293	9,162	10,000	51,222	22,750	112,427	110,095
Trade and other payables (excluding advances from customers)	345,833	440	–	–	–	346,273	346,273
Due to related parties	744	–	–	–	–	744	744
Deferred consideration	1,964	2,088	9,570	–	–	13,622	13,622
Derivative instruments	52	–	130	–	–	182	182
Interest payable	812	–	–	–	–	812	812
Interest payments	2,481	2,480	3,900	10,163	1,492	20,516	–
	371,179	14,170	23,600	61,385	24,242	494,576	471,728

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

Notes to the consolidated financial statements continued
At 31 December 2008

31 Risk management and financial instruments continued

Capital management

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

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

	2008 US$'000	As restated 2007 US$'000
Cash and short-term deposits	694,415	581,552
Interest-bearing loans and borrowings (A)	(142,600)	(110,095)
Net cash (B)	551,815	471,457
Equity attributable to Petrofac Limited shareholders (C)	558,822	522,761
Profit for the year attributable to Petrofac Limited shareholders (D)	264,989	188,716
Gross gearing ratio (A/C)	25.5%	21.1%
Net gearing ratio (B/C)	Net cash position	Net cash position
Shareholders' return on investment (D/C)	47.4%	36.1%

Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Financial assets				
Cash and short-term deposits	694,415	581,552	694,415	581,552
Restricted cash	4,635	1,351	4,635	1,351
Available-for-sale financial assets	566	1,586	566	1,586
Oil derivative	1,349	336	1,349	336
Interest rate swap	–	28	–	28
Forward currency contracts	11,509	28,709	11,509	28,709
Financial liabilities				
Interest-bearing loans and borrowings	142,600	110,095	142,600	110,095
Deferred consideration	32,147	13,622	32,147	13,622
Interest rate collars	1,137	130	1,137	130
Interest rate swap	37	–	37	–
Forward currency contracts-designated as cash flow hedge	900	52	900	52
Forward currency contracts-undesignated	4,170	–	4,170	–

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 collars have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long-term interest-bearing loans and borrowings are their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

32 Subsidiaries and joint ventures

At 31 December 2008, 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	
		2008	2007
Trading subsidiaries			
Petrofac Inc.	USA	*100	*100
Petrofac International Ltd	Jersey	*100	*100
Petrofac Energy Developments Limited	England	*100	*100
Petrofac Energy Developments 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 Employee Benefit Trust	Jersey	*100	*100
Atlantic Resourcing Limited	Scotland	100	100
Petrofac Algeria EURL	Algeria	100	100
Petrofac Engineering India Private Limited	India	100	100
Petrofac Engineering Services India Private Limited	India	100	100
Petrofac Engineering Limited	England	100	100
Petrofac Offshore Management Limited	Jersey	100	100
Petrofac FZE	United Arab Emirates	100	100
Petrofac Facilities Management Group Limited	Scotland	100	100
Petrofac Facilities Management Limited	Scotland	100	100
Petrofac International Nigeria Ltd	Nigeria	100	100
Petrofac Pars (PJSC)	Iran	100	100
Petrofac Iran (PJSC)	Iran	100	100
Plant Asset Management Limited	Scotland	100	100
Petrofac Nuigini Limited	Papua New Guinea	100	100
PFMAP Sendirian Berhad	Malaysia	100	100
Petrofac Caspian Limited	Azerbaijan	100	100
Petrofac (Malaysia-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
Petrofac Training Inc.	USA	100	100
Petrofac Training (Trinidad) Limited	Trinidad	100	100
Monsoon Shipmanagement Limited	Jersey	100	100
Petrofac E&C International Limited	United Arab Emirates	100	100
Petrofac Saudi Arabia Limited	Saudi Arabia	100	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	100	100
Petrofac Energy Developments (Ohanet) LLC	USA	100	100
PEDL Limited	England	100	100
Petrofac (Cyprus) Limited	Cyprus	100	100
PKT Technical Services Ltd	Russia	**50	**50
PKT Training Services Ltd	Russia	100	100
Pt PCI Indonesia	Indonesia	80	80
Process Control and Instrumentation Services Pte Ltd	Singapore	100	100
Process Control and Instrumentation Sendirian Berhad	Malaysia	100	100
Sakhalin Technical Training Centre	Russia	80	80
Petrofac Norge AS	Norway	100	100

* Directly held by Petrofac Limited
**Companies consolidated as subsidiaries on the basis of control

Notes to the consolidated financial statements continued
At 31 December 2008

32 Subsidiaries and joint ventures continued

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group 2008	2007
Trading subsidiaries continued			
SPD Group Limited	British Virgin Islands	51	51
SPD UK Limited	Scotland	51	51
SPD FZCO	United Arab Emirates	51	51
SPD LLC	United Arab Emirates	**25	**25
Petrofac Energy Developments Oceania Limited	Cayman Islands	100	100
Petrofac Kazakhstan Limited (formerly Petrofac Russia Limited)	England	100	100
Petrofac International (UAE) LLC	United Arab Emirates	100	n/a
Petrofac E&C Oman LLC	Oman	100	n/a
Petrofac International South Africa (Pty) Limited	South Africa	100	n/a
Eclipse Petroleum Technology Limited	England	100	n/a
Caltec Limited	England	100	n/a
iPerform Limited	Scotland	100	n/a
Joint Ventures			
Costain Petrofac Limited	England	50	50
Kyrgyz Petroleum Company	Kyrgyz Republic	50	50
MJVI Sendirian Berhad	Brunei	50	50
Spie Capag – Petrofac International Limited	Jersey	50	50
TTE Petrofac Limited	Jersey	50	50
Dormant subsidiaries			
ASJV Venezuela SA	Venezuela	100	100
Joint Venture International Limited	Scotland	100	100
Montrose Park Hotels Limited	Scotland	100	100
RGIT Ethos Health & Safety Limited	Scotland	100	100
Scota Limited	Scotland	100	100
Monsoon Shipmanagement Limited	Cyprus	100	100
Rubicon Response Limited	Scotland	100	100

**Companies consolidated as subsidiaries on the basis of control

Independent auditors' report
To the members of Petrofac Limited

We have audited the parent company financial statements of Petrofac Limited ('the Company') for the year ended 31 December 2008 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the related notes 1 to 18. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Petrofac Limited for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991 and the terms of our letter of engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable Jersey law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for the preparation of the Directors' Remuneration Report which they have chosen to prepare.

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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you our opinion as to whether the section of the Directors' Remuneration Report of the Company that has been described as audited has been properly prepared in all material respects in accordance with the basis of preparation described therein.

In addition we 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 read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Group Chief Executive's Review, the Operating and Financial Review, the Corporate Social Responsibility Report, the Directors' Information, the Corporate Governance Report, the unaudited section of the Directors' Remuneration Report, the Shareholder Information and the Oil & Gas Reserves (unaudited). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company 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 parent company financial statements and the section of the Directors' Remuneration Report that has been described as audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the section of the Directors' Remuneration Report that has been described as audited has been properly prepared in all material respects in accordance with the basis of preparation as described therein.

Ernst & Young LLP
London
6 March 2009

Company income statement
For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Revenue	3	**98,540**	71,529
Selling, general and administration expenses	4	**(7,839)**	(6,384)
Other expenses		**(438)**	(1,464)
Profit before tax and finance income/(costs)		**90,263**	63,681
Finance costs	5	**(6,504)**	(5,329)
Finance income	5	**8,168**	3,089
Profit before tax		**91,927**	61,441
Income tax expense	6	**(68)**	(147)
Profit for the year		**91,859**	61,294

The attached notes 1 to 18 form part of these Company financial statements.

Company balance sheet
At 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Assets			
Non-current assets			
Property, plant and equipment		41	52
Investment in subsidiaries	8	214,088	172,057
Long-term loan receivable from a subsidiary	9	219,491	34,541
		433,620	206,650
Current assets			
Trade and other receivables		249	289
Amounts due from subsidiaries	10	19,937	19,506
Cash and short-term deposits	11	14,516	8,406
		34,702	28,201
Total assets		468,322	234,851
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	17	8,636	8,636
Share premium		68,203	68,203
Capital redemption reserve		10,881	10,881
Treasury shares	12	(69,333)	(29,842)
Share-based payments reserve	13	32,202	16,161
Net unrealised losses on derivatives	15	(425)	(56)
Retained earnings	18	61,577	34,418
Total equity		111,741	108,401
Non-current liabilities			
Interest-bearing loans and borrowings	14	65,464	42,074
Long-term employee benefit provisions		144	93
Other financial liabilities		118	174
		65,726	42,341
Current liabilities			
Trade and other payables		492	586
Amounts due to subsidiaries	10	284,930	75,757
Interest-bearing loans and borrowings	14	5,000	7,750
Other financial liabilities		433	16
		290,855	84,109
Total liabilities		356,581	126,450
Total equity and liabilities		468,322	234,851

The financial statements on pages 120 to 131 were approved by the Board of Directors on 6 March 2009 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 18 form part of these Company financial statements.

Company cash flow statement
For the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Operating activities			
Profit before tax		91,927	61,441
Adjustments for:			
Depreciation	4	42	51
Share-based payments	13	588	330
Difference between other long-term employment benefits paid and amounts recognised in the income statement		51	31
Net finance cost (income)	5	(1,644)	2,240
Other non-cash items, net		(3,439)	680
Operating profit before working capital changes		87,525	64,773
Trade and other receivables		40	35
Amounts due from subsidiaries		(92,290)	(68,965)
Trade and other payables		(94)	(2,624)
Amounts due to subsidiaries		210,593	19,804
Current financial liabilities		417	7
		206,191	13,030
Other non-current items, net		(425)	73
Cash generated from operations		205,766	13,103
Interest paid		(9,228)	(4,532)
Income taxes paid, net		(68)	(147)
Net cash flows from operating activities		196,470	8,424
Investing activities			
Dividends received from subsidiaries		98,243	70,613
Purchase of property, plant and equipment		(31)	(23)
Investment in subsidiaries		(23,569)	2,728
Long-term loan made to a subsidiary		(183,579)	(34,541)
Interest received		1,523	2,811
Net cash flows (used in) from investing activities		(107,413)	41,588
Financing activities			
Proceeds from interest-bearing loans and borrowings		25,000	–
Repayment of interest-bearing loans and borrowings		(1,312)	–
Shareholders loan note transactions		–	216
Treasury shares purchased	12	(42,500)	(21,698)
Equity dividends paid		(64,135)	(39,479)
Net cash flows used in financing activities		(82,947)	(60,961)
Net increase (decrease) in cash and cash equivalents		6,110	(10,949)
Cash and cash equivalents at 1 January		8,406	19,355
Cash and cash equivalents at 31 December	11	14,516	8,406

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of changes in equity
For the year ended 31 December 2008

	Attributable to shareholders of Petrofac Limited							
	Issued share capital US$'000 (note 17)	Share premium US$'000	Capital redemption reserve US$'000	Treasury shares US$'000 (note 12)	Share-based payments reserve US$'000 (note 13)	Net unrealised gains (losses) on derivatives US$'000	Retained earnings US$'000 (note 18)	Total equity US$'000
Balance at 1 January 2007	8,629	66,210	10,881	(8,144)	4,644	487	11,898	94,605
Net gain on maturity of cash flow hedges recognised in income statement	–	–	–	–	–	(532)	–	(532)
Net changes in fair value of derivatives	–	–	–	–	–	(11)	–	(11)
Total income and expenses for the year recognised in equity	–	–	–	–	–	(543)	–	(543)
Net profit for the year	–	–	–	–	–	–	61,294	61,294
Total income and expenses for the year	–	–	–	–	–	(543)	61,294	60,751
Share-based payments charge (note13)	–	–	–	–	330	–	–	330
Shares issued on acquisition	7	1,993	–	–	–	–	–	2,000
Treasury shares purchased (note 12)	–	–	–	(21,698)	–	–	–	(21,698)
Transfer to reserve for share-based payments (note 13)	–	–	–	–	11,187	–	–	11,187
Dividends (note 7)	–	–	–	–	–	–	(38,774)	(38,774)
Balance at 1 January 2008	8,636	68,203	10,881	(29,842)	16,161	(56)	34,418	108,401
Net gains on maturity of cash flow hedges recycled in the year	–	–	–	–	–	7	–	7
Net changes in fair value of derivatives	–	–	–	–	–	(376)	–	(376)
Total income and expenses for the year recognised in equity	–	–	–	–	–	(369)	–	(369)
Net profit for the year	–	–	–	–	–	–	91,859	91,859
Total income and expenses for the year	–	–	–	–	–	(369)	91,859	91,490
Share-based payments charge (note 13)	–	–	–	–	588	–	–	588
Shares vested/forfeited during the year	–	–	–	3,009	(3,009)	–	–	–
Treasury shares purchased (note 12)	–	–	–	(42,500)	–	–	–	(42,500)
Transfer to reserve for share-based payments (note 13)	–	–	–	–	18,462	–	–	18,462
Dividends (note 7)	–	–	–	–	–	–	(64,700)	(64,700)
Balance at 31 December 2008	**8,636**	**68,203**	**10,881**	**(69,333)**	**32,202**	**(425)**	**61,577**	**111,741**

The attached notes 1 to 18 form part of these Company financial statements.

Notes to the Company financial statements
At 31 December 2008

1 Corporate information

The consolidated financial statements of Petrofac Limited (the Company) and Petrofac Employee Benefit Trust together referred to as the Company financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 6 March 2009.

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.

2 Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The presentation currency of the separate financial statements is United States dollars and all values in the separate financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated.

Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Long-term loan receivables from subsidiaries

Long-term loan receivables from subsidiaries are initially stated at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Due from/due to subsidiaries

Due from/due to subsidiaries are both interest bearing and non-interest bearing short term funding to and from subsidiaries. These are recognised at the fair value of consideration received/paid, less any provision for impairment.

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

Share-based payment transactions

The Company operates a number of share award schemes on behalf of the employees of the group which are described in detail in note 22 of the consolidated financial statements of the group.

The reserve for share-based payments is used to record the value of equity settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The share-based payments charge pertaining to fellow group companies employees are reimbursed by them to the Company.

Long-term employee benefit provisions

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

Revenues

Revenues comprise of dividends from subsidiaries which are recognised when the right to receive payment is established.

3 Revenues

	2008 US$'000	2007 US$'000
Dividend income from subsidiaries	98,540	71,529

4 Selling, general and administration expenses

	2008 US$'000	2007 US$'000
Staff costs	5,170	4,313
Depreciation	42	51
Other operating expenses	2,627	2,020
	7,839	6,384

Included in other operating expenses above are auditors' remuneration of US$68,000 (2007: US$54,000) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the group financial statements, which are borne by Petrofac Services Limited.

5 Finance costs/(income)

	2008 US$'000	2007 US$'000
Interest payable:		
Long-term borrowings	1,356	2,438
On amounts due to subsidiaries	5,141	2,891
Expense of time value portion of derivative financial instrument	7	–
Total finance cost	6,504	5,329
Interest receivable:		
Bank interest receivable	(525)	(1,630)
On amounts due from subsidiaries	(7,643)	(1,455)
Other interest receivable	–	(4)
Total finance income	(8,168)	(3,089)

6 Income tax

	2008 US$'000	2007 US$'000
Current income tax		
Withholding tax on loan interest income from subsidiaries	68	147

The income tax expense arises due to irrecoverable withholding tax deducted on payments to the Company. As explained in detail in note 6 of the consolidated financial statements of the group the Company has no income tax expense in Jersey. In addition, as any deferred tax on temporary differences would be recognised at a 0% tax rate there are no deferred tax assets or liabilities for the Company.

7 Dividends paid

	2008 US$'000	2007 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2006: 6.43 cents per share	–	22,018
Interim dividend 2007: 4.90 cents per share	–	16,756
Final dividend for 2007: 11.50 cents per share	39,164	–
Interim dividend 2008: 7.50 cents per share	25,536	–
	64,700	38,774

	2008 US$'000	2007 US$'000
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2008: 17.90 cents per share (2007: 11.50 cents per share)	61,831	39,725

Notes to the Company financial statements continued
At 31 December 2008

8 Investments in subsidiaries

	US$'000
At 1 January 2008	172,057
Investment in Petrofac UK Holdings Limited	42,031
As at 31 December 2008	**214,088**

The Investment in Petrofac UK Holdings Limited comprises additional loans made for the purpose of acquiring the share capital of Eclipse Petroleum Technology Limited and Caltec Limited, as explained in detail in note 10 of the group consolidated financial statements.

At 31 December 2008, the Company had investments in the following subsidiaries:

		Proportion of nominal value of issued shares controlled by the company	
Name of company	Country of incorporation	2008	2007
Trading subsidiaries			
Petrofac Inc.	USA	100	100
Petrofac International Ltd	Jersey	100	100
Petrofac Energy Developments Limited	England	100	100
Petrofac Energy Developments 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

9 Long-term loan receivable from a subsidiary

Long-term loan receivable from a subsidiary represents a loan made to one of the Company's subsidiaries, Petrofac Energy Developments International Limited, for the purpose of its appraisal of and development activities on its oil & gas assets. The loan carries an interest rate of US LIBOR + 2.0% margin.

10 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short term loans provided to/received from subsidiaries listed in note 8 above.

11 Cash and short-term deposits

	2008 US$'000	2007 US$'000
Cash at bank and in hand	2,284	2,104
Short-term deposits	12,232	6,302
Total cash and bank balances (cash and cash equivalents)	14,516	8,406

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$14,516,000 (2007: US$8,406,000).

12 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust. All these shares have been classified in the balance sheet as treasury shares within equity.

The movements in total treasury shares are shown below:

	2008		2007	
	Number	US$'000	Number	US$'000
At 1 January	4,052,024	29,842	1,500,135	8,144
Acquired during the year	5,854,194	42,500	2,551,889	21,698
Vested/forfeited during the year	(365,912)	(3,009)	–	–
At 31 December	9,540,306	69,333	4,052,024	29,842

As at 31 December 2008 5,504,819 of the above shares were held by Lehman Brothers in a client custody account which is now being managed by their appointed administrator. The Company is currently in discussion with the administrator to procure the release of these shares.

Included in the above treasury shares are 274,938 shares held in relation to the acquisition of SPD Group Limited in 2007 (see note 10 of consolidated financial statements).

13 Share-based payments reserve

Share-based payment plan information is disclosed in note 22 of the consolidated financial statements of the group.

During the year, a share-based payment scheme charge of US$588,000 (2007: US$330,000) was recognised by the Company in respect of its own employees' time spent on shareholder related services.

The transfer during the year into share-based payment reserve disclosed in the statement of changes in equity of US$18,462,000 (2007: US$11,187,000) represents amounts collected from subsidiaries in respect of their employees share based payment transactions.

14 Interest-bearing loans and borrowings

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

		31 December 2008 Actual interest rate%	31 December 2007 Actual interest rate%	Effective interest rate%	Maturity	2008 US$'000	2007 US$'000
Current							
Revolving credit facility		–	US LIBOR + 0.875%	US LIBOR + 0.875%	–	–	6,500
Current portion of term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	4.18% (2007: 4.95%)	–	5,000	1,250
						5,000	7,750
Non-current							
Revolving credit facility	(ii)	US/UK LIBOR +0.875%	US/UK LIBOR + 0.875%	3.74% to 5.02%) (2007: 4.97% to 5.62%)	2013	18,720	8,953
Revolving credit facility	(iii)	US LIBOR + 0.875%	US LIBOR +0.875%	3.11%	2010	20,000	–
Term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	4.18% (2007: 4.95%)	2009-2013	28,998	34,060
						67,718	43,013
Less: Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(2,254)	(939)
						65,464	42,074

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

(i) Term loan

The term loan with RBS/HBOS at 31 December 2008 comprised drawings of US$33,998,000 (2007: US$35,310,000) repayable over a period of five years commencing 31 December 2008 to 30 September 2013.

(ii) Revolving credit facility

The drawings against this facility, which is also provided by RBS/HBOS, will be converted to a term loan on 30 September 2010 to be repaid over a period of three years ending 30 September 2013.

(iii) Revolving credit facilities

This facility, provided by The Royal Bank of Scotland/Halifax Bank of Scotland (RBS/HBOS), is repayable on 31 December 2010.

Notes to the Company financial statements continued
At 31 December 2008

15 Risk management and financial instruments
Risk management objectives and policies
The Company's principal financial assets and liabilities, other than derivatives, are amounts due from and due to subsidiaries, cash and short-term deposits and interest bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risk on its external variable rate loans and borrowings which are addressed by using derivative instruments to hedge this exposure. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest bearing funding to/from subsidiaries.

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

	Pre-tax profit		Equity	
	100 basis point increase US$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2008	**(521)**	**521**	**(210)**	**(695)**
31 December 2007	(412)	412	47	(173)

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

Year ended 31 December 2008

	Within 1 year US$'000	1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities (note 14)	–	20,936	4,212	6,552	7,020	–	38,720
Term loan (note 14)	5,000	5,625	7,813	9,375	6,185	–	33,998
Amount due to subsidiaries	–	284,930	–	–	–	–	284,930
Interest rate collar	432	–	–	–	–	–	432
	5,432	**311,491**	**12,025**	**15,927**	**13,205**	**–**	**358,080**
Financial assets							
Floating rates							
Cash and short-term deposits (note 11)	**14,516**	**–**	**–**	**–**	**–**	**–**	**14,516**

Year ended 31 December 2007

	Within 1 year US$'000	1-2 years US$'000	2-3 years US$'000	3-4 years US$'000	4-5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facilities (note 14)	6,500	–	448	2,015	3,134	3,356	15,453
Term loan (note 14)	1,250	5,000	5,625	7,813	9,375	6,247	35,310
Amount due to subsidiaries	–	75,757	–	–	–	–	75,757
Interest rate collars	–	56	–	–	–	–	56
	7,750	80,813	6,073	9,828	12,509	9,603	126,576
Financial assets							
Floating rates							
Cash and short-term deposits (note 11)	8,406	–	–	–	–	–	8,406

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$2,254,000 (2007: US$939,000).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Derivative instrument designated as cash flow hedge

At 31 December 2008, the Company held the following derivative instrument, designated as a cash flow hedge in relation to floating rate interest-bearing loans and borrowings:

Instrument	Nominal amount (US$ equivalent)	Period to maturity	Date commenced	Fair value of asset/(liability) 2008 US$'000	2007 US$'000
US LIBOR interest rate collar	US$34,138,000	1 year	31 December 2007	(432)	(56)

During 2008 an interest expense of US$7,000 (2007: nil) was recognised as the time value portion and US$425,000 (2007: US$56,000) was classified as equity being the intrinsic value portion of the above derivative financial instrument.

Foreign currency risk

Almost all of the financial assets and liabilities of the Company are denominated in US Dollars. The foreign currency exposure is limited to Sterling 3,300,000 (US$4,820,000) of its interest bearing loans and borrowings.

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

	Pre-tax profit		Equity	
	+10% US dollar rate increase US$'000	–5% US dollar rate decrease US$'000	+10% US dollar rate increase US$'000	–5% US dollar rate decrease US$'000
31 December 2008	**(425)**	**212**	**–**	**–**
31 December 2007	(82)	41	–	–

Credit risk

The Company's principal financial assets are cash and short term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2008 are as follows:

Year ended 31 December 2008

	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	2,500	2,500	26,561	41,157	–	72,718	70,464
Trade and other payables	492	–	–	–	–	492	492
Amounts due to subsidiaries	–	284,930	–	–	–	284,930	284,930
Derivative instruments	–	432	–	–	–	432	432
Interest payable	1	–	–	–	–	1	1
Interest payments	3,576	3,578	1,796	2,559	–	11,509	–
	6,569	**291,440**	**28,357**	**43,716**	**–**	**370,082**	**356,319**

Notes to the Company financial statements continued
At 31 December 2008

15 Risk management and financial instruments continued
Liquidity risk continued
Year ended 31 December 2007

	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	–	7,750	5,000	22,813	15,200	50,763	49,824
Trade and other payables	586	–	–	–	–	586	586
Amounts due to subsidiaries	–	75,757	–	–	–	75,757	75,757
Derivative instruments	–	–	56	–	–	56	56
Interest payable	16	–	–	–	–	16	16
Interest payments	2,633	2,635	1,753	5,832	1,218	14,071	–
	3,235	86,142	6,809	28,645	16,418	141,249	126,239

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

Capital management
The Company's gearing ratio is as follows:

	2008 US$'000	2007 US$'000
Cash and short-term deposits	14,516	8,406
Interest-bearing loans and borrowings (A)	(70,464)	(49,824)
Net debt (B)	(55,948)	(41,418)
Total Equity (C)	111,741	108,401
Gross gearing ratio (A/C)	63.1%	46.0%
Net gearing ratio (B/C)	50.0%	38.2%

Fair values of financial assets and liabilities
The fair value of the Company's financial instruments and their carrying amounts included within the Company's balance sheet are set out below:

	Carrying amount		Fair value	
	2008 US$'000	2007 US$'000	2008 US$'000	2007 US$'000
Financial assets				
Cash and short-term deposits	14,516	8,406	14,516	8,406
Long-term loan receivable from a subsidiary	219,491	34,541	219,491	34,541
Financial liabilities				
Interest-bearing loans and borrowings	70,464	49,824	70,464	49,824
Interest rate collar	432	56	432	56

The fair values of interest rate collars have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

16 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are disclosed in the accompanying notes to the Company financial statements.

17 Share capital

The movements in share capital are disclosed in note 20 to the consolidated financial statements of the group.

18 Retained earnings

	US$'000
At 1 January 2007	11,898
Net profit for the year	61,294
Dividends paid (note 7)	(38,774)
At 1 January 2008	34,418
Net profit for the year	91,859
Dividends paid (note 7)	(64,700)
As at 31 December 2008	**61,577**

Other financial information
At 31 December 2008

Oil & gas reserves (unaudited)

	Europe		Africa		Southeast Asia		Total		
	Oil & NGLs mmbbl	Gas bcf	Oil & NGLs mmbbl	Gas bcf	Oil & NGLs mmbbl	Gas bcf	Oil & NGLs mmbbl	Gas bcf	Oil equivalent mmboe
Proven reserves									
At 1 January 2008									
Developed	–	–	2.6	24.1	3.2	–	5.8	24.1	9.9
Undeveloped	12.2	–	–	2.0	0.2	–	12.4	2.0	12.8
Proven	12.2	–	2.6	26.1	3.4	–	18.2	26.1	22.7
Changes during the year:									
Revisions	–	–	0.2	(6.2)	0.8	–	1.0	(6.2)	(0.1)
Additions	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–
Production	–	–	(0.4)	(1.1)	(0.7)	–	(1.1)	(1.1)	(1.3)
At 31 December 2008									
Developed	–	–	2.4	18.7	3.5	–	5.9	18.7	9.1
Undeveloped	12.2	–	–	0.1	–	–	12.2	0.1	12.2
Proven	**12.2**	**–**	**2.4**	**18.8**	**3.5**	**–**	**18.1**	**18.8**	**21.3**
Probable reserves									
At 1 January 2008	11.4	–	–	6.4	1.5	–	12.9	6.4	14.0
Changes during the year:									
Revisions	(1.4)	–	–	(1.4)	0.2	–	(1.2)	(1.4)	(1.4)
Additions	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–
Production	–	–	–	–	–	–	–	–	–
At 31 December 2008	**10.0**	**–**	**–**	**5.0**	**1.7**	**–**	**11.7**	**5.0**	**12.6**
Total proven & probable reserves									
At 1 January 2008	23.6	–	2.6	32.5	4.9	–	31.1	32.5	36.7
Changes during the year:									
Revisions	(1.4)	–	0.2	(7.6)	1.0	–	(0.2)	(7.6)	(1.5)
Additions	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–
Production	–	–	(0.4)	(1.1)	(0.7)	–	(1.1)	(1.1)	(1.3)
At 31 December 2008	**22.2**	**–**	**2.4**	**23.8**	**5.2**	**–**	**29.8**	**23.8**	**33.9**

Notes:
- these estimates of reserves were prepared by the group's engineers and audited by a competent, independent third party based on the guidelines of the Petroleum Resources Management System (sponsored by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers)
- the reserves presented are the net entitlement volumes attributable to the company, under the terms of relevant production sharing contracts and assuming future oil prices equivalent to US$55 per barrel (Brent)
- for the purpose of calculating oil equivalent total reserves, volumes of natural gas have been converted to oil equivalent volumes at the rate of 5,800 standard cubic feet of gas per barrel of oil

Glossary
mmbbl – million barrels
bcf – billion cubic feet
mmboe – million barrels of oil equivalent
NGLs – natural gas liquids

Shareholder information
At 31 December 2008

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

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

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

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

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Legal Advisers to the Company
As to English Law
Norton Rose LLP
3 More London Place
London SE1 2AF

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

Joint Brokers
Credit Suisse
1 Cabot Square
London E14 4QJ

Nomura
25 Bank Street
London E14 5LE

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

Financial Calendar

15 May 2009	Annual General Meeting
22 May 2009	Final dividend payment
26 August 2009	Interim results announcement
November 2009	Interim dividend payment

Dates correct at time of print, but subject to change

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

Designed and produced by **ConranDesign**Group +44 (0)20 7284 5200

Photography by Sam Robinson.

Printed in the UK by MPG impressions, Environmental Management System ISO 14001 certified and Forest Stewardship Council (FSC) chain of custody certified.

This report is printed utilising vegetable based inks on Revive Pure White Silk which is produced with 85% de-inked post-consumer waste, 15% unprinted pre-consumer waste and Revive 100 uncoated which is manufactured from 100% post consumer reclaimed material. All pulps used are Elemental Chlorine Free (ECF) and the manufacturing mill is accredited with the ISO 14001 standard for environmental management.

Petrofac Services Limited
117 Jermyn Street
London SW1Y 6HH
United Kingdom

T +44 20 7811 4900
F +44 20 7811 4901

www.petrofac.com