delivering

globally and locally



Petrofac

annual report and accounts 2004

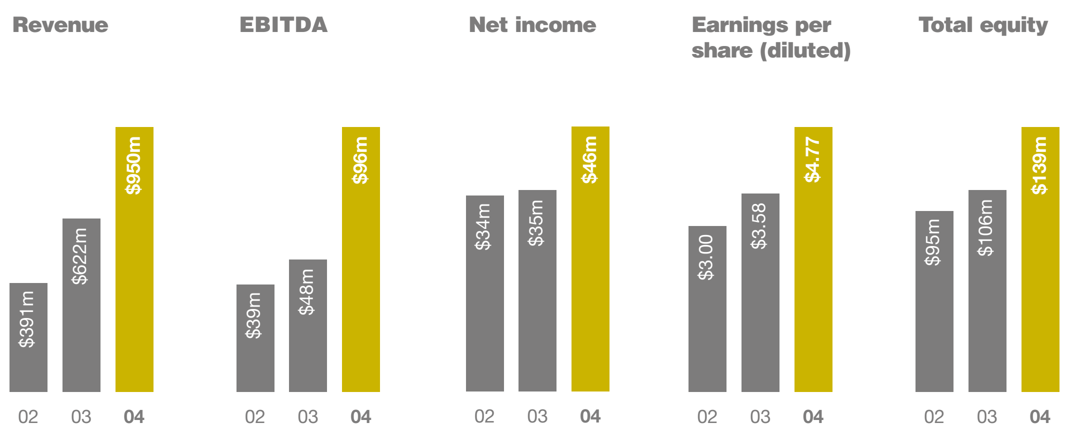
contents

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

- safe
- ethical
- innovative
- cost-conscious
- responsive to customers

and focus relentlessly on delivering results.

*financial highlights:



*Results shown above, other than for 'Total equity' are for Continuing Operations

Petrofac worldwide

- Delivering international competence – locally
- 5,000 employees
- Supporting oil & gas production and processing around the world
- A successful track record spanning 25 years and several hundred projects

Petrofac international centres:

1 Aberdeen, Scotland
2 Sharjah, UAE
3 Woking, England
4 Mumbai, India

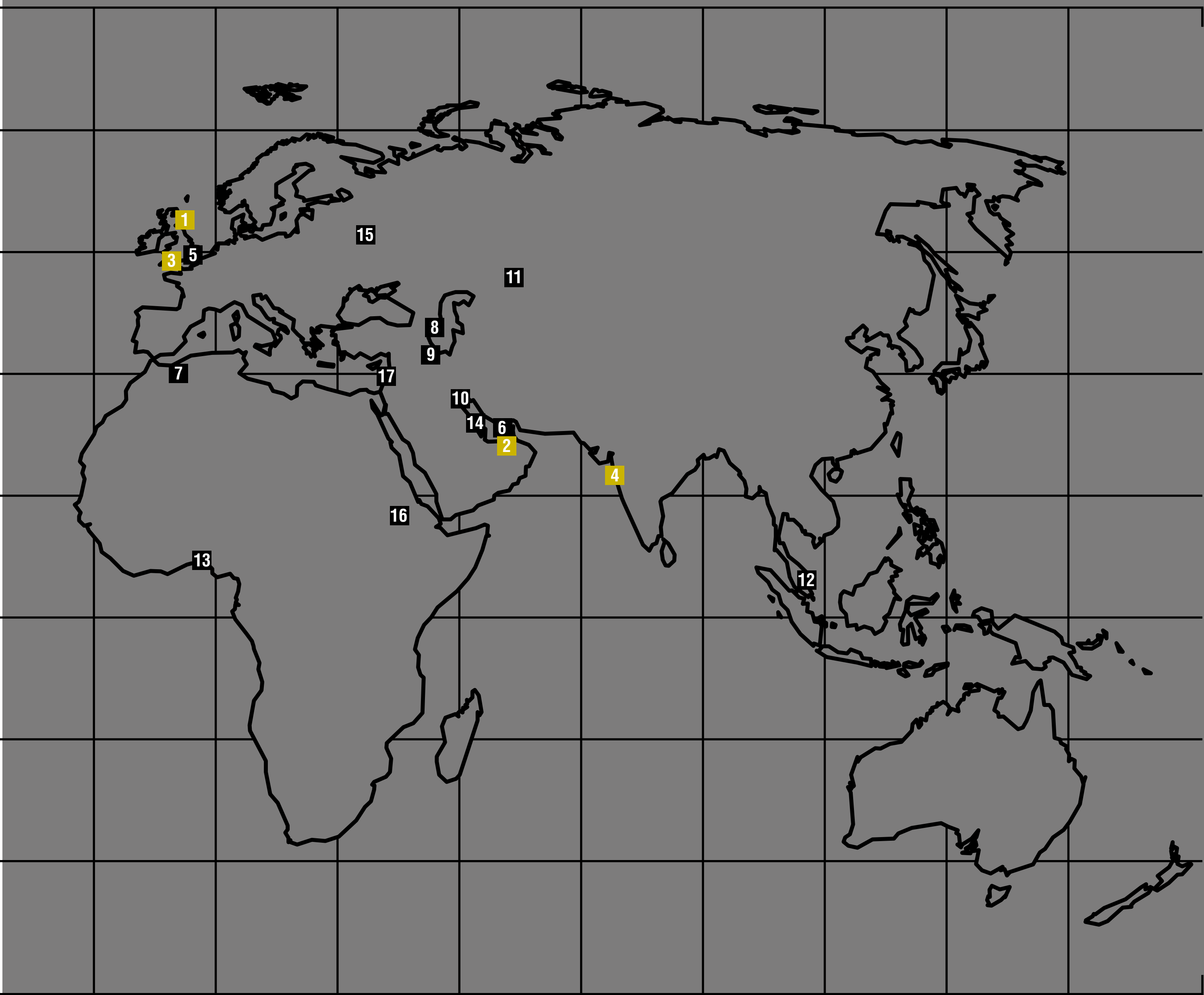
Petrofac Corporate Services:

5 London, England

Country offices:

6 Abu Dhabi, UAE
7 Algiers, Algeria
8 Baku, Azerbaijan
9 Tehran, Iran
10 Ahmadi, Kuwait
11 Bishkek, Kyrgyzstan
12 Kuala Lumpur, Malaysia
13 Lagos, Nigeria
14 Doha, Qatar
15 Moscow, Russia
16 Khartoum, Sudan
17 Damascus, Syria
18 Houston, USA

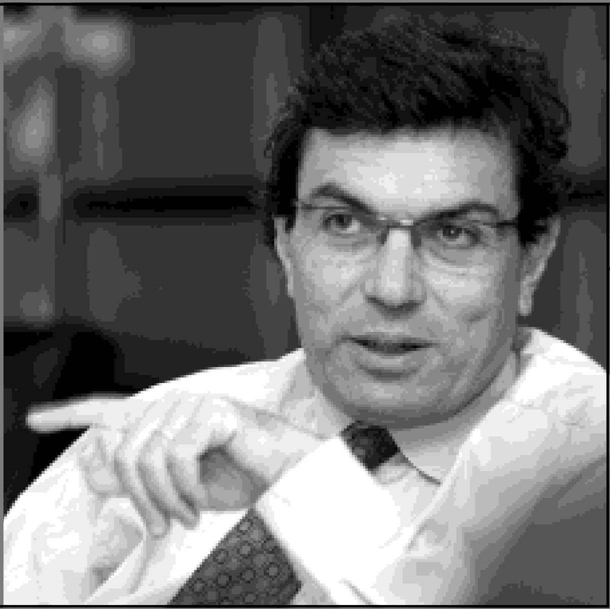
“Supporting oil & gas production and processing around the world”



group chief executive's review

"We have the ability to continue to deliver real added value to our customers and shareholders"

Ayman Asfari
Group Chief Executive



I am pleased to report that 2004 has been another successful year for Petrofac. Over the past twelve months we have focused on moving the business forward on a number of fronts. The divisional structure introduced early in the year already feels firmly established with an increasing level of co-operation between business units at all levels.

Demand for our services is buoyant, reflecting not only the underlying strength of the global oil & gas sector but also our strong competitive position, and 2004 has seen substantial revenue growth across all parts of the group. Our Engineering & Construction business has taken a major step forward with the important award of all three engineering and procurement packages for the processing facilities for the Kashagan field in Kazakhstan whilst securing a number of other significant projects in our target markets. Operations Services has consolidated its recent rapid growth in the UK North Sea, established a presence in international markets and acquired a market-leading training business. Our Resources business has entered the Malaysian market in partnership with Petronas.

We entered 2005 with a record revenue backlog in both our Engineering & Construction and Operations Services businesses. Resources' investment in the Ohanet project in Algeria is now making a substantial contribution to profitability and we have some very interesting investment prospects for the year ahead that should also offer incremental service opportunities. 2005 will not be without its challenges, in particular in successfully executing the current level of work we have in hand and maintaining the high standards we have set ourselves. However, I firmly believe that, with the collective skills within Petrofac, we have the ability to continue to deliver real added value to our customers and shareholders.

Throughout the year we have maintained and enhanced the group's commitment to having the highest health, safety and environmental standards. Overall our HSE performance has been excellent; however we deeply regret to report that we suffered the fatality during the year of an employee of a subcontractor working for us in Georgia.

As foreshadowed in his Chairman's statement last year, Ralph Martin stood down from the board in November having been involved with the Petrofac group since its inception in 1981. During this time Ralph has been a valued and trusted mentor and colleague who has provided wise and experienced counsel. Whilst we will miss his contribution to the board, we wish him and his wife, Cathy, a happy and healthy retirement.

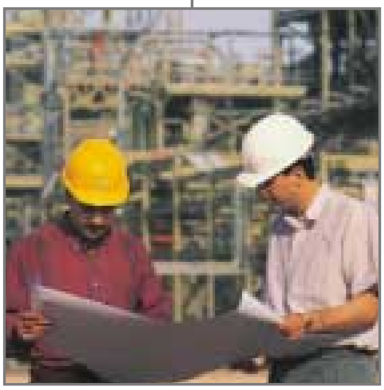
I am confident that the very significant progress recorded by the group in 2004 will carry forward into 2005 and I would like to extend my personal thanks to all our employees for their dedication and hard work and to our customers and partners for their continuing support.

Ayman Asfari
Group Chief Executive

group structure

Petrofac Limited

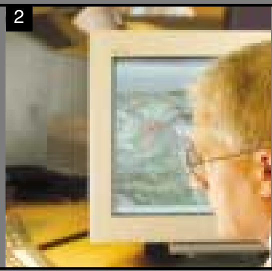
Engineering & Construction	Operations Services	Resources
Feasibility studies / front-end engineering Process & HSE consultancy Project management Engineering, procurement, construction and commissioning contracting	Facilities management Operations and maintenance Specialist manpower services Training & human resource development Operations management & consultancy services	Field development solutions and financing Build Own Operate Transfer projects Synergistic equity participation Asset value optimisation



“We are always geared to meeting our customers’ expectations”

Maroun Semaan
Chief Executive, Engineering & Construction

engineering & construction

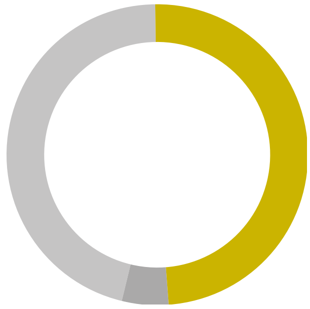




+38%

revenue increase from 2003

$473m

revenue 2004 – Engineering & Construction



2004 revenue*

Engineering & Construction **49%**

Petrofac Engineering & Construction experienced substantial growth during this challenging and rewarding year. Major new contract awards in Kazakhstan, Qatar and the UAE resulted in record sales figures of over USD 900 million. As the volume and scale of our business increased, staff numbers across our division grew by more than a third, to almost 1800. I am very pleased to report that during 2004, we completed over 30 million man-hours of work to very high HSE standards.

Several initiatives were put in place to ensure that as the business grew, it also matured. These included the development of a comprehensive business management system to streamline processes and improve effectiveness.

We enhanced communications between the three main operating centres in Sharjah, Woking and Mumbai and there was more emphasis on management of the resources and skills available. This was facilitated by a reorganisation of the division, which included streamlining Sharjah operations into two main departments – operations and technical services and the appointment of a new managing director of Petrofac Engineering in Woking.

The Woking office grew to 150 people, winning new business including several significant studies and building a strong project execution capability. We also established the critical mass of the Mumbai office where staff numbers match those in Woking. In order to ensure that we continue to attract the best people, we formalised our graduate recruitment programme during the year and recruited 24 academic achievers from top engineering schools in universities around the Middle East region and India.

As a result of the group reorganisation at the start of 2004, there is now more alignment between Petrofac divisions and a greater realisation of how synergies, knowledge and expertise can be shared. An example of this is the creation of the Brownfield Development Division, a new offering which provides ‘full-life’ services. This division brings together the best capabilities of both our engineering and facilities management divisions.

In addition to the considerable opportunities in our core markets of Middle East, Africa and Former Soviet Union, we are keen to add new markets to our business portfolio. We continue to pursue actively business opportunities in a number of new areas and, in 2004, we successfully entered Kazakhstan with the highly-prized Kashagan contract. While still focused onshore, we are looking at opportunities with new technologies, through partnerships and joint ventures.

We are a multicultural organisation working in a diversity of countries. Despite the difficult conditions and harsh environments often encountered, we are always geared to meeting our customers’ expectations. Our people are safe, highly-motivated, responsive, flexible and cost-conscious. They understand the requirements and priorities of customers and are committed to delivering high-quality projects on time and on budget.

Maroun Semaan
Chief Executive
Engineering & Construction

1 BTC pump and pigging station, Georgia
2 Petrofac Engineering, Woking UK
3 Ohanet Gas Plant, Algeria

*Consolidated revenue from Continuing Operations

engineering & construction

During August 2004, Petrofac secured the award of all three engineering and procurement packages for the onshore oil, gas and sulphur plants for the Kashagan field in Kazakhstan.

Petrofac Engineering & Construction comprises the group's project development and value engineering services and its integrated engineering, procurement and construction (EPC) operations. Operating from three principal centres – Sharjah, in the UAE, Mumbai, in India, and Woking, in the UK, the geographic focus is predominantly Middle East, Africa, the Former Soviet Union, the UK North Sea and the Indian subcontinent.

Petrofac's Engineering & Construction services comprise project management, process design, engineering design, procurement, construction and commissioning of oil & gas facilities, together with engineering and consultancy services, including studies, conceptual engineering, front-end engineering and design (FEED), detailed design, procurement support, risk, safety and environmental services.

During 2004, the Engineering & Construction division undertook work in countries including Kazakhstan, Qatar, UAE, Kuwait, Azerbaijan, Georgia, Iran and the UK.

A number of new EPC projects were awarded and commenced during 2004:

Kashagan, Kazakhstan

During August 2004, Petrofac secured the award of all three engineering and procurement (E&P) packages for the onshore oil, gas and sulphur plants for the Kashagan field in Kazakhstan.

AGIP Kazakhstan North Caspian Operating Company (Agip KCO), along with its partners, is developing the vast Kashagan oilfield, located offshore Kazakhstan, in the north of the Caspian Sea. As part of this development, a new onshore processing plant, designed to handle the produced oil & gas, will be constructed near to Karabatan, north-east of Atyrau, Kazakhstan.

Petrofac's role in the project is as main engineering and procurement contractor for the oil, gas and sulphur plants, maintaining close interface management with contractors carrying out other parts of the project, as well as with the process licensors, and Kazakh authorities. In addition to the E&P role, the scope of work includes field engineering assistance and commissioning assistance. Petrofac has sole responsibility for executing the oil & gas packages, while the sulphur package is being executed in joint venture with Black & Veatch (B&V), a world-renowned engineering contractor with specific expertise in large-scale sulphur plant design. Petrofac is also working closely with subcontractors KING, one of the leading Kazakh design institutes on oil & gas projects, and with Siirtec Nigi, who are supplying certain packages and items for the oil, gas and sulphur projects. Both B&V and KING staff have been integrated within the overall Petrofac project organisation, providing Agip KCO with seamless access to the combined resources of all three companies.

Worth over USD 500 million, these E&P projects position Petrofac in a key role in one of the world's largest new oilfield developments, in which tens of billions of US dollars are expected to be invested over the next 20 years.

Qatar Petroleum, Qatar

Petrofac was awarded the USD 172 million engineering, procurement, installation and commissioning contract for Qatar Petroleum (QP) at its Mesaieed complex in Qatar, where QP owns and operates four natural gas liquids plants. The contract includes a flare mitigation project, which will see emissions minimised at the plant, and, additionally, hydrocarbon recoveries will be maximised through a rich associated gas utilisation project.

Crescent Petroleum, Sharjah

Crescent Petroleum, a privately owned international oil & gas company with long-established interests in the UAE, awarded Petrofac the USD 82 million engineering, procurement and construction contract for a new gas processing facility. The contract was won after Petrofac successfully completed the project's FEED package in 2003. Petrofac was then selected, on the basis of a competitive bid, to execute the detailed design, procurement and construction phase of the project, which consists of an onshore gas receiving and processing facility including reception facilities, two gas sweetening trains, a sulphur recovery plant, and associated utilities and infrastructure.

1 BTC/SCP Pipeline, Azerbaijan and Georgia
2 Dorood onshore facilities and new plant, Iran
3 Diffra Field, Sudan
4 Artificial Island A, Kashagan field

Kuwait Oil Company, Kuwait

In early 2004, Kuwait Oil Company awarded Petrofac the USD 52 million contract to expand an existing crude oil export system in north Kuwait, including facility commissioning and start-up. Petrofac is working on this project with one of Kuwait's leading subcontractors, Kharafi National.

Significant EPC contracts undertaken during the year included:

Al Furat Petroleum Company (AFPC), Frame 6 Gas Turbine EPCC, Syria

Petrofac's relationship with AFPC stretches back more than a decade during which time several projects in Syria have been successfully executed. The contract, awarded in October 2002, comprised engineering, procurement, construction and commissioning of a General Electric Frame 6 gas turbine generating set that will boost the existing four-turbine generation capability at Omar power station, the only source of power for oil & gas production infrastructure in that part of Syria. Omar, situated on the banks of the Euphrates, is Syria's biggest oil & gas field complex in which AFPC, the largest producer in the country, has a major interest. Final commissioning was completed by April 2004.

Greater Nile Petroleum Operating Company Limited (GNPOC), Greater Diffra Field Production Facilities project, Sudan

Petrofac, in joint venture with Higleig Petroleum, completed the Greater Diffra field production facility (FPF) and flowlines project in Sudan. As Sudan's first gas-associated FPF project, capable of producing 40,000 barrels per day (BPD) of oil equivalent, the project was particularly important to the Sudanese Government and the client, GNPOC. Despite significant challenges, not least the difficult in-country logistics and remoteness of the site, the project was delivered ahead of schedule with the targeted Sudanese local content and with an exemplary HSE record.

BTC/SCP Pipelines and Facilities, Azerbaijan and Georgia

Petrofac, together with joint-venture partner Amec-Spie, is building the 248 km Georgia stretch of the BTC & SCP pipelines, as well as the associated pumping and metering stations in Georgia and Azerbaijan, in a contract valued at over USD 700 million. The overall project extends to over USD 3 billion and will provide a vital east-west energy corridor connecting the Caspian region with world markets. It involves laying two 1,760 km pipelines, one for oil and the other for gas, stretching from Baku, Azerbaijan on the Caspian Sea, through Georgia to Ceyhan, Turkey on the Mediterranean coast.

Dorood Onshore Facilities, Kharg Island, Iran

Final commissioning work is under way for the USD 265 million Dorood Onshore Facilities project on Kharg Island, Iran, for Total. The project has involved the design, procurement, installation and commissioning of onshore facilities for oil treatment, dehydration and desalting, gas sweetening, and gas and water injection. Petrofac is responsible for the onshore construction and commissioning in joint venture with Jahanpars, one of Iran's leading construction companies. In addition to an extensive and multi-faceted work scope and demanding logistics, the project has involved significant HSE challenges, with a peak workforce of 2,400 on the island and a very sour gas supply with heavy concentrations of hydrogen sulphide.

+22%

EBITDA increase from 2003

$42m

EBITDA 2004 – Engineering & Construction

2004 EBITDA*

Engineering & Construction **44%**

*From Continuing Operations

health, safety and the environment

1


2


1 Fire training
2 Medical training offshore

The health, safety and security of everyone who works for Petrofac is critical to the success of the business as is that of the public and communities who are affected by the group's business activities. Petrofac is also dedicated to giving proper consideration to the protection of the environment, actively seeking accord between environmental concerns and operational objectives wherever possible.

Petrofac believes that the prevention of accidents is a priority and is visibly engaged at all levels in attaining the goal of HSE excellence through continual improvement. The group's business plans include measurable HSE programmes and targets that everyone at Petrofac is committed to achieving.

During 2004, a number of proactive HSE initiatives were introduced, including the introduction of a series of eight Golden Rules of Safety which address how the large majority of the group's potential safety risks are effectively managed. A compliance assurance programme will be executed to measure the effectiveness of these 'rules' over the next few years.

It has long been understood within Petrofac that road vehicle risks are one of the highest potential risks, in particular given the group's involvement in countries where road vehicle safety and driving standards are typically poor. This has led to the development and introduction of higher vehicle specifications and driving standards which are seen as 'best in class'. Compliance with these requirements will ensure that the group's exemplary record with respect to vehicle incidents is sustained.

During 2004, approximately 40 million man-hours were worked across the group's operations (2003: 38 million). During the year, the group experienced 112 Recordable Injuries (RIs) (2003: 124), an RI frequency rate of 0.57 per 200,000 man-hours (2003: 0.65) and 14 Lost Time Injuries (LTIs) (2003: 9), an LTI frequency rate of 0.07 per 200,000 man-hours (2003: 0.05).

Although the overall HSE performance for the year was excellent, there was an incident in February 2004 which resulted in a fatal injury to a subcontractor's employee in Georgia on the BTC/SCP Pipelines and Facilities project in Georgia. The group immediately allocated significant resource to establish causes and lessons learned. The outcome of this incident, the investigation and its findings has led to improvements in the way senior personnel manage their activities.

"Prevention of accidents is our priority"

1 Montrose platform, UK North Sea
2 Arbroath platform, UK North Sea

Engineering services contracts undertaken during 2004 of particular note included:

In Amenas, Algeria

BP and Sonatrach are developing the In Amenas project in Algeria, Northern Africa. The development of the Tiguentourine gas condensate field will comprise a gathering system, a centralised processing facility, and product evacuation pipelines. The facilities will produce and maintain a gas production rate of 28.2 million standard cubic metres per day (Mcm/D).

Petrofac was responsible for the engineering and procurement services for the gathering system, consisting of well pad facilities, individual well flowlines, field manifolds and trunklines designed to gather produced fluids from individual wells and transport the multiphase mixture to a central processing facility where the fluids will be treated to export specifications. Petrofac is also assisting the client with the selection of the construction contractor.

Rospan, Russia

Petrofac completed a FEED study for Rospan, TNK-BP's gas and condensate field in Western Siberia. Petrofac's scope of work included the development of a definitive engineering package, project execution plan and the EPC tender package. The development of the Rospan project involves the expansion of two existing process facilities and the construction of a third facility to increase the total gas processing capacity from approximately 10 Mcm/D to over 50 Mcm/D.

Challenges included designing brownfield modifications as well as greenfield developments at the same location, transport and installation strategies taking into account the remote location and the harsh environment.

Paladin, UK North Sea

Petrofac performed the conceptual engineering and subsequent FEED for the Wood and Gas Export Project (WaGE). The WaGE project involves the tie-back of a single subsea well at Wood to the existing Montrose platform via a new 10.4 km 6-inch pipeline. Gas lift will be provided to the Wood well via a piggy-backed 2-inch pipeline. Subsea control and chemical injection will be provided via an umbilical from the Arbroath platform. New reception and gas export facilities (compression) at Montrose are to be provided in a new cantilevered 1,000-tonne module, with gas exported to the CATS system via a new 11.1 km 6-inch pipeline.

A significant challenge for this project was to keep the weight of the new module below 1,100 tonnes to ensure that the weight-bearing capacity of the existing jacket and modules was not exceeded. Another challenge was to minimise the amount of offshore construction work.

As Service Operator of the asset, Petrofac is playing a pivotal role in Paladin's asset development, in partnership with Helix RDS, a specialist in reservoir and well technology services.

In March 2004, an engineering services office was opened in Aberdeen, working with the group's Facilities Management team to optimise synergies and opportunities with clients in the local market. The office's focus is directed towards providing innovative operational solutions particularly with a view to extending the life of North Sea assets and offers a multidisciplinary consultancy service specialising in conceptual/feasibility studies, brownfield and greenfield development engineering, process engineering and flow assurance, operational troubleshooting and debottlenecking.

“We established beyond doubt the international appeal of our contractor-operator capabilities”

Robin Pinchbeck
Chief Executive, Operations Services

operations services

2004 was a year of both consolidation and growth for Operations Services. In the UK, we cemented our position as the market's leading 'service operator', through the completion of performance transformation on a number of major oil & gas production assets, among the many now being operated by Petrofac on our clients' behalf. Petrofac has unique experience and track record in providing a 'turnkey' operations service to our independent oil company customers, an offering Petrofac has pioneered in the UK market.

Importantly, also in the UK during 2004, we re-secured a number of operations support contracts and, in competitive tender, secured a major new operations and maintenance contract with Total. While Petrofac provides a unique complementary capability to the independent sector, major international oil companies also represent a key customer segment and are showing increasing interest in the operational improvement capabilities that Petrofac has very deliberately developed over our last ten years of mature asset specialisation. We continue to broaden these capabilities and an important step during the year was the establishment of an enhanced focus on 'brownfield' engineering, enabling us to provide a more complete service to customers in re-engineering and renewing mature oilfield assets.

In addition to the strong growth achieved in the UK, in 2004, Petrofac established beyond doubt the international appeal of our contract-operator capabilities, with the signature of significant new performance contracts in Iran and Sudan, as well as very promising progress in other countries. We are confident that the international activities of Petrofac Facilities Management will continue to grow.

We remain convinced that high-quality training, allied to operational excellence, is the key to international growth in our sector and with Petrofac Training firmly established during the year as an integral part of our service offering, we are now very well positioned to accelerate our international development.

The development of Petrofac Operations Services to date has fulfilled our initial confidence in the real and realisable synergies between our different businesses. Well-established engineering and construction presence in a number of key countries has undoubtedly enabled accelerated entry in both O & M and training. At the same time, our capacity as a practitioner – not just a trainer – is a key differentiator in operational training. Finally, our co-investment capacity enables Petrofac to develop further alignment and value through our unique service operator capability. We believe our strategy is both distinctive and promising.

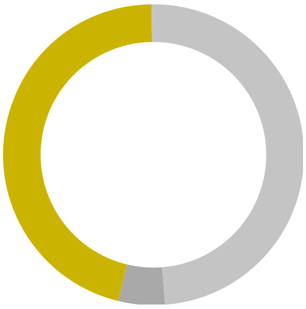
Robin Pinchbeck
Chief Executive, Operations Services

+60%

revenue increase from 2003

$440m

revenue 2004 – Operations Services



2004 revenue*

Operations Services **46%**

1 Heather platform, UK North Sea
2 Alwyn North B platform, UK North Sea
3 Petrofac Training, Aberdeen UK

*Consolidated revenue from Continuing Operations

operations services

Petrofac Operations Services, through Petrofac Facilities Management and Petrofac Training, provides comprehensive operational support, operational management, training and consultancy services to the oil & gas producing and refining industries.

Petrofac Facilities Management

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

Europe

Petrofac Facilities Management works with customers ranging from global oil companies, including AGIP, BG, BP, Mobil, Marathon, Total, Kerr-McGee and CNR, through to regional independents, including Paladin, Venture, Tullow and Lundin. In total, Petrofac either operates or provides support services to thirty platforms in the UK oil & gas sector from more than 20 fields with production of around 460,000 bpd of oil and approximately 80 Mcm/D of gas. This production level equates to approximately 960,000 bpd of oil equivalent and represents around 25% of the current UK production.

During the preceding year, Petrofac Facilities Management significantly increased its portfolio of managed facilities with three new life-of-field, Service Operator contracts secured with Paladin, Venture and Tullow and this led to a highly satisfactory performance during 2004 which represented the first full year of operation of these contracts. Typically, the opportunity to secure such contracts arises when ownership of the underlying asset changes, in particular when the major oil companies divest non-core assets. The pace of change of asset ownership slowed during 2004, largely as a result of high prevailing oil prices although there were signs of a pick-up in activity towards the end of the year and, since the year end, Petrofac has secured its fifth life-of-field Service Operator contract in the UK with Lundin.

The key developments during 2004 for Petrofac Facilities Management include the following contract awards and renewals:

Total, Operations and Maintenance contract

Petrofac secured a contract to provide operations and maintenance services to Total E&P UK's Alwyn and Dunbar facilities. The five-year contract is a Global Site Operations Contract involving in excess of 120 personnel and is expected to have a value of around USD 70 million.

The Alwyn field has two platforms, Alwyn North 'A' which is the drilling and accommodation platform and Alwyn North 'B' which is the processing and treatment platform. The Dunbar platform is located south of the Alwyn North platform.

Petrofac either operates or provides support services to thirty platforms in the UK oil & gas sector... representing around 25% of current UK production

1

Lundin, Engineering and Construction contract

Petrofac secured a contract to provide engineering and construction support services to the Heather and Thistle facilities owned by Lundin Britain Limited (Lundin Britain). Lundin Britain, part of Lundin Petroleum, a Swedish independent oil & gas exploration and production company, assumed Operatorship of the Heather and Thistle fields following the acquisition of DNO Britain during 2004. The fields are located north-east of the Shetland Islands in the UK Sector of the Northern North Sea. Building on this relationship, Petrofac announced in January 2005 that it will take over responsibility for the management of the Heather and Thistle fields' production and maintenance operations on a life-of-field basis, further details on which are set out below.

Britannia Operator, Operations Services contract

Petrofac was awarded a five-year extension of its contract with Britannia Operator Limited (BOL) for operations services on the Britannia platform. The Britannia field produces gas, condensate and oil and is operated by ConocoPhillips and ChevronTexaco under a stand-alone joint venture entity, BOL. Under the terms of the contract, which is an extension of the original seven-year contract and worth in excess of USD 70 million, Petrofac will continue to provide offshore operations, maintenance and onshore support personnel to BOL.

BG, Gas Compression Healthcare Services contract

Petrofac was awarded a further five-year contract for the provision of gas compression healthcare services on the Armada gas/condensate fields operated by BG. The Armada complex comprises a single platform and four gas/condensate fields (Fleming, Drake, Hawkins and South-West Seymour) situated in the Central North Sea. This performance-based contract involves all aspects of Petrofac's turbomachinery maintenance package and performance management, including 24-hour offshore attendance and 24/7 emergency support, major overhaul/repair supervision and Original Equipment Manufacturer co-ordination. Petrofac had held the contract for seven years and won the additional five years after a competitive tendering process.

BHP Billiton, Operations and Construction contract

Petrofac was awarded a five-year extension of its current contract with BHP Billiton for onshore and offshore operations manpower and construction services to the Liverpool Bay Assets located in the Irish Sea.

The contract, worth approximately USD 120 million, is an extension of the original ten-year contract and became effective on 1 December 2004. The Liverpool Bay development comprises the Douglas and Lennox platforms, an oil storage installation and the onshore gas processing terminal at Point of Ayr.

Lundin, Service Operator contract

In January 2005, Petrofac announced that it will take over responsibility for the management of the Heather and Thistle platforms for Lundin Britain. On completion of a transition process, Petrofac will be responsible, as Facilities Manager and Safety Case Duty Holder, for the fields' production and maintenance operations on a life-of-field basis. Petrofac will employ the majority of the offshore staff and a significant proportion of the onshore operations support group. Petrofac will also continue to perform engineering design and construction services for these facilities under a prior arrangement with Lundin Britain. It is anticipated that Petrofac will take over responsibility for operations on the Heather and Thistle fields in the second quarter of 2005.

+82%

EBITDA increase from 2003

$21m

EBITDA 2004 – Operations Services

2004 EBITDA*

Operations Services **22%**

2


3


4


1 Liverpool Bay, Irish Sea
2 Thistle platform, UK North Sea
3 Kittiwake platform, UK North Sea
4 Alwyn North A platform, UK North Sea

*From Continuing Operations

training

Training is integral to the oil & gas industry. It delivers an efficient and competent multi-skilled workforce, underpins the ability to work safely and is critical to the management of risk. As the structure of the global workforce shifts in mature and developing oil & gas regions, the provision of training services has become increasingly important to Petrofac and its customers.

As world demand continues to grow, the increased production required to fill the energy gap will come principally from less-developed regions. In the main, these regions currently lack the required depth of industry expertise and experience.

Resourcing, locally, the huge numbers of knowledgeable and skilled people now needed presents a significant educational and training challenge. Moreover, in North Sea and US markets, new blood must be brought in to replace the experienced, but aging, workforce.

In all its activities throughout the globe, training is core to Petrofac's proposition. As an integral part of the service offering, it provides customers with international standards of competence among in-country workforces.

Furthermore, training plays a crucial role in the execution of Petrofac projects and contracts around the world, by developing skills and competencies and delivering national workforce excellence.

Within the Petrofac organisation, the vast human experience-base is a major asset in developing its international training business. The quality and experience of our people is directed towards training and coaching the new generation in both established and emerging oil & gas provinces. The significant investments Petrofac has made recently in its HSE and operational training capabilities reflect the importance the company attaches to delivering high-quality services in these areas.

"The provision of training services has become increasingly important to Petrofac and its customers"

International

A key area of future growth for the group's Facilities Management business is by international expansion, utilising its established knowledge base and proven expertise and leveraging off the Petrofac group's international reach and experience.

Petrofac Facilities Management International was formed in 2003 with a sales and operational presence in Sharjah. In late 2003, facilities management and maintenance contracts were awarded in Papua New Guinea, Iran and Sudan and much of the focus during 2004 has been to ensure satisfactory mobilisation and execution of these contracts. With an office infrastructure established and now operating effectively, the international arm is actively pursuing new operations and maintenance business, including opportunities in a number of new countries.

Training

Recognising that the provision of training services is becoming an increasingly important part of customers' requirements, Petrofac Training was established early in 2004 following the acquisition of RGIT Montrose and its combination with Petrofac's existing training business, Chrysalis Learning. Petrofac Training now has a presence or access to capability in all of the major oil & gas regions worldwide and an unrivalled depth of knowledge and ability in safety and skills training and development, gained from serving the international industry for 25 years.

In 2004, Petrofac Training celebrated the 25th anniversary of its Montrose facility in Scotland. Officially opened in 1979, the fire ground in Montrose is a leading facility for petroleum based fire-fighting training and one of the largest fire grounds of its kind in the world. This year, the Montrose facility also became only the fifth training provider in the world to be accredited by the Joint Occupational Industrial Fire Forum (JOIFF), the UK's onshore industry safety body. This recognition was an acknowledgement of the high standard of facilities, instructors and instructional techniques demonstrated at the facility.

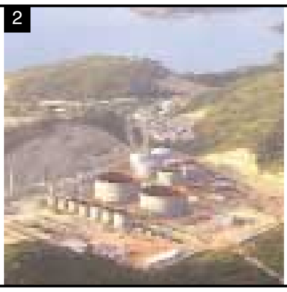
During 2004, the Aberdeen-based survival, marine and health & safety training activities experienced strong growth. Provision of training management solutions increased significantly through expansion of both an existing contract with Shell, covering its three key European operating centres of UK, Holland and Norway, as well as new business with Total E & P UK, Apache North Sea and other divisions of Petrofac.

Following the successful completion of a design-and-build contract for BP's training centre in Baku, Azerbaijan, Petrofac (in joint venture with TTE International) was awarded a three-year management and operations contract, to include the provision of training centre staff and the supply of consumables and curriculum materials. In May 2004, the Caspian Technical Training Centre was opened. Under TTE-Petrofac's operation, the training centre will help ensure that a highly skilled, safe, efficient and motivated national workforce matches the growing needs of the industry in the Caspian region. Based at the Sangachal Terminal Expansion Project area, the centre has a capacity to train 400 operations and drilling technicians a year to full international standards.

Following the acquisition of RGIT Montrose, Petrofac Training International was established in Sharjah. From this base, Petrofac provides training and consultancy services to many international oil companies, national oil companies and major service contractor clients in over 17 countries and has many opportunities for further expansion.

In early 2005, Petrofac Training further expanded its capability through the acquisition of Rubicon Response, a specialist in critical incident/emergency response, training and consultancy services, also headquartered in Aberdeen.

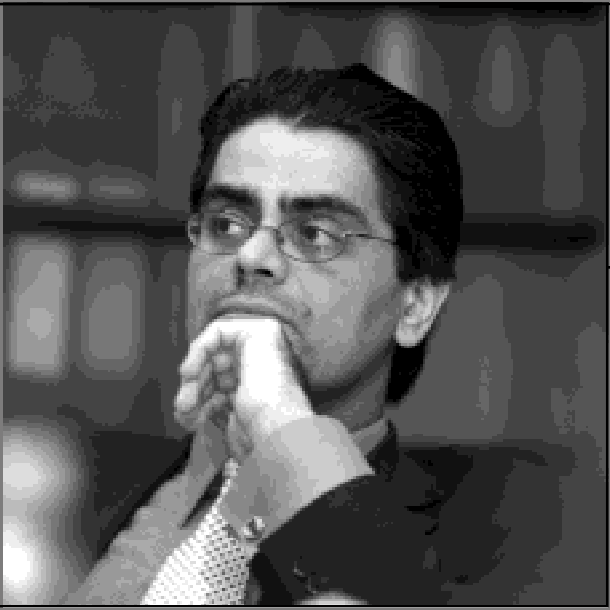
A key area of future growth for the group's Facilities Management business is by international expansion



1 Petrofac Facilities Management International's base in Sharjah
2 InterOil Refinery, Papua New Guinea

"By utilising the group's extensive knowledge and skills, we aim to be the industry's development partner of choice"

Amjad Bseisu
Chief Executive, Resources



resources

+212%

revenue increase from 2003

$45m

revenue 2004 – Resources

2004 was a year of major achievement for the Resources division. The Ohanet project in Algeria delivered its first full year of production, making a significant contribution to the group's overall financial results, and, with the addition of investments in Malaysia and the UK North Sea, our development portfolio offers exciting prospects for creating further value.

By investing alongside our clients and partners, we use the group's extensive knowledge and skills, optimising clients' and our capital and operating expenditure, mitigating asset risk, and thereby enhancing value. We aim to be the industry's development partner of choice.

During 2004, three development opportunities were added to our portfolio – the Cendor field in Malaysia and the Cragganmore and Elke fields in the UK North Sea. These opportunities highlight our commitment to developing small fields in mature basins that typically are unlikely to provide the scale of incremental return required by the major oil companies. Our business development efforts continue to be focused on similar development opportunities but also on the financing and construction of oil & gas facilities to enable commercialisation of small fields.

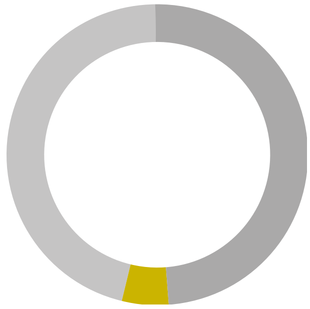
Following our investment in Malaysia, work proceeded apace with the submission and approval of a new Field Development Plan for the Cendor field. Delivering the plan in a five month period demonstrates our ability to manage assets in new areas utilising the group's depth of resources.

Another important step in 2004 was the purchase of a 50% interest in Kyrgyz Petroleum Company, owner of the only refinery in the country, from Kyrgoil Holding Corporation (KHC), after many years as a significant shareholder of that company, thereby consolidating our position as investor and asset manager whilst providing the minority shareholders of KHC the opportunity to invest in a new exploration company, Serica Energy Corporation.

Resources is driven by improving asset performance. Therefore, the quality and knowledge of our professionals is the most important factor in leveraging value from our assets. We have put together a team of professionals with significant experience in the evaluation and management of oil & gas assets and, by applying the service capabilities within our Operations Services and Engineering & Construction divisions, are able to understand, shape and create value through our investments.

We believe that Petrofac's leading capabilities create a formidable proposition for adding value to our clients and partners. The active relationship we now have with our investment partners, both in business development and in our existing assets, is testament to such conviction.

Amjad Bseisu
Chief Executive, Resources



2004 revenue*

Resources **5%**

1 KPC refinery, Kyrgyz Republic

2 An investment review meeting

*Consolidated revenue from Continuing Operations

During 2004, major bid submissions were made for projects in Syria, Algeria, the UK, and Russia, with numerous smaller bids made for opportunities in other countries.

1

Petrofac Resources invests in projects that enhance the wider group's service offering and is active across a range of project types working alongside the group's customers and partners including equity participation in development projects or acquisition of existing assets, provision of financing arrangements and development 'farm-ins'.

Current investment portfolio

Petrofac Resources' investment portfolio currently comprises interests in the Ohanet gas redevelopment project in Algeria, Block PM304 of the Cendor field in offshore Peninsular Malaysia, the Cragganmore and Elke fields in the UK North Sea, and Kyrgyz Petroleum Company, owner of the only refinery in the Kyrgyz Republic.

Ohanet, Algeria

Petrofac Resources' largest investment is in the Ohanet project, Algeria. Petrofac, in joint venture with BHP Billiton (as operator), Japan Ohanet Oil & Gas Co., and Woodside Energy (Algeria), has invested in excess of USD 100 million for a 10% share in a Risk Service Contract (RSC) with Sonatrach, Algeria's national oil company. The USD 1 billion Ohanet development is located in the Illizi province of Algeria, south-east of Algiers and close to the Libyan border.

First gas for export began flowing in late 2003 with production increasing into 2004. During the year, Ohanet produced, on average, approximately 13.5 Mcm/D of gas for export, approximately 23,900 bpd of condensate and approximately 1,800 tonnes per day of liquefied petroleum gas (21,200 bpd of oil equivalent).

Under the terms of the RSC, signed in July 2000, Petrofac and its joint-venture partners receive a portion of the liquids production over a target eight-year period. The pipeline gas sales and its associated revenue is owned and marketed by Sonatrach. Petrofac's Engineering & Construction carried out the EPC contract for the gas processing facilities at Ohanet in joint-venture with ABB Lummus. The group's Operations Services division was also responsible for part of the onsite commissioning works.

Kyrgyz Petroleum Company, Kyrgyz Republic

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

Cragganmore, UK North Sea

Petrofac Resources acquired a 5.58% interest in Block 9/28a Area B in the UK North Sea in January 2004. The block contains the Crawford field, since renamed Cragganmore, which was originally produced by Hamilton Oil and Gas (now BHP Billiton) using a converted semi-submersible production vessel. The field, with remaining oil in place estimated to be in excess of 200 million barrels, was abandoned in 1990 when oil prices were low and there were better opportunities to use the vessel elsewhere. Petrofac Resources is in partnership with Tuscan Energy, as Operator of the field, Acorn Oil and Gas and Stratic Energy. The field is being re-mapped using up-to-date data processing and interpretation methods. A number of development options are being evaluated together with a prospect inventory of additional appraisal targets. Petrofac's involvement as a partner is with a view to services being provided by the group's Engineering & Construction division and ultimately by the Operations Services division.

Elke, UK North Sea

Petrofac Resources acquired a 100% interest in the Block 28/3 in the UK North Sea, containing the Elke field. The field was discovered by OMV in 2002 but was not developed by the original partners due to the relatively heavy nature of the oil. Petrofac is looking to use its Engineering & Construction and Operations Services divisions with a view to providing an economic field development plan.

2

3

1 & 2 Kyrgyz Petroleum Company, Kyrgyz Republic

3 Petronas Twin Towers, Petrofac's Malaysia base

New business development

During 2004, major bid submissions were made for projects in Syria, Algeria, the UK, and Russia, with numerous smaller bids made for opportunities in other countries. Whilst 2003 saw significant asset transfer activity in the UK North Sea, there was a notable slowdown during 2004. Notwithstanding this change, 2004 was a significant year for Petrofac Resources in terms of business development with new investment initiated in Malaysia and the formation of an alliance with Cal Dive International to develop a common investment and service offering in the UK North Sea and elsewhere.

Cendor PM304, Malaysia

During the year, Petrofac Resources acquired the Amerada Hess subsidiary which operates and owns an interest in the Production Sharing Contract for the undeveloped Cendor field offshore Peninsular Malaysia in Block PM304.

The field will be developed in phases by a Petrofac-led, joint operating team with Petronas Carigali. Other field partners are Kuwait Foreign Petroleum Exploration Company and PetroVietnam Investment Development Company. First oil from the field is scheduled for late 2006. Base reserves after approval of the field development plan (FDP) are estimated to be 20 million barrels of oil. The FDP, approved by all the partners, was formally submitted to Petronas in early February 2005.

Petrofac-Cal Dive Alliance, UK North Sea

During the year, Petrofac Resources and Cal Dive International, a leading US marine contractor and operator of offshore oil & gas properties and production facilities, entered into an alliance to pursue opportunities jointly in mature offshore oil & gas properties and proven undeveloped reserves in the UK North Sea. The arrangement brings together Petrofac's engineering and operational track record in the UK with Cal Dive's Gulf of Mexico experience in marine contracting and decommissioning. The alliance's strategy is to operate mature fields and offer the capability to manage and carry out decommissioning as required. The alliance will seek to align the interests of the producer and the contractor where it can add value through the provision of integrated services. The alliance represents a unique offering in the UK North Sea, from two companies with proven track records, complementary skills and strong financial capability.

$32m

EBITDA 2004 – Petrofac Resources

2004 EBITDA*

Resources **34%**

*From Continuing Operations

corporate & social responsibility

1 & 2 Computers for Africa 2004
3 Cornerstone, Petrofac's charity of the year

In all its group activities, Petrofac is committed to acting responsibly and with respect for the communities in which it operates. Petrofac plays an active and positive role in its project locations, developing local communities through education and training and seeking to develop partnerships which bring mutual benefits.

In the UK, Petrofac's Community Involvement Group (CIG) provides support to a number of charities, groups and individuals. Amongst its achievements is the sponsorship of wheelchair athlete Kenny Herriot, a former fitness instructor who was paralysed following an accident in 2000. Petrofac's sponsorship has helped ensure that Herriot is able to compete in the world's major competitions and he has continued to break a string of records in his native Scotland. In 2004, the CIG named Cornerstone Community Care as its charity of the year and, through fundraising activities, supported the charity in helping to provide accommodation for people with learning disabilities.

In recognition of the essential role of arts and science in building quality of life, Petrofac is a main sponsor of both The Aberdeen International Youth Festival, which showcases the musical, dance and acting talents of young people from all over the world, and Techfest, a festival of science, technology and engineering, visited by over 10,000 school pupils.

Petrofac is committed to the development of education. In addition to providing graduate recruitment schemes at all its international centres, the group provides support to educational initiatives around the world.

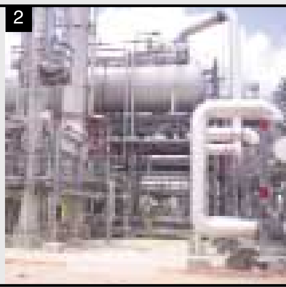
For many years, Petrofac has actively supported the American Universities in Sharjah and Beirut. Funding has assisted their engineering faculties to invest in leading-edge research technology and to enhance standards of educational excellence. The long-standing, mutually beneficial relationship between Petrofac and the American

University of Sharjah is strengthened further by the recent appointment of Maroun Semaan to the university's Board of Trustees.

Through an award-winning education/industry partnership with Kincorth Academy in the UK, which was established in 1998, Petrofac has helped raise significant funding, providing students with some excellent facilities. The partnership, which also offers pupils an insight into the industry and working the environment, has been so successful that it has been used as a model for other businesses and schools.

Petrofac seeks to support local communities in its project locations around the world by helping to develop small business and service sector opportunities and enhancing infrastructure and facilities. In Kyrgyzstan, where Petrofac is joint owner of the Kyrgyz Petroleum Company, initiatives include nationalisation and training of the refinery workforce and minimising health, safety and environmental risks to the local population. In Georgia, where work is ongoing on the BTC pipeline and related facilities, Petrofac has provided support to the local community in constructing and repairing roads and other local amenities, by refurbishing schools and in funding various educational projects.

"Petrofac is aware of how it impacts upon societies"



1 P-50 modules set sail for Brazil
2 DeGas unit, Big Hill site, Texas, USA

During 2003, Petrofac sold substantially all of the operating assets of Petrofac Inc. to Chicago Bridge & Iron Company NV. Petrofac retained contractual responsibility for completion of the work-in-hand at the time of the sale. These contracts, which included two significant projects on which further information is set out below, were substantially completed during the year although a number of minor commercial matters remain to be settled against which management consider adequate provision has been made in these accounts.

As a result of the sale, the trading results and net assets of Petrofac Inc. have been separately disclosed within the financial statements as 'Discontinued operations'.

Petrobras Netherlands BV (PNBV), P-50 process modules

During the year, Petrofac Inc. completed the engineering, procurement and construction of two oil separation/treatment modules and two gas treatment modules for PNBV's P-50 floating production storage offloading (FPSO) unit, which is to produce oil & gas from the Albacora Leste Field in Brazil's Campo Basin. The modules are the heart of the P-50 FPSO and will process up to 200,000 bpd of crude oil and 100,000 bpd of produced water. Additionally, they will remove carbon dioxide from 6.2 Mcm/D of associated gas and dehydrate the saturated gas. An associated gas compression train will recover 0.2 Mcm/D of gas from the oil processing trains. Fabrication of the 4,000-tonne modules, under the management of Petrofac, was undertaken in New Iberia, USA, with direct barge access to the Gulf of Mexico. Completion of the project required some major challenges to be dealt with, including managing major design changes and directing an interface with over 28 subcontracts during fabrication, necessitated through the absence of a single fabrication source in the region. In addition to the Tyler office, now closed, completion of the project involved technical support from Petrofac's offices in Sharjah, Woking and Aberdeen.

US Government's Department of Energy (DOE), crude oil degasification unit

During the year, Petrofac Inc. also completed work on a crude oil degasification (DeGas) unit located at the US Government's DOE Strategic Petroleum Reserve site at Big Hill in Texas, USA. The work scope involved the provision of a turnkey facility and managing the site's civil, mechanical and electrical construction. The DeGas unit was designed to process 125,000 bpd of oil and is also capable of being relocated after completion of the initial crude inventory. Petrofac worked on the project under the direction of DynMcDermott on behalf of the DOE.

During the year, Petrofac Inc. also completed work on a crude oil degasification unit located at the US Government's DOE Strategic Petroleum Reserve site at Big Hill in Texas, USA.

“It is increasingly important that we take on the right business with the right returns”

Keith Roberts
Chief Financial Officer

financial review

Managing risk is at the heart of any business, particularly a major contracting and operations service provider such as Petrofac. Since the formation of the current group in 2002, we have devoted significant time to developing and enhancing our financial controls and risk management processes and to ensuring we have appropriate access to capital to finance our business plan. This work is not particularly glamorous or even noticeable to the outside world but it is vitally important in ensuring that we can continue to grow our business in a controlled and sustainable way.

We have put considerable effort into streamlining our management information, reporting and consolidation processes. As a result of the group's rapid global development, the information that management require to run the business has increased both in terms of volume and complexity. During 2004 it became clear that we needed to enhance both the quality and timeliness of our monthly management reporting.

At the end of the year we went live with a new management reporting system, a web-based application which provides secure and convenient access to management information, from any location at any time. The system has improved our ability to analyse financial information across all our business units, allowing multi-level measures of performance and comparison. It has also reduced the time it takes us to issue our monthly accounts by more than half.

We established a risk review committee in 2003 and this was further developed during the year. The committee reviews all major proposals, contracts and investments from a risk-return perspective and makes recommendations to the main board. The review process considers issues ranging from cost estimates and projected margins, HSE and technical issues, counter-party risk of proposed joint venture partners and subcontractors, through to security and country risk considerations. As we continue our recent successes in securing major contracts, it is increasingly important that we take on the right business with the right returns and on the right contractual terms. The risk review process helps ensure we do this.

As part of a major reorganisation of the group's finances, during the year we successfully raised a USD 145m loan, jointly funded by The Royal Bank of Scotland and Bank of Scotland. This provided funds to re-finance existing loans on better terms and to finance the share buy-back, as well as to meet our future investment plans.

With these developments underpinning our business, we are now well-placed to execute our strategic plans.

Keith Roberts
Chief Financial Officer

$950m
+53%
revenue increase from 2003

$46m
+20%
net income increase from 2003

1 Ohanet Gas Development, Algeria
2 Britannia platform, UK North Sea

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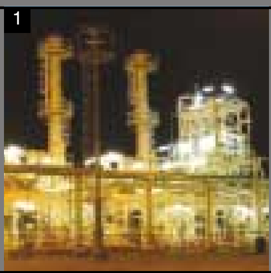
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All figures shown above are for Continuing Operations

Economic environment

Oil prices ranged between USD 30 and USD 57 per barrel in 2004 and closed the year at the top end of that range driven by an increase in world oil demand of over 3% and increasing concerns about the ability of established oil-producing nations to increase their production rates. With demand being driven from all regions but particularly by the emerging economies of Asia (China is now the second largest consumer of oil after the USA), this trend seems well established and the focus is on developing new reserves of oil and, increasingly, gas in both established and new hydrocarbon provinces. This provides a favourable macroeconomic background for the oil & gas services sector in general and for Petrofac in particular.

Increasing investment into oil & gas infrastructure is providing good market opportunities for the group's Engineering & Construction and Resources divisions, both of which are well established in regions with substantial proven hydrocarbon reserves. A high oil price also has the advantage of extending the economic life of mature fields, a core market for the group's Operations Services division.

In developing markets, there is an increasing number of outsourcing opportunities for the group's Operations Services division, as a trend by national oil companies towards considering outsourcing certain production-related services appears to be becoming established. In 2004, the group has successfully sold its expertise in managing outsourced operations and maintenance contracts internationally, using the competencies and experience developed over the past two decades in the UK. The addition of RGIT Montrose, a leading provider of training and consultancy services to the oil & gas industry, in early 2004 has complemented the existing Operations Services offering. Management expect the demand for training services in international markets to continue to increase as international and national oil companies focus on increasing local content in new projects and production operations by training indigenous employees.

Results for the year

Group revenues increased by 35.6% to USD 964 million (2003: USD 711 million) reflecting a strong trading year for the group with all three trading divisions experiencing revenue growth.

Group EBITDA (earnings before interest, tax, depreciation and amortisation) on continuing operations increased to USD 96.1 million, up USD 48.0 million on 2003, and representing 10.1% on sales. The composition of EBITDA in 2004 was well balanced across the group's three trading divisions with Engineering & Construction contributing 43.9%, Operations Services 22.2% and Resources 33.9%.

Net income, attributable to the shareholders of Petrofac Limited, on the group's continuing business activities increased by 20.1% to USD 46.1 million (2003: USD 38.4 million).

Net losses from the group's discontinued operation in the US were a disappointing USD 13.2 million. However, operational activities in the US are now substantially complete and management consider adequate provision has been made to cover the residual commercial risks in this business.

Segment performance

In 2004, the results show the increased importance of the Operations Services and Resources divisions, although Engineering & Construction remains the largest contributor to net income.

Engineering & Construction

Revenue for the Engineering & Construction division was USD 473.5 million in 2004 compared to USD 342.9 million in 2003. This increase is largely attributable to an increased level of activity for the group's Sharjah-based EPC operation and in particular, a full year's activity on the BTC/SCP Pipelines and Facilities project (BTC) for a BP-led consortium in Azerbaijan and Georgia.

Despite the increase in revenue from 2003 (38.1%), net income for the division remained relatively flat at USD 33.1 million (2003: USD 32.2 million) due largely to the recognition of a loss on the BTC project. Under the group's revenue recognition policies, contract claims are only recognised when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably. A series of claims have been submitted on the BTC project, a number of which remain unresolved at the time of completing these financial statements. Whilst management believe the loss position could be recovered in 2005, the 2004 accounts reflect a loss based on strictly applying the group's revenue recognition policy. The financial performance on all other lump-sum EPC contracts in 2004 was very satisfactory.

Operations Services

In 2004, the Operations Services division experienced significant growth with revenue up

In 2004, the results show the increased importance of the Operations Services and Resources divisions, although Engineering & Construction remains the largest contributor to net income.

60.1% to USD 440.1 million (2003: USD 274.9 million). In February 2004, the division acquired RGIT Montrose; this acquisition has accounted for USD 46.4 million of the increase in revenue. Organic growth in 2004 has therefore been 43.2% out of which approximately two-thirds relates to Facilities Management activities in the UK, and in particular new Service Operator contracts, with the balance coming from new international Facilities Management contracts.

Net income for this division was USD 9.6 million (2003: USD 6.8 million), representing a 41.5% year-on-year increase. Eliminating the impact of the acquisition of RGIT Montrose, net income increased by USD 1.3 million.

Resources

Revenue for the Resources division was USD 45.0 million (2003: USD 14.4 million). The significant increase in 2004 is attributable to a full year of revenue from the division's RSC investment in Ohanet, compared with two months' revenue in 2003. Net income for the division has increased correspondingly to USD 7.0 million (2003: USD 1.6 million).

Discontinued operations

The group's discontinued operation, Petrofac Inc., in the US reported a net loss of USD 13.2 million (2003: net loss USD 16.2 million). This is a disappointing result arising largely from unanticipated cost overruns in the year on the finalisation of a lump-sum EPC project for Petrobras. However, all projects within the business have now been substantially completed and, whilst a small number of commercial issues remain open, management consider that adequate provision has been made in the accounts for these matters.

Interest and taxation

Net interest payable by the group in 2004 was USD 5.5 million (2003: USD 0.5 million). The increase in interest cost includes the impact of:

- a full year of interest on project finance for the group's Ohanet investment which was being capitalised in the period before project completion (2003: 2 months)
- interest cost on assumed loans and borrowings following the acquisition of RGIT Montrose (in February) and the share buy-back (in October)
- an increase in LIBOR interest rates in the UK and US

The group had interest cover of 10.0 times (2003: 54.4 times) based on profit from operations.

An analysis of the income tax charge is set out in note 7 to the group's financial statements. The income tax charge on continuing operations as a percentage of profit before tax in 2004 was 26.6% (2003: 6.8%). The effective rate of tax has increased in the current year as a result of the group generating a greater proportion of its profits in higher income tax jurisdictions and is largely attributable to:

- a full year of income from the group's investment in Ohanet, Algeria which is taxed at 38%
- additional withholding taxes, on several projects executed in the year
- an increase in the proportion of income from UK operations, where the income tax rate is 30%

Earnings per share

Diluted earnings per share on continuing operations have increased in the current year to USD 4.77 per share from USD 3.58 per share in 2003. This increase is attributable to the improved profitability of the group in 2004 and the reduction in issued shares, following the buy-back and cancellation of 23.9% of the Company's share capital in October 2004.

10.1%

EBITDA margin 2004*

10.0x

interest cover 2004

1

2

1 RGIT Montrose, Aberdeen UK
2 Ohanet Gas Plant, Algeria

*From Continuing Operations

P-50 process modules

During 2004, Petrofac Inc completed work on the process modules for Petrobras' P-50 floating production storage offloading (FPSO) unit.

The engineering, procurement and construction contract, awarded to Petrofac in 2002, tasked the company with providing two oil separation/treatment modules and two gas treatment modules for the FPSO unit, which will produce oil & gas from the Albacora Leste Field in Brazil's Campos Basin. The modules are at the heart of the FPSO and will process up to 200,000 BPD of crude oil and 100,000 BPD of produced water.

The sheer mass of the modules, which amount to around 4,000 tonnes, meant that the fabrication and assembly site had to have direct barge access to the Gulf of Mexico. Under the management of Petrofac, fabrication, which commenced in mid-2002, was carried out at the yard in New Iberia in Louisiana.

Through the course of the project the Petrofac project team met and dealt with several challenges, including managing major design changes and directing an interface with over 28 subcontractors.

Project management, engineering and procurement for the modules were executed from Petrofac's Tyler offices (now closed), with equipment and materials sourced primarily in the USA. Completion of the project required team effort from around the globe with support drawn from Petrofac's Sharjah, Woking and Aberdeen offices. Despite the increase in scope and difficulties with execution and delay, through sheer perseverance, the team ensured that the project was delivered to the customer without compromise to the overall development schedule.

The P-50 process modules sailed from the fabricator's facility on July 20, 2004, embarking on a 35-day journey to Rio de Janeiro.

financial review

Operating cash flow and liquidity

The net cash flow from all operating activities in 2004 was USD 75.6 million (2003: cash used USD 14.5 million). On continuing operations, net cash flow from operating activities was USD 82.9 million compared with USD 23.6 million in 2003, representing 86.3% of EBITDA (2003: 49.1%) despite the growth in revenues. The increase in operating cash flow, compared with 2003, is attributable to the increase in operating profits together with a significantly lower level of investment in working capital.

In October 2004, the group arranged a USD 145 million facility, jointly provided by The Royal Bank of Scotland and Bank of Scotland, to refinance certain of its existing term loans and working capital facilities on more favourable commercial terms and to provide additional funds to finance the expansion of the business. This facility was also used to finance the share buy-back, which was executed in October 2004.

As a result of the strong operating cash flow in 2004, net debt (excluding restricted cash balances) reduced slightly during the year to end at USD 17.9 million (2003: net debt USD 20.1 million), notwithstanding the share buy-back.

Gross borrowings at the end of 2004 were USD 166.8 million (2003: USD 122.5 million), of which 65.9% was denominated in USD and 34.1% was denominated in GBP. During 2004, the group adopted a policy to hedge between 60% and 80% of variable-interest rate loans and borrowings. At 31 December 2004, 67.6% of term interest-bearing loans and borrowings were hedged. An analysis of the derivative instruments used by the group to hedge this exposure is contained in note 29 to the financial statements.

Capital expenditure

Capital expenditure on property, plant and equipment during 2004 was USD 17.1 million (2003: USD 34.2 million). The main elements of the expenditure in 2004 related to property, plant and equipment in support of the BTC project and the completion of capital works on the group's investment in Ohanet.

In addition to property, plant and equipment, the group invested USD 4.5 million (2003: USD nil) securing a 30% interest in a PSC in Malaysia. At the year end the oil & gas reserves associated with this interest were not proved and therefore the investment has been classified as an intangible oil & gas asset.

Share buy-back

In October 2004, the company acquired 2.247 million shares from two retiring senior executives for a total consideration of USD 30.8 million financed by a new bank facility. The shares were subsequently cancelled.

1 P-50 Process modules
2 BTC/SCP Pipeline, Azerbaijan and Georgia
3 Ohanet Gas Plant, Algeria

1


2


3


Petrofac, as a private company, is not required to comply with the Financial Reporting Council's Combined Code on corporate governance. However, the Board recognises the importance of, and is committed to, the principle of good corporate governance.

Board of Directors

The Board currently comprises an Executive Vice-Chairman, five Executive Directors and three Non-Executive Directors. Ordinarily, meetings of the Board take place four times a year with additional meetings as and when required. The Board is responsible for setting overall group strategy, policy, monitoring group performance and authorising significant transactions. To enable the Board to discharge its duties, all Directors have full and timely access to information both by way of briefing packs distributed in advance of Board meetings and on an ongoing basis as required. The group has a schedule of delegated authorities, which is reviewed and updated regularly, to ensure there is a clear understanding of those matters reserved for Board decision.

In support of maintaining strong corporate governance within the group, the Board has maintained three standing committees throughout the year:

Audit Committee

The Audit Committee currently comprises three Non-Executive Directors and the Executive Vice-Chairman and is chaired by Bernard de Combret. The Committee, which meets at least twice a year, has specific terms of reference and is primarily responsible for providing guidance to the Board on the group's internal control and financial reporting processes. In addition, the Committee ensures that the group's external auditors remain objective and independent. Audit Committee meetings are normally attended by the Chief Financial Officer; all Directors and the group's external auditors have the right to attend meetings.

Remuneration Committee

The Remuneration Committee currently comprises three Non-Executive Directors and the Executive Vice-Chairman and is chaired by Michael Press. The Committee, which meets at least annually, has specific terms of reference and has a primary duty of determining the framework and associated cost of executive remuneration. The Committee, on behalf of the Board, is responsible for specifying the remuneration packages for each of the Executive Directors and senior employees, having regard to the relevant codes of best practice on remuneration policy and on Directors' service contracts and compensation.

Risk Review Committee

The Risk Review Committee comprises three Executive Directors and the Director of Group Legal & Commercial Affairs and is normally chaired by the Group Chief Executive. The Committee has specific terms of reference. The primary duty of the Committee is to make recommendations to the Board on the acceptance, or rejection, of a proposed activity. The group's schedule of delegated authorities sets out the thresholds, both monetary and otherwise, which determine those matters referred to the Committee.

Petrofac, as a private company, is not required to comply with the Financial Reporting Council's Code on corporate governance. However, the Board recognises the importance of, and is committed to, the principle of good corporate governance.

board of directors

Kjell Almskog Non-executive Director 1, 2

Kjell joined Petrofac in 2005. After starting his professional career in brand management with Procter & Gamble, Kjell subsequently spent some 25 years in various senior executive positions. During 13 years in the ABB group, Kjell was country manager in Norway while, in parallel, developing a substantial and highly successful international oil & gas activity, ultimately becoming Executive Vice-President and Head of ABB Oil, Gas and Petrochemicals. In 1998, he moved to Kvaerner with responsibility for executing a major turnaround of that business until its acquisition by Aker in 2001. Presently, Kjell is senior advisor and non-executive director of several international companies, including Orkla, a large listed Norwegian group involved in branded consumer goods, chemicals and financial investments.

Ayman Asfari Group Chief Executive 3

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

Amjad Bseisu Chief Executive, Petrofac Resources

Amjad joined Petrofac in 1998 and founded Petrofac Resources. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO) starting his career as Senior Engineer in the drilling and production division and moving to the position of Vice-President – Arco Petroleum Ventures, with responsibility for operations and commercial activities in the Middle East and North Africa and ultimately in 1996, as General Manager of International Marketing, Negotiations and Business Development and President of ARCO Petroleum Ventures and ARCO Crude Trading, Inc.

Bernard de Combret Non-executive Director 1, 2

Bernard joined Petrofac in 2003. Bernard is an international consultant and former Deputy Chairman of TotalFinaElf (TFE). Following senior positions in both foreign affairs and the Ministry of Finance with the French Civil Service, he spent over 20 years with the Elf Group. During his industry career, Bernard was heavily involved with building the trading organisation of Elf Aquitaine and then subsequently Total. As Chief Executive of Refining/Marketing, he played a leading role in increasing profitability of the downstream sector and, in 2000, became Deputy Chairman of TFE's Executive Committee, President & Chief Executive for gas and power and Chief Executive for trading and shipping. Bernard left TFE in 2002, after successful completion of the merger.

Robin Pinchbeck Chief Executive, Petrofac Operations Services

Robin joined Petrofac in 2002 to establish an independent facilities management business and has over 30 years' experience in the upstream oil & gas industry. Following petroleum engineering and general management roles worldwide with BP, in 1995 he became Managing Director of Atlantic Power and Gas, the UK North Sea's leading operations management services provider which was sold in 1998 to Petroleum Geo-Services and subsequently acquired by Petrofac in 2002. Robin is a non-executive director of Sondex, a UK listed oilfield logging technology company.

Michael Press Non-executive Director 1, 2

Michael joined Petrofac in 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 had various posts at KBC Advanced Technologies including non-executive director, executive Chairman, and Chief Executive. He is currently also non-executive Chairman of Varel International, a manufacturer of drill bits, non-executive Chairman of SPS International, a supplier of downhole tools and services used in wellbore clean-up and filtration, a director of ABARTA Inc, T3Energy Services and a member of the Advisory Board of Pharmadule Emtunga.

Keith Roberts Chief Financial Officer 3

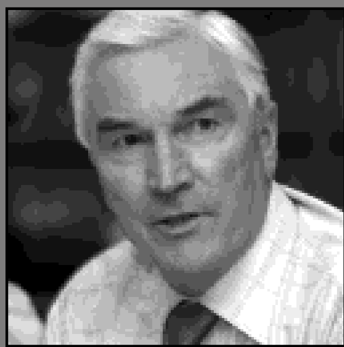
Keith joined Petrofac in 2002 as Chief Financial Officer having spent most of his working life as an investment banker based in the City of London. After positions in commercial banking with Standard Chartered Bank and then with County Bank, the merchant banking subsidiary of National Westminster Bank, Keith moved into corporate finance with Hawkpoint where he was a Managing Director and a member of the Operating Committee. Keith is also a non-executive director of Peacocks Group, a UK listed value-for-money clothing retailer.

Maroun Semaan Chief Executive, Petrofac Engineering & Construction

Maroun joined Petrofac in 1991 to establish Petrofac International. From 1977 to 1991, Maroun held various project management positions with Consolidated Contractors International Co. (CCC), based in the Middle East, where he managed oil & gas pipeline and process facilities construction contracts in Oman and Bahrain.

Michael Stacey Vice-Chairman 1, 2, 3

Mike joined Petrofac in January 2001. A chemical engineer with over 35 years' experience in the oil & gas industry working with oil companies and EPC contractors, he was the founder, Chairman & Chief Executive of Granherne Group, a leading global oil & gas production development consultancy, which he sold to Dresser Industries, Inc. in 1996. Following the sale, Mike served in various Vice-President and Company Officer roles with MW Kellogg Co. and KBR until joining Petrofac. Prior to founding Granherne, he held various engineering and management roles in oil & gas production facilities, gas separation and cryogenics contractors and oil companies, including Petrocarbon Developments, Burmah Oil Co., Air Products and Chemicals Inc. and Statoil.



1 Member of Audit Committee
2 Member of Remuneration Committee
3 Permanent member of Risk Review Committee

financial statements contents

general information

Directors

Ayman Asfari [1]	Group Chief Executive
Michael Stacey [1] [2] [3]	Vice-Chairman
Keith Roberts [1]	Chief Financial Officer
Amjad Bseisu	
Louis Owen	Resigned 9 April 2004
Robin Pinchbeck	Appointed 7 April 2004
Maroun Semaan	
Ralph Martin	Resigned 9 November 2004
Michael Press [2] [3]	Non-Executive
Bernard de Combret [2] [3]	Non-Executive
Kjell Almskog [2] [3]	Non-Executive, appointed 23 March 2005

(1) Permanent Member of Risk Review Committee
(2) Member of Audit Committee
(3) Member of Remuneration Committee

Company Secretary

Ogier Secretaries (Jersey) Limited
Whiteley Chambers
Don Street
St Helier
Jersey, Channel Islands JE4 9WG

Registered Office

Whiteley Chambers
Don Street
St Helier
Jersey, Channel Islands JE4 9WG
Registered Company Number: 81792

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Principal Banks

United Kingdom
Bank of Scotland
The Royal Bank of Scotland plc

United Arab Emirates
ABN AMRO Bank N.V.
Mashreqbank psc
Standard Chartered Bank plc

independent auditors' report to the shareholders of Petrofac Limited

We have audited the accompanying consolidated financial statements of Petrofac Limited ("the company") and its subsidiaries (together "the group") for the year ended 31 December 2004 which comprise consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and the related notes 1 to 32. These financial statements have been prepared on the basis of the accounting policies herein. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

This report is made solely to the company's members, as a body in accordance with Article 110 of the Companies (Jersey) Law 1991. Our report has been undertaken so that we might state to the company's members those matters we are required under International Standards on Auditing to state to them in an auditors' report and for no other purpose. To the fullest extent required by the 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the group as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies (Jersey) Law 1991.

Ernst & Young LLP
London
23 March 2005

consolidated income statement

For the year ended 31 December 2004

		2004			2003		
		Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	Notes	**USD '000**	**USD '000**	**USD '000**	USD '000	USD '000	USD '000
Revenue		**950,404**	**13,750**	**964,154**	621,589	89,511	711,100
Cost of sales		**(827,955)**	**(26,039)**	**(853,994)**	(547,085)	(106,497)	(653,582)
Gross profit / (loss)		**122,449**	**(12,289)**	**110,160**	74,504	(16,986)	57,518
Selling, general and administration expenses	5c	**(58,825)**	**(1,043)**	**(59,868)**	(38,705)	(6,087)	(44,792)
Other operating income	5a	**6,246**	**135**	**6,381**	2,025	92	2,117
Other operating expenses	5b	**(1,587)**	**–**	**(1,587)**	(77)	(330)	(407)
Net gain on disposal of discontinued operation	4	**–**	**–**	**–**	–	12,507	12,507
Profit / (loss) from operations		**68,283**	**(13,197)**	**55,086**	37,747	(10,804)	26,943
Finance costs	6	**(7,544)**	**(5)**	**(7,549)**	(1,046)	(544)	(1,590)
Finance income	6	**1,997**	**40**	**2,037**	1,073	22	1,095
Profit / (loss) before income tax		**62,736**	**(13,162)**	**49,574**	37,774	(11,326)	26,448
Income tax expense	7	**(16,699)**	**–**	**(16,699)**	(2,579)	(4,915)	(7,494)
Profit / (loss) for the year		**46,037**	**(13,162)**	**32,875**	35,195	(16,241)	18,954
Attributable to:							
Petrofac Limited shareholders		**46,083**	**(13,162)**	**32,921**	38,359	(16,241)	22,118
Minority interests		**(46)**	**–**	**(46)**	(3,164)	–	(3,164)
		46,037	**(13,162)**	**32,875**	35,195	(16,241)	18,954
Earnings per share (USD)	8						
Basic		**5.28**	**(1.51)**	**3.77**	4.00	(1.70)	2.30
Diluted		**4.77**	**(1.29)**	**3.48**	3.58	(1.47)	2.11

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

consolidated balance sheet

At 31 December 2004

	Notes	2004 USD '000	2003 USD '000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**127,091**	123,166
Goodwill	12	**49,653**	26,376
Other intangible assets	13	**6,721**	–
Available-for-sale financial assets	15	**4,104**	2,135
Other non-current assets	16	**11,205**	18,079
Deferred income tax assets	7	**782**	975
		199,556	170,731
Current assets			
Inventories		**1,702**	1,589
Work in progress	17	**109,037**	102,841
Trade and other receivables	18	**200,042**	96,485
Due from related parties	28	**20,889**	21,635
Other current assets	19	**54,597**	33,193
Cash and short-term deposits	20	**143,534**	97,502
		529,801	353,245
TOTAL ASSETS		**729,357**	523,976
EQUITY AND LIABILITIES			
Equity attributable to Petrofac Limited shareholders			
Share capital	21	**7,166**	9,066
Share premium		**28,553**	52,592
Net unrealised gains on available-for-sale financial assets		**2,395**	1,127
Net unrealised gains / (losses) on derivatives		**22,964**	(1,020)
Foreign currency translation		**1,688**	(1,910)
Retained earnings		**75,792**	44,186
		138,558	104,041
Minority interest		**–**	2,241
Total equity		**138,558**	106,282
Non-current liabilities			
Interest-bearing loans and borrowings	22	**110,787**	85,627
Other non-current liabilities	23	**12,789**	4,525
Deferred income tax liabilities	7	**1,535**	120
		125,111	90,272
Current liabilities			
Trade and other payables	24	**114,873**	110,516
Due to related parties	28	**1,453**	108
Current portion of interest-bearing loans and borrowings	22	**50,691**	31,966
Income tax payable		**3,172**	613
Billings in excess of cost and estimated earnings	17	**72,155**	11,382
Accrued contract expenses and provisions	25	**179,008**	150,519
Accrued expenses and other liabilities	26	**44,336**	22,318
		465,688	327,422
TOTAL EQUITY AND LIABILITIES		**729,357**	523,976

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

consolidated cash flow statement

For the year ended 31 December 2004

	Notes	**2004 USD ’000**	2003 USD ’000
OPERATING ACTIVITIES			
Net profit before income taxes and minority interests		**49,574**	26,448
Adjustments for:			
Depreciation, amortisation and impairment		**27,888**	11,059
Finance costs, net		**5,512**	495
Minority interests		**46**	3,164
Other non-cash items, net		**(412)**	(158)
Gain on disposal of discontinued operation		**–**	(12,507)
Gain on disposal of investments		**(2,932)**	–
Operating profit before working capital changes:		**79,676**	28,501
Trade and other receivables		**(99,582)**	(8,247)
Work in progress		**(6,196)**	(55,725)
Due from related parties		**746**	(19,596)
Inventories		**(113)**	1,082
Other current assets		**171**	4,002
Trade and other payables		**(4,581)**	(5,610)
Billings in excess of cost and estimated earnings		**60,773**	(21,476)
Accrued contract expenses and provisions		**28,489**	52,971
Due to related parties		**1,345**	108
Accrued expenses and other liabilities		**17,965**	(2,791)
		78,693	26,781
Other non-current items, net		**15,905**	(16,541)
Cash generated from / (used in) operations		**94,598**	(10,240)
Interest paid		**(5,695)**	(1,705)
Income taxes paid, net		**(13,278)**	(2,590)
Net cash flows from / (used in) operating activities		**75,625**	(14,535)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(17,142)**	(34,321)
Acquisition of business assets	11	**(695)**	(373)
Acquisition of subsidiary, net of cash acquired	11	**(9,119)**	–
Acquisition of interest in joint venture	11	**(1,000)**	–
Purchase of intangible oil & gas assets		**(4,480)**	–
Net cash from disposal of discontinued operation		**–**	20,692
Proceeds from disposal of property, plant and equipment		**804**	1,617
Proceeds from disposal of available-for-sale financial assets		**2,344**	–
Movement in translation reserve		**3,598**	(2,125)
Interest received		**1,665**	576
Net cash flows used in investing activities		**(24,025)**	(13,934)
FINANCING ACTIVITIES			
Proceeds from issue of share capital		**1,511**	–
Proceeds from interest-bearing loans and borrowings		**45,722**	31,412
Repayment of interest-bearing loans and borrowings		**(35,684)**	(2,294)
Purchase of derivative financial instruments		**(62)**	–
Redemption of preference shares		**–**	(7,336)
Shareholders loan note transactions, net		**(1,581)**	208
Transactions with employee share plan, net		**3,016**	890
Repurchase of shares	21	**(30,760)**	(8,250)
Equity dividends paid		**(1,315)**	–
Net cash flows (used in) / from financing activities		**(19,153)**	14,630
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**32,447**	(13,839)
Cash and cash equivalents at 1 January		**95,376**	109,215
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**127,823**	95,376

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 2004

	Issued share capital USD '000	Share premium USD '000	Net unrealised gains on available-for-sale financial assets USD '000	Net unrealised gains / (losses) on derivatives USD '000	Foreign currency translation USD '000	Retained earnings USD '000	Total USD '000	Minority interest USD '000	Total equity USD '000
	Attributable to Shareholders of Petrofac Limited								
Balance at 1 January 2003	10,000	59,018	–	(800)	215	22,068	90,501	4,321	94,822
Employee stock plan transactions, net	54	836	–	–	–	–	890	–	890
Shares repurchased during the year	(988)	(7,262)	–	–	–	–	(8,250)	–	(8,250)
Net profit for the year	–	–	–	–	–	22,118	22,118	(3,164)	18,954
Foreign currency translation	–	–	–	–	(2,125)	–	(2,125)	–	(2,125)
Changes in fair value of derivatives	–	–	–	(220)	–	–	(220)	–	(220)
Changes in the fair value of available-for-sale financial assets	–	–	1,127	–	–	–	1,127	–	1,127
Other movement in minority interests	–	–	–	–	–	–	–	1,084	1,084
Balance at 31 December 2003	9,066	52,592	1,127	(1,020)	(1,910)	44,186	104,041	2,241	106,282
Shares issued during the year	115	1,396	–	–	–	–	1,511	–	1,511
Employee stock plan transactions, net	232	2,784	–	–	–	–	3,016	–	3,016
Shares repurchased during the year	(2,247)	(28,513)	–	–	–	–	(30,760)	–	(30,760)
Net profit for the year	–	–	–	–	–	32,921	32,921	(46)	32,875
Foreign currency translation	–	–	–	–	3,598	–	3,598	–	3,598
Changes in fair value of derivatives	–	–	–	23,984	–	–	23,984	–	23,984
Changes in the fair value of available-for-sale financial assets	–	–	1,268	–	–	–	1,268	–	1,268
Increase in value of stock warrants	–	294	–	–	–	–	294	–	294
Elimination of minority interest	–	–	–	–	–	–	–	(2,195)	(2,195)
Equity dividends	–	–	–	–	–	(1,315)	(1,315)	–	(1,315)
Balance at 31 December 2004	**7,166**	**28,553**	**2,395**	**22,964**	**1,688**	**75,792**	**138,558**	–	**138,558**

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

1. Corporate Information

The consolidated financial statements of Petrofac Limited (the company) for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the directors on 23 March 2005.

Petrofac Limited is a limited liability company registered in Jersey and is the holding company for the international group of Petrofac companies. The group's principal activity is the provision of total facilities solutions to the oil & gas industry.

A full listing of all group companies, including joint venture companies, is contained in note 31 to these consolidated financial statements.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in thousands of United States dollars (USD).

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. All inter-company balances and transactions are eliminated on consolidation. Profit attributable to minority interests is disclosed separately on the face of the Consolidated Income Statement.

Included in these consolidated financial statements are the consolidated financial results of Petrofac Resources (Ohanet) Holdings LLC (PROL). The company is consolidating its investment in PROL because, as a result of various agreements, the group exerts significant operating and financial control over PROL and also has a fixed price option to purchase the entire share capital of PROL.

The group's interest in joint ventures is accounted for by proportionate consolidation, which involves recognising a 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.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Goodwill

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets of the entity at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life. Useful lives vary between 10 years and 20 years depending on the nature of the acquisition. Expected useful lives are reviewed at each balance sheet date and where these differ significantly from previous estimates, amortisation periods are changed accordingly. The group assesses the carrying value of goodwill annually for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised immediately in the income statement. Goodwill is carried at cost less accumulated amortisation and any impairment in value.

Transactions in foreign currencies

In the accounts of individual group companies, transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. All foreign exchange gains and losses are taken to the income statement.

Foreign group companies

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

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

2. Summary of significant accounting policies (continued)

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 & construction services

Revenues from fixed-price and modified fixed-price contracts are recognised on the percentage-of-completion method, based on surveys of work performed. This method is used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

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

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

Facilities management, engineering and training services

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates. Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value.

Incentive payments are included in revenue when the contract is sufficiently advanced and the amount of the incentive payments can be measured reliably.

Oil & gas activities

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The group capitalises directly attributable interest on property, plant and equipment in the course of construction.

Property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Oil & gas facilities	10%-12.5%
Plant and equipment	4%-33%
Buildings and leasehold improvements	5%-33%
Office furniture and equipment	25%-100%
Motor vehicles	20%-33%

No depreciation is charged on land or capital work in progress.

The carrying values of property, plant and equipment are reviewed annually for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

Oil & gas assets

Capitalised costs

The group follows the full cost method of accounting for oil & gas assets, under which expenditure relating to the acquisition, appraisal and development of oil & gas interests, including an appropriate share of directly attributable overheads and relevant financing costs, is capitalised in cost pools on the basis of income-generating units. The cost of borrowing in respect of a field development is capitalised until commencement of production from that field.

Expenditure on significant new appraisal and development areas and licences is carried outside the full cost pools, as intangible oil & gas assets, pending determination of commercial reserves. Intangible oil & gas assets are carried forward until either declared part of a commercial development or such time as the licence area is abandoned, at which point the relevant total cost is transferred to the relevant tangible cost pool. Where there are no development and producing assets within the cost pool, the transferred costs are charged immediately to the income statement.

Amortisation of expenditure held in each tangible cost pool is provided 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.

Disposal proceeds in respect of oil & gas assets are taken to the relevant cost pool and no gain or loss on disposal is recognised.

2. Summary of significant accounting policies (continued)

Oil & gas assets (continued)

Decommissioning

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

Available-for-sale financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash at hand and bank and short-term deposits with an original maturity of three months or less.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

Inventories, which comprise raw materials and consumables, are valued at the lower of cost and net realisable value. The realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

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

Trade and other receivables

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

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

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with 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.

Leases

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

2. Summary of significant accounting policies (continued)

Pensions and employees' end-of-service benefits

The group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the Consolidated Balance Sheet.

Employees' end-of-service benefits are provided in accordance with the labour laws of the countries in which the group operates. The year-end provision is calculated based on the length of service of each employee.

Income taxes

Current taxes are based on the results of the group companies and are calculated according to local tax rules. Deferred tax assets and liabilities are determined, using the liability method, for all temporary differences between the tax basis of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets and liabilities are measured 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.

Employee share ownership plan

The group reports the impact of the purchase and sale of shares warehoused with Petrofac ESOP Trustees Limited under the cost method.

Derivative financial instruments

The group uses derivative financial instruments to hedge the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised in the balance sheet at cost and subsequently re-measured at their fair value in compliance with International Accounting Standard (IAS) 39.

For the purpose of hedge accounting, hedges are classified as either fair-value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge the exposure to the variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the income statement. In relation to cash flow hedges which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the income statement.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until approved by the shareholders at the Annual General Meeting.

Earnings per share

The group calculates both basic and diluted earnings per share in accordance with IAS 33. Under IAS 33, basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated using the weighted average number of shares outstanding during the year plus the dilutive effect of share options and warrants outstanding during the year.

3. Segment information

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

Business segment information

The following tables present revenue and profit information and certain assets and liabilities information relating to the group's business segments for the years ended 31 December 2004 and 2003.

	Engineering & Construction		Operations Services	
	2004 USD '000	2003 USD '000	**2004 USD '000**	2003 USD '000
Revenues				
External sales	**467,116**	340,891	**439,372**	273,372
Inter-segment sales	**6,350**	1,980	**755**	1,509
Total revenue	**473,466**	342,871	**440,127**	274,881
Results				
Segment operating results	**33,524**	30,529	**17,347**	10,173
Unallocated corporate income / (costs)	**–**	–	**–**	–
Net gain on disposal of discontinued operation	**–**	–	**–**	–
Profit / (loss) from operating activities	**33,524**	30,529	**17,347**	10,173
Interest income	**1,969**	1,268	**104**	106
Interest expense	**(133)**	(104)	**(1,127)**	(164)
Profit before income tax	**35,360**	31,693	**16,324**	10,115
Income tax (expense) / income	**(2,260)**	490	**(6,681)**	(3,299)
Minority interests	**–**	–	–	–
Net Profit / (loss)	**33,100**	32,183	**9,643**	6,816

Resources		Discontinued Operations		Consolidation & Elimination		Consolidated	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
USD '000	USD '000	**USD '000**	USD '000	**USD '000**	USD '000	**USD '000**	USD '000
45,042	14,439	**12,624**	82,398	**–**	–	**964,154**	711,100
–	–	**1,126**	7,113	**(8,231)**	(10,602)	**–**	–
45,042	14,439	**13,750**	89,511	**(8,231)**	(10,602)	**964,154**	711,100
17,164	(1,805)	**(13,197)**	(23,311)	**(550)**	(599)	**54,288**	14,987
–	–	**–**	–	**798**	(551)	**798**	(551)
–	–	**–**	12,507	**–**	–	**–**	12,507
17,164	(1,805)	**(13,197)**	(10,804)	**248**	(1,150)	**55,086**	26,943
17	27	**40**	22	**(93)**	(328)	**2,037**	1,095
(1,968)	(8)	**(5)**	(544)	**(4,316)**	(770)	**(7,549)**	(1,590)
15,213	(1,786)	**(13,162)**	(11,326)	**(4,161)**	(2,248)	**49,574**	26,448
(8,306)	201	**–**	(4,915)	**548**	29	**(16,699)**	(7,494)
46	3,164	**–**	–	**–**	–	**46**	3,164
6,953	1,579	**(13,162)**	(16,241)	**(3,613)**	(2,219)	**32,921**	22,118

3. Segment information (continued)

Business segment information

	Engineering & Construction		Operations Services	
	2004	2003	**2004**	2003
	USD '000	USD '000	**USD '000**	USD '000
Assets and liabilities				
Segment assets	**489,663**	340,097	**164,717**	87,336
Inter-segment assets	**(63,166)**	(68,326)	**(604)**	(364)
Investments	**–**	–	**–**	–
	426,497	271,771	**164,113**	86,972
Unallocated assets	**–**	–	**–**	–
Income tax assets	**–**	–	**780**	975
Total assets	**426,497**	271,771	**164,893**	87,947
Segment liabilities	**347,316**	240,668	**99,804**	51,957
Inter-segment liabilities	**(3,133)**	(8,377)	**(16,751)**	(3,865)
	344,183	232,291	**83,053**	48,092
Unallocated liabilities	**–**	–	**–**	–
Income tax liabilities	**712**	–	**3,838**	580
Total liabilities	**344,895**	232,291	**86,891**	48,672
Other segment information				
Capital expenditures:				
Property, plant and equipment	**11,673**	16,893	**2,931**	370
Intangible oil & gas assets	**–**	–	**–**	–
Goodwill	**–**	–	**19,118**	373
Charges:				
Depreciation	**8,356**	3,725	**1,357**	173
Goodwill amortisation	**–**	–	**2,168**	1,268
Other amortisation	**–**	–	**263**	–
Impairment losses, net of negative goodwill	**–**	–	**–**	–

Geographical segment information

The following table presents revenue, assets and capital expenditure by geographical segments for the years ended 31 December 2004 and 2003.

	Middle East & Africa		Former Soviet Union / Asia	
	2004	2003	**2004**	2003
	USD '000	USD '000	**USD '000**	USD '000
Segment revenue	**281,678**	186,734	**272,384**	204,245
Carrying amount of segment assets	**382,100**	246,247	**127,561**	125,138
Capital expenditure	**5,674**	17,652	**8,851**	16,259
Goodwill additions	**–**	–	**–**	–
Intangible asset additions	**–**	–	**6,721**	–

Resources		Discontinued Operations		Consolidation & Elimination		Consolidated	
2004 USD '000	2003 USD '000	**2004 USD '000**	2003 USD '000	**2004 USD '000**	2003 USD '000	**2004 USD '000**	2003 USD '000
119,173	126,828	**7,385**	32,358	**(64,235)**	(71,628)	**716,703**	514,991
(61)	(771)	**(404)**	(2,167)	**64,235**	71,628	**–**	–
4,104	2,135	**–**	–	**–**	–	**4,104**	2,135
123,216	128,192	**6,981**	30,191	**–**	–	**720,807**	517,126
–	–	**–**	–	**7,768**	5,875	**7,768**	5,875
–	–	**–**	–	**2**	–	**782**	975
123,216	128,192	**6,981**	30,191	**7,770**	5,875	**729,357**	523,976
100,175	111,613	**29,044**	40,855	**(108,273)**	(86,765)	**468,066**	358,328
(61,960)	(54,341)	**(26,429)**	(20,182)	**108,273**	86,765	**–**	–
38,215	57,272	**2,615**	20,673	**–**	–	**468,066**	358,328
–	–	**–**	–	**118,026**	58,633	**118,026**	58,633
–	–	**–**	–	**157**	153	**4,707**	733
38,215	57,272	**2,615**	20,673	**118,183**	58,786	**590,799**	417,694
3,744	17,741	**–**	5	**(1,206)**	(688)	**17,142**	34,321
6,721	–	**–**	–	**–**	–	**6,721**	–
–	–	**–**	–	**–**	–	**19,118**	373
14,809	2,449	**106**	310	**(696)**	(89)	**23,932**	6,568
316	316	**–**	3,901	**–**	–	**2,484**	5,485
–	–	**–**	–	**1,209**	874	**1,472**	874
–	1,612	**–**	420	**–**	–	**–**	2,032

Europe		Americas		Elimination		Consolidated	
2004 USD '000	2003 USD '000	**2004 USD '000**	2003 USD '000	**2004 USD '000**	2003 USD '000	**2004 USD '000**	2003 USD '000
392,085	240,607	**18,007**	79,514	**–**	–	**964,154**	711,100
207,576	118,386	**12,120**	34,205	**–**	–	**729,357**	523,976
2,537	568	**80**	7	**–**	(165)	**17,142**	34,321
19,118	373	**–**	–	**–**	–	**19,118**	373
–	–	**–**	–	**–**	–	**6,721**	–

4. Discontinued operations

On 29 April 2003, the group sold certain assets of Petrofac Inc., a wholly owned subsidiary, for cash consideration of USD 25,600 which resulted in a gain on disposal of USD 12,507. This gain is net of the write-off of goodwill of USD 3,901.

The assets sold comprised substantially all of the operating assets of Petrofac Inc. although the group retained contractual responsibility for the work in hand at the date of the sale.

In 2004, the business reported a net loss arising from unanticipated cost overruns on the finalisation of lump sum EPC projects. At 31 December 2004, all projects within the business were substantially complete. The results of this discontinued operation are separately reported on the face of the Consolidated Income Statement.

The net liabilities and summary cash flow statement of the discontinued operation are as follows:

	2004 **USD '000**	2003 USD '000
Property, plant and equipment	**3,706**	3,812
Other non-current assets	**–**	1,800
Work in progress	**1,132**	18,373
Trade and other receivables	**1,865**	4,679
Other current assets	**1,800**	2,266
Cash and short-term deposits	**217**	1,428
Total assets	**8,720**	32,358
Trade and other payables	**28,109**	30,423
Billings in excess of cost and estimated earnings	**–**	529
Accrued contract expenses and provisions	**165**	8,143
Accrued expenses and other liabilities	**105**	759
Total liabilities	**28,379**	39,854
Net (liabilities) of discontinued operation	**(19,659)**	(7,496)

Trade and other payables include USD 26,290 (2003: USD 19,000) payable to the company. The increase in this payable is disclosed as part of cash flow from financing activities below.

Cash flow:		
Operating	**(7,298)**	(38,157)
Investing	**39**	21,929
Financing	**6,048**	17,635
Net cash (outflow) / inflow	**(1,211)**	1,407

5. Revenues and expenses

a. Other operating income

	2004 USD '000	2003 USD '000
Gain on sale of investments	**2,932**	–
Foreign exchange gains	**2,088**	811
Other income	**1,341**	1,265
Gain on sale of property, plant and equipment	**20**	41
	6,381	2,117

b. Other operating expenses

	2004 USD '000	2003 USD '000
Foreign exchange losses	**1,460**	–
Other expenses	**127**	–
Loss on sale of property, plant and equipment	**–**	407
	1,587	407

c. Selling, general and administration expenses

	2004 USD '000	2003 USD '000
Included in selling, general and administration expenses:		
Staff costs	**28,183**	24,403
Depreciation	**1,790**	1,080
Amortisation and impairment	**3,956**	4,490
Other operating expenses	**25,939**	14,819
	59,868	44,792
Total staff costs:		
Wages and salaries	**283,436**	175,649
Social security costs	**22,137**	15,569
Pension and other post-employment benefit costs	**8,672**	5,311
Other	**1,319**	322
	315,564	196,851

The average number of persons employed by the group during the year was 5,302 (2003: 3,498).

6. Finance costs / (income)

	2004 **USD '000**	2003 USD '000
Interest payable:		
Long-term borrowings	**6,608**	1,126
Other interest, including short-term loans and overdrafts	**941**	311
Redeemable preference shares	**–**	153
Total finance cost	**7,549**	1,590
Bank interest receivable	**(1,684)**	(914)
Other interest receivable	**(353)**	(181)
Total finance income	**(2,037)**	(1,095)

Other interest receivable includes shareholder loan interest receivable on loans advanced to employees for the purchase of ordinary shares in the company. The offer for purchase of shares is extended through the Petrofac Limited Executive Share Scheme (ESS), which is administered by Petrofac ESOP Trustees Limited (Petrofac ESOP). The rules of the ESS require a down-payment on acquisition of shares with the balance structured as an interest-bearing shareholder loan note, payable over three years. Shareholder notes bear interest at rates between 3.4% and 6.2% (2003: between 3.4% and 6.2%) dependent on the year of issue.

7. Income tax

Major components of income tax expense for the years ended 31 December are:

	2004 **USD '000**	2003 USD '000
Consolidated income statement		
Current income tax		
Current income tax charge	**15,576**	2,003
Adjustments in respect of current income tax of previous years	**69**	160
Deferred income tax		
Relating to origination and reversal of temporary differences	**1,095**	373
Adjustment in respect of deferred income tax of previous year	**(41)**	43
Relating to write down of previously recognised deferred tax assets	**–**	4,915
Income tax expense reported in Consolidated Income Statement	**16,699**	7,494

7. Income tax (continued)

A reconciliation of the income tax expense applicable to profit from operating activities before income tax at domestic income tax rates to the income tax expense at the group's effective income tax rate is as follows:

	2004 USD '000	2003 USD '000
Profit from operating activities before income tax	**49,574**	26,448
Tax at domestic rates	**2,981**	(617)
Adjustments in respect of previous years	**(91)**	160
Tax recognised on unremitted overseas dividends	**618**	–
Higher income tax rates of other countries, including withholding taxes	**8,718**	658
Expenditure not allowable for income tax purposes	**174**	113
Unrecognised tax losses	**4,135**	2,185
Write down of previously recognised deferred tax assets	**–**	4,915
Other	**164**	80
	16,699	7,494

A significant portion of the group's activities are undertaken in countries where income tax is not levied. The tax credit at domestic rates for the year ended 31 December 2003 disclosed in the reconciliation above reflects the net loss position of the group's activities within taxable countries and is a result of the significant losses incurred by the group's discontinued operation in the US.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2004 USD '000	2003 USD '000	**2004 USD '000**	2003 USD '000
Deferred income tax liabilities				
Unremitted overseas dividends	**817**	–	**775**	–
Other timing differences	**718**	120	**–**	(78)
Gross deferred income tax liabilities	**1,535**	120		
Deferred income tax assets				
Losses available for offset against future taxable income	**241**	281	**61**	5,206
Decelerated depreciation for tax purposes	**423**	495	**108**	75
Other timing differences	**118**	199	**110**	128
Gross deferred income tax assets	**782**	975		
Deferred income tax charge			**1,054**	5,331

The group has tax losses arising in the US of USD 32,978 (2003: USD 20,816) and the UK of USD 36,480 (2003: USD 678) that are available for offset against future taxable profits of the companies in which the losses arose, or in certain circumstances against taxable profits of other group companies. As at 31 December 2004, deferred tax assets have not been recognised in respect of these losses due to the uncertainty of utilisation of these tax losses in future years (2003: USD nil). The increase in tax losses available in the UK is attributable to the acquisition of Petrofac (Malaysia-PM304) Limited (note 11).

8. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after adding interest relating to convertible share warrants) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive warrants and options on ordinary shares).

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

	2004 USD '000	2003 USD '000
Net profit attributable to ordinary shareholders for basic earnings per share	**32,921**	22,118
Income statement charge on variable-rate unsecured loan notes (note 22 (vi))	**2,611**	1,118
Net profit attributable to ordinary shareholders for diluted earnings per share	**35,532**	23,236

	2004 '000	2003 '000
Weighted average number of ordinary shares for basic earnings per share	**8,732**	9,597
Convertible share warrants	**1,400**	1,366
Ordinary share option	**75**	75
Adjusted weighted average number of ordinary shares for diluted earnings per share	**10,207**	11,038

There have been no transactions involving the number of ordinary shares or potential number of ordinary shares in issue since the reporting date and before the completion of these financial statements.

9. Dividends paid and proposed

Declared and paid during the year:	**2004 USD '000**	2003 USD '000
Equity dividends on ordinary shares	**1,315**	–

A dividend of USD 0.919 (2003: USD 0.145) per ordinary share will be proposed for approval at the company's forthcoming Annual General Meeting.

10. Property, plant and equipment

	Oil & gas facilities USD '000	Land, buildings and leasehold property USD '000	Plant and equipment USD '000	Vehicles USD '000	Office furniture and equipment USD '000	Total USD '000
Cost						
At 1 January 2004	121,076	11,504	17,095	6,425	11,112	167,212
Adjustment to opening balances	–	–	(650)	–	650	–
Additions	2,285	3,316	2,761	3,819	4,961	17,142
Acquisition of subsidiaries	–	9,210	2,431	106	–	11,747
Disposals	–	–	(110)	(709)	(2,624)	(3,443)
Exchange difference	12	358	134	42	347	893
At 31 December 2004	**123,373**	**24,388**	**21,661**	**9,683**	**14,446**	**193,551**
Depreciation						
At 1 January 2004	20,136	1,884	11,964	2,097	7,965	44,046
Adjustment to opening balances	–	–	(467)	–	467	–
Charge for the year	13,734	3,017	2,456	2,515	2,210	23,932
Acquisition of subsidiaries	–	168	560	32	–	760
Relating to disposals	–	–	(2)	(464)	(2,259)	(2,725)
Exchange difference	1	89	69	8	280	447
At 31 December 2004	**33,871**	**5,158**	**14,580**	**4,188**	**8,663**	**66,460**
Net carrying amount:						
At 31 December 2004	**89,502**	**19,230**	**7,081**	**5,495**	**5,783**	**127,091**
At 31 December 2003	100,940	9,620	5,131	4,328	3,147	123,166

Oil & gas facilities include capitalised interest, net of depreciation, of USD 3,421 (2003: USD 3,944) and the cost of the group's option to acquire the Ohanet investment from its current owners. Subject to satisfying certain conditions, the group can exercise this option for USD 2,400 and retain full ownership of the 10% interest in the Ohanet gas project.

Of the total charge for depreciation in the Consolidated Income Statement, USD 22,142 (2003: USD 5,488) is included in cost of sales and USD 1,790 (2003: USD 1,080) in selling, general and administration expenses.

11. Acquisitions

Kyrgyz Petroleum Company

On 29 January 2004, Petrofac Resources International (PRIL), acquired a 50% interest in Kyrgyz Petroleum Company (KPC) from its subsidiary Kyrgoil Holding Corporation (KHC). PRIL indirectly held a 32.1% interest in KPC during 2003 and in 2004 to the date of acquisition, through its 64.2% investment in KHC. The agreed consideration for the acquisition was the cancellation of 50 million shares held in KHC and a cash payment of USD 1,000. The fair value of the shares at the date of cancellation was USD 3,562.

Petrofac Training

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

	USD '000
Property, plant and equipment	10,987
Goodwill	4,707
Other non-current assets	386
Trade and other receivables	7,259
Other current assets	2,508
Cash and short-term deposits	609
Total assets	26,456
Less:	
Non-current interest-bearing loan notes	(8,678)
Deferred tax liability	(580)
Trade and other payables	(8,938)
Current interest-bearing loan notes	(1,159)
Other current liabilities	(3,409)
Total liabilities	(22,764)
Net assets acquired	3,692

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

11. Acquisitions (continued)

Petrofac (Malaysia-PM304) Limited

On 16 June 2004, the group acquired 100% of the issued and outstanding shares of Amerada Hess (Malaysia-PM304) Limited. Subsequent to the acquisition, the company name was changed to Petrofac (Malaysia-PM304) Limited (PM-304). At the date of acquisition, PM-304 held a 40.5% interest in a production sharing contract (PSC) in Block PM-304, Malaysia. The consideration for the acquisition was USD 3,418 in cash with further cash consideration of USD 4,450 due, contingent on the commercial production of oil from the block.

Under pre-emption rights contained within the PSC, PM-304 entered into a sale and purchase agreement with a partner in the PSC for the sale of 10.5% of the PSC on pro rata, the same commercial terms and conditions associated with the acquisition from Amerada Hess. The total consideration payable by the partner for the 10.5% share of the PSC is USD 2,040, of which USD 1,154 is deferred, contingent on commercial production of oil from the block.

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

	USD '000
Intangible oil & gas asset	5,828
Inventories	369
Trade and other receivables	11
Cash and short-term deposits	4
Total assets	6,212
Less:	
Trade and other payables	(20)
Other current liabilities	(364)
Total liabilities	(384)
Net assets acquired	5,828

Chrysalis

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

12. Goodwill

	USD '000
At 1 January 2004, net of amortisation	26,376
Acquisitions during the year	19,118
Amortisation charge for the year	(2,484)
Exchange difference	6,643
At 31 December 2004, net of amortisation	**49,653**

Goodwill is being amortised as follows:

- goodwill arising on the acquisition of the minority share interest of Petrofac Resources International Limited (PRIL) is being amortised evenly over the directors' estimate of its useful economic life of 10 years;
- goodwill arising on the acquisition of PGS Production Group Limited (now Petrofac Facilities Management Group Limited (PFM)) is being amortised evenly over the directors' estimate of its useful economic life of 20 years;
- goodwill arising on the acquisition of the trade and assets and liabilities of Chrysalis is being amortised evenly over the directors' estimate of its useful economic life of 10 years; and
- goodwill arising on the acquisition of Petrofac Training (including acquired goodwill) is being amortised over its estimated useful economic life of 20 years.

The net carrying amount of goodwill at 31 December 2004 comprises:

	USD '000
Acquisition of minority share interest of PRIL	2,217
Acquisition of PFM	27,849
Acquisition of trade and assets and liabilities of Chrysalis	1,066
Acquisition of Petrofac Training (including acquired goodwill)	18,521
At 31 December 2004	**49,653**

13. Other intangible assets

On 16 June 2004, the group acquired a 40.5% interest in a PSC in Block PM-304, Malaysia. Under pre-emption rights contained within the PSC, a 10.5% interest was subsequently sold to one of the PSC partners, thereby leaving the group with a 30% interest.

Intangible oil & gas assets	USD '000
Cost at 1 January 2004	–
Acquisition of 30% interest in PSC	5,828
Development costs capitalised	893
At 31 December 2004	**6,721**

14. Interest in joint ventures

The group's share of assets, liabilities, revenues and expenses of joint ventures, which are included in the consolidated financial statements, are as follows:

	2004 USD '000	2003 USD '000
Revenue	**229,237**	165,097
Cost of sales	**(251,690)**	(169,769)
Gross loss	**(22,453)**	(4,672)
Selling, general and administration expenses	**(742)**	(4,931)
Finance costs, net	**46**	551
Loss before income tax	**(23,149)**	(9,052)
Income tax	**(224)**	(15)
Net loss	**(23,373)**	(9,067)
Current assets	**99,154**	78,145
Non-current assets	**16,970**	17,615
Total assets	**116,124**	95,760
Current liabilities	**112,776**	66,199
Non-current liabilities	**132**	29,782
Total liabilities	**112,908**	95,981
Net assets / (liabilities)	**3,216**	(221)

15. Available-for-sale financial assets

	2004 USD '000	2003 USD '000
Shares – listed	**4,104**	2,135

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

16. Other non-current assets

	2004 USD '000	2003 USD '000
Notes receivable from shareholders	**3,342**	2,865
Restricted cash	**91**	13,945
Fair value of derivative instruments	**6,394**	3
Other	**1,378**	1,266
	11,205	18,079

The balance of restricted cash of USD 91 (2003: USD 13,945) is comprised of deposits with financial institutions securing various guarantees and performance bonds associated with the group's trading activities.

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

	2004 USD '000	2003 USD '000
Cost and estimated earnings	**820,360**	645,145
Less: Billings	**(711,323)**	(542,304)
Work in progress	**109,037**	102,841

	2004 USD '000	2003 USD '000
Billings	**148,334**	141,387
Less: Cost and estimated earnings	**(76,179)**	(130,005)
Billings in excess of cost and estimated earnings	**72,155**	11,382

18. Trade and other receivables

	2004 USD '000	2003 USD '000
Contract receivables	**194,919**	91,336
Retentions receivable	**2,190**	5,149
Other receivables	**2,933**	–
	200,042	96,485

19. Other current assets

	2004 USD '000	2003 USD '000
Restricted cash	**17,587**	16,971
Fair value of derivative instruments	**17,371**	–
Short-term notes receivable from shareholders	**2,057**	953
Advances	**3,263**	10,995
Prepayments and deposits	**9,866**	3,440
Other	**4,453**	834
	54,597	33,193

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

20. Cash and short-term deposits

	2004 **USD ’000**	2003 USD ’000
Cash at bank and in hand	**45,169**	44,762
Short-term deposits	**98,365**	52,740
	143,534	97,502

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 USD 143,534 (2003: USD 97,502).

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	2004 **USD ’000**	2003 USD ’000
Cash at bank and in hand	**45,169**	44,762
Short-term deposits	**98,365**	52,740
Bank overdrafts (note 22)	**(15,711)**	(2,126)
	127,823	95,376

21. Share capital

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

	2004 USD ’000	2003 USD ’000
Authorised		
15,000,000 ordinary shares of USD 1.00 each	**15,000**	15,000
3,750,000 ordinary shares of USD 1.00 each (Class A)	**3,750**	3,750
1 ordinary share of USD 1.00 (Class B)	**–**	–
Issued and fully paid		
7,166,330 (2003: 9,066,401) ordinary shares of USD 1.00 each	**7,166**	9,066
1 ordinary share of USD 1.00 (Class B)	**–**	–

The movement in the number of ordinary shares outstanding is as follows:

	Number	Number
Opening balance of ordinary shares of USD 1.00 each	**9,066,401**	10,000,000
Issued during the year	**346,617**	54,656
Repurchased and cancelled during the year	**(2,246,688)**	(988,255)
Closing balance of ordinary shares of USD 1.00 each	**7,166,330**	9,066,401

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

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

Through Petrofac ESOP, the company temporarily warehouses ordinary shares that are expected, in the foreseeable future, to be offered to new or existing directors or key employees. During 2004, Petrofac ESOP acquired 176,569 (2003: 202,454) and sold 418,100 (2003: 386,450) ordinary shares of the company. The net difference between the acquisition (including new shares issued and acquired by Petrofac ESOP) and sales cost of USD 2,784 (2003: USD 836) has been credited to the share premium account of the company. At 31 December 2004, Petrofac ESOP held no shares in the company and had an indebtedness to the company of USD nil (2003: 9,914 shares and indebtedness of USD 106).

Share options
Under an agreement dated 8 July 2003, the company extended an option to a director of the company to acquire up to 75,000 ordinary shares at USD 25.00 per share. The option extends for ten years from grant and lapses in the event that the director ceases to be employed by the company. The option can only be exercised in certain specific circumstances including an Initial Public Offering or change of control of the company.

As part of an investment agreement entered into in May 2002 (note 22 (vi)), 3i Group plc (3i) was issued one B ordinary share. As stipulated in the company’s Articles of Association, this share provides the holder with priorities of dividend, return of capital and special rights associated with voting. The company also granted an option to 3i to acquire shares representing 13% of the company’s share capital, as so enlarged, subject to adjustment to 20% in the event of the 3i variable rate unsecured notes remaining unpaid. On 21 October 2004, this option was amended, providing 3i with a revised right to acquire shares representing 16.2% of the company’s share capital, as so enlarged, subject to adjustment to 23.2% in the event of the 3i variable rate unsecured notes remaining unpaid. The option is exercisable by 3i at any time until 30 June 2009 and on exercise, the company would issue the equivalent number of A ordinary shares (currently none are issued). These A ordinary shares have rights similar to the B ordinary share with respect to priority of dividends, return of capital and special voting rights and, in addition, have the right to an annual 5% fixed dividend. In addition, the company can call on 3i to exercise the option upon the fulfilment of certain conditions.

The company’s Articles of Association restrict the transferability of ordinary shares in the company and contain certain pre-emption rights over the transfer of ordinary shares.

22. Interest-bearing loans and borrowings

The group had the following interest-bearing loans and borrowings outstanding as at 31 December:

	Effective interest rate %	Maturity	**2004 USD '000**	2003 USD '000
Current				
Loan notes (i)	UK LIBOR - 1.00%	2005	**7,699**	–
Loan notes (i)	UK LIBOR	2004	**–**	2,878
Revolving credit facility (ii)(a)	US LIBOR + 1.50%	on demand	**3,250**	–
Revolving credit facility (ii)(b)	UK LIBOR + 1.50%	on demand	**–**	1,893
Bank overdrafts (iii)	UK LIBOR + 1.25%	on demand	**15,711**	2,126
Term loan (iv)	UK LIBOR + 1.50%	2004	**–**	1,069
Other loans:				
Non-recourse structured finance (v)	US LIBOR + 3.00%	2005	**24,031**	24,000
			50,691	31,966
Non-current				
Term loan (iv)	5.38% to 6.31% (2003:6.04%)	2011 (2003: 2009)	**68,838**	20,303
Variable rate unsecured loan notes (vi)	7.66% (2003: 5.36%)	2009	**40,250**	40,250
Other loans:				
Project term loan (vii)	US LIBOR + 2.00%	2006	**7,000**	7,000
Non-recourse structured finance (v)	nil% (2003: 5.82%)	n/a (2003: 2006)	**–**	23,000
			116,088	90,553
Less:				
Debt acquisition costs, net of accumulated amortisation			**(3,334)**	(2,874)
Warrants, net of accumulated amortisation			**(1,967)**	(2,052)
			110,787	85,627

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

(i) Loan notes

The loan notes payable at 31 December 2004 (USD 7,699) represent deferred consideration associated with the acquisition of Petrofac Training (note 11). Interest accrues at the current prevailing UK LIBOR rate less 1.00%.

The loan notes payable at 31 December 2003 (USD 2,878) matured on 4 January 2004 and were repaid in full.

(ii) Revolving credit facilities

(a) The revolving credit borrowing at 31 December 2004 (USD 3,250) relates to USD denominated borrowings.

(b) In conjunction with the establishment of a UK term loan facility in 2003, the group entered into a revolving credit facility. This facility was linked to the level of trade receivables within the group's UK business and was denominated in GBP. Immediately following the completion of new bank facilities in October 2004, these borrowings were repaid in full.

22. Interest-bearing loans and borrowings (continued)

(iii) Bank overdrafts
The bank overdrafts are secured by a floating charge over certain of the group's assets.

(iv) Term loans
In October 2004, the group secured new term loan facilities with The Royal Bank of Scotland and Bank of Scotland. The loan at 31 December 2004 (USD 68,838) comprises two separate drawings, one denominated in USD (USD 35,310) the other in GBP (USD 33,528). Both elements of the loan are repayable over a period of five years commencing 31 December 2006 and are secured by a floating charge over certain of the group's assets.

The term loan payable at 31 December 2003 (current: USD 1,069; non-current USD 20,303), which was denominated in GBP, was repaid in full in October 2004.

(v) Non-recourse structured finance
The group's non-recourse structured finance relates to funding provided by GE Structured Finance for the Ohanet project in Algeria. This project credit facility is repayable from the net operating cash flows of the project whereby 95% of these cash flows are applied to repay the loan. Based upon latest forecast production data, the loan is anticipated to be fully repaid by the end of 2005.

(vi) Variable rate unsecured loan notes
In May 2002, the group entered into an investment agreement with 3i pursuant to which 3i subscribed for USD 40,250 of variable rate unsecured loan notes. Until 31 December 2004, the interest rate on the loan notes is 1.5% above US LIBOR. From 1 January 2005, and until the notes are redeemed, the rate will increase to 3.0% above US LIBOR. If the loan notes are redeemed at a time when 3i has not exercised its equity option, a redemption premium of 1.5% per annum from the date the notes were issued to 31 December 2004, will be required to be paid.

Through the issuance of warrants, the group granted an option to 3i to acquire shares representing 16.2% (2003: 13%) of the company's share capital, as so enlarged, subject to adjustment to 23.2% (2003: 20%) in the event of the 3i variable rate notes remaining unpaid. The warrants are realisable until 30 June 2009.

(vii) Project term loan
This term loan relates to project funding provided by Mashreqbank for the Ohanet project in Algeria and is repayable by a single payment in 2006.

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.

23. Other non-current liabilities

	2004 USD '000	2003 USD '000
Provision for end-of-service benefits	**5,912**	4,399
Deferred consideration on acquisitions	**4,450**	–
Fair value of derivative instruments	**210**	23
Other	**2,217**	103
	12,789	4,525

24. Trade and other payables

	2004 USD '000	2003 USD '000
Trade payables	**95,776**	110,300
Other payables	**19,097**	216
	114,873	110,516

25. Accrued contract expenses and provisions

	2004 USD '000	2003 USD '000
Accrued contract expenses	**174,731**	144,072
Reserve for contract losses	**4,277**	6,447
	179,008	150,519

26. Accrued expenses and other liabilities

	2004 USD '000	2003 USD '000
Accrued expenses	**31,772**	11,640
Other taxes payable	**10,318**	6,674
Interest payable	**1,263**	1,049
Deferred consideration on acquisitions	**–**	2,535
Fair value of derivative instruments	**12**	–
Other	**971**	420
	44,336	22,318

27. Commitments and contingencies

Commitments

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

At 31 December 2004, the group had letters of credit of USD 34,081 (2003: USD 12,436) and outstanding letters of guarantee, including performance and bid bonds, of USD 219,590 (2003: USD 117,433) against which the group had pledged or restricted cash balances of, in aggregate, USD 17,678 (2003: 30,916).

At 31 December 2004, the group had outstanding forward exchange contracts amounting to USD 185,619 (2003: USD nil). These commitments consist of future obligations to acquire designated amounts of foreign currency at agreed rates and value dates.

Litigation

The company is a defendant in two separate cases instituted by former employees of Petrofac Inc., one of whom owns shares in the company. The company believes that both cases are without merit and they are being vigorously defended. Based on the information currently available, the group considers that adequate provision has been made within these financial statements in relation to these legal cases.

Leases

The group has financial commitments in respect of non-cancellable operating leases of office space and equipment. The future minimum rental commitments under these non-cancellable leases are as follows:

	2004 USD '000	2003 USD '000
Within one year	**4,667**	2,149
After one year but not more than five years	**13,963**	9,340
More than five years	**10,717**	9,891

Capital commitments

At 31 December 2004, the group had capital commitments of USD nil (2003: USD 2,458).

28. Related party transactions

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

		Sales to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Joint ventures	**2004**	**11,656**	**14**	**20,361**	**1,428**
	2003	27,296	–	20,306	–
Associate companies	**2004**	**–**	**–**	**–**	**–**
	2003	349	–	290	–
Directors' loans	**2004**	**–**	**–**	**528**	**–**
	2003	–	–	1,039	–
Other directors' interest	**2004**	**–**	**252**	**–**	**25**
	2003	–	212	–	108

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

Directors' loans

Directors' loans receivable include the following items:

- Loans of USD 528 (2003: USD 919) advanced to two directors (2003: two directors) of the company for the purchase of ordinary shares in the company by these directors. These loans bear interest at rates between 3.4% and 6.2%, dependent on the year of grant.

- Interest-free loan of USD nil (2003: USD 120) advanced to a director of the company approved by the Board of Directors in a meeting held on 14 January 2003.

Other directors' interests

During the year, payments of USD 252 (2003: USD 212) were made to a related party for services provided to the group by a director of the company.

Compensation of directors

	2004 USD '000	2003 USD '000
Short-term employee benefits	**2,993**	2,059
Post employment benefits	**46**	31
Fees paid to non-executive directors	**92**	45
	3,131	2,135

29. Financial instruments

Risk management objectives and policies

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

The group also uses derivative transactions, principally interest rate swaps and caps, and forward currency contracts to manage the interest rate and currency risks arising from the group's operations and its sources of finance. The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

Interest rate risk

The group's exposure to market risk for changes in interest rates relates primarily to the group's long-term variable rate debt obligations. The group's policy is to manage its interest cost using a mix of fixed and variable rate debt and specifically to keep between 60% and 80% of its borrowings at fixed rates of interest. At 31 December 2004, after taking into account the effect of interest rate swaps and caps, approximately 68% of the group's term borrowings are at a fixed or capped rate of interest.

Foreign currency risk

The group's business divisions use forward currency contracts to eliminate the currency exposures on transactions significant to their operations. It is the group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Credit risk

The group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not considered significant.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, non-recourse project finance and long-term unsecured loan notes.

Fair values

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

	Carrying amount		Fair value	
	2004	2003	**2004**	2003
	USD '000	USD '000	**USD '000**	USD '000
Financial assets:				
Available-for-sale financial assets	**4,104**	2,135	**4,104**	2,135
Interest rate caps	**53**	3	**53**	3
Forward currency contracts	**23,712**	–	**23,712**	–
	27,869	2,138	**27,869**	2,138
Financial liabilities:				
Interest-bearing loans and borrowings	**110,787**	110,696	**111,713**	109,474
Short-term loans and overdrafts	**50,691**	6,897	**50,691**	6,691
Interest rate swaps	**210**	23	**210**	23
	161,688	117,616	**162,614**	116,188

Market values have been used to determine the fair values of available-for-sale financial assets. The fair value of all other items has been calculated by discounting the expected future cash flows at their respective interest rates.

29. Financial instruments (continued)

Interest rate risk

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

	<1 year		1–5 years		>5 years		Total	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	USD '000	USD '000	**USD '000**	USD '000	**USD '000**	USD '000	**USD '000**	USD '000
Financial liabilities								
Floating rates								
Revolving credit facilities	**3,250**	1,893	**–**	–	**–**	–	**3,250**	1,893
Bank overdrafts	**15,711**	2,126	**–**	–	**–**	–	**15,711**	2,126
Loan notes	**7,699**	2,878	**–**	–	**–**	–	**7,699**	2,878
Unsecured loan notes	**–**	–	**40,250**	26,833	**–**	13,417	**40,250**	40,250
Non-recourse structured finance	**24,031**	24,000	**–**	23,000	**–**	–	**24,031**	47,000
Term loans	**–**	1,069	**39,375**	17,097	**29,463**	3,206	**68,838**	21,372
Project term loan	**–**	–	**7,000**	7,000	**–**	–	**7,000**	7,000
As at 31 December	**50,691**	31,966	**86,625**	73,930	**29,463**	16,623	**166,779**	122,519
Financial Assets								
Floating rates								
Cash and bank balances	**143,534**	97,502	**–**	–	**–**	–	**143,534**	97,502
Restricted cash balances	**17,587**	16,971	**91**	13,945	**–**	–	**17,678**	30,916
As at 31 December	**161,121**	114,473	**91**	13,945	**–**	–	**161,212**	128,418

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.

Foreign exchange risk

The functional currency of the group is US dollars. The group is exposed to foreign currency risk on sales, purchases and borrowings that are entered into in a currency other than US dollars. The group uses forward foreign exchange contracts to hedge its foreign currency risk, when considered appropriate. At 31 December 2004, the group had foreign exchange contracts designated as cash flow hedges with a fair value of USD 23,712 (2003: USD nil) as follows:

	Contract value USD '000	Fair value USD '000	Net unrealised gain USD '000	Maturity period
Euro currency purchases	179,125	202,676	23,551	January 2005 – April 2006
GBP currency purchases	6,494	6,655	161	January 2005 – August 2005
	185,619	209,331	23,712	

29. Financial instruments (continued)

Derivative instruments designated as cash flow hedges
At 31 December 2004, the group held the following derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings:

Instrument	Hedged item	Duration	Fair value asset / (liability) USD '000	
UK LIBOR interest rate swap	GBP denominated term loan, notional principal GBP 11,400 (USD 22,025)	4 years and 9 months commencing 31 December 2004	(70)	(2003: 23)
UK interest rate cap	GBP denominated term loan, notional principal GBP 9,900 (USD 19,127)	3 years, commencing 31 December 2004	50	(2003: nil)
US LIBOR interest rate swap	Term loan, notional principal USD 35,310	3 years, commencing 31 December 2004	(140)	(2003: nil)
UK interest rate cap	Non-recourse structured project finance and project term loan (USD 31,031)	3 years and 4 months ending 31 May 2006	3	(2003: 3)

During 2004, USD 486 (2003: USD nil) of the group's designated cash flow hedges was removed from equity and included in the Consolidated Income Statement.

30. Events after the balance sheet date

On 28 January 2005, the group acquired 100% of the issued and outstanding shares of Rubicon Response Limited, a leading provider of emergency response management consultancy and training services to the upstream oil & gas exploration and production markets. Total consideration for the acquisition of the shares, inclusive of estimated transaction costs, was USD 6,326 and the fair value of the net assets acquired was USD 2,565. The consideration was settled in cash.

31. Subsidiaries and joint ventures

At 31 December 2004, the group had investments in the following subsidiaries and incorporated joint ventures:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group	
Trading subsidiaries			
Petrofac Inc.	USA	100% *	(2003: 100% *)
Petrofac International Ltd	Jersey	100% *	(2003: 100% *)
Petrofac Resources Limited	England	100% *	(2003: 100% *)
Petrofac Resources International Limited	Jersey	100% *	(2003: 100% *)
Petrofac UK Holdings Limited	England	100% *	(2003: 100% *)
Petrofac Facilities Management International Limited	Jersey	100% *	(2003: 100% *)
Petrofac Services Limited	England	100% *	(2003: 100% *)
Petrofac Services Inc	USA	100% *	(2003: 100% *)
Petrofac Training International Limited	Jersey	100% *	(2003: n/a)
Petrofac Sahka Limited	England	100% *	(2003: n/a)
Petroleum Facilities E & C Limited	Jersey	100% *	(2003: n/a)
Atlantic Resourcing Limited	Scotland	100%	(2003: 100%)

31. Subsidiaries and joint ventures (continued)

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group	
Trading subsidiaries			
Monsoon Shipmanagement Limited	Cyprus	100%	(2003: 100%)
Petrofac Alger URAL	Algeria	100%	(2003: 100%)
Petrofac Engineering India Private Limited	India	100%	(2003: 100%)
Petrofac Engineering Limited	England	100%	(2003: 100%)
Petrofac Offshore Management Limited	Jersey	100%	(2003: 100%)
Petrofac Facilities Management Group Limited	Scotland	100%	(2003: 100%)
Petrofac Facilities Management Limited	Scotland	100%	(2003: 100%)
Petrofac International Nigeria Ltd	Nigeria	100%	(2003: 100%)
Petrofac Pars (PJSC)	Iran	100%	(2003: 100%)
Petrofac Iran (PJSC)	Iran	100%	(2003: 100%)
Petrofac Resources (Ohanet) Holdings LLC	Delaware, USA	100%	(2003: 100%)
Petrofac Resources (Ohanet) Jersey Limited	Jersey	100%	(2003: 100%)
Petrofac Resources (Ohanet) LLC	Delaware, USA	100%	(2003: 100%)
Petrofac Saudi Arabia Limited	Saudi Arabia	100%	(2003: 100%)
Plant Asset Management Limited	Scotland	51%	(2003: 51%)
Petrofac Nuigini Limited	Papua New Guinea	100%	(2003: 100%)
Atlantic Manpower Services Sendirian Berhad	Malaysia	100%	(2003: n/a)
Petrofac Caspian Limited	Azerbaijan	100%	(2003: n/a)
Petrofac (Malaysia – PM304) Limited	England	100%	(2003: n/a)
Petrofac Training Group Limited	Scotland	100%	(2003: n/a)
Petrofac Training Holdings Limited	Scotland	100%	(2003: n/a)
Petrofac Training Limited	Scotland	100%	(2003: n/a)
RGIT Montrose Inc.	USA	100%	(2003: n/a)
RGIT Montrose (Trinidad) Limited	Trinidad	100%	(2003: n/a)

**Directly held by Petrofac Limited*

Name of company	Country of incorporation	Proportion	
Joint ventures			
Costain Petrofac Limited	England	50%	(2003: 50%)
Kyrgyz Petroleum Company	Kyrgyz Republic	50%	(2003: 32.1%)
MJVI Sendirian Berhad	Brunei	50%	(2003: 50%)
Spie Capag – Petrofac International Limited	Jersey	50%	(2003: 50%)
TTE Petrofac Limited	Jersey	50%	(2003: 50%)
Dormant subsidiaries			
ASJV Venezuela SA	Venezuela	100%	(2003: 100%)
Joint Venture International Limited	Scotland	100%	(2003: 100%)
Petrofac Bolivia Ltd	Bolivia	100%	(2003: 100%)
Petrofac Facilities Management Pty Limited	Australia	100%	(2003: 100%)
Montrose Park Hotels Limited	Scotland	100%	(2003: n/a)
Montrose Scota Limited	Scotland	100%	(2003: n/a)
Petrofac Resources (Palmyra) Limited	Jersey	100%	(2003: n/a)
RGIT Ethos Health & Safety Limited	Scotland	100%	(2003: n/a)
Scota Limited	Scotland	100%	(2003: n/a)

32. Comparative amounts

Certain of the corresponding figures for 2003 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

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