Annual report
and accounts 2009

Petrofac

The difference is…

…in the detail

Today, the power of Petrofac's service offering has never been greater. Although the scale of our business has increased significantly in recent years, our approach remains constant.

We continue to follow the principles that have driven our business from the earliest days: diligence in execution, customer focus and passionate attention to the smallest detail.

Our intent is to further improve our business performance, and we remain resolutely focused on delivering optimum returns for all of our stakeholders.

Financial highlights

Revenue
US$3,655m

+10%

US$ millions: 05 1,485; 06 1,864; 07 2,440; 08 3,330; 09 3,655

EBITDA
US$559.0m

+33%

US$ millions: 05 115.6; 06 198.3; 07 301.3; 08 419.0; 09 559.0

Net profit[3]
US$353.6m

+33%

US$ millions: 05 75.4; 06 120.3; 07 188.7; 08 265.0; 09 353.6

EPS
Earnings per share (diluted)
103.19 cents per share

+34%

Cents per share: 05 22.41; 06 34.87; 07 54.61; 08 77.11; 09 103.19

Backlog
US$8,071m

+102%

US$ millions: 05 3,244; 06 4,173; 07 4,441; 08 3,997; 09 8,071

Five year summary[1]

Information not subject to audit	2009	2008	2007 Restated	2006 Restated	2005
Revenues[2]	**3,655,426**	3,329,536	2,440,251	1,863,906	1,485,472
EBITDA[2]	**558,966**	418,952	301,259	198,349	115,634
Profit for the year[2,3]	**353,603**	264,989	188,716	120,332	75,397
Diluted earnings per share (cents)[2]	**103.19**	77.11	54.61	34.87	22.41
Total assets	**3,600,571**	2,269,821	1,748,007	1,401,847	986,650
Total equity	**906,755**	559,031	522,970	324,904	195,127
Average number of employees[2]	**11,628**	10,383	9,027	7,482	6,598
Backlog (US$ millions)	**8,071**	3,997	4,441	4,173	3,244

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

World-class results

This has been another excellent year for Petrofac. In a challenging year for our industry we have delivered another strong financial performance with growth in net profit for the group of over 33% on revenue up by 10% at US$3.65 billion.

Following substantial new contract awards in the year, our record order intake of US$7.3 billion doubled our backlog to US$8.1 billion giving us outstanding revenue visibility for the current year and beyond.

We remain committed to our aim of becoming the leading provider of facilities solutions to the oil & gas industry, and aim to achieve this by:

Maintaining and improving on high safety standards

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

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

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

Expanding our established service offering into new countries and regions

Assisting customers in achieving their local content goals by accessing in-country resources and improving the competence and technical skills of local workforces

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

Attracting and retaining specialists and key personnel

Identifying, acquiring, integrating and developing complementary businesses where appropriate

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At a glance

Petrofac is a provider of integrated facilities solutions to the international oil & gas industries, with a record of delivering the best results for our shareholders. At the same time, we focus on results for customers, striving for the highest levels of performance, often in challenging environments, but in geographic regions we know well; results for our people, who see their skill and endeavour matched by our commitment to safety and support; and results for the communities where we work, through an appreciation of cultural diversity and concern for the environment.

We have some 11,700 employees operating out of five strategically located operational centres, in Aberdeen, Sharjah, Woking, Chennai and Mumbai and a further 19 offices worldwide.

Engineering & Construction

Employee numbers:
4,200

Revenue
US$2,509m
2008: US$1,994m

Percentage of group revenue
67%

+26%

Net profit
US$265.1m
2008: US$206.3m

Percentage of group profit
74%

+28%

This segment includes Engineering & Construction and Engineering & Construction Ventures.

2009 highlights

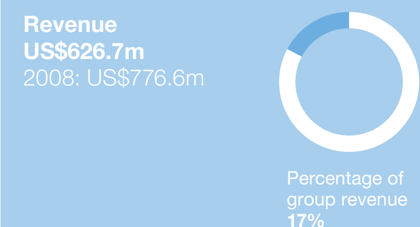
A record order intake during the year of US$6.3 billion including:
- US$2.3 billion lump-sum EPC project with Abu Dhabi Company for Onshore Oil Operations (ADCO)
- US$2.2 billion EPC project for the El Merk central processing facility in Algeria
- Petrofac Emirates awarded first contract with GASCO in Abu Dhabi
- the award of Petrofac's first project in Saudi Arabia
- a US$100 million FEED study for Turkmengaz which contemplates moving into a second phase in 2010 which would involve a lump-sum EPC contract with a not to exceed value of US$4 billion

Initial progress on these awards has been in line with expectations and in addition we have made good progress across our broader portfolio of projects in Syria, Egypt, Tunisia, Oman, Kuwait and Algeria

Offshore Engineering & Operations

Employee numbers:
4,100

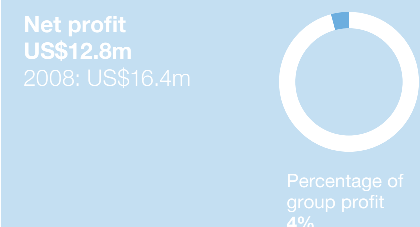
Revenue
US$626.7m
2008: US$776.6m



Percentage of group revenue
17%

-19%

Net profit
US$12.8m
2008: US$16.4m



Percentage of group profit
4%

-22%

This segment is solely comprised of Offshore Engineering & Operations.

2009 highlights

Awarded two new contracts in the UK North Sea:
- a three-year engineering and construction contract with Apache worth circa £75 million
- a five-year maintenance contract with BP worth circa £100 million

Extended its Duty Holder contract with Venture Production to May 2011

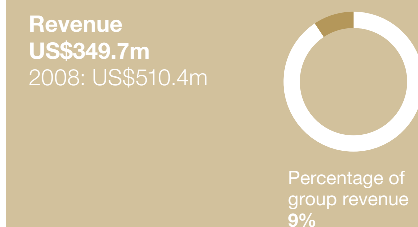
Through a focus on asset integrity, eliminated a number of legacy Health & Safety Executive Enforcement Notices from mature assets in the UK, in conjunction with the asset owners

Enhanced mechanical services capability through a JV with Zamil Group in Saudi Arabia and through the acquisition of Scotvalve Services

Engineering, Training Services and Production Solutions

Employee numbers:
2,900

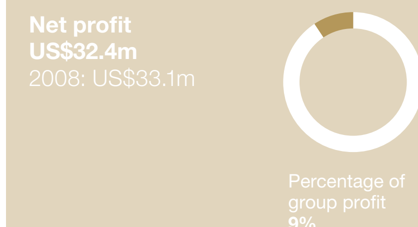
Revenue
US$349.7m
2008: US$510.4m



Percentage of group revenue
9%

-31%

Net profit
US$32.4m
2008: US$33.1m



Percentage of group profit
9%

-2%

This segment comprises: Engineering Services, Training Services and Production Solutions.

2009 highlights

Engineering Services:
- awarded a three-year consultancy contract with Qatar Petroleum (QP)
- added around 300 people to our Mumbai and Chennai offices

Training Services:
- awarded a US$5 million three-year TMS contract with BP in the UK North Sea
- manages 14 training facilities in six countries training around 50,000 delegates worldwide each year

Production Solutions:
- the service operator contract with Dubai Petroleum exceeded production targets agreed with the customer
- consultancy business Caltec awarded the Offshore Contractors Association's Challenge Award for Technology and Innovation for its Wellcom system

Energy Developments

Employee numbers:
500

Revenue
US$248.7m
2008: US$153.4m

Percentage of group revenue
7%

+62%

Net profit
US$46.2m
2008: US$21.9m

Percentage of group profit
13%

+111%

This segment is solely comprised of Energy Developments.

2009 highlights
- commencement of production from both the Don Southwest and West Don fields in the UK North Sea, achieved in less than a year from field development programme approval
- excellent production from the Cendor field, offshore Malaysia with 14,400 barrels per day (bpd) of oil achieved over the year and production uptime of over 99%
- in Tunisia, the Chergui gas plant produced an average of 26.5 million standard cubic feet per day (mmscfd) of gas during the year
- the acquisition of the floating production facility, the AHOO1, from Hess and Endeavour Energy UK. Now renamed the FPF1, options for redeployment are under consideration

Our services

Although our performance is reported through four business segments, beneath these segments, seven business units ensure we endeavour to meet our customers' needs across the full life cycle of oil & gas assets, from design to decommissioning.

Engineering & Construction

Engineering & Construction

Based in Sharjah UAE, Engineering & Construction provides tailored and integrated engineering, procurement and construction (EPC) project delivery solutions on a lump-sum turnkey basis (LSTK) through a variety of contracting models.

Key capabilities
- detailed design and engineering
- procurement including inspection and logistics of all project materials and equipment
- pre-fabrication and onsite construction
- health, safety, security and environmental management in line with international and national regulations
- comprehensive quality assurance and control
- project management
- commissioning and initial operations

Engineering & Construction Ventures

As part of our value offering to customers, Engineering & Construction Ventures has established strategic companies and joint ventures with complementary organisations in order to drive growth in new markets, while providing the same capability and expertise as Engineering & Construction.

Key capabilities
- Petrofac Emirates, a joint venture company with Mubadala Petroleum Services LLC, is focused on becoming an integral part of Abu Dhabi's growing and diversifying energy sector, while supplying services throughout the UAE and internationally
- building a significant presence in Saudi Arabia through Petrofac Saudi Arabia. The Kingdom is the largest market for EPC projects worldwide and forms an integral part of our growth plans
- leveraging our gas processing experience and expertise through Petrofac IKPT, a joint venture with Indonesia's Inti Karya Persada Tehnik, a company with a proven track record in LNG liquefaction plants

Offshore Engineering & Operations

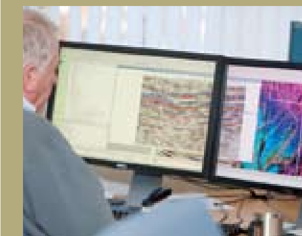
Offshore Engineering & Operations

Our engineering & construction teams deliver excellence at all stages of greenfield and brownfield offshore projects. Through the provision of operations management we deliver production, maintenance services and expertise to extend field life.

Key capabilities
- facilities management both on and offshore – including the Duty Holder service offering
- project management
- engineering & construction for offshore projects
- maintenance management and support services
- mechanical services and metering
- supply of highly competent and experienced personnel

Engineering, Training Services and Production Solutions

Engineering Services



Drawing on extensive engineering, construction, procurement and operations experience, our Engineering Services business unit combines practical experience with the latest advances in technical innovation to provide a range of services including consultancy, conceptual engineering, front end engineering and design (FEED) and project management on a reimbursable basis.

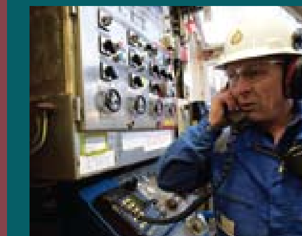
Key capabilities
- comprehensive and independent field development planning
- specialist engineering consultancy
- conceptual engineering
- front end engineering and design
- detailed engineering and procurement services
- HSE services and full project management and delivery capabilities

Training Services

Training Services makes a positive difference to the safety and efficiency of international workforces through the provision of competence-led training services, consultancy and managed solutions which are designed to increase competence and minimise risk.

Key capabilities
- competence-led training services in both safety and technical disciplines from training centres worldwide or from customer facilities
- consultancy services to identify or assess competency gaps or risks within an organisation
- outsourced tailored management solutions including Training Management Solutions, Competence Management Solutions and Emergency Response development capability
- creation of nationalised workforces

Production Solutions



Production Solutions offers customers single-point access to a wide range of services to help them improve production, profitability, operational efficiency, asset integrity and the recovery of marginal reserves. In addition to the service operator contract with Dubai Petroleum, the business unit comprises four specialist service providers: Eclipse, Caltec, SPD and Plant Asset Management.

Key capabilities
- production performance improvement, from the reservoir to the delivery point
- leading-edge drilling and well engineering
- optimised reservoir management and field (re)development planning
- asset integrity management
- management consultancy to develop and deliver the plan
- development and delivery of pumping and separation technologies for new and retrofit optimisation of production

Energy Developments

Energy Developments

Where we can leverage our service capabilities to mitigate risks and reduce costs, Energy Developments co-invests alongside the group's partners in oil & gas upstream developments and energy infrastructure to create additional value for the group.

Key capabilities
- technical, operational, commercial and asset management skills, as well as access to the strong financial resources of the Petrofac group
- identification and development of brownfield and greenfield opportunities in mid and downstream infrastructure
- experience includes oil & gas processing facilities, pipelines, storage, refineries and refinery units, terminals and LNG regasification
- pursues opportunities in discovered, but undeveloped, mature oil & gas fields
- services help to manage and mitigate the many risks that are involved in any major project

Insight makes the difference

We continue to maintain our focus on the geographic areas where we have been strongest. It is these regions that we know best and where we have real insight based on long-term relationships, cultural empathy and mutual respect. Our understanding of the business environment and familiarity with our customers' needs have helped us develop a proven and extensive track record.

Understanding our customers

The business relationships between our people and our customers are firm, long-term and based on mutual respect and understanding. Many of our people, from on-site operatives to Board Directors, have grown up as near-neighbours to our customers, working alongside each other for many years. We share common heritages and cultures, pasts and futures, values and aspirations.

We're as local as our customers

We believe there is no substitute for local knowledge. We have 11,700 professionals based at five strategically based operational centres, in Aberdeen, Sharjah, Woking, Chennai and Mumbai. These are supported by a further 19 offices worldwide, giving us a presence where our customers value it most: on the ground, close to their key locations.

Developing local workforces, for ourselves and our customers

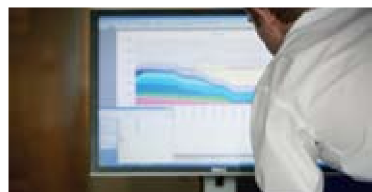
We employ more than 60 nationalities across the globe and invest in our own talent management and development programmes. In addition, we also direct significant resources into raising the capability and working practices of the indigenous workforces where we operate. Our training programmes, which focus on all aspects of health & safety and technical competence development, bring valuable work-based skills to local communities.

Making a difference in performance

Ours is a results business: performance is everything, whether in terms of timescales or budgets, safety records or barrels of oil. Underpinned by our core values we are steadfast in our approach and focused on delivering the best service for our customers.

Relationships matter

Our strength is visible in the way we can bring intelligent solutions to a variety of engineering challenges but also in our investment in, and long-term support of, customer relationships. This is essentially a people-oriented industry where personal dedication to the customer can make the difference.



Dedication to delivery

Only meticulous planning will lay the foundations for successful project execution. We make a significant investment at the bid stage to ensure we identify and plan opportunities to mitigate risk and employ intelligent procurement strategies in order to maximise our performance.

Think different, act different, be different

What makes an individual a Petrofac person? A personal set of attributes exist in every one of our employees at every level of the business, marking us apart: a restlessness and a desire to always raise the bar; a willingness to be accountable for our actions; a relentless focus on the customer; and an entrepreneurial spirit.

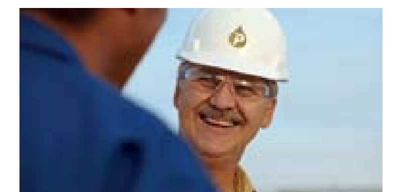
Small ideas, big impact

Taking ownership of a challenge or task has always formed the cornerstone of our approach – and it remains totally relevant today, whether the challenge in question concerns US$10,000 or US$1 billion.

In our experience, a succession of relatively minor improvements can deliver a significant improvement to both customer relationships and project performance.

Entrepreneurial culture keeps us nimble

There is a fierce desire to succeed within Petrofac. Nothing is taken for granted, no solutions are pre-destined. We welcome challenge, pushing ourselves to break moulds and to constantly think of better ways to deliver performance – always without compromising our focus on risk management, which begins in the Boardroom and extends into every area of our operations.



Accountability, customer focus and attention to detail

Our people are keen to take responsibility and quick to show it, by doing exactly what we say we will do. Senior personnel are engaged with each project and take personal pride in keeping customers and partners informed on performance at all times.

A fresh perspective, a different approach

Our competitive advantage is built on a differentiated business model. Commercially innovative and flexible, it enables us to create tailored solutions that meet our customers' needs. We offer a wide-ranging and fully integrated service, extending from design to decommissioning, in addition to co-investment through our Energy Developments team.

Innovative partnerships

Our Energy Developments business is one of Petrofac's key differentiators. Its core strength lies in its ability to co-invest with a customer in upstream oil & gas assets and energy infrastructure. Through this innovative partnership approach, we are able to align our interests with those of the customer and leverage the broader service capabilities of our group in order to enhance project returns.

Creative solutions that deliver

Lump-sum contracts, joint ventures, performance-linked reimbursable contracts, co-investment… our relationships with our customers may come in many different forms, but they are united by a common theme: innovation and flexibility. In short, we will endeavour to create whatever solution is necessary in order to deliver value for stakeholders, by applying fresh thinking.

Training to world-class standards

From creating and managing programmes for major multinationals to ensuring that our customers' local workforces have the skills required to operate complex plant in hazardous environments, Petrofac Training Services delivers world-class standards. We train more than 50,000 individuals annually, enabling our customers to benefit from more competent, safer and more efficient workforces.

Integrity, support, responsibility: the difference is demonstrable

We are an integral part of the lives of our people and of the communities in which we operate – and we take our responsibility to them very seriously. Our aim is to be a positive influence at all times, from maintaining our health and safety record to providing opportunities for our people, protecting the environment and supporting local organisations.

Creating opportunities

In 2009 we became one of the founding members of the 100-Club Foundation of the Higher Colleges of Technology (HCT) in Abu Dhabi. The HCT sets out to promote industry/education partnerships and through our sponsorship we are supporting the continued development of young UAE nationals and enhancing the HCT's offering for both students and industry throughout the centre's 16-campus network. The programme is extremely progressive and we believe it is initiatives such as the 100-Club programme that will help us to achieve our objectives with regard to social investment in education, training and development. These objectives are core to ensuring the future sustainability of our workforce in Abu Dhabi and in other places where we operate.

The extensive support we provide to local communities is centred around education. In North Africa, the Middle East and Asia, as well as in the UK, practical help and financial donations have been key to helping thousands of young people seize opportunities they would otherwise have been denied. Projects range from building classrooms and providing whiteboards to donating books and supporting road safety initiatives.

Chairman's statement

This has been another outstanding year for Petrofac. Our strength in execution, our strategic focus on markets and regions where there has continued to be strong demand and the increasing scale of our operations, have again combined to deliver record revenue and profits. Revenue grew by 10% to US$3,655 million and net profits increased by 33% to US$353.6 million.

Market overview

At a macro level, the global economic downturn continued to be a major factor throughout 2009. Consumer confidence remained low while the banking crisis prevented many companies from obtaining the funding they needed to undertake large-scale projects.

Energy consumption was hit hard and I believe that it will be some time before we see any significant increase in demand for hydrocarbons. Against this background, it is to be hoped that we do not experience a rise in protectionism. World trade is challenging at any time, but it is a prerequisite for a thriving energy sector, as it is for many others.

Our progress

Despite the turbulence facing many western economies and businesses, we again experienced strong demand for our services and have secured significant new orders during the year which underpin future earnings. The Company has minimal debt and a cash balance of around US$1.4 billion and the Board's policy of maintaining a conservatively structured balance sheet has ensured that we have maintained a robust financial position.

How have we continued to grow during a period of recession? The achievements of 2009 are as a result of a clear and consistent strategy. We have high quality people throughout our organisation and a proven ability to serve our customers on large projects. Our recent growth has been reflected in the scale and complexity of the projects that we are now winning, underpinned by our proven execution capability and excellent track record in the lump-sum turnkey market.

Our strategic focus remains on the regions that we know well. When it comes to investing in major infrastructure projects, National Oil Companies (NOCs) are in a more advantageous position than many other organisations. Many of our customers have continued to invest in large-scale developments through the economic down-cycle, and our strength in delivery has placed us in an ideal position to work with them.

At the same time, we also expanded our geographic footprint during the year, winning major contracts in Abu Dhabi, Saudi Arabia and Turkmenistan.

In an important realisation of our strategy for Energy Developments, we announced, on 4 March 2010, the proposed demerger of our UK Continental Shelf oil & gas assets to a new company, EnQuest PLC, which will also acquire the UK Continental Shelf oil & gas assets of Lundin Petroleum, the Swedish oil & gas exploration and production group. Following the demerger, EnQuest PLC will be admitted to the Official List and to trading on the main market for listed securities of the London Stock Exchange and admitted to the Trading List and to trading on the Stockholm Stock Exchange via a secondary listing. Petrofac shareholders will own 45% of EnQuest PLC.

Dividends

The Board is recommending a final dividend of 25.10 cents per ordinary share, equivalent to 16.69 pence per ordinary share which, if approved, will be paid on 21 May 2010 to eligible shareholders on the register at 23 April 2010. Together with the interim dividend of 10.70 cents, equivalent to 6.46 pence, this gives a total dividend for the year of 35.80 cents per ordinary share, an increase of 41% over 2008.

Corporate governance and corporate social responsibility

In the wake of the crisis in financial services, regulators are rightly concerned about risk management and our progression in undertaking larger and more complex projects has been accompanied by continued development of our risk management systems and processes. We remain committed to identifying, managing and mitigating risk in all areas of our operations and, to this end, the Board's Risk Committee deepened its oversight processes during the year.

From a community perspective, we continue to support and promote education and training in the regions where we operate, seeking to improve the future prospects of both the local children and of our workforces. In addition to the many programmes which we run with local schools close to our operations, we are also establishing a new training centre in Syria.

Chairman's statement
continued

Our people
Our growth is inextricably linked to our success in attracting, retaining and developing our people. Petrofac has long been a business where the brightest talents are encouraged to do their best work and we are committed to ensuring that it remains so with a number of talent management initiatives planned for the year.

During the past year, our numbers increased from some 11,100 to 11,700 as we brought in new skills and experience to complement our extremely capable employee base. In particular, our leadership capability was significantly expanded in 2009, underpinning our ability to work on the largest and most challenging projects.

On behalf of the Board, I extend our thanks unreservedly to all of our employees across the world. It has been a privilege to witness their expertise, commitment to excellence and constant focus on safety throughout the year.

The Board
This has been another year of stability for your Board, which benefits from great international diversity and a tremendous breadth of experience. Following our announcement on 4 March regarding the proposed demerger of our UKCS oil & gas assets, it is anticipated that Amjad Bseisu will step down from the Board in April 2010 subject to being appointed Chief Executive of EnQuest PLC and the successful listing of shares of that company. Aside from this, no changes have been made to the Board's composition since the Annual General Meeting held on Friday 15 May 2009. At the 2010 Annual General Meeting two of our long-serving Non-executive Directors will be retiring from our Board. I would like to thank Michael Press and Bernard de Combret for their significant contributions to the Board since joining in 2002 and 2003, respectively. As a result, and subject to shareholder agreement, we look forward to welcoming two additional members to the Board in May, Thomas Thune Andersen and Stefano Cao.

Outlook
We secured a number of high value orders during 2009. Added to our existing backlog, these new orders give us excellent visibility of earnings and cash flow for the coming two to three years.

2009 has been a notable year for our group, our strong operational performance was reflected in the share price improvement during the period and it was pleasing to be named as one of the FTSE 100's five best-performing stocks of the year. Notwithstanding these achievements, we are ever alert to the risks of complacency and recognise the increasing capability in our sector from firms based in the East, so we will continue with our prudent balance sheet strategy, our rigorous approach to risk management and our complete focus on execution excellence.

I thank our shareholders, customers, partners and suppliers for their support in 2009. Together, we can look forward to 2010 and beyond with confidence.

Rodney Chase
Chairman

Business review

Interview with the Group Chief Executive

As Ayman Asfari reflects on 2009, he explains some of the key *differences* that have underpinned Petrofac's achievements and outlines why he is feeling confident about the future.

Why was 2009 such an exceptional year for Petrofac? Can this success be sustained?
There are a number of reasons, but the group's continuing focus in our core geographic areas, especially the Middle East and North Africa, for engineering and construction activities has been fundamental. The National Oil Companies in these regions have continued to invest through the down-cycle, capitalising on the economics of a softening market, and as a result, we have secured several significant contracts on a lump-sum turnkey (LSTK) basis.

The demand for hydrocarbon production and processing facilities in these regions is significant, and I am confident we will continue to see many other projects brought on line throughout 2011 and beyond. As one of a few Western companies willing and able to contract on a LSTK basis this presents us with opportunities for further organic growth in existing markets, but I would hope this would also extend to some new areas such as West Africa.

What were the key highlights of 2009?
The year started positively with the award of our largest contract to date. Awarded in January, by the Abu Dhabi Company for Onshore Oil Operations (ADCO), the 44-month Asab field development project in Abu Dhabi is valued at US$2.3 billion.

It was also pleasing when a number of contracts were awarded to the joint ventures (JVs) and companies which comprise our Engineering & Construction Ventures business unit. Petrofac Saudi Arabia secured a contract from Saudi Aramco for the Karan utilities and cogeneration package. Our 50%-owned JV with Mubadala Petroleum Services LLC, Petrofac Emirates, secured the contract for the construction of the NGL 4th train for the Integrated Gas Development in Abu Dhabi, in conjunction with Korea's GS Engineering & Construction.

First oil was achieved from the Don area development during the first half of the year, with West Don brought on stream within 12 months of receiving field development programme approval (FDP); this was a major achievement.

2009 has been undoubtedly Petrofac's best year yet and there have been many highlights. At the beginning of the year we launched a new organisational structure which, although essential for our continued growth, could have been a distraction, and our teams are to be commended for retaining their focus on growing the business.

Although our share price performance was badly affected, along with everyone else, by the economic crisis at the end of 2008, we charted a steady rise in share price performance throughout 2009. As the year closed it was pleasing to note that Petrofac was the fifth best performing stock in the FTSE 100 and the only non-mining stock to make the top five.

What initiatives are in place to further improve the group's track record on delivery?
We are, and will continue to be, obsessed about the way in which we deliver and execute our projects. We have very robust processes and procedures in place but we are always challenging ourselves to refine these. One of the features of our business in recent years has been management of rapid growth while ensuring our quality benchmark is not compromised. Quality management is therefore a focus area for our business and is underpinned by other initiatives such as succession planning, along with the continuous training and development of our management and their teams.

Petrofac is now organised into seven business units. How would you describe the performance of those units during 2009?
The Engineering & Construction (E&C) and Engineering & Construction Ventures (E&CV) businesses secured a number of new and important contracts, and have made a significant contribution to the group's backlog and overall financial performance. These businesses also continued to deliver upon existing contracts through the year and progress on their growth journey with a complete focus on people, quality and safety.

Engineering Services has had a more challenging year, like all of our businesses contracting on a reimbursable basis, because they are more reliant on discretionary spending. In addition to providing consultancy and conceptual front end engineering design studies from our Woking office, this business continues to provide vital support and resources for our E&C businesses, and has seen its operations in India continue to expand.

Interview with the Group Chief Executive
continued

Offshore Engineering & Operations (OE&O) also had a challenging year operating in a lower oil price environment. Notwithstanding this backdrop, the reorganisation enabled the business to re-define its focus areas in operations management and offshore projects. As a result OE&O secured two important new contracts with Apache and BP in the North Sea, while successfully extending a number of contracts with existing customers.

Production Solutions was created as part of our reorganisation at the beginning of 2009. It is comprised of our specialist consultancy and technology businesses and is focused on providing specialist sub-surface technology and know-how to enhance production on mature assets. Production Solutions contracts on a gain-share or quasi-equity basis in order for it to align its interests with those of the customer or partner where taking an equity stake is not an option. The consultancy and technology businesses continue to operate on their own projects but are working together on a number of proposals for projects where we could deliver our integrated offering.

Training Services is a key differentiator for our group and enables Petrofac to assist our customers to develop safe and skilled national workforces. During the year the business experienced a change in management and in July we welcomed Paul Groves as the unit's managing director. The business unit's core focus in the UK is around its safety training provision and in 2009 this was impacted by the reduction in discretionary spending. Training Services often works alongside other businesses in the group and in conjunction with Petrofac E&C is designing and building a technical training centre in Syria. This type of activity will assist the unit to achieve its growth aspirations as will its focus on the provision of technical training and managed services in relation to the development of safe and skilled workforces globally.

Energy Developments selectively co-invests in alignment with partners and customers in oil & gas production, processing, and transportation assets and the unit's portfolio of operated assets have performed well despite a lower oil price. During the year the business made its first energy infrastructure purchase and the business is pursuing a number of options in relation to the deployment of the now renamed AHOO1 (FPF1). One the most important aspects of Energy Developments' strategy is looking at ways in which to crystallise value from any investment. We have a track record of investing in upstream oil & gas assets and infrastructure developments where we can leverage the wider engineering and operations capability of the group. Under our 'build and harvest' strategy we continue to develop these assets and when we have added value through the application of our expertise, we seek to sell or swap assets in order to pursue new opportunities to make investments through our Energy Developments business.

As a result of achieving both the export from Don by pipeline via the Thistle platform and the start-up of production from the Don Southwest sidetrack well, the first phase of the Don development is now complete. We believe, therefore, we have optimised the added value to be derived from the application of our service capability on the Don assets. On 4 March 2010 we announced our intention to demerge our North Sea offshore assets from the Petrofac group. If we successfully conclude the transaction, our operated interests in both West Don and Don Southwest, and the Elke field will be combined with the North Sea assets of Lundin Britain Limited (Thistle, Deveron, Broom, Heather and Peik), to form a new development and production company called EnQuest PLC.

Upon its successful conclusion, this transaction will represent an important realisation of our strategy.

Are there going to be major changes to the strategy, as it continues to unfold?
Although our strategy is essentially unchanged there are some important aspects to highlight. With regards to our investments we have always said that our strategy is to add value and then, when there is no or limited value for Petrofac to add, to exit and to re-deploy the capital in new projects or to return it to shareholders. The harvesting of our Don assets is an important realisation of this strategy.

Even without the Don assets Energy Developments remains a key part of our business portfolio and we will continue to look for further opportunities in which the group can invest and bring to bear its services to add value for itself, partners and shareholders. We also see a major market for opportunities which can be developed on a gain-share or quasi-equity basis, using commercial models such as production enhancement, and we hope to realise this aspect of our strategy in 2010 through Production Solutions.

We continue to work towards being able to provide more integrated and therefore, more efficient services for our customers across our group and the reorganisation into seven individual units was an important first step in achieving this. The reorganisation has also enabled us to broaden the management bench. This will play an increasingly important role as we strengthen our talent management and development programmes, and seek to create more value from our limited resources, our people, as we continue to grow.

What do you think has driven Petrofac's success in 2009?
Petrofac has stayed committed to, and focused on, our core strengths. Our ability to manage risk enables us to contract via LSTK and to develop other risk/reward models for contract execution as demonstrated through Energy Developments and Production Solutions. We have an internal culture that is focused on the detail, driven by the high levels of ownership in our organisation. While we are now much bigger, every project is managed like a small company and this is something we seek to maintain as we grow. It is our culture to believe focusing on the US$10k task in hand will help to deliver and ensure performance on the US$1 billion project.

What is the outlook for the next five years?
I expect our business to continue to grow, but it's not realistic to expect this to increase in line with the last five years. For all the reasons outlined in these pages I believe there will be many opportunities for our group, so we will continue to stay focused on our core capabilities and markets, increasing and expanding gradually. Achieving excellence in project delivery, having the best and brightest people as part of our organisation and paying particular attention to ensuring we have robust systems and processes in place will drive our business forward and underpin our ability to maintain the quality of our earnings and to ensure our growth is sustainable.

Ayman Asfari
Group Chief Executive

Operating review

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

Strategy

We have delivered against a consistent strategy. Our aim is to generate sustainable growth in value for our shareholders by leveraging our core competencies, being the ability to engineer, build and operate oil & gas infrastructure, and the ability to create and deliver value-adding investments.

This means:

- working to world-class standards
- focusing always on customer satisfaction
- respecting the environment and being sensitive to the communities in which we work
- promoting and rewarding on merit

We aim to achieve this goal through nine key strategic initiatives. Our progress during the year and some of our future plans are outlined opposite, and on the following pages:

Our strategic initiatives

01 Maintaining and improving on high safety standards

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

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

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

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

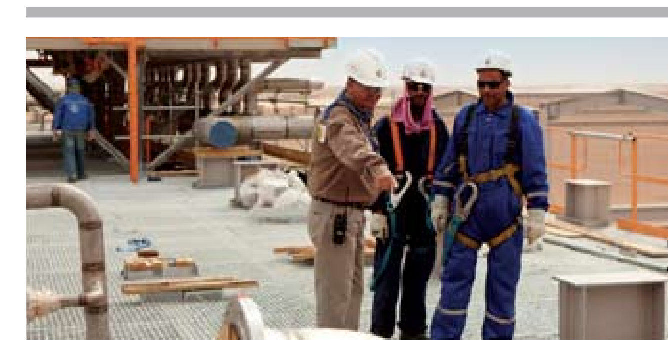
06 Assisting customers in achieving their local content goals by increasing the use of local resources and improving the competence and technical skills of national workforces

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

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

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

01 Maintaining and improving on high safety standards



We operate in some difficult and hazardous environments and the safety of our people is paramount at all times.

Progress during 2009

During the year, our employees and subcontractors completed 67 million man-hours (2008: 67 million) of activity. Our lost time injury and recordable injury frequency rates are key performance indicators and are reported on page 33 and are summarised below:

Our recordable incident frequency rate for 2009 was 0.38 per 200,000 man-hours (2008: 0.32), which compares well with industry published data. For the fourth year in a row our lost time injury frequency rate has reduced and is now 0.02 per 200,000 man-hours (2008: 0.03)

Future milestones

Our health and safety performance is reviewed in full on pages 54 and 55 in the Corporate Social Responsibility report. Through campaigns such as 'horizon zero', we aim to further improve our safety performance in 2010 and beyond.

02
Leveraging customer relationships

Progress during 2009

We are increasingly focused on the provision of an integrated service, which was a major driver behind the reorganisation of the group into seven business units (see pages 6 and 7)

Our seven business unit managing directors now meet formally on a monthly basis with the Group Chief Executive and his direct reports and we are already seeing the benefits of this more integrated approach

A good demonstration of our integrated approach is the development of the Don project where our business units worked together, providing engineering, construction, commissioning and operations services to successfully deliver first oil in April 2009, less than a year from field development programme approval

At ENI's Bacton plant, Engineering Services completed the feasibility study for the installation of Caltec's (Production Solutions' technology business) WELLCOM multiphase boosting unit (which boosts low-pressure wells and separates gas and liquids), which was installed and commissioned by Offshore Engineering & Operations

Future milestones

We are confident that our group reorganisation will enable us to continue our success in generating opportunities to combine our services and provide an integrated approach

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

Through Energy Developments, our customers can access our services under innovative commercial structures that ensure complete alignment of interests. We deliver investment support on upstream and infrastructure projects where we provide engineering and construction or operations services. Through a hands-on approach, we are able to better understand and manage a project's risks and therefore earn a differentiated return.

Progress during 2009

We commenced oil production from the West Don field in April 2009, less than a year from field development programme approval, and from Don Southwest in June 2009, which represented a great achievement for Petrofac and our partners

In July 2009, we acquired a floating production facility from Hess Limited and Endeavour Energy UK Limited. Once we have agreed a deployment opportunity (which may involve an opportunity for Energy Developments to take an equity position in an upstream development), we will undertake upgrade and modification of the facility

Future milestones

A key part of Energy Developments' strategy is to consider divestment (or 'harvest') of assets once they have been developed

We have created value for our shareholders through development of West Don and Don Southwest and following the commencement of oil production and significant progress on commissioning of the production infrastructure, we plan to demerge our investments in the fields in March 2010, thereby realising value for our shareholders (see page 18 for more detail)

Energy Developments will continue to review opportunities to further develop our remaining assets and to appraise new upstream and energy infrastructure opportunities, though we will only do so if the project meets our strict investment criteria

04
Focusing on regions with major hydrocarbon reserves

We remain focused on our key markets of the UKCS, the Middle East and Africa, the Commonwealth of Independent States (particularly the Caspian region) and the Asia Pacific regions. While there are many attractive opportunities in other regions, our key focus areas account for approximately 70% of the world's proven oil reserves and 85% of its gas reserves[1] and we expect significant capital and operational expenditures in these regions.

Progress during 2009

In most of our key markets, particularly in relation to Engineering & Construction projects, development costs are comparatively low. Consequently, many of our customers, particularly those National Oil Companies that are well funded even at lower oil prices, have continued to invest in oil & gas projects throughout the downturn

Our focus on these markets has helped us deliver a very successful year in relation to new contract awards, with our Engineering & Construction new order intake for 2009 reaching in excess of US$6 billion

Future milestones

We will remain focused on our key markets which should position us well to benefit from increasing operational and capital expenditure

We were very active bidding in our key markets during 2009 and expect to remain so throughout 2010 and beyond. Through our strong competitive position, we expect to secure further project awards in the coming months

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

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

While remaining focused on our key markets, we will look for opportunities in new countries and regions, particularly where they are in close proximity to existing operations.

Progress during 2009

We recently identified both Abu Dhabi and Saudi Arabia as potentially significant markets for Engineering & Construction over the medium to long term. We have been actively bidding for projects in these regions since 2008 and we were successful in securing our first major contracts in these regions in early 2009

Building upon our recent success in the Caspian region, throughout 2009 we have been in discussions with the state-owned gas company, Turkmengaz, in relation to providing engineering services to develop their South Yoloten gas field in Turkmenistan. We were delighted to announce a contract at the end of the year to undertake a FEED study and initial planning and set-up studies. After satisfactory conclusion of the first phase, worth US$100 million, the contract contemplates moving into a second phase which will include engineering, procurement and commissioning work. The second phase will be on a lump-sum basis, with a value not to exceed US$4 billion

Future milestones

We plan to strengthen further our position in existing markets, such as in Abu Dhabi, where, through Petrofac Emirates, our joint venture with Mubadala Petroleum Services Company LLC, a wholly owned subsidiary of Mubadala Development Company, we have established an engineering centre which we plan to grow to several hundred full-time staff over the next few years

We would hope to develop a strong competitive position in Turkmenistan, which has the fourth largest gas reserves in the world, and where there is limited existing capability and the development of their substantial oil & gas reserves is in its early stages

We will continue to look at expanding into new countries and regions, such as West and Central Africa and, over the next few years, we would expect Iraq to develop into a significant market for oil & gas services

06 Assisting customers in achieving their local content goals

A key factor in the delivery of our strong execution performance is our engagement with local resources, through recruiting in the local market and establishing long-term relationships with local subcontractors, particularly construction subcontractors. These relationships increase the local content on projects and ensure that the group operates responsibly through improving the competence and skills of local workforces.

Progress during 2009

We have established subcontracts with many local and regional construction contractors for the new Engineering & Construction projects secured during the year. We have worked with the vast majority of these contractors before, and are confident that with their involvement we can execute our contracts in hand to a high standard with local resources. Petrofac Training plays an important role in developing national workforces and, where necessary, will take an active role in developing competence and technical skills on our projects which often include local content targets

During the year, we extended our relationship with BP to include a three-year training management services contract with BP North Sea. We will provide a full administrative training package, including identifying, procuring and scheduling all training requirements for 2,000 UK-based BP employees

Future milestones

In Saudi Arabia, we are looking to develop our own in-country engineering capability to assist us to deliver projects with local resources and meet local content goals

Through Training Services, we continue to review opportunities to invest in and manage international training facilities (we currently operate 15 training facilities in seven countries), and we are looking to extend our strategic relationships with our key National Oil Company and International Oil Company customers

07 Improving revenue and earnings stability

We have always sought to be flexible and innovative with our commercial models, providing services under a range of commercial structures from reimbursable services (such as operations or engineering services), reimbursable services with significant key performance indicator (KPI) related income (such as Duty Holder or service operator contracts), to the provision of lump-sum EPC services, and, when our investment criteria are met, we may put our capital at risk and take an equity stake in a development.

Progress during 2009

Following our recent reorganisation, we are now looking to package together some of our consultancy businesses through Production Solutions and to undertake production enhancement projects to improve the performance of marginal or mature fields, possibly on a tariff or quasi-equity basis

Future milestones

Throughout 2009 we have been holding discussions with customers with regard to potential production enhancement projects. We hope to be able to secure such a project within the coming months, which will allow us to begin to develop a track record in this market

08 Attracting and retaining recognised specialists and key personnel

Progress during 2009

Although skilled personnel remain in unprecedented demand, we have been successful in accessing international labour markets, including through graduate recruitment, in particular in the Middle East, the Indian Subcontinent and Asia Pacific

We have grown our headcount from approximately 11,100 at December 2008 to approximately 11,700 at December 2009

We have seen significant growth in our largest reporting segment, Engineering & Construction, where employee numbers have grown from 3,400 to 4,200

Furthermore, our Engineering & Construction reporting segment is supported by our Engineering Services' offices in Mumbai and Chennai, where we have recently moved into larger premises and now have around 1,300 employees (2008: 1,000)

We have further widened our employee share ownership, and now have around 3,000 employee shareholders (representing around 28% of the eligible workforce)

As the group has grown during the year, we have broadened and strengthened our senior management team with the addition of further high calibre personnel, such as a new Group Treasurer, Group Head of Tax and Construction Director

Future milestones

In order to support our growth plans, we expect to further broaden and strengthen our senior management team

We plan to continue to increase headcount, particularly in Engineering & Construction, through growing our existing operational centres, developing our joint venture offices, such as in Jakarta and Abu Dhabi, and establishing in-country engineering offices, for example, in Saudi Arabia

09 Developing complementary businesses

Progress during 2009

Caltec Limited and Eclipse Petroleum Technology Limited were acquired in 2008. Since January 2009, these businesses have been grouped with our other consultancy businesses within Production Solutions. While, like the majority of our consultancy businesses, Caltec and Eclipse have faced a challenging year as customers have typically deferred discretionary expenditure, we have been pleased with the progress with which we have integrated these businesses into the group. Of particular note has been the development of the rental model for Caltec's production technology products aimed at the enhancement of production from mature fields

In early January 2010, we were pleased to announce the acquisition of Scotvalve Services Limited, a mechanical services business headquartered in Aberdeen, but with interests in the Middle East and North Africa. The acquisition of Scotvalve will enable Offshore Engineering & Operations to provide repair and maintenance services within a wider geographic footprint

Future milestones

We will continue to regularly review acquisition opportunities and we have a strong balance sheet to support such opportunities

Key performance indicators

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

Revenue

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

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

US$ millions	07	08	09
	2,440	3,330	3,655

EBITDA

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

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

US$ millions	07	08	09
	301.3	419.0	559.0

Net profit

Provides a measure of the net profitability of the business, that is, profit for the year attributable to Petrofac Limited shareholders.

Profit for the year attributable to Petrofac Limited shareholders as reported in the consolidated income statement.

US$ millions	07	08	09
	188.7	265.0	353.6

Return on capital employed (ROCE)

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

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

%	07	08	09
	45.7	52.7	47.7

Earnings per share (diluted) (EPS)

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

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

Cents per share	07	08	09
	54.61	77.11	103.19

Cash generated from operations and cash conversion

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

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

Cash generated from operations US$ millions	07	08	09
	371.6	586.6	1,276.3

Cash conversion %	07	08	09
	123.3	140.0	228.3

Lost time injury and recordable injury frequency rates

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

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

Lost time injury (rates per 200,000 man-hours)	07	08	09
	0.07	0.03	0.02

Recordable injury (rates per 200,000 man-hours)	07	08	09
	0.35	0.32	0.38

Backlog

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

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

US$ millions	07	08	09
	4,441	3,997	8,071

Employee numbers

Provides an indication of the group's service capacity.

For the purposes of the Annual Report, employee numbers include agency, contract staff and the group's share of joint venture employees.

Number of employees	07	08	09
	9,800	11,100	11,700

Enterprise risk management and key risks

As we continue to grow and expand our range of services, both technically and geographically, our project and customer concentration diminishes, but we face new risks and challenges to which our risk management systems and processes, both centrally and at the project level, need to respond. In recognition of our changing risk profile, we have further developed our risk management systems and processes to ensure that our risk management remains robust and appropriate for the range of risks that we face.

Enterprise risk management system

Our enterprise risk management system is designed to ensure that all significant risks to our reputation and shareholder value are appropriately monitored and mitigated in line with the Board's policy. These enterprise risks to our reputation and shareholder value fall into three areas:

- Industry risks – the systemic exposure to fluctuations in core commodity prices and demand for our services. These risks are reviewed and managed directly by the Board and senior management team
- Country risks – the exposure to external country factors that are inherent in the environments in which we operate, including security, political risk, legal risk and transparency, bribery and corruption, exchange rates and local infrastructure. Project teams ensure that these risks are reviewed and appropriate responses are built into the structure of the project execution and contracting model wherever possible. Our corporate functions monitor this risk environment and the Risk Committee of the Board provides additional review and oversight. The Board retains approval authority for any significant new country entry
- Project specific risks – the risks pertaining to the execution of projects to customer specification, including technical risk, budget and schedule risk, performance guarantee levels, safety risk and environmental risk. These risks are directly managed by our project teams. These risks are also core to our risk review process which reviews all new business proposals before any formal obligations are entered into. Our business unit managing directors and their management teams report monthly on discrete execution risks to senior management and the Board. Through this review process, we ensure that there is constant focus and attention on maintaining and improving our execution capability

Board level risk review during 2009

The Board has increased its review and monitoring of all discrete risks to the Company and now receives specific risk reports from all of our businesses at every scheduled Board meeting. These reports cover all areas of risk to the businesses and focus on providing the Board with an update on specific discrete risks to our interests and the management strategies that are deployed to mitigate them.

The Board reviews detailed proposals for any significant new country of operations and for any project with a contract value in excess of US$1 billion. During 2009, the Board has reviewed a number of specific new country and new contract proposals on this basis and requested further assurance or set preconditions to ensure that an acceptable risk profile was achieved.

The Risk Committee has performed an important additional enterprise risk management function during 2009 by providing review and oversight primarily of non-project specific country risks and ensuring that appropriate risk monitoring and management systems are in place. Our Internal Audit function receives all risk reports that are presented to the Board or the Risk Committee and independently audits any areas of risk that it feels are significant from an audit perspective and reports its findings to the Audit Committee.

Corporate and project risk review processes

We have well-established procedures embedded in the organisation for the assessment and review of risks in relation to prospective projects and to manage the risks in relation to existing projects.

Pre-award, all new projects and investments are reviewed by the Risk Review Committee of the relevant business unit. The remit of the business unit Risk Review Committee covers items such as:

- moving to new territories
- establishing contractual commitments
- providing new services
- investing capital
- entering lease commitments
- establishing banking facilities and/or granting security
- making acquisitions or the establishment of joint venture relationships

In addition, significant new projects and investments are also reviewed by a Corporate Risk Review Committee and potentially also by the Board directly, depending on the risk profile of the opportunity. Our delegated authority framework defines the levels of review that are required based on the level of risk. This ensures that a rigorous assessment of risks occurs for all of our projects and investments before any commitment is made, and that both project specific and country risk factors are assessed. In 2009, the Corporate Risk Review Committee reviewed 38 new business proposals.

Post-award execution is managed by our project teams and continuously reviewed by our business level executives. Following our group reorganisation on 1 January 2009, the business unit managing directors now meet on a monthly basis with the Group Chief Executive and his direct reports to review both the performance of each business unit and any discrete risks. A summary of these discrete risks is reported to the Board at each scheduled Board meeting during the year.

Our key systems and procedures have been externally certified by a number of organisations, for example, through customer-sponsored audits, and 98% of our facilities have been accredited by Lloyd's Register Quality Assurance to ISO 14001 requirements. The accreditation process includes a review of the management of material risks and business and operational controls in place to mitigate such risks.

Key risks

Those key risks that could lead to a significant loss of reputation or that could prevent us from executing our strategy and creating shareholder value are summarised below, along with our approach to mitigating these key risks.

Enterprise risk management and key risks
continued

Industry risk	Description	Mitigation
Level of demand for the group's services	The demand for our services is linked to the level of capital and operational expenditure by the oil & gas industry.	As noted in the 'Operating environment' section, we expect the demand for our services to remain robust over the long term. Our recent success in securing new and substantial contract awards gives us good visibility of revenues through to 2011 and beyond. Our continuing geographic and service expansion has helped to reduce our exposure to some extent by increasing the size of the addressable market for our services.
Oil & gas commodity prices	Long-term expectations of the price of oil & gas may have an impact on the level of new investment in the industry and may therefore affect demand for our services. The financial performance of Energy Developments is more leveraged to the price of oil & gas through its co-investment in upstream oil & gas assets, and its financial result may be impacted.	As detailed in the 'Operating environment', our business should not be significantly impacted by short-term fluctuations in oil & gas prices and has proven robust to significant volatility in oil & gas prices over recent months. Management introduced a formal policy to hedge a proportion of our direct exposure to oil & gas prices from 2009, thereby providing a degree of protection to fluctuations in the sale price variations for oil & gas. Under our hedging policy we aim to hedge 75% of our forecast production levels. We will not undertake hedging until a development has achieved steady-state production.
Availability of essential executive or project staff	The availability of skilled personnel remains one of the most significant challenges facing the oil & gas industry.	We remain confident that our policies to promote and reward on merit, targeted, but extensive, employee share ownership, management and technician training programmes and access to international labour markets, in particular the Middle East, Indian Subcontinent and Asia, involvement in world-class projects and exciting prospects for continued growth will enable us to attract and retain the necessary skilled personnel to undertake our projects in hand.

Country risk	Description	Mitigation
Security	We operate in a number of countries where the security risk is significant	We have recruited a new Group Head of Security, who is responsible for focusing on high-risk territories, and we have expanded our use of specialist consultancies and security services to advise us and to provide protection. We have appropriate insurances in place to cover all of our staff and as part of this cover employ specialist security services on the ground in certain locations.
Business continuity	We are potentially exposed to, inter alia, natural hazards, acts of terrorism, war and civil unrest that could impact our infrastructure, either through the unavailability of physical assets or access to systems and data.	We have made significant progress with our business continuity planning during 2009. Our Woking office is now fully certified, and is the first company in the UK in the oil & gas sector to receive the BS 25999 certification. Our Aberdeen operational centre now has a fully implemented and operational business continuity system and we have made substantial progress and established a workable fallback solution for our key centres in Sharjah, Mumbai and Jakarta which will be extensively tested in 2010. We aim to achieve accreditation to external standards for our operations in Aberdeen, Sharjah, Mumbai, Chennai and Jakarta.
Exchange rates	Significant movements in exchange rates could impact our financial performance.	While we operate in a number of diverse geographical locations, the majority of our revenues are denominated in US Dollars or currencies pegged to the US Dollar. In contracts priced in US Dollars (or currencies pegged to the US Dollar) where the group is procuring equipment or incurring costs in other currencies, we aim to have full hedging on transactional exposures using forward currency contracts. Offshore Engineering & Operations' revenues and costs are principally denominated in Sterling, however, as a policy, the group does not hedge the Sterling profits generated by these activities as they are substantially matched by Sterling group overhead costs. While we report our results in US Dollars, our share price is quoted in Sterling. Our share price may therefore be impacted by changes to the US Dollar/Sterling exchange rate. During the year we established the new position of Group Head of Treasury and filled this position with a senior external hire.
Sovereign change of law and contract enforcement	We operate in a number of countries where our ability to rely upon our contracts for protection is potentially reduced by the opaqueness of the legal system	Management carefully monitor this particular risk and wherever it is perceived to be significant will take all measures available to reduce and limit the exposure through the use of, for example, out of country arbitration and advanced payments. Specific consideration of this risk is a feature of all new business risk reviews.
Breach of legal or regulatory code	We recognise the potential financial and reputational risk that could result from a breach of local or international laws, particularly in respect of behaviour relating to bribery and corruption.	As noted in the Corporate Governance report on pages 69 to 75, we have well-established policies and procedures to address these risks, including a recently revised Code of Business Conduct which all employees are required to confirm that they have read. Management is increasingly adopting a risk-based approach to due diligence and risk assessment and is increasing the level of due diligence undertaken in respect of new contracts in potentially high risk countries, including commissioning independent investigation where this is deemed appropriate. We have also refreshed and reinforced our policy on the use of agents.

Country risk	Description	Mitigation
Political risk	We are exposed to potential regime change and civil unrest that could affect our operations	We monitor carefully the changing landscape of political risk, particularly for countries that are regarded as high political risk environments. This is also reviewed regularly by the Board and the Board Risk Committee. For high risk countries our management will also seek to limit political risk exposure in individual contracts as much as possible when agreeing contract terms and conditions with our customers.

Project risk	Description	Mitigation
Contract performance	Our financial performance could be materially affected by the performance of a relatively small number of large contracts, particularly those which are lump-sum. Furthermore, our operational performance is important in maintaining our reputation for successful project delivery.	We have a strong track record of successful project execution which reflects our rigorous approach to risk identification and mitigation, from tender through to project completion. During the year we established new assurance frameworks for technical risk reviews. The progress made on key projects is formally reported to the Board and senior management on a regular basis. With regard to financial performance, we do not recognise profits in the early stages of lump-sum contracts and we maintain contingencies to cover unforeseen cost increases.
Counterparty	Particularly given the downturn in economic conditions, there is a risk of commercial counterparties defaulting on payment terms or financial counterparties defaulting on deposits that we hold with them.	In Engineering & Construction, we typically receive advance payments on contracts, which generally have positive cash flow profiles over the duration of the contract. This gives us added protection in the unlikely event that a customer seeks to cancel or dispute the terms of a contract. In Offshore Engineering & Operations, Duty Holder contracts are generally neutrally-funded. Our services are often critical to ensure that customers continue to produce oil & gas and, consequently, customers are likely to honour contractual terms. In Energy Developments, remuneration is from oil & gas sales to a range of customers, including National Oil Companies, who are generally well funded. Nonetheless, the group continues to regularly monitor its receivable balances and take appropriate action where necessary. With respect to counterparty risk arising from other financial assets, we regularly monitor our exposure and ensure that our financial assets are spread across a large number of creditworthy financial institutions. Our new 'Sovereign and Financial Market Risk' policy has established limits on counterparty cash exposure. Further analysis of credit risk and other financial risks associated with or managed through the use of financial instruments, such as interest rate and liquidity risk, are disclosed in note 31 to the financial statements.
Cost inflation	Unexpected inflation in costs could adversely impact the financial performance of our contracts.	While the majority of the costs of our Offshore Engineering & Operations and Engineering, Training Services and Production Solutions contracts are reimbursed by customers, either on an actual cost basis or through a periodically revised schedule of rates, our largest exposure to cost inflation is in the provision of lump-sum Engineering & Construction services. Our exposure to increases in capital expenditure costs associated with Energy Developments' projects is managed in a similar manner to lump-sum Engineering & Construction projects. Our costs are managed before and after bid submission as follows: conditional on the award of a major contract, we will typically negotiate agreements to procure equipment and/or arrangements with key subcontractors, on back-to-back terms where possible expectations of wage inflation are factored into project costings for bid submissions and budgets the group maintains contingencies to cover unforeseen cost increases
Health, safety and environmental performance	A serious health, safety or environmental incident on any of our projects has the potential to cause significant commercial and reputational damage.	Our strong culture of health, safety and environmental (HSE) awareness is central to our operational and business activities and is vital to our system of business management and integral to delivery of quality and business excellence. Recorded incident data demonstrates our ongoing success in managing this risk (see pages 54 to 57 for details). Particularly, as we enter new geographical markets, sometimes with new customers and partners, and assume responsibility for new infrastructure, it is imperative that our focus on HSE is maintained. Our financial exposure to a significant HSE incident is generally mitigated through our commercial arrangements and insurance programme, although an incident may have a financial impact on our performance-based income. We plan to appoint a dedicated Environmental Manager during 2010.

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

Operating environment

Long-term demand expected to remain strong
Despite the global economic downturn, there has been little change in expectations for long-term growth in global demand for oil & gas.

While global demand for oil may have fallen by around 1.5% in 2009 compared to 2008[1], the International Energy Agency's (IEA) reference case sees global demand for oil increase by approximately 24% from current levels of around 85 million barrels per day (bpd) to around 105 million bpd by 2030[2], driven primarily by an increase in demand from China, India and the Middle East. Global demand for gas is expected to increase by approximately 43%[1] from around 48 million bpd of oil equivalent to 69 million bpd of oil equivalent over the same period, with an increase in demand expected in most regions, particularly in the Middle East.

Significant investment in new-build production and transportation infrastructure is required to meet the expected growth in demand. In addition to new-build capacity, a large proportion of investment is required to replace existing production facilities[3]. Overall, the IEA estimates that US$11 trillion is required to be invested in oil & gas infrastructure by 2030. Approximately US$5 trillion (in excess of US$200 billion per annum) of this expenditure is expected to be in our key Engineering & Construction markets of the CIS, Middle East and Africa. Our record order intake of US$6.3 billion in Engineering & Construction in 2009 represents a relatively small market share of a very large and growing market. Consequently, we expect demand for the group's Engineering & Construction services to remain strong over the long term.

In 2009, even with an estimated 19% reduction in capital expenditure compared to the prior year[4], the market for our services remained robust. The majority of project postponements and cancellations were in high-cost production areas, such as Canadian oil sands or deepwater developments (which are not focus areas for the group). Our core markets for Engineering & Construction are in areas where development and production costs are generally lower than average, such as onshore developments in the Middle East and Africa and many of our customers are well-financed NOCs, which are continuing to invest through the downturn.

Capital expenditure is expected to increase by around 7% in 2010[5] and more projects are expected to be sanctioned this year than in any year since 2006[6]. This is likely to result in an increase in conceptual studies and FEED studies, many of which were deferred in 2009. We have already started to see an improved pipeline of bidding opportunities for our Engineering Services business, which is focused on such early-cycle opportunities.

Operational expenditures remain robust, though increased tendering activity
Approximately 25% of our revenue in 2009 was generated by our businesses which rely upon our customers' operational expenditures, namely, Offshore Engineering & Operations, Training Services and Production Solutions, where activities are largely focused in the UKCS and the UAE. As expected, operating expenditures largely remained robust during 2009, as our customers continued to operate and maintain their facilities. We did, however, see many of our customers defer discretionary expenditure, particularly in our consultancy businesses and in some areas of Training Services, though we are seeing an increase in opportunities for these businesses and expect them to return to growth during 2010.

Over the long term, we expect to see many opportunities for Training Services, as the industry will require to recruit and train many new engineers to replace those set to retire in the next few years. We are looking at building upon our strategic relationships with key NOC and IOC customers to assist them with this challenge.

During 2009, we have seen an increased focus on cost control from our customers and, as expected, many customers have or are considering tendering contracts rather than renewing or extending them. While this represents both a threat to existing service contracts and an opportunity to secure new business, we have been a net beneficiary of this activity, securing two significant contracts in our Offshore Engineering & Operations business where we were not the incumbent (see page 44 for details).

We expect to see more tendering activity throughout 2010, and see this as an opportunity to grow further our operations businesses that are dependent upon operational expenditures.

1 Per the IEA's Oil Market Report, 15 January 2010.
2 This is the IEA's reference scenario per the World Energy Outlook 2009. The reference scenario describes 'what would happen if, among other things, governments were to take no new initiatives bearing on the energy sector, beyond those already adopted by mid-2009'.
3 The IEA (World Energy Outlook 2009) estimates that less than one-third of global gas production in 2030 will be met by existing production. Goldman Sachs ('280 Projects to Change the World', 15 January 2010) forecasts that decline rates are such that OPEC will be at full utilisation from 2011/12 and non-OPEC supply has been in decline since 2004.
4 IEA, World Energy Outlook 2009.
5 'Global E&P Spending Analysis', JP Morgan Cazenove, 24 February 2010.
6 '280 Projects to Change the World', Goldman Sachs, 15 January 2010.

Operating environment
continued

Opportunities for Energy Developments

We saw more upstream opportunities in the early part of 2009 for Energy Developments as a number of our customers, particularly smaller independent oil companies, faced more challenging access to debt and equity markets and a lower oil-price environment. However, we remained focused on our strategy of only investing in development opportunities with limited sub-surface risk, and maintained our strict investment criteria in relation to assessing projects on the basis of returns based on conservative oil price assumptions. Consequently, we did not complete any new upstream investments during the year.

We did, however, complete our first investment in energy infrastructure with the acquisition of the FPF1 floating production facility (see page 49) and we see further good opportunities in this market. With our strong balance sheet, we remain well positioned to invest in upstream and energy infrastructure opportunities and we continue to review a number of opportunities.

Conclusion

Despite an uncertain economic environment in the early part of the year, we had a very successful year in 2009, securing new contract awards, both in Engineering & Construction and Offshore Engineering & Operations. Our new awards resulted in the group increasing its backlog to US$8.1 billion (2008: US$4.0 billion), which provides good visibility of revenues through to 2011 and beyond.

Notwithstanding that we still face significant competition, the improvement in general economic conditions, including the oil price returning to around 2007 levels[1], and indications that customers are increasing their capital expenditure programmes, gives us confidence in the medium-term outlook. Longer-term, the key drivers determining capital and operational expenditures and our geographic focus should ensure that our long-term prospects remain strong.

1 The average price for Brent in 2007 was US$72 per barrel.

Review of operations

On 1 January 2009, the group reorganised its operations into seven business units, reporting under four segments:

Business unit		Reporting segment
Engineering & Construction Engineering & Construction Ventures	>	Engineering & Construction
Offshore Engineering & Operations	>	Offshore Engineering & Operations
Engineering Services Training Services Production Solutions	>	Engineering, Training Services and Production Solutions
Energy Developments	>	Energy Developments

We present below an update on each of the group's reporting segments:

	Revenue		Operating profit[1]		Net profit[2]		EBITDA	
US$ millions	2009	2008	2009	2008	2009	2008	2009	2008
Engineering & Construction	2,509.0	1,993.5	321.6	241.2	265.1	206.3	346.5	252.4
Offshore Engineering & Operations	626.7	776.6	17.8	23.2	12.8	16.4	19.7	24.7
Engineering, Training Services and Production Solutions	349.7	510.4	34.5	48.3	32.4	33.1	42.6	61.9
Energy Developments	248.7	153.4	77.4	51.7	46.2	21.9	160.9	89.1
Corporate, consolidation and elimination	(78.7)	(104.4)	(10.1)	(8.8)	(2.9)	(12.7)	(10.7)	(9.1)
Group	3,655.4	3,329.5	441.2	355.6	353.6	265.0	559.0	419.0

	Revenue growth		Operating margin		Net margin		EBITDA margin	
Growth/margin analysis %	2009	2008	2009	2008	2009	2008	2009	2008
Engineering & Construction	25.9	70.4	12.8	12.1	10.6	10.4	13.8	12.7
Offshore Engineering & Operations	(19.3)	0.3	2.8	3.0	2.0	2.1	3.1	3.2
Engineering, Training Services and Production Solutions	(31.5)	13.4	9.9	9.5	9.3	7.3	12.2	12.1
Energy Developments	62.1	15.5	31.1	33.7	18.6	14.3	64.7	58.1
Group	9.8	36.4	12.1	10.7	9.7	8.0	15.3	12.6

1 Profit from operations before tax and finance costs.
2 Profit for the year attributable to Petrofac Limited shareholders.

Review of operations
continued

Engineering & Construction

The Engineering & Construction reporting segment includes the group's Sharjah-based Engineering & Construction business unit and Engineering & Construction Ventures, which has been established to replicate the success of the Sharjah business, but in new markets, such as Abu Dhabi and Saudi Arabia. Our core markets for this business remain the Middle East, North Africa and the Commonwealth of Independent States (CIS), particularly the Caspian region.

Our strong partnerships, proven execution track record and long-established presence in the Middle East and North African markets has helped us achieve a record order intake during the year of US$6.3 billion, which also includes a US$100 million FEED study for Turkmengaz, where the contract contemplates moving into a second phase multi-billion dollar EPC project during 2010. Initial progress on our new awards has been in line with our expectations and we have delivered good operational performance across our broader portfolio of projects:

- in Syria, we have made good progress on the Ebla gas plant for PetroCanada with first gas exports expected in the next few weeks and remain on schedule to complete the Jihar gas plant for the Hayan Petroleum Company (a joint venture between the state-owned Syrian Petroleum Company and INA Industrija Nafte d.d.-Naftaplin of Croatia) early next year
- in Egypt and Tunisia, we completed and commissioned the Salam and Hasdrubal gas plants for Khalda Petroleum (a joint venture between Apache and the state-owned Egyptian General Petroleum Corporation) and BG Tunisia, respectively
- we made significant progress on the Harweel cluster development project for Petroleum Development Oman (PDO), which is scheduled for completion around the middle of this year
- we made substantial progress on the In Salah gas compression project in Algeria for Sonatrach, BP and Statoil, where the three compression stations are due for completion later this year
- in Kuwait, we completed the performance test for the last of the gathering centres in the facilities upgrade contract and all stations are now operational and have been handed over to Kuwait Oil Company and we have commenced construction on the Mina Alhmadi refinery 40" pipeline project which is due for completion later this year

Our principal contract awards during the year were:

Asab field development, Abu Dhabi
Awarded in January 2009, the Asab field development is a 44-month US$2.3 billion lump-sum EPC project with Abu Dhabi Company for Onshore Oil Operations (ADCO) to upgrade facilities at the onshore Asab oil field in Abu Dhabi.

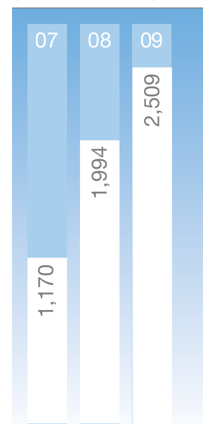
Karan utilities and cogeneration package, Saudi Arabia
Awarded in February 2009, the Karan utilities and cogeneration package is a 34-month project with Saudi Aramco to build utilities and cogeneration facilities at the Khursaniyah gas plant in Saudi Arabia. The capacity of the plant is being extended to accommodate approximately 1.8 billion cubic feet of high pressure sour gas from the offshore Karan field.

El Merk central processing facility, Algeria
Awarded in March 2009, El Merk is a 44-month US$2.2 billion EPC project for a consortium led by Sonatrach and Anadarko. We will design and build the El Merk central processing facility in the Berkine Basin, which will have a design capacity of approximately 100,000 barrels of oil per day, 29,000 barrels of condensate per day, 31,000 barrels of liquid petroleum gas (LPG) per day together with a natural gas liquids (NGL) train with a nominal capacity of 600 million standard cubic feet of gas per day.

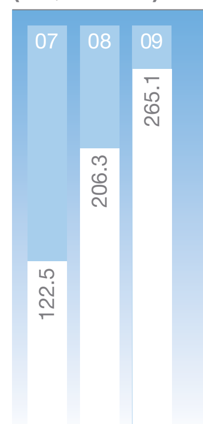
Kauther gas compression, Oman
Awarded in late June 2009, the Kauther gas compression contract is a US$0.4 billion EPC project for a gas compression system and associated facilities at the Kauther gas plant. The contract scope also includes commissioning and six months of initial operations. The project follows on from the successful completion of the Kauther gas plant in 2007, which Petrofac built on an EPC basis for PDO Oman. In early 2008, Petrofac was asked to carry out the front end engineering and design for a gas depletion-compression project and then invited to submit a commercial proposal for the EPC on a negotiated basis.

Fourth NGL train at Integrated Gas Development, Abu Dhabi
In July 2009, we were awarded a contract through our 50% owned joint venture, Petrofac Emirates, and in partnership with GS Engineering & Construction, with GASCO worth approximately US$2.1 billion with a value to Petrofac Emirates of around US$1 billion. The 48-month lump-sum contract with GASCO is for the construction of the fourth natural gas liquids (NGL) train at the Ruwais complex in Abu Dhabi. This is the first project to be awarded to Petrofac Emirates, our joint venture with Mubadala Petroleum Services LLC which was established in late 2008.

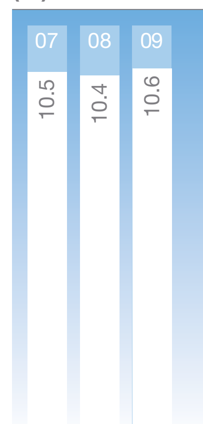
Revenue (US$ millions)



Net profit (US$ millions)



Net profit margin (%)



South Yoloten gas field development, Turkmenistan
We were awarded a contract in late December 2009 by Turkmengaz, Turkmenistan's state-run gas producer, to undertake a FEED study and initial planning and set-up studies for a 10 billion cubic metres per annum (bcma) gas processing facility along with the infrastructure and pipelines for the entire 20 bcma development (a second 10 bcma gas processing facility will be built by another contractor). After satisfactory conclusion of the first phase, worth US$100 million, the contract contemplates moving into a second phase which will include the engineering, procurement and commissioning work. The second phase will be on a lump-sum basis, with a value not to exceed US$4 billion.

Results

Engineering & Construction achieved strong revenue growth in the year due to high levels of activity, principally on our projects in hand at the beginning of the year. Revenue increased by 25.9% to US$2,509.0 million (2008: US$1,993.5 million). The main contributors to revenue were: the Ebla and Jihar gas plants in Syria; the Harweel project in Oman; the In Salah gas compression project in Algeria; and the Asab project in Abu Dhabi.

Net profit increased by 28.5% to US$265.1 million (2008: US$206.3 million), representing a net margin of 10.6% (2008: 10.4%). The growth in net margin is due to continued strong operational performance, augmented by the recovery of prior year bid costs from a bidding partner, the first-time profit recognition on a project awarded in 2008 and a prior year adjustment in relation to the applicability of a lower tax rate in relation to our projects in Oman (see note 6 to the financial statements), partially offset by the dilutive effect of the recognition of revenue on some new contracts, where we are not yet recognising profit as the projects are in their early stages.

Over the year, Engineering & Construction grew its headcount from 3,400 to 4,200. In addition, our engineering offices in Mumbai and Chennai are reported within our Engineering, Training Services and Production Solutions segment, but principally support our Engineering & Construction activities. At 31 December 2009, we had approximately 1,300 employees in our Indian offices (2008: 1,000).

At 31 December, the Engineering & Construction backlog stood at US$6.2 billion (2008: US$2.4 billion), reflecting the high level of order intake during the year.

Review of operations
continued

Offshore Engineering & Operations

Through Offshore Engineering & Operations we provide operations, maintenance and brownfield engineering services, predominantly in the UK Continental Shelf (UKCS) and principally on a reimbursable basis, but often with incentive income linked to the successful delivery of performance targets. Many of our operations contracts are long-term (typically three to five years) and in the case of the provision of Duty Holder services are generally open-ended.

We have seen an increase in tendering activity during the year both in the UKCS and international markets. Whereas in prior years contracts were often 'rolled-over' with the existing supplier, under similar terms and conditions, customers will now often retender contracts on their expiry as they seek improved terms. We have been a beneficiary of the increase in tendering activity, winning two key awards:

Apache engineering and construction, UK
In July 2009, we were pleased to announce the award of an engineering and construction contract with Apache for the Forties field in the North Sea. This represents the first time that we have secured a major brownfield engineering & construction contract where we have not been the Duty Holder on the facilities. The contract is expected to generate revenue of approximately £25 million per annum and run for at least three years.

BP maintenance, UK
In November 2009, we secured a five-year contract to deliver integrated maintenance management support services, including the planning, co-ordination and execution of maintenance activities, for all of BP's UK offshore assets and the onshore Dimlington plant. This is the first time that BP has separated out maintenance services in this way. The contract is expected to generate revenue of approximately £20 million per annum.

In addition to securing these new awards, we have been successful in extending a number of our operations and maintenance contracts with oil majors and independents, including an extension to our Duty Holder contract with Venture Production to May 2011.

Acquisitions
In early January 2010, we completed the acquisition of Scotvalve Services Limited (Scotvalve), a mechanical services business, for an initial consideration of £3 million. A further consideration of up to £2 million will be payable in cash and/or shares over three years, subject to achieving certain agreed performance targets. Scotvalve, which was founded in 1985, has around 40 employees located at a mechanical workshop in Aberdeen from which the company provides the servicing and repair of oilfield pressure control equipment. In addition, Scotvalve has the capability to provide its services to the oil & gas sectors in the Middle East and North Africa, building upon our existing mechanical workshop facilities in the United Arab Emirates and Saudi Arabia.

Results

Largely as a consequence of the strength of the US Dollar against Sterling, reported revenue for the year decreased by 19.3% to US$626.7 million (2008: US$776.6 million) and revenue excluding 'pass-through' revenue[1] decreased by 21.4% to US$436.4 million (2008: US$555.4 million). Approximately 90% of Offshore Engineering & Operations' revenue is generated in the UKCS and those revenues are generally denominated in Sterling. The US Dollar was stronger against Sterling in 2009 compared to 2008 (see the Financial Review on page 50 for a summary of the exchange rates), thereby having a significant impact on the US Dollar value of reported revenues for the Offshore Engineering & Operations reporting segment. On a constant currency basis, revenue excluding pass-through revenue decreased by approximately 7%.

Net profit was lower at US$12.8 million (2008: US$16.4 million), again reflecting the strengthening of the US Dollar against Sterling as well as the more challenging trading environment. On a constant currency basis, net profit was approximately 5% lower. Net margin on revenue excluding pass-through revenue was only marginally lower than the prior year at 2.9% (2008: 3.0%).

Headcount was broadly unchanged at the end of 2009 at 4,100 (2008: 4,200).

Backlog for Offshore Engineering & Operations increased to US$1.6 billion at 31 December 2009 (2008: US$1.1 billion), in part due to exchange rate movements (on a constant currency basis at 31 December 2008, backlog was approximately US$1.3 billion), but principally due to new contract awards and extensions.

Revenue (US$ millions)

07	08	09
774.6	776.6	626.7

Net profit (US$ millions)

07	08	09
19.2	16.4	12.8

Net profit margin* (%)

07	08	09
3.2	3.0	2.9

*On revenue excluding pass-through revenue

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

Review of operations
continued

Engineering, Training Services and Production Solutions

Three of our business units – Engineering Services, Training Services and Production Solutions – are reported together as 'Engineering, Training Services and Production Solutions'.

Engineering Services predominantly provides early stage engineering studies such as conceptual studies or FEED studies. With the rapid fall in oil prices in the second half of 2008 and a more uncertain economic outlook, a significant number of customers postponed such studies or re-phased work, resulting in a significant reduction in activity during 2009. While staff numbers in our Woking engineering office have seen a modest reduction, we have seen a substantial reduction in the number of self-employed contractors, which has reduced from more than 250 to around 50, as existing projects have reached completion. Moving into 2010, we have been participating in more tendering activity, which should signal a modest improvement in activity levels. We have substantially grown our Mumbai and Chennai engineering offices, which predominantly support our Engineering & Construction activities.

In Training Services, we have seen a variation in activity levels in different regions, though, in general, there has been a reduction in technical and other training activities as customers have sought to defer discretionary expenditure. We have refocused our business development activities to concentrate on high-value opportunities and we are seeing an improvement in the pipeline of opportunities.

Activity levels for Production Solutions, of which the group's service operator role for Dubai Petroleum is a significant part, have remained robust. Some of our consultancy and technology businesses have experienced a reduction in activity during the year as customers have deferred discretionary expenditure, though there have been indications of improvement as the year has progressed. On our service operator contract with Dubai Petroleum, we delivered a particularly good operational performance, exceeding the year's production targets agreed with our customer.

Results

Reported revenue for the year decreased by 31.5% to US$349.7 million (2008: US$510.4 million) and revenue excluding 'pass-through' revenue decreased by 32.0% to US$309.7 million (2008: US$455.6 million). While a proportion of the reporting segment's revenues are non-US Dollar denominated and were therefore impacted by the strengthening of the US Dollar, the decrease is primarily due to the decline in activity levels for Engineering Services and Training Services.

Despite the reduction in activity in Engineering Services and Training Services and the strengthening of the US Dollar, net profit was broadly in line with the prior year at US$32.4 million (2008: US$33.1 million). Net margin on revenue excluding pass-through revenue increased to 10.4% (2008: 7.3%), reflecting an increase in net margins in Engineering Services, due to an increased contribution from the lower-cost Mumbai and Chennai engineering offices, and in Production Solutions due to good operational performance on the Dubai Petroleum contract.

At 31 December 2009, headcount, which includes long-term contractors, was broadly unchanged at 2,900 (2008: 3,000), although this includes an increase in our engineering offices in Mumbai and Chennai of around 300 employees[1], offset by a reduction in self-employed contractors at our Woking engineering office, predominantly due to lower activity levels.

Backlog for the Engineering, Training Services and Production Solutions reporting segment was US$0.3 billion at year end (2008: US$0.5 billion) due principally to expected lower activity in Production Solutions' well operations management business.

1 Engineering offices in Mumbai and Chennai are managed by Engineering Services, and headcount statistics are reported within the Engineering, Training Services and Production Solutions reporting segment; however, these offices principally provide engineering services to support Engineering & Construction. At 31 December 2009, the Mumbai and Chennai offices had a total of approximately 1,300 employees.

Revenue (US$ millions)

07	08	09
450.2	510.4	349.7

Net profit (US$ millions)

07	08	09
24.3	33.1	32.4

Net profit margin* (%)

07	08	09
6.0	7.3	10.4

*On revenue excluding pass-through revenue

Review of operations
continued

Energy Developments

Where we can leverage our service capabilities to mitigate risks and reduce costs, Energy Developments selectively co-invests alongside the group's partners in oil & gas upstream developments and energy infrastructure to create additional value for the group.

During the year, good progress was made on Energy Developments' existing portfolio of operational assets (Don Southwest, West Don, Chergui, Cendor, Ohanet and the Kyrgyz Petroleum Company refinery):

Don Southwest and West Don, UKCS

The highlight of the first half was the commencement of production from both the Don Southwest and West Don fields in the UK North Sea. This represents a very significant milestone in the development and was achieved in less than a year from field development programme approval. The first of two planned production wells on West Don came on-stream in late April 2009, followed by two production wells on Don Southwest in late June 2009, although one of the wells was sidetracked in early 2010 after the original well failed to flow significant amounts of oil. The sidetracked well commenced production in early March 2010, which facilitated tie-in and commencement of the two Don Southwest water injection wells. The second production well on West Don was brought on-stream in August 2009 and the water injection well was brought on-stream in September 2009.

Total production for 2009 for the Don fields was 3.1 million barrels, with our share totalling 1.2 million barrels. As originally planned, export switched to a permanent pipeline export route over Lundin's Thistle platform in early March 2010. The new system is expected to reduce interruption and improve production stability and export operations.

During the drilling of the Don Southwest water injection wells, two cost-effective pilot holes were drilled into adjacent reservoir structures, both of which encountered oil. One of the pilot holes was drilled into an area known as the 'Horst', which has excellent reservoir quality with high oil saturations. The other pilot hole was drilled into Area H, which revealed a 60-feet oil column in the Brent formation.

At 31 December 2009, Energy Developments' estimate of proven and probable reserves (net entitlement basis) for the Don Southwest and West Don fields is 19.5 million barrels (2008: 22.2 million barrels), including the Area 5 Horst. The net downward revision is due to production experience to date on both fields.

Cendor PM304, Malaysia

The Cendor field, in Block PM304, offshore Peninsular Malaysia, produced an average of 14,400 bpd of oil over the year (2008: 14,700 bpd) and achieved production uptime of over 99%. Towards the end of 2009, Offshore Engineering & Operations installed a Caltec WELLCOM multiphase boosting unit on one of the wells, which has subsequently seen a marked increase in output. Further units are now under consideration.

As operator (with a 30% interest), Energy Developments, along with its partners (Petronas, PetroVietnam and Kuwait Foreign Petroleum Exploration Company (KUFPEC)) drilled a number of successful near-field appraisal wells and is assessing a second phase of development of Block PM304. A FEED study for the second phase has been commissioned and a field development programme to develop the near-field opportunities is expected to be submitted for approval during the second half of 2010.

Ohanet, Algeria

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

The plant continued to perform well in 2009. Overall production was somewhat lower than in 2008 at an average of approximately 123,100 bpd of oil equivalent (2008: 147,500 bpd of oil equivalent), due in part to a planned shutdown in late 2009. On average, we earned our share of the monthly liquids production by the 15th day of the month (2008: 7th), reflecting lower average oil & gas prices[1] and, to a lesser extent, lower average production rates. It is expected that we will earn our defined return by November 2011, at which point the RSC contract will expire.

Chergui field, Tunisia

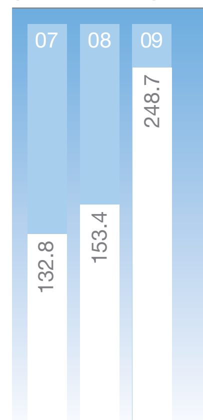
In Tunisia, the Chergui gas plant (in which Energy Developments has a 45% operating interest) produced an average of 26.5 million standard cubic feet per day (mmscfd) of gas during the year (2008, from August to December: 24.3 mmscfd), which is in excess of the original nameplate design capacity of 20 mmscfd following commissioning of a refrigeration unit and debottlenecking of the plant. Engineering and procurement activities have commenced in relation to the tie-in of a third well, which should see an increase in the capacity of the plant.

KPC refinery, Kyrgyzstan

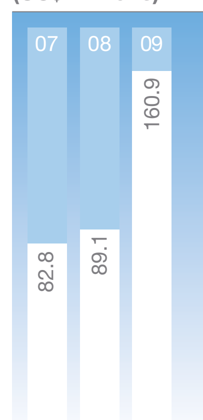
Energy Developments owns a 50% share in the Kyrgyz Petroleum Company (KPC) which is engaged in the refining of crude oil and the marketing of oil products from the KPC refinery. Offshore Engineering & Operations operates the refinery on behalf of the joint venture partners on a reimbursable basis. During 2009, the 10,000 bpd capacity refinery performed in line with expectations, producing an average of approximately 2,000 bpd (2008: 2,800 bpd) of principally gasoline, diesel and fuel oil. The decrease in throughput was due to lower demand.

1 For example, Brent, a benchmark crude oil, averaged US$62 per barrel for 2009 (2008: US$97 per barrel).

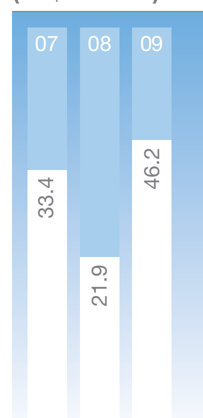
Revenue (US$ millions)



EBITDA (US$ millions)



Net profit (US$ millions)



FPF1 floating production facility, undeployed

During July 2009, Energy Developments acquired a floating production facility, AHOO1 (subsequently renamed the FPF1), from Hess and Endeavour Energy UK. The FPF1 had been deployed on the Hess operated Ivanhoe and Rob Roy Fields, in the UK North Sea, since 1989 with the Renee and Rubie Fields produced over it since 1999. The vessel, weighing approximately 17,000 tonnes, has a processing capacity of 70,000 bpd of oil and 42.5 mmscfd of gas with water injection capability of 72,000 bpd and treatment of 75,000 bpd. The vessel will remain in dry dock at the McNulty offshore facility in Newcastle-upon-Tyne, while options for its upgrade, modification and redeployment on fields, including those where Energy Developments has or can take an interest, are considered.

Permit NT/P68, Australia

During the second half of the year, Energy Developments signed an agreement with MEO Australia Limited to exit its interest in Permit NT/P68 in Australia. No consideration was paid in relation to the transaction and the carrying value of the asset (US$4.8 million) was written-off during the second half of 2009.

Results

Despite considerably lower oil prices in 2009 compared to the prior year, Energy Developments' revenue increased to US$248.7 million (2008: US$153.4 million), due to commencement of exports from the West Don and Don Southwest fields during the year and a full year's contribution from the Chergui gas plant, which commenced exports in August 2008.

Net profit for the year was higher at US$46.2 million (2008: US$21.9 million). Adjusting for current and prior year non-recurring items, net profit increased to US$49.9 million (2008: US$38.5 million), reflecting commencement of exports from the West Don and Don Southwest fields during the year and a full year's contribution from the Chergui gas plant, partially offset by lower oil & gas prices. Current and prior year non-recurring adjustments were as follows:

Current and prior year:

- an impairment provision of US$3.7 million (US$4.8 million less a tax credit of US$1.1 million) against Energy Developments' investment in Permit NT/P68 (2008: US$3.5 million (US$5.0 million less a tax credit of US$1.5 million))

Prior year only:

- a US$8.2 million charge in relation to a currency hedge for capital expenditure on the Don area development, which, while being an economic hedge, was deemed an ineffective cash flow hedge under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement'
- costs of US$4.9 million (US$9.8 million less a tax credit of US$4.9 million) in relation to the unsuccessful Prospero well in the Greater Don area

An analysis of Energy Developments' oil & gas reserve entitlements is presented on page 143.

Financial review

Revenue
Group revenue increased by 9.8% to US$3,655.4 million (2008: US$3,329.5 million) due to strong growth in Engineering & Construction and Energy Developments, offset by a decrease in Offshore Engineering & Operations and Engineering, Training Services and Production Solutions. Strong growth in Engineering & Construction, which accounted for approximately two-thirds of the group's revenue, was as a result of high levels of activity on ongoing lump-sum EPC contracts, including new projects awarded during the year. The increase in revenues in Energy Developments was as a result of commencement of exports from the Don fields and a full year's contribution from the Chergui gas plant, which commenced exports in August 2008. The decrease in reported revenues in Offshore Engineering & Operations was primarily as a result of the strengthening of the US Dollar, as the majority of revenues are denominated in Sterling, while the decrease in Engineering, Training Services and Production Solutions was principally as a result of a decrease in activity levels for Engineering Services and Training Services.

Operating profit
Group operating profit increased by 24.1% to US$441.2 million (2008: US$355.6 million) and operating margins increased to 12.1% (2008: 10.7%), reflecting the increased operating profit contribution from the higher margin Energy Developments reporting segment. Engineering & Construction operating profit increased by 33.3% to US$321.6 million (2008: US$241.2 million) due to strong growth in activity levels and continued good operational performance. Energy Developments operating profit increased by 49.7% to US$77.4 million (2008: US$51.7 million) following commencement of production form the Don fields and a full year's contribution from the Chergui gas plant. Operating profit in Offshore Engineering & Operations decreased by 23.1% to US$17.8 million (2008: US$23.2 million) due principally to the strengthening of the US Dollar, while Engineering, Training Services and Production Solutions decreased by 28.5% to US$34.5 million (2008: US$48.3 million) due to the decrease in activity levels for Engineering Services and Training Services, partly offset by an improvement in the operating margin from the lower-cost Mumbai and Chennai engineering offices, and in Production Solutions due to good operational performance on the Dubai Petroleum contract.

Net profit
Net profit for the year increased to US$363.0 million (2008: US$265.0 million).

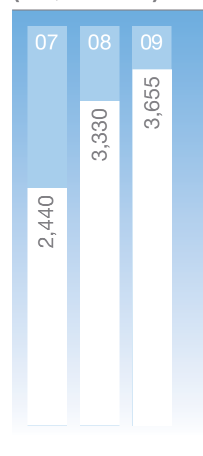
Profit for the year attributable to Petrofac Limited shareholders increased to US$353.6 million, an increase of 33.4%, driven primarily by strong growth in Engineering & Construction and strong growth and improvement in net margin in Energy Developments, following commencement of production from the Don fields and a full year's contribution from the Chergui gas plant. The net margin for the group increased to 9.7% (2008: 8.0%), broadly in line with the increase in the group's operating margin.

EBITDA
EBITDA increased by 33.4% to US$559.0 million (2008: US$419.0 million), representing an EBITDA margin of 15.3% (2008: 12.6%). The increase in margin was due to growth in the higher margin Energy Developments reporting segment. Energy Developments' share of group EBITDA, excluding the effect of corporate, consolidation and elimination adjustments, increased to 28.2% (2008: 20.8%), while Engineering & Construction was broadly consistent with the prior year at 60.8% (2008: 59.0%), and Offshore Engineering & Operations and Engineering, Training Services and Production Solutions were lower at 3.5% (2008: 5.8%) and 7.5% (2008: 14.4%), respectively, following a decrease in reported EBITDA.

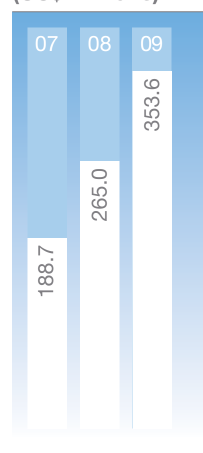
Backlog
The group's combined backlog at the end of 2009 was approximately US$8.1 billion (2008: US$4.0 billion), reflecting our high level of order intake during year, particularly in the Engineering & Construction reporting segment.

Exchange rates
Our reporting currency is US Dollars. The US Dollar was considerably stronger against Sterling in 2009 and there was therefore a significant impact on the reported results of our UK trading activities, principally within Offshore Engineering & Operations. The impact on the Offshore Engineering & Operations reporting segment is discussed further on page 44. The table below sets out the average and year-end exchange rates for the US Dollar and Sterling for the years ended 31 December 2009 and 2008 as used by the group for financial reporting purposes.

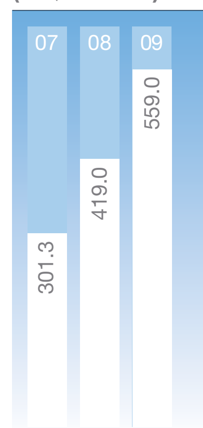
Revenue (US$ millions)



Net profit* (US$ millions)



EBITDA (US$ millions)



*Attributable to Petrofac Limited Shareholders

Financial reporting exchange rates

US$/Sterling	2009	2008
Average rate for the year	1.56	1.85
Year-end rate	1.62	1.46

Interest
Net finance income for the year was lower at US$6.4 million (2008: US$10.9 million, excluding finance charges in relation to hedges deemed ineffective under IAS 39) as the effect of higher average net cash balances during 2009 was more than offset by lower interest rates.

Taxation
An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge as a percentage of profit before tax in 2009 was substantially lower at 18.9% (2008: 26.1%). The decrease in the effective tax rate compared to the prior year is due principally to:

- a lower than average tax charge in Energy Developments, which fully utilised the tax allowances available to it during 2009, including claiming a ring-fenced expenditure supplement available to operators within the UK Continental Shelf
- a shift in profitability within Engineering, Training Services and Production Solutions from the UK to overseas, including increased profitability in Production Solutions, where a zero tax rate applies to the business unit's largest contract with Dubai Petroleum, and
- confirmation during the year of the applicability of a lower tax rate in relation to the group's projects, principally in Engineering & Construction, in Oman

Earnings per share
Fully diluted earnings per share increased to 103.19 cents per share (2008: 77.11 cents), an increase of 33.8%, in line with the group's increase in profit for the year attributable to Petrofac Limited shareholders.

Operating cash flow and liquidity
The net cash generated from operations was US$1,276.3 million (2008, as restated: US$586.6 million), representing 228.3% of EBITDA (2008, as restated: 140.0%). The increase in net cash inflows was due principally to advances received from customers and billings in excess of cost and estimated earnings in relation to Engineering & Construction contracts secured during 2009.

At 31 December 2009, the group's net cash had increased to US$1,300.1 million (2008: US$551.8 million) as a result of:

- operating profits generated of US$576 million
- net working capital inflows of US$700 million, including US$439 million of advance payments received in relation to Engineering & Construction awards less US$81 million of cash outflows in relation to the growth of work in progress on other Engineering & Construction projects
- taxes paid of over US$87 million
- investing activities of US$343 million, including US$221 million in relation to capital expenditure on Energy Developments' portfolio of assets, predominantly on the Don fields, US$29 million on Cendor PM304 near-field development and US$26 million on the acquisition of the FPF1 floating production facility
- financing activities, in particular, payment of the 2008 final dividend and 2009 interim dividend totalling approximately US$99 million.

Net cash (US$ millions)	2009	2008
Cash and short-term deposits	1,417.4	694.4
Interest-bearing loans and borrowings	(117.3)	(142.6)
Net cash	1,300.1	551.8

The group decreased its levels of interest-bearing loans and borrowings to US$117.3 million (2008: US$142.6 million) following repayment of an overdraft facility previously utilised by the Offshore Engineering & Operations and Training Services business units. As a result of lower interest-bearing loans and borrowings and higher cash and short-term deposits, the group's gross gearing ratio fell to 13.2% (2008: 25.5%).

Gearing ratio US$ millions (unless otherwise stated)	2009	2008
Interest-bearing loans and borrowings (A)	117.3	142.6
Cash and short-term deposits (B)	1,417.4	694.4
Net cash/(debt) (C = B – A)	1,300.1	551.8
Total net assets (D)	890.5	558.8
Gross gearing ratio (A/D)	13.2%	25.5%
Net gearing ratio (C/D)	Net cash position	Net cash position

Financial review
continued

The group's total gross borrowings before associated debt acquisition costs at the end of 2009 were US$123.1 million (2008: US$148.0 million), of which 51.0% was denominated in US Dollars (2008: 45.9%) and 49.0% was denominated in Sterling (2008: 51.8%) (in 2008 the balance of 2.3% was denominated in Kuwaiti Dinars).

As detailed in note 31 to the financial statements, the group maintained a balanced borrowing profile with 47.2% of borrowings maturing within one year and 52.8% maturing between one and five years (2008: 36.8% and 63.2%). The borrowings repayable within one year include US$46.6 million of bank overdrafts and revolving credit facilities (representing 37.9% of total gross borrowings), which are expected to be renewed during 2010 in the normal course of business (2008: US$45.3 million and 30.6% of total gross borrowings).

Prior to 31 December 2009, the group's policy was to hedge between 60% and 80% of interest payable on floating rate interest-bearing loans and borrowings. On 31 December 2009, a number of the group's hedging instruments matured and a decision was taken to revise the group's hedging policy to give the group flexibility to repay borrowing should it so choose. As such, none of the group's borrowings were hedged at 31 December 2009 (2008: 65.1%). An analysis of the derivative instruments used by the group to hedge its interest rate and other exposures is contained in note 31 to the financial statements.

None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

Capital expenditure

Capital expenditure on property, plant and equipment during the year was US$375.4 million (2008: US$255.5 million). The principal elements of capital expenditure were:

- additions to oil & gas assets in relation to development expenditure on Energy Developments' interest in the Don assets of US$274.1 million
- Energy Developments' acquisition of the FPF1 floating production facility of US$26.4 million

Capital expenditure on intangible oil & gas assets during the year was US$29.2 million (2008: US$37.0 million) in respect of capitalised expenditure on near-field appraisal wells in relation to Energy Developments' interest in Block PM304, offshore Malaysia.

Shareholders' funds

Total equity at 31 December 2009 was US$906.8 million (2008: US$559.0 million). The main elements of the net movement were the increase in retained earnings for the year of US$256.6 million, a gain on foreign currency translation of US$15.1 million and the net change in the fair value of derivatives of US$29.2 million.

Return on capital employed

The group's return on capital employed for the year ended 31 December 2009 was 47.7% (2008: 52.7%).

Dividends

The Company proposes a final dividend of 25.10 cents per share for the year ended 31 December 2009 (2008: 17.90 cents), which, if approved, will be paid to shareholders on 21 May 2010 provided they were on the register on 23 April 2010. Shareholders who have not elected (before 5 March 2010) to receive dividends in US Dollars will receive a Sterling equivalent of 16.69 pence per share.

Forward-looking statements

The Business Review (pages 18 to 52) contains forward-looking statements with respect to the financial condition, results, and operations of the group. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in the Business Review regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Petrofac Limited undertakes no obligation to update the forward-looking statements contained in this review or any other forward-looking statements made.

Corporate social responsibility

The success of our business is inextricably linked to the welfare of our people and the communities where we live and work. Our long-term performance is dependent upon their understanding, goodwill and active support.

The year saw us take an important step in growing our reputation as an ethical partner committed to upholding the highest standards of behaviour. In January, we signed up to the United Nations Global Compact (UNGC). This agreement is a voluntary framework for groups such as Petrofac that are committed to aligning their businesses to ten principles in the areas of human rights, labour, the environment and anti-corruption.

The spirit of the UNGC is reflected in our policies and Code of Business Conduct available online at www.petrofac.com/responsibility.html.

We are committed to setting the highest standards in all matters relating to Health, Safety, Security, Environment and Integrity Assurance (HSSEIA) and to be acknowledged as experts in delivering high level operational safety performance across our diverse workforces in all our operational environments.

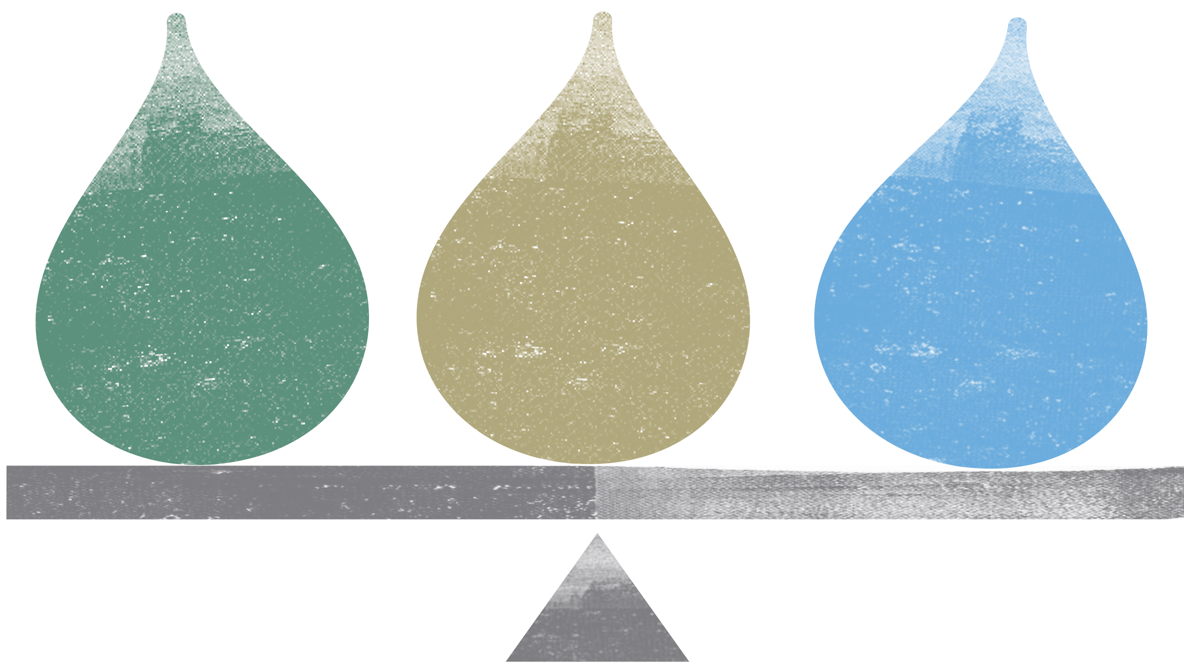
While our core values and vision are unchanged, our policies for health & safety, security, environment, quality and integrity assurance were revised in 2009 to align with the new organisation structure and now provide greater detail. These policies are approved at Board level and are publicly available on our website at http://www.petrofac.com/Responsibility.html as well as being widely published within the business.

Each Petrofac business unit has a detailed management system through which the group policies are implemented. These are subject to internal audit and also to external independent verification in accordance with international standards such as ISO 9001, ISO 14001 and OHSAS 18001.

Healthy. Safer. Secure.

Health, safety and security

We will never knowingly compromise the health and safety of individuals or their communities. In practice, this commitment is expressed through two separate strands of activity: firstly, we work hard to prevent occupational safety risks to individuals which might result in personal injury; and secondly through a strong emphasis on the technical integrity of the plants we design, build and operate, we strive to minimise the risk of major accidents such as fire and explosion which can cause large numbers of fatalities and widespread plant damage. Both require constant management attention, vigilance and leadership.

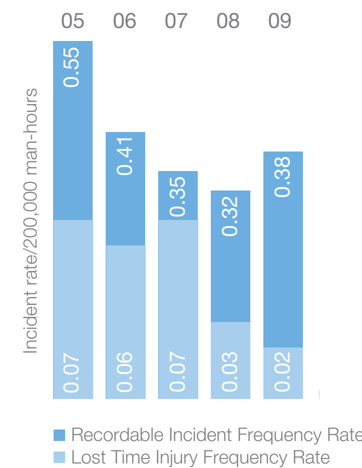


In terms of occupational safety performance, our 2009 statistics show a continued good performance. In 2009, our employees and subcontractors completed 67 million man-hours (2008: 67 million) of activity.

We report our performance according to the Occupational Safety and Health Administration rules and in 2009 our Recordable Incident Frequency Rate was 0.38 per 200,000 man-hours (2008: 0.32). Our Lost Time Injury Frequency Rate in 2009 was 0.02 (2008: 0.03). Although these figures compare well with industry published data, our target remains to achieve zero LTIs.

All incidents and accidents are investigated and actions are followed up using a group-wide incident reporting tool. This tool also ensures that any serious incidents, together with the relevant outcomes, are reported directly to senior management. During the year, 23 (2008: 17) Major Potential Incidents were recorded. 'Potential' is the key word here – the criteria for reporting is the potential for harm, so although very few of these incidents actually resulted in personal injury or damage, all were reviewed in great detail.

Petrofac historic safety performance



A Group Incident Review Board, comprising senior managers under the chairmanship of the Chief Operating Officer, meets quarterly to review any serious incidents in detail. Any lessons that can be learnt are then shared across the group and with the wider industry as appropriate.

Vehicle safety

Accidents involving vehicles still remain one of the most frequent causes of fatalities in our industry.

In addition to a code of conduct for drivers and passengers travelling in company vehicles, driving safely is one of our eight Golden Rules of Safety which apply to all employees, wherever they work. In order to maintain focus on this important area, we report driving statistics separately from other incidents. In 2009, vehicles travelled more than 30 million km between locations or on project sites. That is equivalent to driving 700 times around the world. The Driving Incident Frequency Rate (major or serious vehicle incidents) in 2009 was 0.29 incidents per million km driven (2008: 0.22).

While none of the recorded incidents resulted in significant injuries in 2009, driving continues to be a significant risk area for the business and will, therefore, continue to receive management attention in the coming year.

Staff health and welfare

Maintaining high standards of health and welfare among our people is essential to the smooth operation of the business. We have measures in place to assess the health and fitness of senior management in all business units and to provide comprehensive medical assessments for those at risk. This particularly applies to employees involved in overseas and offshore assignments.

Health suites manned by medical professionals are available at the majority of our offices and operational sites. Where necessary occupational health surveillance measures are also put in place.

Security

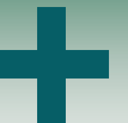
Our people frequently work in remote and potentially dangerous environments where security can often be a real challenge.

At Petrofac we are fully committed to creating a safe working environment for everyone. This commitment was demonstrated further during the year by the appointment of a Group Head of Security to oversee travel and security plans and to advise and support all employees in this respect.

Security matters are also included as part of the risk review process performed when we consider working on a new project or in a new country. All potential security issues for projects and locations are assessed in the early stages of the planning process.

67 million man-hours worked in 2009

We drove 30 million km or 700 times around the world



Health suites are available at the majority of our offices and operational sites

Recycle. Reduce. Educate. Replace.

Environment

A high level of environmental performance is an important priority for the group. We use a systematic approach to environmental management to ensure that we conduct operations in a way that minimises their environmental impact. This approach is applied across our operations regardless of the level of regulatory or other requirements in the countries where we operate. The ISO 14001 international standard which is independently audited, covers 98% of the work we do, calculated by man-hours expended.

Planet Petrofac

Launched in late 2008, Planet Petrofac is an internal campaign targeted at raising awareness of environment issues among our people. The campaign seeks to address key environmental activities in the context of our business, but it also embraces employees' responsibilities and opportunities as individual citizens.

We held our second group-wide, month-long environment initiative in November 2009, encouraging staff and their families to 'be part of the solution'. A wide range of events and activities took place at offices and project locations around the world. During the campaign a total of 1,100 trees were planted in various locations, including Aberdeen, Kyrgyzstan and Sharjah, adding to the 1,000 trees planted during the 2008 campaign. In addition, our inaugural children's art competition, open to our employees' families, received around 300 entries and was a great way of taking the environment message to the younger generation.

Emissions trading and reporting

As stated in last year's Annual Report, we have established independently verified baselines for CO_2 emissions in order that we can monitor our carbon footprint.

In 2009 we emitted 208,100 tonnes (2008: 184,844 tonnes) of CO_2. This increase reflects increased activity in Engineering & Construction site work, the first full year of Chergui operations and the commencement of production from the Don fields. Our CO_2 emissions are largely due to emissions from vehicles and construction activities together with fuel and energy usage at project and office locations and necessary gas flaring at production facilities. The figures include our equity ownership activities (on a net basis) but do not include locations where we manage facilities on behalf of our customers. Petrofac carries out all the necessary monitoring and data collection to allow verified information relating to these facilities to be reported by our customers.

Petrofac also performs monitoring for all operated assets as required under the Oslo-Paris (OSPAR) Convention for the protection of the North Sea. This involves monitoring all discharges to the sea for hydrocarbons, heavy metal and radiation contamination. In addition to carbon dioxide, emissions to atmosphere are monitored for sulphur dioxide, oxides of nitrogen and volatile organic carbons. All wastes leaving operated facilities are segregated and reported by category. All chemicals in use in the North Sea are certified for use under the Offshore Chemicals Regulations. The use and discharge of these chemicals is monitored and reported annually. The chemicals in use are reviewed annually and where a more environmentally friendly alternative is identified, a plan to substitute the chemical is put in place.

In the UK, Petrofac Energy Development Limited (PEDL) partakes in the emissions trading and reporting scheme for operations on the Don fields. This is subject to third-party verification to allow carbon dioxide trading within the Emissions Trading Scheme. PEDL is partaking as an operator for the first time in 2009 as a new entrant.

Details of emissions from the PEDL assets and those owned by UK customers are publically available through the Environmental Report which is published on the Department of Energy and Climate Change website https://www.og.decc.gov.uk.

Where Petrofac operates facilities outside the UK, statutory reporting is carried out in accordance with local regulations with additional internal reporting of relevant data which is not statutory.

Work is currently under way to establish the position of the group's UK activities under the Government's Carbon Reduction Commitment Energy Efficiency Scheme which will commence implementation during 2010.

Integrity assurance

It is our responsibility to safeguard everyone associated with operations which are designed, constructed, operated, managed or supported by Petrofac.

Managing and operating mature assets in harsh conditions can present particular challenges. We have developed a comprehensive approach to Asset Integrity which ensures appropriate focus and management attention. Every month through the Asset Integrity Review Board (AIRB), established in 2008, we review Asset Integrity using a range of indicators with operations managers from all of our operated sites across the world. This provides a forum for peer review and support as well as a clear line-of-sight for senior management and forms the basis for onward reporting to the Board.

During the year we performed detailed inspections and audits of the Heather and Thistle platforms in the North Sea, our Southern North Sea operations (including the Bacton terminal) and the Cendor MOPU in Malaysia with the findings reported to the AIRB. These detailed reviews are also provided to the relevant customers as structured and thorough evidence of the way integrity is managed on their assets.

Industry involvement

We contribute experience and expertise to our industry in many ways.

We are active supporters of Step Change, the UK oil & gas industry safety initiative, where we participate in the Leadership Team, Asset Integrity Steering Group and the Human Factors Working Group.

Our Group Director of HSSEIA is a member of the industry's Helicopter Task Force, which was established during 2009 following the loss of 16 lives in a North Sea helicopter accident.

In addition, we share data on safety and integrity management with our peers, helping to raise standards across our industry.

Emergency response

Our Emergency Response and Crisis Management procedures are subjected to rigorous testing through regular exercises.

Beyond our own operations, we also play a wider role in maintaining the oil & gas industry's capability to deal with onshore and offshore emergencies. Through our Training Services business Petrofac is the leading provider of emergency response training and, through the Emergency Response Service Centre (ERSC) in Aberdeen, we provide a 24-hour integrated response capability to a range of customers, every day of the year.

Recycle

Initiatives
- Distributed unwanted clothing to charities
- Recycled products displayed in offices
- Collection of mobile phones, glasses and batteries for recycling

Reduce

Initiatives
- Issued reusable bags
- 400 reusable water bottles donated to UK school
- Cycle to work campaign
- Monitoring our carbon footprint

Educate

Initiatives
- Presentations to local schools
- Environmental beach walk
- Lunchtime lectures
- Environmental art competition

Replace

Initiatives
- 1,100 trees planted
- Wildlife conservation
- Beach clean-up

People are our most valuable asset.

Strategy

Petrofac has continued through 2009 to push forward in its aim of being a best-in-class employer within both the geographical boundaries and business sectors in which it operates.

The reorganisation put in place at the start of 2009 has helped enable us to continue to work across our business to strengthen our organisation structure, processes, systems and behaviours framework. Developing the distinctive Petrofac culture is a major objective for our leadership and HR function and efforts will continue in 2010 to align these key elements to support the business.

It is essential our employees, regardless of where or when they join the organisation, 'experience' Petrofac in similar and consistent ways to ensure that our values and behaviours are clearly recognised and displayed. As this global approach becomes more visible we will continue to value the differences that do and should exist to ensure our business operates effectively in the local markets in which they operate.

Our focus in 2010 will be to further develop the work we commenced in 2009 in the key areas of resourcing and graduate recruitment, talent management and succession planning, performance management and employee communications.

2009 review

During the period our employee headcount increased from 11,100 at the end of 2008 to 11,700 at the end of 2009 which has been achieved mainly through organic growth.

Supporting talent

While the overall headcount has increased, we continue to focus on identifying and developing individuals within the business with the potential to fulfil both leadership and more technical roles. This group-wide review of talent supports our dual strategy of both continuing to attract and develop individuals with significant potential whilst also identifying, developing and retaining our existing talent in the business to meet the challenges in the years to come. In 2010 we will continue to add to our Petrofac leadership development programmes to ensure that we continue to deepen our bench strength and enhance our succession planning.

For a number of years we have been attracting the brightest graduate talent to Petrofac and 2009 was no exception, with over 130 new graduates joining the organisation across our geographies and operations.

Furthermore, and also in support of young talent, we launched the Petrofac Royal Academy of Engineering Fellowship Programme in September 2009. As part of our £250,000 pledge, up to 18 of the UK's top engineering students will have the opportunity to secure a year-long Fellowship through a Masters programme, before embarking on their chosen career path. During the course of the next three years the successful Fellows will be supported by technical mentors from our business. Petrofac is also providing case study materials and placements within our UK operations.

One Petrofac

The year also saw us further enhance the way in which we maintain our corporate culture, a key differentiator for the group. We have continued to implement initiatives to help our employees both identify with this culture and play a key role in it. During 2009, for example, we introduced a common induction process that incorporates information that every new employee must receive, regardless of where they start with the company. As part of the induction initiative, a DVD was produced, explaining our approach to people and safety as well as outlining our future business strategy.

Developing our people

Consistent, high-quality training and development is central to the group's progress. Our training capability was enhanced in 2009 by the introduction of a comprehensive e-learning system. Initially piloted in our E&C business, this has now been successfully launched in an additional seven locations worldwide. The system will continue to be rolled out through 2010.

The new e-learning system has already demonstrated its worth in several ways, notably by building employee understanding of the group's Code of Business Conduct. The Code was distributed to all employees during 2009 and by the end of December 2009 more than 4,000 employees had completed the e-learning modules which assess knowledge and understanding of this important document.

11,700
Employees in Petrofac

Safe
Innovative
Cost conscious
Ethical
Responsive

91%* of employees fully support our values

4,000
Employees who completed COBC e-learning in 2009

*91% of total respondents to PetroVoices survey 2009

Our reputation depends upon the provision of competent people to work on our projects. The majority of our workforce is now assessed against technical and behavioural competences and we plan to continue to focus on this critical activity. As an example of this we performed a major review of engineering competence in our Indian locations to ensure that we continue to provide the high-quality service expected by our customers.

Employee survey

In 2009 we carried out our second independent group-wide employee survey, known as PetroVoices. The aim is to gain insight into employee perceptions on a wide range of matters. More than 50% of those invited to participate took part in the survey and overall the results were positive, showing significant improvement since 2007 across all categories, including work conditions and safety, leadership and engagement.

The group's growth and success over the last two years was highlighted by the findings, with 91% of respondents saying they fully support our values. The feedback on employee development and fundamental perceptions of the Company was also encouraging. Measured by questions on our corporate image, culture and values, the figures have improved by over 8% since 2007 and we are committed to building on these results: the agreed areas of focus for 2010 are communications, employee development and performance management. Each local business unit is also developing its own specific action plan within the context of the overall group aims.

Following the launch of the revised Code of Business Conduct (COBC) during the second half of 2009, we were pleased to note that 92% of respondents were aware of the Code, up from 81% in 2007. We will continue to work to raise this figure towards 100%.

Share ownership

We have continued to introduce reward and incentive measures to our employees which ensure they are aligned with the group's goals and share in our success. At the end of 2009, approximately 28% of employees were participating in at least one of our share incentive schemes. Further details can be found in the Remuneration Report, on pages 80 to 82 of this Report.

Communications

We continue to focus on improving our communications activities and during the year launched a global intranet, PetroNet. This has created a single platform for communicating across the group, enabling our people to interact with each other and with the group on a variety of topics.

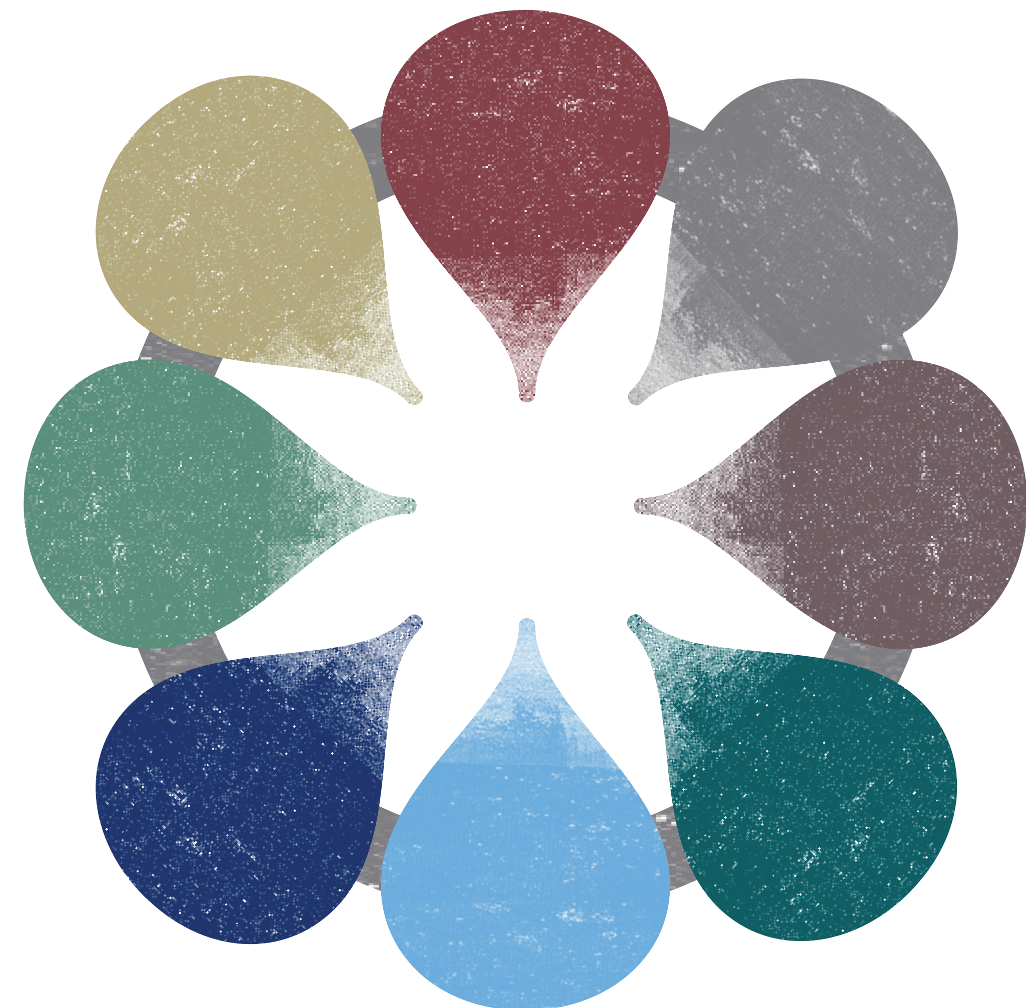
A structured communications programme was launched around Project TEMPO, the group's Enterprise Resource Planning initiative, in order to ensure that both the user groups and the wider business understand the different stages of the implementation process and the impact this will have on the processes and systems currently in use.

Another important initiative was the communications programme put in place around the organisational changes implemented at the start of the year. This programme included a brand project which resulted in the creation of separate but linked brand identities for each of the seven business units in the group.

A corporate DVD communicating the group's core capabilities was produced during 2009 and is available to view on www.petrofac.com. In addition the quarterly magazine, Petrofacts, continues to provide information on the latest news and developments from within the group to all employees and external stakeholders.

Our second Picture Petrofac competition was held during 2009 and received an enthusiastic response from employees, attracting almost 2,000 photographs. The photographs of the 13 finalists feature on our 2010 calendar, with each finalist also receiving a digital SLR camera. The winning entry was submitted by Hennie Bester, who said: "Competitive events, whatever their format, certainly increase the levels of engagement and collaboration in all our teams – even those not actively participating. I look forward to taking part in next year's competition."

We continue to focus on improving our communications activities.



Making a real difference.

Community

For 2009, our community support continued to be focused on education in the communities close to our operations. This is an area where experience tells us we are able to make a significant and long-term impact which can make a demonstrable difference to local people.

The educational initiatives we support are many and diverse, ranging from scholarships for individuals to extensive financial support for entire schools. The examples you see here represent a small selection of projects we have undertaken during 2009.

North Africa

In Sudan we have completed the construction of 60 non-formal schools in partnership with international NGO, BRAC UK. This project was established in 2008 and the schools have now opened their doors to around 1,800 children aged 8–14.

In collaboration with our customer, we have also opened two further schools in the western Sahara Desert in Egypt. Each school features a large classroom for around 45 children aged 4–13 together with living accommodation for two resident teachers. This latest project, which is providing valuable education to local Bedouin children, brings the total number of such schools we have supported in the desert to four.

In 2008, a needs analysis with the local authorities showed that children and teachers at schools in the In Salah region of Algeria were suffering from constant chalk dust created by the use of old-fashioned blackboards. With our help, each classroom in all 38 local schools has now been equipped with a whiteboard – amounting to 341 whiteboards in total.

Our community activities in Tunisia have included organising a series of regular visits to our facilities at Chergui for primary school children. This programme gives the children an early introduction to our industry and provides us with the opportunity to emphasise the importance of safety and protection of the environment.

Middle East

Operationally, we are very active in Syria with major projects at both Jihar and Ebla. As the financial year closed, we were in the advanced stages of a process which we hope will lead to Petrofac providing funding for a specialist training centre. This will underline our commitment to the health, safety and operational efficiency of the local workforce.

In the United Arab Emirates, we continued to offer financial assistance to less-advantaged students wishing to attend the American University of Sharjah (AUS), and were also proud to establish 'The Petrofac Research Chair in renewable energy'. We provided a Dhs15 million endowed donation to fund the position from which AUS will establish a progressive research programme in renewable energy, bringing together its most talented resources. We also made a Dhs1 million grant to the Higher Colleges of Technology (HCT) in Abu Dhabi to support the continued development of young UAE nationals and enhance HCT's programme offerings to meet the needs of both students and industry.

Our community support in the UAE also extended beyond education last year, with many employees making significant contributions to relief funds for the natural disasters in Indonesia, the Philippines and India.

Asia

In India, both our key offices have long histories of supporting educational initiatives. During the year, the Mumbai team continued to offer scholarship programmes at local schools and also funded a much-needed extension to a tribal school near Khopoli. We also worked with the Arvind Ghanbhir secondary school on a book donation programme, which was run from our London office.

The office in Chennai is a great benefactor to local schools and orphanages. With support from the company, employees have helped the community in many ways, including providing electrical equipment to a school and rice to a children's home, renovating a kitchen for a welfare trust and providing support to victims of the floods.

In Malaysia, our team operated a successful book donation programme with Sekolah Kebangsaan Taman Setiawangsa school in Kuala Lumpur, with many of the books donated from London. Local employees also raised money to purchase air conditioning units for the school library.

We also continued to operate a scholarship programme alongside the Kyrgyz Petroleum Company in Kyrgyzstan. With our help, eight students are now able to undertake full-time academic courses.

UK

Our teams in Woking have continued to support the educational charity Surrey SATRO (Science and Technology Regional Organisation) and 11 of our engineers are now SATRO science ambassadors. Each ambassador contributes two and a half days during the year, usually at a local school.

In Scotland, where we have long-established relationships with local communities, we again supported many initiatives. These included a road safety scheme for school children as well as the establishment of a new partnership with Charleston Primary School. Many children from Charleston will move on to join Kincorth Academy, a secondary school which we have supported for many years. In common with their colleagues in Woking, the Scotland team has been keen to encourage an interest in engineering. During the year they offered their time and practical advice to develop a local branch of the Young Engineers club and also organised a number of school visits to our facilities, so that youngsters could gain insight into the oil & gas industry.

Community support

Our support for local communities extends beyond education. During 2009, we continued to provide assistance to a variety of charitable and sporting initiatives, further strengthening the bonds which exist between our operations and their local communities. Full details of these initiatives can be found on our website at www.petrofac.com/responsibility.html.

Petrofac employees have provided electrical equipment and whiteboards to schools, rice to a children's home, air conditioning units for a school library and support to victims of floods

60

Schools built in Sudan and educating 1,800 children

US$ millions

Donated to local schools and funding for the Petrofac Research Chair in renewable energy

Directors' information

1 Rodney Chase
Non-executive Chairman [c]
Rodney Chase was appointed non-executive Chairman of Petrofac in June 2005. Rodney spent 38 years at BP plc, of which 11 were served on its board. He was deputy group CEO on his retirement from the BP group in May 2003. He also spent time as CEO of the exploration and production, and marketing and refining divisions. He continues to serve as non-executive deputy chairman of Tesco plc; non-executive director of Computer Sciences Corporation; non-executive director of Nalco Company and non-executive director of Tesoro Corporation. He has previously held positions as a board member of BOC plc and Diageo plc. Age 66.

2 Ayman Asfari
Group Chief Executive [c]
Ayman Asfari joined Petrofac in 1991 to establish Petrofac International. Ayman has 30 years' experience in the oil & gas industry and served as Chief Executive Officer of Petrofac International until his appointment as Group Chief Executive of Petrofac Limited in January 2002. Ayman previously worked as the managing director of a major civil and mechanical construction business based in Oman. Ayman currently serves as a member of The Board of Trustees of The American University of Beirut. Age 51.

3 Michael Press
Senior Independent Director, Non-executive Director [a b c d]
Michael Press was appointed to the Petrofac Board in April 2002, having previously held senior executive positions for the Standard Oil Company Inc and BP and as a main board director of Amerada Hess. Between 1997 and 2001, Michael held various posts at KBC Advanced Technologies including non-executive director, executive chairman, and chief executive. Michael is chairman of TWMA, an Aberdeen based global drilling waste management firm and continues to serve as senior independent director of Chart Industries Inc. Age 62.

Michael will retire from the Board at the forthcoming AGM and will not seek reappointment.

4 Maroun Semaan
Group Chief Operating Officer
Maroun Semaan joined Petrofac in 1991 to establish Petrofac International. From 1977 to 1991, Maroun held various project positions with Consolidated Contractors International Co. (CCC), based in the Middle East, where he was involved in the management of oil & gas pipeline, process facilities and civil works construction contracts in Oman and Bahrain. He was appointed Chief Executive of Petrofac Engineering & Construction in April 2004. In January 2009, Maroun was appointed Group Chief Operating Officer with overall responsibility for Petrofac's Engineering & Construction, Engineering & Construction Ventures, Engineering Services, Offshore Engineering & Operations and Training Services businesses. Maroun currently serves as a member of The Board of Trustees of The American University of Sharjah. Maroun is also a Founding Member of the Board of Trustees of Arab Forum for Environment and Development (AFED). Age 54.

5 Bernard de Combret
Non-executive Director [b c d]
Bernard de Combret was appointed to the Petrofac Board in November 2003. Bernard was deputy chairman of Total's executive committee until his retirement in 2002. Following senior positions in both the French Ministry of Foreign Affairs and Ministry of Finance, he spent 24 years with Elf and subsequently Total where he was CEO of refining marketing; CEO for gas, power, new energies; and CEO for trading and shipping. He is currently non-executive chairman of Coastal Energy in addition to serving as a non-executive director of Winstar Resources Ltd and a member of the international advisory board of Grupo Santander. He was appointed an independent director of Toreador Resources Corporation, a US listed company, in September 2009. He has previously held positions as a board member of Renault VI, Intercontinental Exchange, CEPSA and Banco Central Hispano. Age 67.

Bernard will retire from the Board at the forthcoming AGM and will not seek reappointment.

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

6 Keith Roberts
Chief Financial Officer
Keith Roberts joined Petrofac in March 2002 as Chief Financial Officer having spent most of his working life as an investment banker based in the City of London. After positions in commercial banking with Standard Chartered Bank and then with County Bank, the merchant banking subsidiary of National Westminster Bank, Keith moved into corporate finance with Hawkpoint Partners where he was a managing director and a member of the operating committee. He has previously served as a non-executive director of the Peacock Group plc. Age 53.

7 Kjell Almskog
Non-executive Director [a c d]
Kjell Almskog was appointed to the Petrofac Board in March 2005. Kjell has held a number of senior executive positions including 13 years at the international ABB group – most latterly as deputy group CEO and head of its oil, gas & petrochemicals division. He was then chief executive of Kvaerner from 1998 until its merger with Aker in 2001. Kjell was appointed non-executive chairman of Intex Resources ASA, a Norwegian listed mining and exploration company in November 2007. He continues to serve as non-executive deputy chairman of Kverneland Group ASA and as a senior adviser of the Taylor Group. Age 69.

8 Amjad Bseisu
Chief Executive, Energy Developments
Amjad Bseisu joined Petrofac in 1998 and founded the Energy Developments business. In 2007, Amjad rejoined the Petrofac Board having previously served for several years prior to the Company's admission to listing on the London Stock Exchange in 2005. From 1984 to 1998, Amjad worked for the Atlantic Richfield Company (ARCO), ultimately as head of International Marketing, Negotiations and Business Development and president of ARCO Petroleum Ventures and ARCO Crude Trading, Inc. Amjad was a founding non-executive director of Serica Energy plc and Stratic Energy Corporation. Age 46.

It is anticipated that Amjad will step down from the Board on 6 April 2010 subject to becoming Chief Executive of EnQuest PLC and the successful listing of that company.

9 Rijnhard van Tets
Non-executive Director [a b d]
Rijnhard van Tets was appointed a Non–executive Director of Petrofac in 2007. Rijnhard is currently general partner of Laaken Asset Management NV. He was an adviser to the managing board of ABN Amro between 2002 and 2007, having previously served as a member of ABN Amro's managing board for 12 years. Rijnhard occupied a number of very senior executive positions at ABN AMRO, most latterly as chairman of ABN AMRO's Wholesale Clients and Investment Banking Group between 1996 and 2002. Rijnhard currently serves as a non-executive chairman of the boards of Arcadis NV; Euronext Amsterdam NV; Euronext NV and Equity Trust Holdings SARL and is a non-executive director of IFF Europe; NYSE Euronext Inc; Stichting Administratiekantoor Bührmann NV; and a number of charitable organisations. Age 62.

The Board recommends that the following two individuals be appointed at the AGM subject to shareholder approval.

Thomas Thune Andersen
Proposed to be appointed as a Non-executive Director
Having spent over 30 years with the A.P. Møller-Mærsk group, Thomas Thune Andersen retired from the company in 2009. Thomas held a number of very senior positions at Møller-Mærsk most latterly as Chief Executive of Mærsk's oil and gas division between 2004 and 2009. He served both on the main board of Mærsk and its executive committee from 2005 to 2009. Thomas serves as a non-executive director of Scottish & Southern Energy plc. Age 55.

Stefano Cao
Proposed to be appointed as a Non-executive Director
Stefano Cao has more than 32 years' experience in the oil and gas industry. He spent 24 years at Saipem Spa, the international oil and gas services group, most latterly as Chief Operating Officer and then Chairman and Chief Executive. Stefano left Saipem in 2000 and joined Eni where he served as Chief Operating Officer of the Exploration & Production Division from 2000 to 2008. Today he is Chief Executive Officer of Sintonia SA, a holding company owning infrastructure assets including toll roads, airports and telecoms. He has previously served as an independent director of Telecom Italia SpA. Age 58.

Governance

Senior management team

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

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

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

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

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

6 **Paul Groves**
Managing Director, Training Services

7 **Rob Jewkes**
Managing Director, Energy Developments

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

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

Corporate governance report

The Company is incorporated in Jersey, where there is no formal Code relating to corporate governance. However, the Board recognises that it has a responsibility to ensure good governance of the Company in order to help it fulfil its obligations to all its stakeholders, not just shareholders. It is therefore strongly committed to the highest standards of corporate governance and has decided to adhere, wherever possible, to the provisions of The Combined Code on Corporate Governance published in 2008 (the Combined Code), in the same way as if the Company had been incorporated in the United Kingdom. Looking ahead, the Board intends to adhere, wherever possible, to the UK Corporate Governance Code which will replace the current Combined Code in 2010. The Company has prepared an additional report on its corporate social responsibility (pages 53 to 63), which sets out its engagement with society in general. This Report, however, together with the Nominations Committee Report, Audit Committee Report, Risk Committee Report and Remuneration Committee Report, is the Company's formal report on its corporate governance framework and has been prepared by reference to the Combined Code. The Directors consider that throughout 2009 and up to the date hereof, the Company has fully complied with all provisions of the Combined Code.

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

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

Directors

The Board

The Board is responsible to its shareholders for the control and leadership of the group and for safeguarding the Company's reputation. Nine Directors have served during the year and to date but it is anticipated that Amjad Bseisu will step down from the Board in April 2010 subject to being appointed Chief Executive of EnQuest PLC and the successful listing of the shares of that company. In addition, Bernard de Combret and Michael Press will be retiring from the Board at the 2010 AGM. The Board intends to propose Thomas Thune Andersen and Stefano Cao for election to the Board by shareholders at the 2010 AGM. Details of current and proposed Directors' skills and experience are contained in the Directors' biographies on pages 64 and 65.

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

The Board met regularly during the year. The Board met in person at six meetings, which had been scheduled well in advance. In 2009, the Board held three such meetings in Continental Europe; one meeting in Sharjah, the United Arab Emirates, where the group has its largest office; one meeting in Jersey where the Company is incorporated; and one meeting in Syria where the group has significant business operations. In addition, the Board held a number of telephone conference Board meetings at relatively short notice, which arose as a result of specific business, usually in relation to a particular commercial project between scheduled Board meetings. The agenda for each scheduled Board meeting allows the Chairman and Non-executive Directors to meet without the executive Directors present. In addition, the Board attended a strategy and business planning day with members of senior management.

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

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

1 Kjell Almskog will become Senior Independent Director following the retirement of Michael Press at the 2010 AGM.

Chairman and Group Chief Executive

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

Board balance and independence

The Board currently has nine members composed of the Chairman, four independent Non-executive Directors and four executive Directors. The Board believes that it contains an appropriate balance of skills and experience at the same time as being able to respond quickly to the needs of the business. The Board considers all four Non-executive Directors who served during the year and Thomas Thune Andersen and Stefano Cao who will be proposed as Non-executive Directors at the 2010 AGM to be independent in character and judgement and is not aware of any relationships or circumstances which are likely to affect, or could appear to affect the judgement of any of them. The extensive knowledge and experience of the Non-executive Directors combined with the focus and experience of the Chairman and executive Directors enable the Board to lead and give direction to

Corporate governance report
continued

the group without any imbalance that may allow any individual or group of individuals to dominate its decision making. Any Director having a concern in this or any other regard may raise it with the Chairman or the Senior Independent Director. Directors have access to the advice and services of the Secretary to the Board, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed and for advising the Board, through the Chairman, on governance matters. The Directors are entitled to take independent professional advice, at the Company's expense, if required.

The Board is assisted by various Committees, principally the Nominations, Audit, Risk and Remuneration Committees. Reports for 2009 from each of these Committees are provided from pages 73 to 86.

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

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

The Company as a matter of course provides regular training for its Directors on the group's business operations. The Group Chief Executive provides the Board with a formal report on the group's activities at each Board meeting. In addition, the Board is provided with ad hoc presentations by operational management on a regular basis and undertakes an annual site visit. In 2009, the Managing Director of the Offshore Engineering & Operations business gave a presentation and the Managing Director of Engineering & Construction provided the Board with an overview of the group's Engineering & Construction activities in Syria. The Board spent several days in Syria during which time it visited two Engineering & Construction projects. Directors first visited the Jihar gas treatment plant before travelling to the Ebla site where they stayed overnight and toured the Ebla gas treatment plant the following day. The Company believes that such presentations and site visits are essential in order to increase Directors' knowledge and understanding of the group not only in terms of its operations but also its culture and people. The Chairman and Group Chief Executive have agreed a further programme of presentations by operational senior management to the Board in 2010 and are currently planning a visit to the group's operations in the Far East later in the year.

In addition to operational management presentations, the Board receives a report from the Group Director of Legal and Commercial Affairs at each Board meeting and reports from the Group Head of Health, Safety, Security, the Environment and Integrity Assurance (HSSEIA) twice a year. The Company is equally committed to providing its Directors with training on technical and regulatory matters and such matters are generally addressed in Committee meetings. During the year, formal presentations and tutorials were provided in Committee meetings on a number of subjects: accounting requirements in relation to hedge accounting; methodology for assessment of hydrocarbon reserves; decommissioning; taxation; insurance; treasury; and the external environment regarding remuneration. As well as the formal programme of training which takes place as part of Board and Committee meetings, the Secretary to the Board is available at all times to provide Directors with updates in relation to governance matters and as a point of first contact should Directors have any other queries. In 2009, the Secretary provided the Board with briefings on Listing Rule changes, the Walker Report, the Financial Reporting Council's (FRC) review of the Combined Code and most latterly the FRC's consultation on the provision of non-audit service work by audit firms. Notwithstanding that the Chairman formally requests each Director to consider whether or not he requires any specific training on any aspect of the Company's activities on an annual basis, any Director may request the Secretary to the Board to arrange any individual training or professional development at any time if he feels that this would be helpful to him in discharging his responsibilities. Most importantly, the Company believes that it promotes an atmosphere such that Directors are actively encouraged to engage and ask questions.

In the event that the Board appoints a new Director, the Chairman works with the individual and the Secretary to the Board to develop a tailored induction programme to take account of the individual's specific needs. Arrangements are in place for Thomas Thune Andersen and Stefano Cao to visit the group's UK offices and Sharjah office where they will have the opportunity to be briefed personally by each business managing director about his particular business and meet other members of senior management from both operational and functional disciplines. Given that Thomas and Stefano are probably less familiar with the regulatory and governance requirements associated with a UK listed company than a UK based Non-executive Director might be, particular care will be taken to ensure that they understand the governance framework that the Company operates within. A programme covering their responsibilities and liabilities as Directors; the Companies (Jersey) Law 1991; features of the Company's Articles of Association; the Company's Code of Business Conduct and Share Dealing Code; Listing and Disclosure and Transparency Rule requirements; and Combined Code will be covered.

Performance evaluation
The Chairman in consultation with the other Directors considered how the Board might best evaluate its performance in 2009. In view of the fact that the Board had relied upon internal reviews in 2007 and 2008, the Board decided that it would seek some external facilitation in 2009. It considered that another internal review conducted in the same manner as the previous two years would be unlikely to provide the Board with any new insight into its role and any changes the Board might make in seeking to discharge its responsibilities more effectively. Having considered several third parties who might conduct an external review, the Chairman appointed ICSA Board Evaluation. Representatives of ICSA Board Evaluation are in the process of conducting face-to-face interviews with Directors after which they will observe a Board meeting in progress. The ICSA will then present a written report to the Board and lead a discussion in relation to its findings and recommendations at the Board meeting in May 2010.

Michael Press, the Senior Independent Director, led a separate evaluation of the Chairman through a series of questionnaire-led interviews with other members of the Board and senior management before providing feedback to the Chairman in a one-to-one appraisal. Board evaluation will continue on an annual basis.

Re-election of Directors
All Directors are required by the Company's Articles of Association to submit themselves to shareholders for re-election by rotation at least once every three years or if they have been appointed part way through the year by the Board at the subsequent AGM. Sufficient biographical information and other information (including, in the case of a Non-executive Director seeking re-election, a statement as to his continued effectiveness and commitment) is provided to enable shareholders to make an informed decision.

Directors' remuneration
While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting solely of independent Non-executive Directors, is responsible for determining the remuneration and conditions of employment of executive Directors and certain members of senior management. A Report on the Directors' remuneration, including a more detailed description of the role and activities of the Remuneration Committee is set out on pages 76 to 86.

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

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

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

Control environment
The Board ensures that the group has a clear organisational structure for the control and monitoring of its businesses, including defined lines of responsibility and delegation of authority. Each of the group's businesses operates and maintains its own business management system designed to ensure the application of sound processes of control to all projects and business activities; such systems encompass policies and procedures relating to all major areas of risk including matters relating to contract execution, health and safety; security; and the environment. The Company has a Group Head of HSSEIA who heads a team with responsibility for overseeing the development of appropriate HSSEIA management systems and ensuring compliance with them, across the group. Towards the end of 2009, the Group Head of HSSEIA appointed a Head of Group Security, who has extensive security experience in the Middle East and other parts of the world. In addition, after conducting a lengthy selection process, the group has recently appointed an environmental specialist who will provide renewed impetus to the group's environmental programme. For details about environmental progress, refer to page 56 of the Corporate Social Responsibility Report.

The Company has a Code of Business Conduct (Code), which amongst other matters, includes policies for the Company and its employees on health and safety; security; the environment; conflicts of interest; and areas of legal compliance. During the year, management rolled out an e-learning programme on the Code across the group on a prioritised basis. By the end of January 2010, more than 4,000 employees had completed the e-learning programme including some 75% of employees in the Sharjah office as well as a significant proportion of employees based in the Company's offices in Aberdeen, Woking, Algeria, Tunisia and India. The Company intends that all employees will have completed the e-learning programme by the end of 2010 notwithstanding the difficulties in making the programme available to employees based on site.

The group has strengthened the process whereby employees can raise ethical concerns in confidence during the year. Employees are able to contact anonymously a third-party organisation called Expolink, 24 hours a day, 365 days per year, either by telephone or e-mail and report any matter in relation to an alleged breach of the Code. Expolink contact both the Director of Legal and Commercial Affairs and the Secretary to the Board with details of any alleged breach and one of them will ensure that an appropriate investigation is conducted, the results of which are fed back to Expolink which reports back to the individual concerned. The Secretary to the Board ensures that the Audit Committee is periodically provided with a whistle blowing report which sets out a description of each matter raised and details of the outcome. The Company conducted an employee survey in the Autumn of 2009 (PetroVoices) to which some 55% of employees responded. 92% of respondents said that they knew about the Company's Code and 55% said they would know how to make use of the whistle blowing facility. The previous PetroVoices survey conducted in 2007 showed that 81% of employees knew about the Code and that 46% of employees knew how to use the whistle blowing facility. Whilst the Company appears to have made progress in raising awareness of the Code and Expolink facility, the e-learning programme together with a recently implemented group-wide induction programme should significantly increase employee familiarity over the forthcoming year.

The Company has a policy in relation to conflicts of interest. Employees should not engage in activities which conflict or might be perceived to conflict with their duties and guidance is provided on potential areas of conflict. If an employee considers that he or she may have a potential conflict, he or she must refer the matter to the Group Chief Executive for his consideration. The Secretary to the Board maintains a register of all such issues raised including whether or not the proposed activity was permitted. In the event

Corporate governance report
continued

that a Director considers that he may have a potential conflict, he refers the matter to the Audit Committee for its consideration and a record is similarly added to the register. In addition, a Director is required under Jersey legislation to declare any interest or potential interest that might materially conflict with the interests of the Company prior to any Board meeting and the Director would be excluded from any Board discussion or decision that related to the matter.

Risk management

The Board has ultimate responsibility for managing risk. It therefore needs to ensure that the group defines its risk appetite; maintains a sound system of risk management and internal controls; and satisfies itself that appropriate systems are in place to identify, assess and manage key risks. In 2007, the Board established a Risk Committee whose membership is comprised of Non-executive Directors albeit the Group Chief Executive, Group Chief Operating Officer and Chief Financial Officer attend meetings as a matter of course together with the Head of Enterprise Risk Management. The Risk Committee ensures that the group's risk appetite is considered, agreed and communicated via policies. In 2009, the Committee recommended that the Board approve three policies: Sovereign and Financial Market Risk Policy; Legal and Contract Compliance Risk Policy; and Operations Risk Policy. It is believed that the three policies cover the full range of the group's operational and compliance risks at least in so far as they have been identified. The Sovereign and Financial Market Risk Policy covers policy in relation to country risk; inflation risk; commodity risk; currency risk and credit and counterparty risk. The Legal and Contract Compliance Risk Policy covers ethical risk; contractual liability risk and the risk of non-compliance with a country's local laws and regulations. The Operations Risk Policy covers project performance risk; business continuity risk; leadership risk; change risk; and health, safety, security and environment risks.

At least once a year, the Risk Committee intends to review each policy at the same time as receiving a report on how the various risks covered by each policy are addressed within the business specifically in relation to standards; resources; training and communication; review and reporting; and audit. The Risk Committee therefore provides the Board's primary forum for articulating the group's risk appetite and assuring itself that an appropriate and effective risk management framework is in place. The Board is also made aware of material individual risks facing the group. The Head of Enterprise Risk Management provides a written report in advance of each scheduled Board meeting giving details of the most current material risks facing the group together with an explanation of any mitigating action. In 2009, management established an Enterprise Risk Management Committee which is chaired by the Group Chief Operating Officer. The Committee meets twice a year for the purpose of ensuring that the group's risk policies are implemented. Each of the group's individual businesses operates and maintains a business management system incorporating policies and procedures which assist with the business's risk management. In addition, each business is required to produce a risk matrix which identifies the key business risks, the probability of those risks occurring, their impact if they do occur and the actions being taken in order to manage and mitigate those risks. The Head of Enterprise Risk Management has access to the risk matrices for the businesses and furthermore receives regular reports from the management team for each business. In addition, a rigorous process exists for the consideration of risks associated with undertaking new business via individual business and group Risk Review Committees.

Details of the principal risks and uncertainties facing the business are disclosed on pages 34 to 37.

Assurances

The Board receives assurances from the following internal and external controls:

- historical financial performance and revised forecasts for the full year with significant variances are regularly reported by management to the Board
- reports from the Audit Committee, which includes feedback from the external and internal auditors; and the Risk Committee
- the close involvement of the executive Directors in all aspects of the group's day-to-day operations, including regular meetings each month with each business unit's head of business
- customer audits
- reports and presentations to the Board by senior management
- copies of minutes from group Risk Review Committee meetings

Relations with shareholders

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

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

The principal method of communicating with the majority of shareholders is via the Annual Report and financial statements and the Company's website which contains details of financial presentations to analysts and other information about the group. All shareholders have the opportunity to attend the AGM. All Directors were present at the 2009 AGM and all current and proposed Directors intend to be present at the 2010 AGM to answer shareholders' questions. Details of the meeting are set out in the Notice of Meeting which is sent to shareholders, and which contains the text of resolutions to be proposed and explanatory notes, where necessary. Shareholders attending will be advised of the number of proxy votes lodged for each resolution, in the categories 'for' and 'against', together with the number of 'votes withheld'. All resolutions will be voted on by taking a poll, the results of which will be announced to the London Stock Exchange and published on the Company's website.

The Company is incorporated in Jersey, shareholders are required under the UK Listing Authority to notify the Company in the event that they can exercise 5% or more of the Company's voting rights. If the Company were incorporated in the UK, shareholders would be required to notify the Company in the event that they could exercise 3% or more of the Company's voting rights. As a matter of principle, the Company aims wherever possible to govern itself as if it were incorporated in the UK rather than Jersey and for this reason, adopted Articles of Association which currently require its shareholders to notify the Company in the event that a shareholder acquires voting rights in 3% or more in the Company's share capital. The Company currently has 345,629,656 shares in issue

and each share has one vote. One shareholder has notified the Company as at 23 February 2010 that it has an interest in 3% or more of the Company and is as follows:

	Number of ordinary shares	Percentage of allotted share capital
Legal & General Group Plc	13,782,232	3.99%

In addition to the above, Ayman Asfari and Maroun Semaan together with their respective close families held major shareholdings, details of which are disclosed in the Remuneration Report on page 86.

This Report was approved by the Board on 5 March 2010.

Rodney Chase
Chairman of the Board

Nominations Committee Report

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

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

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

- consider and make recommendations to the Board on all new appointments of Directors taking into account the overall size, balance and composition of the Board
- consider and make recommendations to the Board in relation to the composition of the Board's committees
- consider succession planning
- make recommendations to the Board concerning the reappointment of any Director following conclusion of his specified term in office

Meetings are held as deemed necessary by the Chairman and during the course of 2009, five meetings were held and all members attended on each occasion. The Board believes that as a general rule Non-executive Directors should serve two three-year terms and that the Nominations Committee should seek to ensure that the Board is refreshed on a systematic and regular basis. Given that Bernard de Combret and Michael Press would each have completed service on the Board for at least six years during 2009, the Committee initiated a process at the start of the year to identify candidates to join the Board within the next 18 months. The Chairman of the Committee, with assistance from the Group Head of Human Resources, led the search process in the first instance. Having agreed a role and person specification, the Chairman conducted a review of possible search consultants before appointing Spencer Stuart to lead the search for candidates. A number of candidates were put forward for the Nominations Committee consideration. In due course, the Committee recommended that the Board propose Thomas Thune Andersen and Stefano Cao for appointment by shareholders at the 2010 AGM. The Committee considers Thomas and Stefano to be excellent prospective members of the Board not only for their extensive experience of the oil & gas industry but also for their personal qualities and global outlook. Further, the Committee is satisfied that both Thomas and Stefano have sufficient time to devote to the Board. Bernard and Michael will retire from the Board at the conclusion of the AGM.

During the year, the Committee received an update from the Group Head of Human Resources on management's developing programme in relation to succession planning and talent management throughout the group and will continue to be provided with further updates on progress. The Committee also considered its terms of reference and the proposed re-election of Rijnhard van Tets at the 2010 AGM. The Committee recommended to the Board that Rijnhard should be proposed for re-election by the Company's shareholders having judged him to be highly effective as a Board member and Chairman of the Audit Committee.

The Board intends that subject to shareholders electing Thomas Thune Andersen and Stefano Cao at the 2010 AGM, the Committee's membership will be as follows with effect from 13 May 2010:

- Rodney Chase (Chairman)
- Ayman Asfari
- Kjell Almskog
- Thomas Thune Andersen
- Stefano Cao
- Rijnhard van Tets

This Report was approved by the Board on 5 March 2010.

Rodney Chase
Committee Chairman

Corporate governance report
continued

Audit Committee Report

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

- Rijnhard van Tets (Chairman)
- Kjell Almskog
- Michael Press

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

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

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

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

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

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

The Committee met six times during the year and all members attended on each occasion. It considered the following matters:

Financial reporting

The Committee reviewed the 2008 Annual Report and financial statements and the 2009 Interim Report issued in September 2009 before recommending their publication to the Board. As part of this overall review, the Committee considered the draft preliminary announcements in respect of the Company's 2008 final and 2009 interim results. The Committee discussed with the Chief Financial Officer and external auditors the significant accounting policies, estimates and judgements in preparing the Company's 2008 Report and financial statements and 2009 Interim Report. In addition, the Committee reviewed drafts of trading statements and interim management statements before recommending their publication to the Board.

Internal controls and risk management systems

The Committee has responsibility for reviewing the Company's internal controls and it primarily discharges this responsibility through its engagement with the Risk Committee and the group's internal and external auditors. An annual internal audit plan, drawn up on a risk-based approach, is presented to the Committee for its review and approval at the start of the financial year. The Group Head of Internal Audit provides the Committee with an interim progress report part way through the year, as a result of which the audit plan may be revised, before returning to the Committee with his final report for the year at the start of the subsequent year. At the same time as the final report for the previous year is presented, an audit plan for the current year is proposed and so the ongoing process of internal control review is continued. In 2009, the internal audit department completed a total of 59 assignments across a broad cross-section of the group's activities.

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

Internal audit

The Committee evaluated the performance of internal audit from the quality of reports from the Group Head of Internal Audit; feedback from management and an assessment of work planned and undertaken. The Internal Audit Department is currently staffed by six individuals in addition to the Group Head of Internal Audit. The members of the department include accountants, IT specialists and an oil & gas engineer. The Committee will continue to keep the resourcing of the department under review but currently believes it is adequate both in terms of headcount and skills' set.

External audit

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

The Committee satisfied itself that the external auditors remain independent having regard to the auditors' procedures for maintaining and monitoring independence; the auditors' policy for rotation of the lead partner and key audit personnel; and a policy, which specifies areas of non-audit services that cannot be carried out by the external auditors and the financial thresholds above which non-audit services require the approval of the Chairman of the Committee. The Committee reviewed the group's non-audit services policy at the end of the year. In light of the Select Treasury Committee's request to the FRC in October 2009 to review whether or not there should be further restrictions on the provision of non-audit services by audit firms, the Committee decided that it would delay its formal review of the group's non-audit services policy until such time as the FRC has published its report on the matter. For the time being, the group's non-audit services policy remains in line with current best corporate governance practice. The policy automatically excludes the Company's auditors from undertaking certain types of work which might impair the auditors' independence. The Chief Financial Officer is required to seek prior clearance from the Chairman of the Audit Committee where any individual fee in relation to non-audit services is in excess of US$200,000; the aggregate non-audit service fees for the year are approaching 50% of the annual audit fee; or the auditor would generally be excluded from providing the service but the Chief Financial Officer believes that due to exceptional circumstances the service would be better performed by the Company's auditor rather than another audit firm. Within these parameters, where it is considered reasonable that the external auditors undertake non-audit services for sound commercial and practical reasons without inhibiting objectivity, then engagement is permitted. Such services might include independent certification, reporting for FSA or UKLA purposes and tax advice. The cost of services provided by the external auditors during the year is detailed in note 4g to the financial statements. Most of the cost of non-audit services was associated with tax and assurance services where involvement by the external auditors was considered appropriate and in the best commercial interests of the group.

The Board intends that subject to shareholders electing Thomas Thune Andersen at the 2010 AGM, the Committee's membership will be as follows with effect from 13 May 2010:

- Rijnhard van Tets (Chairman)
- Kjell Almskog
- Thomas Thune Andersen

This Report was approved by the Board on 5 March 2010.

Rijnhard van Tets
Committee Chairman

Risk Committee Report

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

- Kjell Almskog (Chairman)
- Bernard de Combret
- Michael Press
- Rijnhard van Tets

The Committee has formal terms of reference, which are reviewed every two years by the Committee and are available on the Company's website. The Committee is supported by the Head of Enterprise Risk Management and the Secretary to the Board acts as secretary to the Committee. Minutes for all meetings are circulated to all Directors and supplemented by an oral report from the Committee's Chairman at the next Board meeting. The Committee takes primary responsibility for:

- reviewing proposed group risk policy and procedures and recommending that they be adopted by the Board
- overseeing group operational risk management systems including insurance management
- identifying risks in relation to the enterprise as a whole and monitoring how they are managed
- reviewing any external disclosures made by the group in relation to its risk management

The Committee met three times during the year and all members attended each meeting. In 2009, the Committee reviewed a Sovereign and Financial Market Risk Policy; Legal and Contract Compliance Risk Policy; and Operations Risk Policy for the group and having done so recommended that the Board adopt such policies which the Board duly did. The Head of Enterprise Risk Management provided a high level assessment of the group's compliance with the three policies at the end of 2009. In 2010, he will provide an update on each of the policies over the course of the three meetings scheduled during the year. The Committee received regular updates on the group's business continuity planning in the event of an unforeseen disruption to part or all of the group's enterprise and noted that good progress has been made in 2009 notwithstanding the group's continuing growth. It is expected that full implementation of a business continuity plan across the group will be achieved in the first half of 2010. The Company's Engineering Services office in Woking achieved accreditation to BS 25999 in 2009, which is a first in the oil & gas industry. The Group Head of Insurance and the Group Head of Treasury both provided briefings to the Risk Committee.

The Board intends that subject to shareholders appointing Stefano Cao at the 2010 AGM, the Committee's membership will be as follows with effect from 13 May 2010:

- Stefano Cao (Chairman)
- Kjell Almskog
- Rijnhard van Tets

This Report was approved by the Board on 5 March 2010.

Kjell Almskog
Committee Chairman

Directors' remuneration report

Introduction

The Directors are not required under Jersey law to prepare a Remuneration Committee Report but in accordance with the principles of good corporate governance, as outlined in the Combined Code, have chosen to do so. This Report has been prepared by the Remuneration Committee as if the Company was required to comply with both Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom and relevant Listing Rules of the Financial Services Authority and has been approved by the Board.

This Report sets out the remuneration policy and principles under which the Directors and senior managers are remunerated, and details the remuneration and share interests of each Director for the year ended 31 December 2009.

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

The sections of this Report dealing with Directors' emoluments and share interests have been audited (pages 84 to 86) by the group's external auditors.

Information not subject to audit

Composition of the Committee

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

- Bernard de Combret (Chairman)
- Michael Press
- Rijnhard van Tets

Given their diverse backgrounds and experience, the Board believes that the current Committee members provide a suitably balanced perspective on executive remuneration matters. None of the Directors who served during the year had or has any personal interest in the matters to be decided (other than as shareholders of the Company), any potential conflict of interest arising out of cross-directorships or any day-to-day involvement in the management of the group's business activities.

As previously reported in the Corporate Governance Report, Bernard de Combret and Michael Press will be stepping down from the Board at the 2010 AGM. The Board intends that subject to shareholders appointing Thomas Thune Andersen and Stefano Cao at the 2010 AGM, the Committee's membership will be as follows with effect from 13 May 2010:

- Thomas Thune Andersen (Chairman)
- Kjell Almskog
- Stefano Cao

Role of the Remuneration Committee

The Remuneration Committee is a formal Committee of the Board, and has powers delegated to it under the Articles of Association. Its remit is set out in terms of reference formally adopted by the Board, which were last reviewed in December 2009. A copy of the terms of reference is available on the Company's website. The primary purposes of the Remuneration Committee are set out in its terms of reference and are to:

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

During 2009, the Group Chief Executive, Ayman Asfari, attended meetings at the invitation of the Chairman in order to provide advice on setting remuneration for other executive Directors and members of senior management. He attended no part of a meeting at which his own remuneration was being discussed.

Richard Milne, the Group Director of Legal and Commercial Affairs and Carol Arrowsmith of Deloitte LLP each attended one meeting during the year. The Director of Legal and Commercial Affairs attended a meeting at the start of the year in order to provide advice in relation to the matters being discussed in particular the group's share incentive schemes. Geoffrey Tranfield, the Group Head of Human Resources attended all meetings to provide context to the Remuneration Committee in relation to matters being discussed. Carol Arrowsmith attended a meeting at the end of the year in order to provide advice in relation to the revised PSP scheme (see page 80). The Secretary to the Board acts as secretary to the Committee and therefore attended all meetings.

The Committee appointed Deloitte LLP to provide independent advice on remuneration matters during the year. In 2009, Deloitte LLP separately provided the Company with access to an industry research database, but did not provide any other non-remuneration related advice to the Company.

Minutes of the meetings of the Committee are circulated to all Directors unless any Director is the subject of debate by the Committee, in which case the minutes will not be sent to him. The Chairman supplements the formal circulation of the minutes by a verbal update from the Committee Chairman at the Board meeting following a Committee meeting.

Activities of the Remuneration Committee

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

Number of meetings	4
Bernard de Combret Chairman	4
Michael Press	4
Rijnhard van Tets	4

In addition, the Committee met telephonically on one occasion to approve awards under the Company's Performance Share Plan and Deferred Bonus Share Plan as part of its annual cycle of share awards due to a prior commitment. Details of these schemes are provided on pages 80 to 82.

In addition to its routine business, the Committee also undertook a major review of executive Director and senior management incentive arrangements during 2009 and the conclusions from this review are outlined below.

Good governance

The Board and the Committee consider that throughout 2009 and up to the date of this Report the Company has complied with the provisions of the Combined Code relating to Directors' remuneration.

Remuneration policy and practice

Non-executive Directors

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

Executive Directors and members of senior management

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

The Committee believes that the most appropriate pay comparators for the executive Directors and members of senior management are:

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

However, it also uses remuneration in UK companies of a similar size and complexity as a reference point when considering executive Director and senior management remuneration.

Proposed changes to executive Director remuneration

In 2007, the Committee agreed that its remuneration policy for executive Directors and members of senior management going forward would be as follows:

- basic salaries would be median or below against a relevant benchmarking group (see above); and
- the variable elements of remuneration would be structured so that individuals can achieve total remuneration that is upper quartile subject to achievement of challenging performance standards

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

The Committee intended to review in 2008 whether the current arrangements would allow the Company to deliver its stated remuneration policy. However, due to the wider economic environment which prevailed at the end of 2008, the Committee delayed its review of the remuneration policy until 2009.

In 2009, the Committee conducted a review of the remuneration arrangements currently in place, drawing on independent advice from Deloitte LLP.

The review highlighted that remuneration in Petrofac has been uncompetitive at executive director level for a significant period of time. This has been as a result of both the conservative practice to date in terms of both basic salary levels and incentive opportunity, and the significant growth in the Company since IPO.

To some extent, this has been possible given that most executive Directors and members of senior management are significant shareholders in the Company following the IPO. However, as the business matures, it is becoming more important to be able to recruit new senior executive talent, but also increasingly inappropriate to pay our senior leaders at levels which are wholly out of line with the rate for the job.

The Committee has reiterated its preference to provide significant emphasis on the performance-related elements of pay. Therefore, the Committee has decided that:

- subject to shareholder approval at the 2010 AGM, the maximum annual award under the PSP should be increased to 200% of basic salary (or 300% of basic salary in exceptional circumstances) with immediate effect
- the maximum annual cash bonus will be increased to 200% of basic salary with effect from the 2010 bonus year

This means that if an executive Director were to receive a maximum cash bonus and maximum PSP award equal to 200% of basic salary, his fixed remuneration (excluding cash allowances/benefits) would be equal to one-fifth of his overall remuneration whilst the remaining four-fifths of his overall remuneration would be variable remuneration.

Previously the weighting between basic salaries, annual bonus and PSP had been broadly equal (i.e. one-third each).

The Committee awarded modest basic salary increases of 5% to its executive Directors with effect from 1 January 2010. In making its decision, the Committee took account of current shareholder views on salary increases in the external environment.

Nevertheless, the Committee recognises that the revised basic salary levels continue to be below lower quartile compared to UK companies of similar size and complexity and below industry benchmarks. This has a significant impact on total remuneration which remains very conservative even after the changes to performance-related pay outlined above.

The Committee therefore intends to review basic salaries again during the course of 2010. No significant changes to basic salaries will be implemented without dialogue with the Company's major shareholders.

Directors' remuneration report
continued

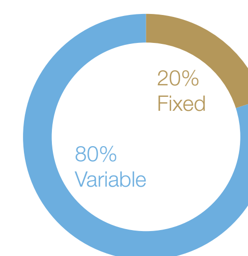
The following table summarises the proposed changes to Petrofac's remuneration policy and more particularly to Petrofac's individual remuneration elements.

	Current policy	Proposed changes
Basic salary	Role and contribution – market median or below. However, 2009 basic salaries are below lower quartile compared to UK companies of similar size and complexity and below industry benchmarks.	No change to overall policy – remains market median or below. Increases for executive Directors of 5% with effect from 1 January 2010. Basic salary levels will be reviewed further in 2010.
Cash allowances, non-cash benefits and pension	Market standard for role and geographic location. Current levels are below median. None of the executive Directors is eligible to receive pension contributions from the Company.	No change to overall policy. Increase of either £10,000 or £20,000 to cash allowance for UK Directors with effect from 1 January 2010. Maroun Semaan also received an increase to his allowance of US$40,000. Cash allowances to be reviewed later in 2010.
Annual cash bonus	Maximum of 100% of basic salary or 150% for outstanding performance. Award subject to achievement of financial, safety and personal performance targets over the relevant financial year.	Maximum of 200% of basic salary for outstanding performance with effect from the 2010 bonus year (i.e. payments to be made in March 2011). Bonuses will continue to be determined based on achievement of financial, safety and personal performance targets over the relevant financial year.
Performance Share Plan (PSP)	Maximum grant level of 100% of basic salary or 150% in exceptional circumstances. 50% of awards are subject to total shareholder return (TSR) relative to an international peer group on an Index TSR basis: 0% vesting below median 30% vesting at median 100% vesting for out-performance of the median by 25% 50% of awards are subject to an achievement of compound annual growth in Earnings Per Share (EPS): 0% vesting for 15% growth p.a. 30% vesting for 20% growth p.a. 100% vesting for 25% growth p.a.	Maximum grant level proposed to increase to 200% of basic salary (300% in exceptional circumstances) for awards made in 2010 onwards. Amendments to current plan to be submitted for shareholder approval at the 2010 AGM (see pages 80 and 81 for further details). No significant change to TSR performance condition for 2010 awards. Changes to EPS performance targets: 0% vesting for 10% growth p.a. 30% vesting for 15% growth p.a. 100% vesting for 20% growth p.a.

Individual elements of remuneration

The balance between the fixed and variable elements of remuneration varies depending on performance. The chart below shows the new anticipated balance between fixed and variable pay following the changes to variable pay outlined above.

Fixed/variable pay mix
Composition of total remuneration package from 2010 at maximum performance



Basic salary, cash allowances and non-cash benefits

Basic salary

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

At the time of the original listing of the Company, the Committee set salary levels appreciably below the prevailing rate.

Since the Company has grown significantly since IPO, it is currently recognised that basic salaries and pension arrangements are significantly behind market practice. Due to the prevailing economic conditions at the beginning of 2009, the Committee did not award significant salary increases to executive Directors, keeping increases of between 3–6% in line with nearly all other Petrofac employees. The one exception to this was Maroun Semaan who received a 12.5% increase to reflect his promotion to Group Chief Operating Officer with effect from 1 January 2009.

As outlined on page 77, the Committee awarded modest basic salary increases of 5% to its executive Directors with effect from 1 January 2010. Changes to basic salaries are as follows:

	2009 basic salary	Basic salary (with effect from 1 January 2010)
Ayman Asfari	£462,000	£485,000
Maroun Semaan	US$450,000	US$472,500
Amjad Bseisu	£275,000	£289,000
Keith Roberts	£278,000	£292,000

Cash allowances

In addition to basic salary and non-cash benefits, UK resident executive Directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions. None of the Directors is eligible to receive pension contributions from the Company.

In 2009, Ayman Asfari received a cash allowance of £40,000 whilst the other UK-based executive Directors received £30,000. These amounts were unchanged from 2008.

In 2010, all executive Directors will receive cash allowances of £50,000. The Committee has made these small adjustments to cash allowances to greater align the quantum with practice in the wider market. A more detailed review of pension and benefits will be undertaken in 2010, and a more meaningful pension supplement may be implemented.

The Company pays a cash allowance in respect of housing and transport to Maroun Semaan, in line with local market practice. In 2009, Maroun Semaan received a cash allowance of US$180,000 for the year. In line with the increases for the UK-based executive Directors, Maroun Semaan will receive cash allowances of US$220,000 in 2010.

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

Directors' remuneration report
continued

Non-cash benefits

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

Annual cash bonus payments

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

first, the extent to which the group's financial performance, and, as appropriate, the business division for which the individual director is primarily responsible, have achieved annually established budgets and targets

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

For 2009, in line with previous practice, the Committee set the maximum bonus potential at 100% of basic annual salary for achievement of corporate and personal targets but retained the ability to increase this to 150% of basic annual salary if outstanding performance were to be achieved.

In respect of 2009, the Committee awarded cash bonus awards equal to 150% of salary to Ayman Asfari and Maroun Semaan, in recognition not only of the group's outstanding financial results for 2009 but also their respective personal performances. Keith Roberts and Amjad Bseisu were each awarded cash bonus awards equal to 100% of their respective basic salaries.

The following table sets out the annual bonus awards made to executive Directors' for 2009 performance.

	Annual bonus in respect of 2009	Approximate % of salary
Ayman Asfari	£700,000	150%
Maroun Semaan	US$675,000	150%
Amjad Bseisu	£275,000	100%
Keith Roberts	£278,000	100%

The Committee proposes to increase the maximum cash bonus that may be awarded to executive Directors to 200% of basic salary with effect from the 2010 performance year, in order to further incentivise exceptional performance. Bonuses will continue to be determined based on achievement of financial, safety and personal performance targets over the relevant financial year.

Share incentive schemes

Performance Share Plan (PSP)

Executive Directors and a restricted number of other members of senior management may receive performance-related share awards on an annual basis. Participants are granted contingent awards to receive ordinary shares in the Company which will in normal circumstances vest after three years subject to the continued employment of the participant and to the extent that performance conditions have been satisfied.

The performance period under the PSP is three years, as this is considered to be an appropriate long-term time horizon for both performance measurement and retention.

Under the existing PSP, the maximum award level in any financial year is 100% of basic annual salary or, in circumstances which the Committee deems to be exceptional, 150% of basic annual salary.

As part of the remuneration review carried out during 2009, the levels of award under the PSP were considered in the context of the total remuneration package. The Committee was of the opinion that in order to recognise and reward the delivery of outstanding business performance, it would be appropriate to increase performance-related incentives, particularly those measured over the longer-term.

Therefore, in light of this, the Committee has decided to amend the rules of the PSP and submit this for shareholder approval at the 2010 AGM. This is to enable maximum PSP award levels to be 200% of salary, or 300% of salary in exceptional circumstances such as recruitment.

It is proposed that these new limits will also apply to the 2010 awards, and these awards will be made immediately following the 2010 AGM.

It is proposed that award levels of 200% of salary will be made to all executive Directors in 2010, except Maroun Semaan who will receive an exceptional PSP award of 225% of salary due to his outstanding contribution to the Group's extremely strong performance in 2009.

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

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

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

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

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

TSR element (50% of award)
For the 2010 PSP grant, the TSR performance measure and accompanying vesting schedule will remain the same as previous grants.

TSR is the percentage return to a purchaser of an ordinary share in the Company arising from share price appreciation and reinvestment of dividends over a given period. The TSR of the Company is measured and then compared against the median TSR of an index of a number of international peer companies. Details of the index constituents are provided below.

Vesting is in line with the following scale:

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

1 For awards granted from 2006 to 2009, it was necessary to achieve EPS growth over the period of at least Retail Price Index plus 3% over the three-year vesting period. From 2010 onwards, vesting of the TSR element is subject to the achievement of strong underlying financial performance of Petrofac.

2 In 2006, the companies from which the comparator index is composed were as follows: Abbot Group PLC; Aker Kvaerner ASA; AMEC PLC; Helix Energy Solutions Group, Inc (formerly Cal Dive International Inc); Chicago Bridge & Iron Co NV; Entrepose Contracting; Expro International Group PLC; Halliburton Co; JGC Corp; Saipem SpA; Schlumberger Limited; SNC-Lavalin Group Inc; Technip SA; Wood Group (John) plc; Fluor Corporation; Foster Wheeler Limited; and WorleyParsons Limited. For grants made in 2007 and 2008, the comparator index included the above listed companies and in addition, Tecnicas Reunidas SA. For the 2009 grant, the 2008 comparator group was used, excluding Abbot Group PLC and Expro International Group PLC. For the 2010 grant, Helix Energy Solutions will be replaced by Maire Tecnimont S.p.A. in the comparator group.

3 The Committee is authorised under the rules of the PSP to make retrospective adjustment(s) to the comparator index for any year of award in the event that one or more of the constituent companies are subject to any of the following: de-listing; merger; acquisition or other such event. In 2008, Abbot Group PLC and Expro International Group PLC ceased to exist as independent companies. The Committee therefore decided that these two entities would be removed from the comparator index for 2006, 2007 and 2008 awards with effect from the respective months in which they ceased to be independent companies.

4 It is assumed that £100 is notionally invested at the start of the performance period equally amongst all the companies making up the TSR index. At the end of the vesting period, the index will represent the value of what the initial notional investment of £100 would have returned over the period. This will be representative of the average return made by the Company's competitors. This is then compared to the return by an equivalent notional investment of £100 in Petrofac over the same period.

EPS element (50% of award)
EPS is the earnings (which excludes dividends), in pence, attributable to one ordinary share. The Company's EPS performance over a three-year period is calculated and vesting is in line with the vesting schedule attached to a particular award.

The vesting schedule attached to awards in 2009 and prior years is as shown in the following table.

2006 to 2009 awards

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

The Committee reviewed the EPS targets for the 2010 PSP awards. In doing so, it gave consideration to internal growth projections, market consensus figures and general external conditions. The EPS targets for the 2010 PSP awards have been reduced accordingly.

However, the Committee considers the revised EPS targets to be extremely stretching. Achieving 20% per annum EPS growth would represent exceptional performance in current market conditions, and given exceptional growth to date.

2010 awards

EPS compound annual growth over three-year period	Percentage of EPS element of award vesting
10% or less	0%
More than 10% but less than 15%	Straight-line vesting between 0% and 30%
15%	30%
More than 15% but less than 20%	Straight-line vesting between 30% and 100%
20% or more	100%

Other senior management, management and all-employee schemes

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

Deferred Bonus Share Plan (DBSP)

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

Directors' remuneration report
continued

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

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

Restricted Share Plan (RSP)

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

The Petrofac approved Share Incentive Plan (SIP)

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

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

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

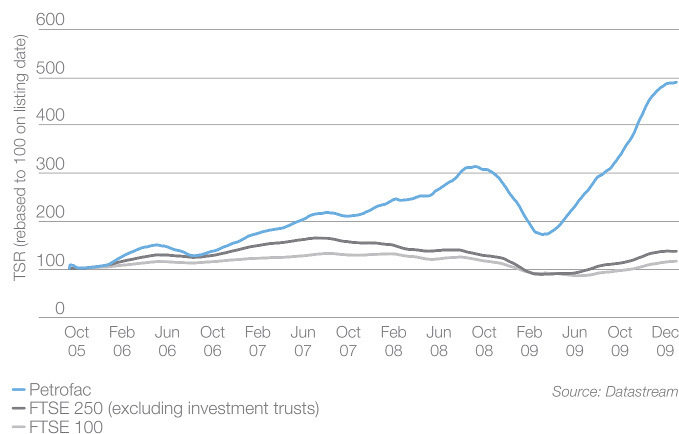
Participants in the SIP receive dividends in respect of their shares like any other shareholder. The trustee invites participants prior to a general meeting to indicate how he or she wishes the trustee to vote in respect of his or her shares on any resolution(s) to be put to shareholders in general meeting.

Funding policy in relation to share incentive plans

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

Performance graph

The Company's Total Shareholder Return is defined as the Company's share price growth plus any dividends used to acquire further shares in Petrofac. For shareholders' information, the Company's TSR performance since the Company was admitted to listing on the London Stock Exchange in October 2005 is shown on the graph below compared with the performance achieved by the FTSE 100 Index and the FTSE 250 Index (excluding investment trusts). The Committee believes that due to Petrofac rejoining the FTSE 100 Index in March 2009, both of these indices are useful to allow a meaningful assessment of the Company's performance during this period.



Source: Datastream

Executive Directors' service contracts

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

Name of executive Director	Date of service contract (and date first appointed)	Last re-elected	Next due for re-election	Number of months' notice Company	Director
Ayman Asfari	13 September 2005 (11 January 2002)	2008 AGM	2011 AGM	12	12
Maroun Semaan	13 September 2005 (11 January 2002)	2009 AGM	2012 AGM	12	12
Amjad Bseisu[1]	13 September 2005 (11 May 2007)	2009 AGM	n/a	12	12
Keith Roberts	13 September 2005 (6 April 2002)	2008 AGM	2011 AGM	12	12

1 Amjad Bseisu will be stepping down from the Board subject to the successful admission to listing of EnQuest PLC.

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

Non-executive Directors

Details of current individual non-executive Directors' contracts for services are given in the table below. These Directors are not part of any pension, bonus or share incentive scheme of the Company or group. Directors are subject to re-election at least every three years and are typically expected to serve two three-year terms.

None of the Non-executive Directors has a service contract and none is entitled to compensation on leaving the Board save that, if requested to resign, the Chairman and each Non-executive Director is entitled to receive prior notice or fees in lieu of notice as in the table below.

Name of Director	Date of latest letter of appointment (and date first appointed)	General meeting at which last re-elected	Next due for re-election	Required notice from Company (in months)
Rodney Chase	13 September 2005 (21 June 2005)	2008 AGM	2011 AGM	3
Kjell Almskog	13 September 2005 (23 March 2005)	2009 AGM	2012 AGM	3
Bernard de Combret[1]	13 September 2005 (19 November 2003)	2007 AGM	n/a	3
Michael Press[1]	13 September 2005 (30 April 2002)	2007 AGM	n/a	3
Rijnhard van Tets	2 February 2007 (11 May 2007)	2007 AGM	2010 AGM	3

1 Bernard de Combret and Michael Press will be stepping down from the Board after the 2010 AGM and as such will not be offering themselves for re-election.

With effect from 1 January 2010, with the exception of the Chairman, Non-executive Directors will be paid a basic annual fee of £55,000 for their role on the Board (2009: £47,000) and further annual fees of £12,000 per chairmanship of a committee (2009: £8,000), and £12,000 for acting as the senior independent director (2009: £8,000). The Board as a whole is responsible for deciding Non-executive Directors' fees unless such fees exceed £500,000 in aggregate, in which case shareholder approval in general meeting would be sought.

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The Chairman's fee is all inclusive and is currently £100,000 per year, having last been considered by the Remuneration Committee in 2006. However, it is proposed to increase the Chairman's fee to £120,000 with effect from 21 June 2010.

Directors' remuneration report
continued

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

The remuneration of each Director in respect of 2009 (with 2008 comparison) comprised:

	Salaries & fees US$'000	Cash allowances US$'000[1]	Benefits US$'000[2]	Cash bonus US$'000	2009 total US$'000	2008 total US$'000
Executive Directors						
Ayman Asfari[3]	722	63	44	1,136	**1,965**	1,794
Maroun Semaan	450	217	52	675	**1,394**	1,189
Keith Roberts[3]	435	47	1	451	**934**	1,052
Non-executive Directors						
Rodney Chase	158	–	–	–	**158**	188
Kjell Almskog	87	–	–	–	**87**	95
Bernard de Combret	87	–	–	–	**87**	95
Michael Press	87	–	–	–	**87**	82
Rijnhard van Tets	87	–	–	–	**87**	95
	2,543	**374**	**98**	**2,708**	**5,723**	5,589

1 Payment in lieu of pension allowance and other benefits for UK resident Directors and end of service indemnity and various allowances for the UAE resident director. None of the Directors are eligible to receive pension contributions from the Company.

2 Ayman Asfari's benefits primarily relate to the employment of a personal assistant who spends part of her time in the administration of his philanthropic work: and Maroun Semaan receives, inter alia, benefits in relation to his children's education and return flights to his permanent home.

3 UK-based Directors are paid in Sterling. Amounts have been translated to US Dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the closing rate for the year.

Awards of shares under the PSP

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

Director and date of grant	% of basic salary in year of grant	Number of shares at 31 December 2008[1]	Shares granted in year under annual award cycle[1]	Dividend shares granted in the year[2]	Lapsed in year	Vested in year	Number of shares at 31 December 2009[1]	Date upon which shares vest	Market price on date of grant
Ayman Asfari									
24 April 2006	71.4	72,894	–	–	–	72,894	**Nil[3]**	24 April 2009	353p
19 March 2007	100.0	93,235	–	2,436	–	–	**95,671[3]**	19 March 2010	415p
19 March 2008	122.7	101,383	–	2,649	–	–	**104,032[4]**	19 March 2011	522p
19 March 2009	130.9	–	113,572	2,967	–	–	**116,539[4]**	19 March 2012	545p
Maroun Semaan									
24 April 2006	70.0	38,877	–	–	–	38,877	**Nil[3]**	24 April 2009	353p
19 March 2007	100.0	44,053	–	1,151	–	–	**45,204[3]**	19 March 2010	415p
19 March 2008	123.7	46,534	–	1,216	–	–	**47,750[4]**	19 March 2011	522p
19 March 2009	122.2	–	71,402	1,865	–	–	**73,267[4]**	19 March 2012	545p
Amjad Bseisu									
24 April 2006	72.8	46,167	–	–	–	46,167	**Nil[3]**	24 April 2009	353p
19 March 2007	100.0	54,386	–	1,421	–	–	**55,807[3]**	19 March 2010	415p
19 March 2008	92.3	45,059	–	1,177	–	–	**46,236[4]**	19 March 2011	522p
19 March 2009	90.9	–	46,930	1,226	–	–	**48,156[4]**	19 March 2012	545p
Keith Roberts									
24 April 2006	71.4	48,596	–	–	–	48,596	**Nil[3]**	24 April 2009	353p
19 March 2007	100.0	56,977	–	1,488	–	–	**58,465[3]**	19 March 2010	415p
19 March 2008	88.9	45,059	–	1,177	–	–	**46,236[4]**	19 March 2011	522p
19 March 2009	95.0	–	49,558	1,294	–	–	**50,852[4]**	19 March 2012	545p

1 The awards which are disclosed are the maximum number which can vest under the performance conditions attached to awards made under the PSP. The performance conditions under which these awards would vest in full are explained on pages 80 and 81.

2 Dividends awarded on the shares granted under the PSP are reinvested to buy further shares.

3 The performance conditions for the April 2006 PSP award were satisfied and the award vested in full during the year. The share price of the shares on the date of vesting (24 April 2009) was 588p. Shares awarded on 19 March 2007 have satisfied their performance conditions in full and will therefore vest 100% on 19 March 2010. Based on a share price of 1027p, which is the share price at 26 February 2010 being the latest practicable date prior to the adoption of this Report by the Remuneration Committee, the values of the awards made to the executive Directors would be as follows: Ayman Asfari: £982,541; Amjad Bseisu: £573,138; Keith Roberts: £600,436; and Maroun Semaan: £464,245.

4 Shares awarded on 19 March 2008 and 19 March 2009 are not due to vest until 19 March 2011 and 2012, respectively. It is too early, in the Committee's opinion, to provide shareholders with a meaningful assessment to the extent that these shares will vest, if at all.

Directors' remuneration report
continued

Award of shares under the DBSP
Keith Roberts was granted 31,153 shares under the DBSP on 24 April 2006. The award was made solely in respect of Invested Shares. No Matching Shares were granted. Following the award of dividend shares in 2006, 2007 and 2008 the number of Invested Shares was 32,399 shares on 31 December 2008. The award vested in full on 24 April 2009. The market price at the date of grant was 353p and the market price on 24 April 2009 was 588p.

Sums paid to third parties in respect of executive Directors' services
No sums were paid to third parties in respect of any executive Director's services (2008: nil).

Directors' beneficial shareholdings at 31 December 2009
Directors' personal shareholdings, which include family interests and which are not related to their remuneration, have been disclosed under the requirements of the UKLA listing rules and are as follows:

	Number of shares as at 31 December 2009	Number of shares as at 31 December 2008
Executive Directors		
Ayman Asfari	53,782,114	53,782,114
Maroun Semaan	30,607,676	30,568,799
Keith Roberts	2,120,000	2,120,000
Non-executive Directors		
Rodney Chase	800,000	800,000
Kjell Almskog	400,000	400,000
Bernard de Combret	700,000	700,000
Michael Press	240,000	240,000
Rijnhard van Tets	100,000	100,000

The Company's share price at the end of the financial year was 1043p and the market price during the year was in the range 349p to 1063p.

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

Annual General Meeting approval
The Remuneration Report will be submitted for approval to the Annual General Meeting to be held on Thursday, 13 May 2010.

On behalf of the Board

Bernard de Combret
Chairman of the Remuneration Committee
5 March 2010

Statement of Directors' responsibilities

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

Jersey Company law requires the Directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and group at the period end and the profit or loss of the Company and group for the period then ended. In preparing these financial statements, the Directors should:

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

The Directors are responsible for keeping proper accounting records which are sufficient to show and explain its transactions and as such as to disclose with reasonable accuracy at any time the financial position of the Company and group and enable them to ensure that the financial statements prepared by the Company comply with the Law. They are also responsible for safeguarding the assets of the Company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 18 to 52. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 50 to 52. In addition, note 31 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Independent auditors' report

To the members of Petrofac Limited

We have audited the group financial statements of Petrofac Limited ('the Company') and its subsidiaries (together 'the group') for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards (IFRSs).

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 87, the Company's Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. The Directors are also responsible for the preparation of the Corporate Governance Report, which they have chosen to prepare on a voluntary basis.

Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

In addition the Company has also instructed us to review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2008 Combined Code and the Directors' statement on going concern which, for a listed UK-incorporated company, are specified for review by the Company's auditor by the Listing Rules of the Financial Services Authority.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company;
- the Company's accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

The Company requested that we review:

- the Directors' statement set out on page 87, in relation to going concern; and
- the part of the Corporate Governance Statement on page 69 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code which for a listed UK-incorporated company, are specified for review by the Company's auditor by the Listing Rules of the Financial Services Authority.

Other matter

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ernst & Young LLP
London
5 March 2010

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Revenue	4a	3,655,426	3,329,536
Cost of sales	4b	(3,035,120)	(2,776,661)
Gross profit		620,306	552,875
Selling, general and administration expenses	4e	(180,197)	(202,167)
Other income	4c	4,075	7,421
Other expenses	4d	(2,998)	(2,543)
Profit from operations before tax and finance income/(costs)		441,186	355,586
Finance costs	5	(5,582)	(13,906)
Finance income	5	11,942	16,688
Profit before tax		447,546	358,368
Income tax expense	6	(84,515)	(93,379)
Profit for the year		363,031	264,989
Attributable to:			
Petrofac Limited shareholders		353,603	264,989
Minority interests		9,428	–
		363,031	264,989
Earnings per share (US cents)	7		
Basic		104.78	78.03
Diluted		103.19	77.11

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Profit for the year		363,031	264,989
Foreign currency translation		15,087	(84,232)
Net gains on maturity of cash flow hedges recycled in the year	23	(4,303)	(32,103)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges		29,229	(25,907)
Net changes in the fair value of available-for-sale financial assets		–	(879)
Impairment of available-for-sale financial assets	14	–	355
Other comprehensive income/(loss)		40,013	(142,766)
Total comprehensive income for the year		403,044	122,223
Attributable to:			
Petrofac Limited shareholders		389,416	122,223
Minority interests		13,628	–
		403,044	122,223

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of financial position

At 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Assets			
Non-current assets			
Property, plant and equipment	9	677,996	413,064
Goodwill	11	97,922	97,534
Intangible assets	12	73,107	38,353
Available-for-sale financial assets	14	539	566
Other financial assets	15	12,535	9,126
Deferred income tax assets	6c	49,726	46,444
		911,825	605,087
Current assets			
Inventories	16	9,798	4,077
Work in progress	17	333,698	252,695
Trade and other receivables	18	878,670	700,931
Due from related parties	30	18,260	2,907
Other financial assets	15	30,957	9,709
Cash and short-term deposits	19	1,417,363	694,415
		2,688,746	1,664,734
Total assets		3,600,571	2,269,821
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	20	8,638	8,636
Share premium		69,712	68,203
Capital redemption reserve		10,881	10,881
Shares to be issued	10	1,988	1,988
Treasury shares	21	(56,285)	(69,333)
Other reserves	23	21,194	(39,292)
Retained earnings		834,382	577,739
		890,510	558,822
Minority interests		16,245	209
Total equity		906,755	559,031
Non-current liabilities			
Interest-bearing loans and borrowings	24	59,195	88,188
Provisions	25	92,103	29,663
Other financial liabilities	26	27,485	32,265
Deferred income tax liabilities	6c	42,192	38,196
		220,975	188,312
Current liabilities			
Trade and other payables	27	967,791	513,329
Due to related parties	30	57,326	559
Interest-bearing loans and borrowings	24	58,071	54,412
Other financial liabilities	26	3,634	6,362
Income tax payable		88,219	110,428
Billings in excess of cost and estimated earnings	17	461,144	285,527
Accrued contract expenses	28	836,656	551,861
		2,472,841	1,522,478
Total liabilities		2,693,816	1,710,790
Total equity and liabilities		3,600,571	2,269,821

The financial statements on pages 89 to 129 were approved by the Board of Directors on 5 March 2010 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Operating activities			
Profit before tax		447,546	358,368
Adjustments for:			
Depreciation, amortisation, impairment and write-off	4b, 4e	117,780	63,366
Share-based payments	4f	13,263	9,448
Difference between other long-term employment benefits paid and amounts recognised in the income statement		7,905	9,007
Net finance (income)	5	(6,360)	(2,782)
(Gain)/loss on disposal of property, plant and equipment	4b,4d	(784)	41
Other non-cash items, net		(3,233)	11,303
Operating profit before working capital changes		576,117	448,751
Trade and other receivables		(176,773)	(194,817)
Work in progress		(81,003)	17,486
Due from related parties		(15,353)	240
Inventories		(5,721)	(1,821)
Other current financial assets		(4,775)	(1,680)
Trade and other payables		466,469	104,708
Billings in excess of cost and estimated earnings		175,617	77,422
Accrued contract expenses		284,795	138,395
Due to related parties		56,767	(185)
Other current financial liabilities		177	–
		1,276,317	588,499
Other non-current items, net		(58)	(1,927)
Cash generated from operations		1,276,259	586,572
Interest paid		(3,351)	(11,526)
Income taxes paid, net		(87,714)	(67,418)
Net cash flows from operating activities		1,185,194	507,628
Investing activities			
Purchase of property, plant and equipment		(317,174)	(255,542)
Acquisition of subsidiaries, net of cash acquired	10	–	(40,774)
Purchase of other intangible assets	12	(10,375)	–
Purchase of intangible oil & gas assets	12	(29,230)	(37,036)
Purchase of available-for-sale financial assets		(106)	–
Proceeds from disposal of property, plant and equipment		1,333	1,031
Proceeds from disposal of available-for-sale financial assets		95	–
Interest received		12,158	16,704
Net cash flows used in investing activities		(343,299)	(315,617)
Financing activities			
Proceeds from interest-bearing loans and borrowings		–	25,000
Repayment of interest-bearing loans and borrowings		(9,958)	(6,213)
Proceeds from capital injection by minority interest		2,408	–
Treasury shares purchased	21	–	(42,500)
Equity dividends paid		(98,995)	(64,135)
Net cash flows used in financing activities		(106,545)	(87,848)
Net increase in cash and cash equivalents		735,350	104,163
Net foreign exchange difference on cash and cash equivalents		6,235	(20,890)
Cash and cash equivalents at 1 January		649,159	565,886
Cash and cash equivalents at 31 December	19	1,390,744	649,159

The attached notes 1 to 33 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Shares to be issued US$'000	Treasury* shares US$'000 (note 21)	Other reserves US$'000 (note 23)	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2009	8,636	68,203	10,881	1,988	(69,333)	(39,292)	577,739	558,822	209	559,031
Net profit for the year	–	–	–	–	–	–	353,603	353,603	9,428	363,031
Other comprehensive income	–	–	–	–	–	35,813	–	35,813	4,200	40,013
Total comprehensive income for the year	–	–	–	–	–	35,813	353,603	389,416	13,628	403,044
Shares issued on acquisition (note 10)	2	1,509	–	–	–	–	–	1,511	–	1,511
Share-based payments charge (note 22)	–	–	–	–	–	13,263	–	13,263	–	13,263
Shares vested during the year (note 21)	–	–	–	–	13,048	(12,617)	(431)	–	–	–
Transfer to reserve for share-based payments (note 22)	–	–	–	–	–	10,942	–	10,942	–	10,942
Deferred tax on share-based payment reserve	–	–	–	–	–	13,085	–	13,085	–	13,085
Capital injection by minority interests	–	–	–	–	–	–	–	–	2,408	2,408
Dividends (note 8)	–	–	–	–	–	–	(96,529)	(96,529)	–	(96,529)
Balance at 31 December 2009	8,638	69,712	10,881	1,988	(56,285)	21,194	834,382	890,510	16,245	906,755

	Attributable to shareholders of Petrofac Limited									
	Issued share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Shares to be issued US$'000	Treasury* shares US$'000 (note 21)	Other reserves US$'000 (note 23)	Retained earnings US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
Balance at 1 January 2008 as previously reported	8,636	68,203	10,881	–	(29,842)	50,467	377,450	485,795	209	486,004
Restatement	–	–	–	–	–	36,966	–	36,966	–	36,966
Balance at 1 January 2008 as restated	8,636	68,203	10,881	–	(29,842)	87,433	377,450	522,761	209	522,970
Net profit for the year	–	–	–	–	–	–	264,989	264,989	–	264,989
Other comprehensive loss	–	–	–	–	–	(142,766)	–	(142,766)	–	(142,766)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(142,766)	264,989	122,223	–	122,223
Shares to be issued on acquisition (note 10)	–	–	–	1,988	–	–	–	1,988	–	1,988
Share-based payments charge (note 22)	–	–	–	–	–	9,448	–	9,448	–	9,448
Shares vested during the year (note 21)	–	–	–	–	3,009	(3,009)	–	–	–	–
Treasury shares purchased (note 21)	–	–	–	–	(42,500)	–	–	(42,500)	–	(42,500)
Transfer to reserve for share-based payments (note 22)	–	–	–	–	–	9,602	–	9,602	–	9,602
Dividends (note 8)	–	–	–	–	–	–	(64,700)	(64,700)	–	(64,700)
Balance at 31 December 2008	8,636	68,203	10,881	1,988	(69,333)	(39,292)	577,739	558,822	209	559,031

* Shares held by Petrofac Employee Benefit Trust.

The attached notes 1 to 33 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2009

1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Directors on 5 March 2010.

Petrofac Limited is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together 'the group'). The Company's 31 December 2009 financial statements are shown on pages 131 to 142. The group's principal activity is the provision of facilities solutions to the oil & gas production and processing industry.

A full listing of all group companies, and joint venture companies, is contained in note 33 to these consolidated financial statements.

2 Summary of significant accounting policies

Basis of preparation

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

Statement of compliance

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

Basis of consolidation

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

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

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

New standards and interpretations

The group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2009. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IAS 1 'Presentation of Financial Statements (Revised)'
The revised standard requires that items of income and expenses, which are non-owner changes in equity, be presented separately in a statement of comprehensive income either separately as a single statement or as two statements along with the income statement. The group has decided to opt for the former and present a single separate statement of comprehensive income.

IFRS 7 'Financial Instruments: Disclosures (Amendments)'
The amendments require additional disclosures about the fair value measurement and liquidity risk. The disclosures require that for each item recorded at fair value, a fair value measurement hierarchy be disclosed based on the source of inputs for ascertaining the fair values of such items. The amendment also requires the disclosure of liquidity risk with respect to derivative financial instruments used for liquidity management. The adoption in the current year of the amendment has resulted in additional disclosure but does not have an impact on the accounting policies and measurement basis adopted by the group.

IFRS 8 'Operating Segments'
This standard introduces the management approach to segment reporting which requires the disclosure of segment information based on the internal reports regularly reviewed by the group's Chief Operating Decision Maker in order to assess each segment's performance and allocate resources to them. The adoption of this standard during 2009 has not had any impact on the financial position of the group. However, the segment information disclosed has changed as a result of the recent internal restructuring of the group.

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the group's accounting periods beginning on or after 1 January 2010 or later periods which the group has not early adopted. Those that are applicable to the group are as follows:

i) **IFRS 3 'Business Combinations (Revised)'** effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other matters, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100% of the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the group will be assessed when a business combination transaction occurs.

ii) **IAS 27 'Consolidated and Separate Financial Statements (Amendments)'** effective for annual periods beginning on or after 1 July 2009, prescribes accounting treatment in respect of change in ownership interest in a subsidiary, allocation of losses incurred by a subsidiary between controlling and non-controller interests and accounting for loss of interest in a subsidiary. This may affect the group where a subsidiary with non-controlling interest becomes loss making or, there is a change in ownership interest in any of its subsidiaries.

iii) **IFRIC 17 'Distributions of Non-cash Assets to owners'** this interpretation provides guidance in respect of accounting for non-cash asset distributions to shareholders. This interpretation is effective for periods beginning on or after 1 July 2009. Management will consider its impact on the financial position of the group at the time of any such transaction.

Significant accounting judgements and estimates

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

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

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

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

Onerous contract provisions: the group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time.

Impairment of goodwill: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was US$97,922,000 (2008: US$97,534,000).

Deferred tax assets: the group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised as well as the likelihood of future taxable profits. The carrying amount of recognised tax losses at 31 December 2009 was US$18,413,000 (2008: US$33,165,000).

Income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

Recoverable value of intangible oil & gas and other intangible assets: the group determines at each balance sheet date whether there is any evidence of impairment in the carrying value of its intangible oil & gas and other intangible assets. This requires management to estimate the recoverable value of its intangible assets for example by reference to quoted market values, similar arm's length transactions involving these assets or value in use calculations.

Units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil & gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. These calculations require the use of estimates and assumptions including the amount of economically recoverable reserves and estimates of future oil & gas capital expenditure.

Interests in joint ventures

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

Foreign currency translation

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

2 Summary of significant accounting policies continued

Property, plant and equipment

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

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

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

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

No depreciation is charged on land or assets under construction.

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

Non-current assets held for sale

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

Borrowing costs

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

Goodwill

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

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS8 'Operating Segments'.

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

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

Deferred consideration payable on acquisition

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

Intangible assets – non oil & gas assets

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

Oil & gas assets

Capitalised costs

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

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

Evaluation expenditures

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

Development expenditures

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

Changes in unit-of-production factors

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

Decommissioning

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

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

Available-for-sale financial assets

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

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

Impairment of assets (excluding goodwill)

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

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

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

Inventories

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

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

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

- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the balance sheet under 'Work in progress'
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'Billings in excess of cost and estimated earnings' within current liabilities

Trade and other receivables

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

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

2 Summary of significant accounting policies continued

Provisions

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement or
- the group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

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

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

Pensions and other long-term employment benefits

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

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

Share-based payment transactions

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

Equity-settled transactions

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

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

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

Petrofac Employee Benefit Trust

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

Leases

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

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

Revenue recognition

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

Engineering, procurement and construction services (Engineering & Construction)

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

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

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

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

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

Facilities management, engineering and training services (Offshore Engineering & Operations, Engineering, Training Services and Production Solutions)

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

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

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

Oil & gas activities (Energy Developments)

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

Pre-contract/bid costs

Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed out over the life of the contract.

Income taxes

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

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

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

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

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

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

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

Derivative financial instruments and hedging

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

2 Summary of significant accounting policies continued

Derivative financial instruments and hedging continued

For the purposes of hedge accounting, hedges are classified as:
- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

Embedded derivatives

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

3 Segment information

As described on page 41, with effect from 1 January 2009, the group reorganised to deliver its services through seven business units: Engineering & Construction, Engineering & Construction Ventures, Offshore Engineering & Operations, Engineering Services, Training Services, Production Solutions and Energy Developments. As a result the segment information has been realigned to fit the new group organisational structure which now comprises four reporting segments being Engineering & Construction, Offshore Engineering & Operations, Engineering, Training Services and Production Solutions, and Energy Developments, rather than as was historically the case, split between three reporting divisions Engineering & Construction, Operations Services and Energy Developments.

The following tables represent revenue and profit information relating to the group's reporting segments for the year ended 31 December 2009 and the comparative segmental information has been restated to reflect the revised group structure.

Included within the Engineering, Training Services and Production Solutions segment are three diverse businesses none of which have ever met the quantitative thresholds set by IFRS 8 'Operating Segments' for determining reportable segments.

The consolidation adjustments and corporate columns include certain balances which due to their nature are not allocated to segments.

Year ended 31 December 2009

	Engineering & Construction US$'000	Offshore Engineering & Operations US$'000	Engineering, Training Services & Production Solutions US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Revenue							
External sales	2,508,951	616,542	281,225	248,708	–	–	3,655,426
Inter-segment sales	–	10,178	68,431	–	–	(78,609)	–
Total revenue	**2,508,951**	**626,720**	**349,656**	**248,708**	**–**	**(78,609)**	**3,655,426**
Segment results	321,600	17,830	34,483	77,395	(1,615)	(326)	449,367
Unallocated corporate costs	–	–	–	–	(8,181)	–	(8,181)
Profit/(loss) before tax and finance income/(costs)	321,600	17,830	34,483	77,395	(9,796)	(326)	441,186
Finance costs	–	(258)	(1,582)	(10,702)	(5,705)	12,665	(5,582)
Finance income	14,087	94	313	64	10,049	(12,665)	11,942
Profit/(loss) before income tax	335,687	17,666	33,214	66,757	(5,452)	(326)	447,546
Income tax (expense)/income	(61,328)	(4,853)	(672)	(20,566)	3,095	(191)	(84,515)
Minority interests	(9,240)	–	(188)	–	–	–	(9,428)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	**265,119**	**12,813**	**32,354**	**46,191**	**(2,357)**	**(517)**	**353,603**

Year ended 31 December 2008

	Engineering & Construction US$'000	Offshore Engineering & Operations US$'000	Engineering, Training Services & Production Solutions US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Revenue							
External sales	1,968,522	767,795	439,862	153,357	–	–	3,329,536
Inter-segment sales	25,017	8,769	70,542	–	–	(104,328)	–
Total revenue	1,993,539	776,564	510,404	153,357	–	(104,328)	3,329,536
Segment results	241,160	23,172	48,258	51,713	(1,176)	(215)	362,912
Unallocated corporate costs	–	–	–	–	(7,326)	–	(7,326)
Profit/(loss) before tax and finance income/(costs)	241,160	23,172	48,258	51,713	(8,502)	(215)	355,586
Finance costs	–	(914)	(3,656)	(8,247)	(7,547)	6,458	(13,906)
Finance income	19,395	32	998	224	8,075	(12,036)	16,688
Profit/(loss) before income tax	260,555	22,290	45,600	43,690	(7,974)	(5,793)	358,368
Income tax (expense)/income	(54,206)	(5,847)	(12,507)	(21,810)	(571)	1,562	(93,379)
Profit/(loss) for the year attributable to Petrofac Limited shareholders	206,349	16,443	33,093	21,880	(8,545)	(4,231)	264,989

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

3 Segment information continued

Year ended 31 December 2009

	Engineering & Construction US$'000	Offshore Engineering & Operations US$'000	Engineering, Training Services & Production Solutions US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Assets							
Segment assets	2,719,786	249,026	266,642	751,959	626,119	(1,071,692)	3,541,840
Inter-segment assets	(451,816)	(13,664)	(42,974)	(4,948)	(558,290)	1,071,692	–
Investments	–	–	–	539	–	–	539
	2,267,970	235,362	223,668	747,550	67,829	–	3,542,379
Unallocated assets	–	–	–	–	8,466	–	8,466
Deferred tax assets	4,160	2,953	5,181	21,579	15,853	–	49,726
Total assets	**2,272,130**	**238,315**	**228,849**	**769,129**	**92,148**	**–**	**3,600,571**
Other segment information							
Capital expenditures:							
Property, plant and equipment	51,821	3,400	6,682	309,824	4,686	(1,014)	375,399
Intangible oil & gas assets	–	–	–	29,230	–	–	29,230
Charges:							
Depreciation	24,525	1,887	7,482	78,677	251	(918)	111,904
Amortisation	415	–	668	–	–	–	1,083
Impairment	–	–	–	4,793	–	–	4,793
Other long-term employment benefits	7,779	833	1,736	52	38	–	10,438
Share-based payments	6,213	1,263	2,258	1,337	2,192	–	13,263

Year ended 31 December 2008

	Engineering & Construction US$'000	Offshore Engineering & Operations US$'000	Engineering, Training Services & Production Solutions US$'000	Energy Developments US$'000	Corporate & others US$'000	Consolidation adjustments & eliminations US$'000	Total US$'000
Assets							
Segment assets	1,590,789	221,303	279,958	450,813	–	(352,592)	2,190,271
Inter-segment assets	(292,321)	(14,436)	(45,441)	(394)	–	352,592	–
Investments	–	–	–	566	–	–	566
	1,298,468	206,867	234,517	450,985	–	–	2,190,837
Unallocated assets	–	–	–	–	32,540	–	32,540
Deferred tax assets	3,136	1,565	4,100	37,162	919	(438)	46,444
Total assets	1,301,604	208,432	238,617	488,147	33,459	(438)	2,269,821
Other segment information							
Capital expenditures:							
Property, plant and equipment	49,906	4,221	10,005	197,718	325	(6,633)	255,542
Intangible oil & gas assets	–	–	–	37,036	–	–	37,036
Other intangible assets	–	–	12,009	–	–	–	12,009
Goodwill	–	–	52,353	–	–	–	52,353
Charges:							
Depreciation	11,210	1,504	10,803	22,254	425	(840)	45,356
Amortisation	–	–	2,829	–	–	–	2,829
Impairment	–	–	–	5,355	–	–	5,355
Write-off of intangible oil & gas assets	–	–	–	9,826	–	–	9,826
Other long-term employment benefits	7,867	816	1,427	60	53	–	10,223
Share-based payments	3,855	1,485	1,679	1,059	1,370	–	9,448

Geographical segments

The following tables present revenue from external customers based on project location and non-current assets by physical location for the years ended 31 December 2009 and 2008.

Year ended 31 December 2009

	United Kingdom US$'000	United Arab Emirates US$'000	Syria US$'000	Algeria US$'000	Oman US$'000	Kuwait US$'000	Kazakhstan US$'000	Other countries US$'000	Consolidated US$'000
Revenues from external customers	**705,281**	**695,118**	**530,269**	**492,378**	**380,601**	**203,577**	**184,305**	**463,897**	**3,655,426**

	United Kingdom US$'000	Tunisia US$'000	United Arab Emirates US$'000	Algeria US$'000	Malaysia US$'000	Other countries US$'000	Consolidated US$'000
Non-current assets:							
Property, plant and equipment	447,591	57,078	74,093	55,229	25,279	18,726	677,996
Intangible oil & gas assets	–	–	–	–	53,888	–	53,888
Other intangible assets	11,654	–	–	–	–	7,565	19,219
Goodwill	85,155	–	12,099	–	–	668	97,922

Year ended 31 December 2008

	United Kingdom US$'000	United Arab Emirates US$'000	Oman US$'000	Tunisia US$'000	Algeria US$'000	Syria US$'000	Kazakhstan US$'000	Other countries US$'000	Consolidated US$'000
Revenues from external customers	790,083	553,393	494,818	277,676	224,122	215,077	201,762	572,605	3,329,536

	United Kingdom US$'000	Tunisia US$'000	United Arab Emirates US$'000	Algeria US$'000	Malaysia US$'000	Other countries US$'000	Consolidated US$'000
Non-current assets:							
Property, plant and equipment	180,457	68,904	68,365	59,009	25,212	11,117	413,064
Intangible oil & gas assets	29,451	–	–	–	–	–	29,451
Other intangible assets	8,902	–	–	–	–	–	8,902
Goodwill	80,418	–	16,448	–	–	668	97,534

Revenue from two customers amounted to US$801,723,000 (2008: US$822,114,000) in the Engineering & Construction segment.

4 Revenues and expenses

a. Revenue

	2009 US$'000	2008 US$'000
Rendering of services	**3,446,037**	3,214,782
Sale of crude oil & gas	**202,770**	102,036
Sale of processed hydrocarbons	**6,619**	12,718
	3,655,426	3,329,536

Included in revenues from rendering of services are Offshore Engineering & Operations, Engineering, Training Services and Production Solutions revenues of a 'pass-through' nature with zero or low margins amounting to US$230,262,000 (2008: US$275,947,000).

b. Cost of sales

Included in cost of sales for the year ended 31 December 2009 is US$908,000 (2008: US$88,000 loss) gain on disposal of property, plant and equipment used to undertake various engineering and construction contracts. In addition depreciation charged on property, plant and equipment of US$104,997,000 during 2009 (2008: US$39,143,000) is included in cost of sales (note 9).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and gains on maturity of undesignated derivatives of US$19,508,000 (2008: US$11,826,000 losses). These amounts are an economic hedge but do not meet the criteria within IAS 39 and are most appropriately recorded in cost of sales.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

4 Revenues and expenses continued

c. Other income

	2009 US$'000	2008 US$'000
Foreign exchange gains	2,342	6,134
Gain on sale of property, plant and equipment	–	47
Other income	1,733	1,240
	4,075	7,421

d. Other expenses

	2009 US$'000	2008 US$'000
Foreign exchange losses	2,675	1,932
Loss on sale of property, plant and equipment	124	47
Other expenses	199	564
	2,998	2,543

e. Selling, general and administration expenses

	2009 US$'000	2008 US$'000
Staff costs	94,583	99,441
Depreciation	6,907	6,213
Amortisation (note 12)	1,083	2,829
Impairment (note 12 and 14)	4,793	5,355
Write-off of intangible oil & gas assets (note 12)	–	9,826
Other operating expenses	72,831	78,503
	180,197	202,167

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

f. Staff costs

	2009 US$'000	2008 US$'000
Total staff costs:		
Wages and salaries	708,684	682,869
Social security costs	27,877	28,892
Defined contribution pension costs	11,155	11,948
Other long-term employee benefit costs (note 25)	10,438	10,223
Expense of share-based payments (note 22)	13,263	9,448
	771,417	743,380

Of the US$771,417,000 of staff costs shown above, US$676,834,000 (2008: US$643,939,000) are included in cost of sales, with the remainder in selling, general and administration expenses.

US$25,598,000 of prior year Engineering & Construction contract-related staff costs have been reclassified from selling, general and administrative expenses to cost of sales to be consistent with the current year ended 31 December 2009 accounting treatment of these costs.

The average number of persons employed by the group during the year was 11,628 (2008: 10,383).

g. Auditors' remuneration

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

	2009 US$'000	2008 US$'000
Audit of the group financial statements	1,369	1,177
Other fees to auditors:		
Auditing the accounts of subsidiaries	546	236
Other services relating to taxation	178	107
All other services	15	46
	2,108	1,566

5 Finance (costs)/income

	2009 US$'000	2008 US$'000
Interest payable:		
Long-term borrowings	(3,171)	(2,888)
Other interest, including short-term loans and overdrafts	(310)	(1,239)
Unwinding of discount on deferred consideration and decommissioning provisions	(2,101)	(1,910)
Ineffective foreign currency cash flow hedge	–	(8,157)
Time value portion of derivatives designated as hedges (note 31)	–	288
Total finance cost	(5,582)	(13,906)
Interest receivable:		
Bank interest receivable	11,487	15,989
Other interest receivable	455	699
Total finance income	11,942	16,688

6 Income tax

a. Tax on ordinary activities

The major components of income tax expense are as follows:

	2009 US$'000	2008 US$'000
Current income tax		
Current income tax charge	100,985	128,243
Adjustments in respect of current income tax of previous years	(31,448)	4,373
Deferred income tax		
Relating to origination and reversal of temporary differences	5,570	(33,393)
Adjustments in respect of deferred income tax of previous years	9,408	(5,844)
Income tax expense reported in the income statement	84,515	93,379

b. Reconciliation of total tax charge

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

	2009 US$'000	2008 US$'000
Accounting profit before tax	447,546	358,368
At Jersey's domestic income tax rate of 0% (2008: 20%)	–	71,674
Profits exempt from Jersey income tax	–	(71,674)
Expected tax charge using the weighted average statutory tax rate for the group	107,320	92,922
Overhead allowances	–	(4,484)
Expenditure not allowable for income tax purposes	14,706	6,192
Income not taxable	(396)	(415)
Adjustments in respect of previous years	(22,040)	(1,470)
Tax effect of utilisation of tax losses not previously recognised	(252)	(312)
Unrecognised tax losses	618	946
Other permanent differences	(15,441)	–
At the effective income tax rate of 18.9% (2008: 26.1%)	84,515	93,379

The group's effective tax rate for the year ended 31 December 2009 is 18.9% (2008: 26.1%). There are a number of factors contributing to the decrease in the group effective tax rate. These include confirmation during the year of the applicability of a lower tax rate in relation to the group's projects in Oman. The lower rate applies to the profits earned in earlier years; the effect has been recognised as an adjustment in respect of prior years in the tax reconciliation. Also a higher proportion of Engineering & Construction segmental profits have been earned in lower tax rate jurisdictions. The Energy Developments business unit has claimed the tax allowances available to it during 2009 and in particular Ring Fence Expenditure Supplement which is available for a limited number of accounting periods for company's carrying on a ring fence trade within the UK Continental Shelf.

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

Notes to the consolidated financial statements continued
For the year ended 31 December 2009

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

	Consolidated balance sheet		Consolidated income statement	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Deferred income tax liabilities				
Fair value adjustment on acquisitions	2,599	3,610	(139)	(800)
Accelerated depreciation	27,515	23,065	15,472	19,778
Other temporary differences	12,078	11,521	(1,441)	(18,094)
Gross deferred income tax liabilities	42,192	38,196		
Deferred income tax assets				
Losses available for offset	18,413	33,165	(11,130)	(28,747)
Decelerated depreciation for tax purposes	7,596	5,893	9,409	(3,932)
Share scheme	18,636	2,799	(1,142)	(3,024)
Other temporary differences	5,081	4,587	3,949	(4,418)
Gross deferred income tax assets	49,726	46,444		
Deferred income tax charge/(credit)			14,978	(39,237)

d. Unrecognised tax losses
Deferred income tax assets are recognised for tax loss carry-forwards and tax credits to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group did not recognise deferred income tax assets of US$15,452,000 (2008: US$20,732,000).

	2009 US$'000	2008 US$'000
Expiration dates for tax losses		
No earlier than 2022	11,451	11,906
No expiration date	3,360	6,534
	14,811	18,440
Tax credits (no expiration date)	641	2,292
	15,452	20,732

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the employee share award schemes which are held in trust.

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

	2009 US$'000	2008 US$'000
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	353,603	264,989

	2009 Number '000	2008 Number '000
Weighted average number of ordinary shares for basic earnings per share	337,473	339,585
Effect of diluted potential ordinary shares granted under share-based payment schemes	5,187	4,072
Adjusted weighted average number of ordinary shares for diluted earnings per share	342,660	343,657

8 Dividends paid and proposed

	2009 US$'000	2008 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2007: 11.50 cents per share	–	39,164
Interim dividend 2008: 7.50 cents per share	–	25,536
Final dividend for 2008: 17.90 cents per share	60,332	–
Interim dividend 2009: 10.70 cents per share	36,197	–
	96,529	64,700

	2009 US$'000	2008 US$'000
Proposed for approval at AGM		
(not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2009: 25.10 cents per share (2008: 17.90 cents per share)	86,729	61,831

9 Property, plant and equipment

	Oil & gas assets US$'000	Oil & gas facilities US$'000	Land, buildings and leasehold improvements US$'000	Plant and equipment US$'000	Vehicles US$'000	Office furniture and equipment US$'000	Assets under construction US$'000	Total US$'000
Cost								
At 1 January 2008	135,515	125,371	21,247	22,556	4,443	53,420	31,064	393,616
Additions	189,214	–	35,018	2,935	2,516	25,859	–	255,542
Acquisition of subsidiaries	–	–	190	–	–	534	–	724
Transfer from capital work in progress	–	–	31,064	–	–	–	(31,064)	–
Disposals	–	–	(723)	(683)	(318)	(875)	–	(2,599)
Exchange difference	(45,626)	–	(3,708)	(2,573)	(67)	(9,891)	–	(61,865)
At 1 January 2009	279,103	125,371	83,088	22,235	6,574	69,047	–	585,418
Additions	276,798	32,612	32,632	4,273	4,907	17,663	6,514	375,399
Disposals	–	–	(1,474)	(4,631)	(789)	(3,366)	–	(10,260)
Exchange difference	–	–	1,296	1,103	204	3,745	165	6,513
At 31 December 2009	555,901	157,983	115,542	22,980	10,896	87,089	6,679	957,070
Depreciation								
At 1 January 2008	(8,874)	(73,660)	(4,060)	(15,049)	(3,467)	(32,269)	–	(137,379)
Charge for the year	(7,748)	(13,366)	(5,346)	(2,598)	(1,052)	(15,246)	–	(45,356)
Disposals	–	–	544	20	237	726	–	1,527
Exchange difference	435	–	879	1,115	47	6,378	–	8,854
At 1 January 2009	(16,187)	(87,026)	(7,983)	(16,512)	(4,235)	(40,411)	–	(172,354)
Charge for the year	(60,984)	(15,254)	(14,998)	(3,571)	(2,254)	(14,843)	–	(111,904)
Disposals	–	–	1,330	4,516	740	3,150	–	9,736
Exchange difference	–	–	(379)	(1,051)	(37)	(3,085)	–	(4,552)
At 31 December 2009	(77,171)	(102,280)	(22,030)	(16,618)	(5,786)	(55,189)	–	(279,074)
Net carrying amount:								
At 31 December 2009	478,730	55,703	93,512	6,362	5,110	31,900	6,679	677,996
At 31 December 2008	262,916	38,345	75,105	5,723	2,339	28,636	–	413,064

No interest has been capitalised within oil & gas facilities during the year (2008: US$ nil) and the accumulated capitalised interest, net of depreciation at 31 December 2009, was US$931,000 (2008: US$1,430,000).

Additions to oil & gas assets in the year mainly comprise development expenses capitalised on the group's interest in the Don area assets of US$274,114,000 (2008: US$167,265,000).

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

9 Property, plant and equipment continued

Included in oil & gas assets are US$50,726,000 (2008: US$2,879,000) of capitalised decommissioning costs net of depreciation provided on the PM304 asset in Malaysia, the Chergui asset in Tunisia and the Don area assets in the United Kingdom.

Of the total charge for depreciation in the income statement, US$104,997,000 (2008: US$39,143,000) is included in cost of sales and US$6,907,000 (2008: US$6,213,000) in selling, general and administration expenses.

Capital work in progress comprises of expenditures incurred in relation to the group ERP project.

10 Business combinations

Acquisitions in 2008

Eclipse Petroleum Technology Limited

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

The fair value of net assets acquired was US$3,960,000, which included fair value of intangible assets recognised on acquisition of US$2,179,000. These intangible assets recognised on acquisition comprise a proprietary software system which is being amortised over its remaining economic useful life of six years on a straight-line basis.

During the year, income of US$152,000 (2008: US$275,000 charge) for the unwinding of interest has been reflected in the income statement reflecting the catch-up impact of the change in the estimated deferred consideration payable during 2009.

The deferred consideration was re-assessed at year end in the light of latest financial projections for the business and the current carried amount was reduced by Sterling 1,025,000 (equivalent US$1,712,000) with a corresponding decrease in the carried goodwill.

The residual goodwill of Sterling 5,133,000 (equivalent US$8,327,000) (2008: Sterling 6,158,000, equivalent US$8,995,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the group.

Caltec Limited

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

The fair value of net assets acquired was US$8,843,000, which included fair value of intangible assets recognised on acquisition of US$9,830,000. These intangible assets recognised on acquisition represent patented technology which is being amortised over its remaining economic useful life of ten years on a straight-line basis.

During the year, a charge of US$752,000 (2008: US$248,000) for the unwinding of interest has been reflected in the income statement.

During the year, 97,530 (Sterling 1,000,000 equivalent US$1,614,000) Petrofac shares were issued in settlement of additional deferred consideration payable on the original acquisition.

The deferred consideration was re-assessed at year end in the light of latest financial projections for the business and the current carried amount was reduced by Sterling 1,754,000 (equivalent US$2,929,000) with a corresponding decrease in the carried goodwill.

The residual goodwill of Sterling 20,072,000 (equivalent US$32,563,000) (2008: Sterling 21,826,000, equivalent US$31,881,000) comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the group.

11 Goodwill

A summary of the movements in goodwill is presented below:

	2009 US$'000	2008 US$'000
At 1 January	97,534	71,743
Acquisitions during the year (note 10)	–	52,353
Reassessment of deferred consideration payable (note 10 and 26)	(8,992)	–
Exchange difference	9,380	(26,562)
At 31 December	97,922	97,534

The decrease in goodwill is as a result of the reassessment of deferred consideration payable on SPD Group Limited of US$4,351,000, Eclipse Petroleum Technology Limited of US$1,712,000 and Caltec Limited of US$2,929,000.

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

- Offshore Engineering & Operations
- Production Solutions
- Training Services
- Energy Developments

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

Offshore Engineering & Operations, Production Solutions and Training Services cash-generating units

The recoverable amounts for the Offshore Engineering & Operations, Production Solutions and Training units have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted a ten-year projection period to assess each unit's value in use as it is confident based on past experience of the accuracy of long-term cash flow forecasts that these projections are reliable. The cash flow projections are based on financial budgets approved by senior management covering a five-year period, extrapolated for a further five years at a growth rate of 5% for Offshore Engineering & Operations and Training cash-generating units and 2.5% per annum for Production Solutions cash-generating unit since it includes newly acquired businesses (note 10) where there is less historic track record of achieving financial projections. Management considers these long-term growth rates to be conservative relative to both the economic outlook for the units in their respective markets within the oil & gas industry and the growth rates experienced in the recent past by each unit.

Energy Developments cash-generating unit

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

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

	2009 US$'000	2008 US$'000
Offshore Engineering & Operations unit	22,975	20,433
Production Solutions unit	52,496	56,653
Training unit	20,234	18,231
Energy Developments unit	2,217	2,217
	97,922	97,534

Key assumptions used in value in use calculations

The calculation of value in use for the Offshore Engineering & Operations, Production Solutions and Training Services units is most sensitive to the following assumptions:

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

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past by each unit. A growth rate of 5% per annum has been applied for Offshore Engineering & Operations and Training cash-generating units for the remaining five years of the ten-year projection period and 2.5% per annum for Production Solutions cash-generating unit since it includes newly acquired businesses (note 10) where there is less historic track record of achieving financial projections.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

11 Goodwill continued

Key assumptions used in value in use calculations continued

Discount rate: management has used a pre-tax discount rate of 14.5% per annum for Offshore Engineering & Operations (2008: 16.1%), Production Solutions (2008: 16.1%) and Training Services (2008: 15.1%) cash-generating units which are derived from the estimated weighted average cost of capital of the group. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the group's estimated equity market risk premium and the group's cost of debt.

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

Discount rate: management has used an estimate of the pre-tax weighted average cost of capital of the group plus a risk premium to reflect the particular risk characteristics of each individual investment. The discount rate used for 2009 was 10.5% for each asset (2008: 11.4%).

Oil & gas prices: management has used an oil price assumption of US$70 (2008: US$55) per barrel and a gas price of US$8.30 (2008: US$6.40) per mcf for the impairment testing of its individual oil & gas investments.

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

Sensitivity to changes in assumptions

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

12 Intangible assets

	2009 US$'000	2008 US$'000
Intangible oil & gas assets		
Cost:		
At 1 January	43,137	15,927
Additions	29,230	37,036
Asset written-off	–	(9,826)
Disposal	(18,479)	–
At 31 December	53,888	43,137
Accumulated impairment:		
At 1 January	(13,686)	(8,686)
Impairment	(4,793)	(5,000)
Disposal	18,479	–
At 31 December	–	(13,686)
Net book value of intangible oil & gas assets at 31 December	53,888	29,451
Other intangible assets		
Cost:		
At 1 January	13,892	3,930
Additions on acquisition (note 10)	–	12,009
Acquired intangible assets (note 10)	–	414
Additions	10,375	–
Exchange difference	1,209	(2,461)
At 31 December	25,476	13,892
Accumulated amortisation:		
At 1 January	(4,990)	(2,161)
Amortisation	(1,083)	(2,829)
Exchange difference	(184)	–
At 31 December	(6,257)	(4,990)
Net book value of other intangible assets at 31 December	19,219	8,902
Total intangible assets	73,107	38,353

Intangible oil & gas assets

Oil & gas asset (part of the Energy Development segment) additions above comprise of US$29,230,000 (2008: US$24,658,000) of capitalised expenditure on near-field appraisal wells in the group's 30% interest in Block PM304, offshore Malaysia.

During the year a further impairment provision of US$4,793,000 (2008: US$5,000,000) was made against the group's interest in Permit NT/P68 in Australia. The group's interests in the project were transferred to a third party for US$ nil consideration.

There were investing cash outflows relating to capitalised intangible oil & gas assets of US$29,230,000 (2008: US$37,036,000) in the current period arising from pre-development activities. As at 31 December 2009 there were cash and deposits of US$ nil (2008: US$495,000) and trade and other payables of US$ nil (2008: US$508,000) arising from pre-development activities in the current period.

Other intangible assets

Additions to other intangible assets of US$10,375,000 comprise of US$7,980,000 paid on account of intellectual property rights to LNG technology and capitalisation of further development costs of a proprietary well engineering software system of US$2,395,000. Other intangible assets comprising customer contracts, proprietary software, LNG intellectual property and patent technology are being amortised over their remaining estimated economic useful life of three, six, eight and ten years respectively on a straight-line basis and the related amortisation charges included in selling, general and administrative expenses (note 4e).

13 Interest in joint ventures

In the normal course of business, the group establishes jointly controlled entities and operations for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 33. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities and operations is as follows:

	2009 US$'000	2008 US$'000
Revenue	31,573	28,878
Cost of sales	(28,293)	(21,481)
Gross profit	3,280	7,397
Selling, general and administration expenses	(16,374)	(1,200)
Other income, net	47	–
Finance income, net	5	87
(Loss)/profit before income tax	(13,042)	6,284
Income tax	(268)	(523)
Net (loss)/profit	(13,310)	5,761
Current assets	61,677	38,295
Non-current assets	4,830	3,644
Total assets	66,507	41,939
Current liabilities	64,619	2,446
Non-current liabilities	3,686	–
Total liabilities	68,305	2,446
Net (liabilities)/assets	(1,798)	39,493

14 Available-for-sale financial assets

	2009 US$'000	2008 US$'000
Shares – listed	–	133
Units in a mutual fund	539	433
	539	566

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

During the year, the listed shares were sold for US$95,000 realising a US$38,000 loss on disposal. In 2008 an impairment provision of US$355,000 was made against the above listed shares held as an available-for-sale financial asset on the basis of a fall in the market value of these shares was considered to be significant.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

15 Other financial assets

	2009 US$'000	2008 US$'000
Other financial assets – non-current		
Fair value of derivative instruments (note 31)	9,655	7,227
Restricted cash	2,880	1,899
	12,535	9,126
Other financial assets – current		
Fair value of derivative instruments (note 31)	22,306	5,631
Interest receivable	845	1,047
Restricted cash	7,431	2,736
Other	375	295
	30,957	9,709

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the group's trading activities and cash in escrow against reimbursed long-term employee benefits charged to a customer and for the acquisition of a company (note 32). This cash will be released on the maturity of these guarantees and performance bonds and on the transfer/cessation of employment of the relevant employee for which the long-term benefit is held in escrow.

16 Inventories

	2009 US$'000	2008 US$'000
Crude oil	5,272	1,669
Processed hydrocarbons	31	805
Stores and spares	2,943	744
Raw materials	1,552	859
	9,798	4,077

Included in the income statement are costs of inventories expensed of US$37,306,000 (2008: US$22,404,000).

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

	2009 US$'000	2008 US$'000
Cost and estimated earnings	3,918,368	3,782,100
Less: billings	(3,584,670)	(3,529,405)
Work in progress	333,698	252,695
Billings	3,406,412	1,509,548
Less: cost and estimated earnings	(2,945,268)	(1,224,021)
Billings in excess of cost and estimated earnings	461,144	285,527
Total cost and estimated earnings	6,863,636	5,006,121
Total billings	6,991,082	5,038,953

18 Trade and other receivables

	2009 US$'000	2008 US$'000
Trade receivables	614,837	608,023
Retentions receivable	8,772	2,241
Advances	139,550	31,977
Prepayments and deposits	35,143	24,849
Other receivables	80,368	33,841
	878,670	700,931

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$614,837,000 (2008: US$608,023,000) are as follows:

	2009			2008		
	Specific impairment US$'000	General impairment US$'000	Total US$'000	Specific impairment US$'000	General impairment US$'000	Total US$'000
At 1 January	3,698	1,296	4,994	4,086	1,216	5,302
Charge for the year	6,309	1,320	7,629	1,361	482	1,843
Amounts written off	(343)	(198)	(541)	–	(333)	(333)
Unused amounts reversed	(4,798)	(661)	(5,459)	(1,530)	(15)	(1,545)
Exchange difference	9	(3)	6	(219)	(54)	(273)
At 31 December	4,875	1,754	6,629	3,698	1,296	4,994

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

		Number of days past due						
	Neither past due nor impaired US$'000	< 30 days US$'000	31–60 days US$'000	61–90 days US$'000	91–120 days US$'000	121–360 days US$'000	> 360 days US$'000	Total US$'000
Unimpaired	434,159	116,197	28,835	13,365	3,431	5,977	2,138	604,102
Impaired	–	3,177	2,148	386	2,510	6,220	2,923	17,364
	434,159	119,374	30,983	13,751	5,941	12,197	5,061	621,466
Less: impairment provision	–	(585)	(243)	(332)	(305)	(3,421)	(1,743)	(6,629)
Net trade receivables 2009	434,159	118,789	30,740	13,419	5,636	8,776	3,318	614,837
Unimpaired	325,844	197,790	45,106	11,012	10,460	12,714	1,319	604,245
Impaired	–	734	86	618	666	3,032	3,636	8,772
	325,844	198,524	45,192	11,630	11,126	15,746	4,955	613,017
Less: impairment provision	–	(190)	(85)	(194)	(249)	(1,640)	(2,636)	(4,994)
Net trade receivables 2008	325,844	198,334	45,107	11,436	10,877	14,106	2,319	608,023

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

Advances represent payments made to certain of the group's subcontractors for projects in progress, on which the related work had not been performed at the balance sheet date. The significant increase in advances during 2009 relates to some major new contract awards in the Engineering & Construction business.

Included in other receivables are US$46,697,000 (2008: nil) recoverable from venture partners on the Don assets being their share of accrued expenses.

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

19 Cash and short-term deposits

	2009 US$'000	2008 US$'000
Cash at bank and in hand	203,105	107,461
Short-term deposits	1,214,258	586,954
Total cash and bank balances	1,417,363	694,415

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 three months depending on the immediate cash requirements of the group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$1,417,363,000 (2008: US$694,415,000).

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

	2009 US$'000	2008 US$'000
Cash at bank and in hand	203,105	107,461
Short-term deposits	1,214,258	586,954
Bank overdrafts (note 24)	(26,619)	(45,256)
	1,390,744	649,159

20 Share capital

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

	2009 US$'000	2008 US$'000
Authorised		
750,000,000 ordinary shares of US$0.025 each (2008: 750,000,000 ordinary shares of US$0.025 each)	18,750	18,750
Issued and fully paid		
345,532,388 ordinary shares of US$0.025 each (2008: 345,434,858 ordinary shares of US$0.025 each)	8,638	8,636

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

	Number
Ordinary shares:	
Ordinary shares of US$0.025 each at 1 January 2008	345,434,858
Movement during the year	–
Ordinary shares of US$0.025 each at 1 January 2009	345,434,858
Issued during the year as further deferred consideration payable for the acquisition of a subsidiary (note 10)	97,530
Ordinary shares of US$0.025 each at 31 December 2009	345,532,388

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

21 Treasury shares

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

The movements in total treasury shares are shown below:

	2009		2008	
	Number	US$'000	Number	US$'000
At 1 January	9,540,306	69,333	4,052,024	29,842
Acquired during the year	–	–	5,854,194	42,500
Vested during the year	(2,329,341)	(13,048)	(365,912)	(3,009)
At 31 December	7,210,965	56,285	9,540,306	69,333

As at 31 December 2009 5,504,819 (2008: 5,504,819) of the above shares were held by Lehman Brothers in a client custody account which is now being managed by their appointed Administrator. The Company anticipates that the Administrators will release these assets in the near future under a signed Claim Resolution Agreement approved by the creditors.

Included in the above treasury shares are 274,938 (2008: 274,938) shares held in relation to the acquisition of SPD Group Limited in 2007.

Shares vested during the year include dividend shares of 76,931 (2008: 3,096) with a cost of US$431,000 (2008: US$25,000).

22 Share-based payment plans

Performance Share Plan (PSP)

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

	Fair value per share	Assumed vesting rate
2009 awards	545p	100.0%
2008 awards	522p	91.3%
2007 awards	415p	94.9%
2006 awards	353p	91.7%

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

	2009 awards	2008 awards	2007 awards	2006 awards
Expected share price volatility (based on median of comparator group's three-year volatilities)	49.0%	32.0%	29.0%	28.0%
Share price correlation with comparator group	36.0%	22.0%	17.0%	10.0%
Risk-free interest rate	2.10%	3.79%	5.20%	4.60%
Expected life of share award	3 years	3 years	3 years	3 years
Fair value of TSR portion	456p	287p	245p	234p

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

	2009 Number	2008 Number
Outstanding at 1 January	1,298,809	864,181
Granted during the year	576,780	456,240
Vested during the year	(418,153)	–
Forfeited during the year	(24,756)	(21,612)
Outstanding at 31 December	1,432,680	1,298,809

The number of awards still outstanding but not exercisable at 31 December 2009 is made up of 576,780 in respect of 2009 awards (2008: nil), 431,843 in respect of 2008 awards (2008: 451,178), 424,057 in respect of 2007 awards (2008: 436,603) and nil for 2006 (2008: 411,028).

The charge recognised in the current year amounted to US$2,727,000 (2008: US$2,258,000).

Deferred Bonus Share Plan (DBSP)

Executive Directors and selected employees were originally eligible to participate in this scheme although the Remuneration Committee decided during 2007 that executive Directors should no longer continue to participate. Participants may be invited to elect or in some cases, be required, to receive a proportion of any bonus in ordinary shares of the Company ('Invested Awards'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares').

The 2006 share awards vest on the third anniversary of the grant date provided that the participant did not leave the group's employment, subject to a limited number of exceptions. However, a change in the rules of the DBSP scheme was approved by shareholders at the Annual General Meeting of the Company on 11 May 2007 such that the 2007 share awards and for any awards made thereafter, the invested and Matching Shares would, unless the Remuneration Committee of the Board of Directors determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% on the second anniversary of the date of grant and the final 33.34% of the award on the third anniversary of the date of grant.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

22 Share-based payment plans continued

Deferred Bonus Share Plan (DBSP) continued

	Fair value per share	Assumed vesting rate
2009 awards	545p	98.2%
2008 awards	522p	92.9%
2007 awards	415p	90.7%
2006 awards	353p	85.5%

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

	2009 Number*	2008 Number*
Outstanding at 1 January	3,755,383	2,558,711
Granted during the year	2,773,020	1,777,080
Vested during the year	(1,743,372)	(385,700)
Forfeited during the year	(90,840)	(194,708)
Outstanding at 31 December	4,694,191	3,755,383

* Includes invested and matching shares.

The number of awards still outstanding but not exercisable at 31 December 2009 is made up of 2,696,752 in respect of 2009 awards (2008: nil), 1,237,786 in respect of 2008 awards (2008: 1,688,558), 759,653 in respect of 2007 awards (2008: 1,084,602) and nil for 2006 awards (2008: 982,223).

The charge recognised in the 2009 income statement in relation to matching share awards amounted to US$8,064,000 (2008: US$5,665,000).

Share Incentive Plan (SIP)

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

Restricted Share Plan (RSP)

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

	Weighted average fair value per share	Assumed vesting rate
2009 awards	430p	100.0%
2008 awards	478p	91.1%
2007 awards	456p	94.4%
2006 awards	278p	96.3%

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

	2009 Number	2008 Number
Outstanding at 1 January	1,184,711	394,216
Granted during the year	86,432	811,399
Vested during the year	(167,053)	(5,180)
Forfeited during the year	(21,629)	(15,724)
Outstanding at 31 December	1,082,461	1,184,711

The number of awards still outstanding but not exercisable at 31 December 2009 is made up of 86,432 in respect of 2009 awards (2008: nil), 786,826 in respect of 2008 awards (2008: 795,675), 209,203 in respect of 2007 awards (2008: 234,387) and nil for 2006 awards (2008: 154,649).

During the year the Company recognised a charge of US$2,472,000 (2008: US$1,525,000) in relation to the above.

The group has recognised a total charge of US$13,263,000 (2008: US$9,448,000) in the income statement during the year relating to the above employee share-based schemes (see note 4f) which has been transferred to the reserve for share-based payments along with US$10,942,000 of the bonus liability accrued for the year ended 31 December 2008 which has been settled in shares granted during the year (2008: US$9,602,000).

For further details on the above employee share-based payment schemes refer to pages 80 to 82 of the Directors' Remuneration Report.

23 Other reserves

	Net unrealised gains/(losses) on available-for-sale financial assets US$'000	Net unrealised (losses)/ gains on derivatives US$'000	Foreign currency translation US$'000	Reserve for share-based payments US$'000	Total US$'000
Balance at 1 January 2008 (as restated)*	598	65,857	4,817	16,161	87,433
Foreign currency translation	–	–	(84,232)	–	(84,232)
Net gains on maturity of cash flow hedges recycled in the year	–	(32,103)	–	–	(32,103)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	(25,907)	–	–	(25,907)
Changes in fair value of available-for-sale financial assets	(879)	–	–	–	(879)
Impairment of available-for-sale financial assets	355	–	–	–	355
Share-based payments charge (note 22)	–	–	–	9,448	9,448
Transfer during the year (note 22)	–	–	–	9,602	9,602
Shares vested during the year (note 22)	–	–	–	(3,009)	(3,009)
Balance at 1 January 2009	74	7,847	(79,415)	32,202	(39,292)
Foreign currency translation	–	–	15,087	–	15,087
Net gains on maturity of cash flow hedges recycled in the year	–	(4,303)	–	–	(4,303)
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	–	25,029	–	–	25,029
Share-based payments charge (note 22)	–	–	–	13,263	13,263
Transfer during the year (note 22)	–	–	–	10,942	10,942
Shares vested during the year (note 22)	–	–	–	(12,617)	(12,617)
Deferred tax on share based payments reserve	–	–	–	13,085	13,085
Balance at 31 December 2009	74	28,573	(64,328)	56,875	21,194

* During 2008, the Company identified that in prior periods certain gains and losses on cash flow hedges had been reclassified to accrued contract expenses from other reserves (net unrealised (losses)/gains on derivatives) ahead of the contract costs to which they relate impacting the income statement. As a result US$36,966,000 was reclassified from accrued contract expenses to other reserves at 1 January 2008.

Nature and purpose of other reserves

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

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

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges are included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur the gain or loss is transferred out of equity to the income statement. Realised net gains amounting to US$5,161,000 (2008: US$31,713,000) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales, realised net losses of US$1,470,000 (2008: US$63,000 gains) relating to interest rate derivatives have been classified as a net interest expense and a realised net gain of US$611,000 (2008: US$327,000) was added to revenues in respect of oil derivatives.

The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on the maturity of un-designated derivatives amounting to a net gain of US$19,508,000 (2008: US$11,826,000 loss) have been recognised in the cost of sales. The time value portion gain on interest rate derivatives of US$ nil (2008: US$433,000) and loss on oil derivatives of US$ nil (2008: US$145,000) were netted off and added to interest payable.

Foreign currency translation reserve

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

Reserve for share-based payments

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

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2008 of US$10,942,000 (2007 bonus of US$9,602,000) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 22).

Notes to the consolidated financial statements continued
For the year ended 31 December 2009

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

		31 December 2009 Actual interest rate %	31 December 2008 Actual interest rate %	Effective interest rate %	Maturity	2009 US$'000	2008 US$'000
Current							
Revolving credit facility	(i)	US LIBOR + 1.50%	–	US LIBOR + 1.50%	2010	20,000	–
Bank overdrafts	(ii)	UK LIBOR + 2.00%, US LIBOR + 2.00%	UK LIBOR + 0.875%, US LIBOR + 0.875%, KD Discount Rate + 2.00%	UK LIBOR + 2.00%, US LIBOR + 2.00%, KD Discount Rate + 2.00%	on demand	26,619	45,256
Other loans: Current portion of term loan	(iii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	3.14% to 3.71% (2008: 4.18% to 4.88%)		10,489	9,156
Current portion of term loan	(iv)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	2.65% to 3.44% (2008: 3.74% to 5.02%)		963	–
						58,071	54,412
Non-current							
Term loan	(iv)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	2.65% to 3.44% (2008: 3.74% to 5.02%)	2013	18,291	18,720
Revolving credit facility	(i)	–	US LIBOR + 0.875%	(2008: 3.11%)	2010	–	20,000
Term loan	(iii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	3.14% to 3.71% (2008: 4.18% to 4.88%)	2010-2013	46,694	54,847
						64,985	93,567
Less: Debt acquisition costs net of accumulated amortisation and effective rate adjustments						(5,790)	(5,379)
						59,195	88,188

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

(i) Revolving credit facility
This facility is repayable on 31 December 2010.

(ii) Bank overdrafts
Bank overdrafts are drawn down in US Dollars and Sterling denominations to meet the group's working capital requirements. These are repayable on demand.

(iii) Term loan
This term loan at 31 December 2009 comprised drawings of US$28,877,000 (2008: US$33,998,000) denominated in US Dollars and US$28,306,000 (2008: US$30,005,000) denominated in Sterling. Both elements of the loan are repayable over a period of four years ending 30 September 2013.

(iv) Term loan
This term loan is to be repaid over a period of three years ending 30 September 2013. The drawings at 31 December 2009 comprised US$13,900,000 (2008: US$13,900,000) denominated in US Dollars and US$5,354,000 (2008: US$4,820,000) denominated in Sterling.

The group's credit facilities and debt agreements contain covenants relating to interest and net borrowings cover. None of the Company's subsidiaries is subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

25 Provisions

	Other long-term employment benefits provision US$'000	Provision for decommissioning US$'000	Total US$'000
At 1 January 2009	26,225	3,438	29,663
Additions during the year	10,438	53,371	63,809
Unused amounts reversed/paid in the year	(2,533)	(278)	(2,811)
Unwinding of discount	–	1,442	1,442
At 31 December 2009	**34,130**	**57,973**	**92,103**

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

Provision for decommissioning
The decommissioning provision primarily relates to the Company's obligation for the removal of facilities and restoration of the site at the PM304 field in Malaysia, at Chergui in Tunisia and on the Don assets in the United Kingdom. The liability is discounted at the rate of 3.80% on PM304 (2008: 3.50%), 5.25% on Chergui (2008: 5.25%) and 4.50% (2008: 3.40%) on Don. The unwinding of the discount is classified as a finance cost (note 5). The Company estimates that the cash outflows against these provisions will arise in 2014 on PM304, in 2018 on Chergui and in 2019 on Don assuming no further development of the asset.

26 Other financial liabilities

	2009 US$'000	2008 US$'000
Other financial liabilities – non-current		
Deferred consideration payable	27,438	32,147
Other	47	118
	27,485	32,265
Other financial liabilities – current		
Deferred consideration payable	1,622	–
Interest payable	22	118
Fair value of derivative instruments (note 31)	1,813	6,244
Other	177	–
	3,634	6,362

Included in deferred consideration payable above is an amount payable of US$4,890,000 (2008: US$ nil) relating to the group's purchase of a floating platform.

27 Trade and other payables

	2009 US$'000	2008 US$'000
Trade payables	266,944	275,058
Advances received from customers	379,684	76,845
Accrued expenses	285,760	149,684
Other taxes payable	14,699	6,876
Other payables	20,704	4,866
	967,791	513,329

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

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

Included in other payables are retentions held against subcontractors of US$938,000 (2008: US$911,000).

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

28 Accrued contract expenses

	2009 US$'000	2008 US$'000
Accrued contract expenses	832,503	543,191
Reserve for contract losses	4,153	8,670
	836,656	551,861

The reserve for contract losses is to cover costs in excess of revenues on certain contracts.

29 Commitments and contingencies

Commitments

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

At 31 December 2009, the group had letters of credit of US$91,042,000 (2008: US$24,096,000) and outstanding letters of guarantee, including performance and bid bonds, of US$2,124,134,000 (2008: US$865,120,000) against which the group had pledged or restricted cash balances of, in aggregate, US$2,675,000 (2008: US$1,506,000).

At 31 December 2009, the group had outstanding forward exchange contracts amounting to US$351,803,000 (2008: US$166,412,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 31).

Leases

The group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

	2009 US$'000	2008 US$'000
Within one year	35,796	59,292
After one year but not more than five years	57,127	72,729
More than five years	73,030	54,787
	165,953	186,808

Included in the above are commitments relating to the lease of an office building extension in Aberdeen, United Kingdom of US$39,735,000 (2008: US$44,573,000) and the lease of a drilling rig for the Don Southwest project of US$10,089,000 (2008: US$35,744,000).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$33,063,000 (2008: US$26,557,000).

Capital commitments

At 31 December 2009, the group had capital commitments of US$18,786,000 (2008: US$44,035,000) excluding the above lease commitments.

Included in the above are commitments relating to the further appraisal and development of wells as part of the Cendor project in Malaysia amounting to US$14,572,000 (2008: US$26,468,000), commitments in respect of IT projects of US$3,300,000 (2008: US$ nil) and the development of the Don assets amounting to US$914,000 (2008: US$8,610,000).

30 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 33. Petrofac Limited is the ultimate parent entity of the group.

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

		Sales to related parties US$'000	Purchases from related parties US$'000	Amounts owed by related parties US$'000	Amounts owed to related parties US$'000
Joint ventures	2009	27,337	15,434	17,773	56,925
	2008	9,081	1,858	2,907	367
Key management personnel interests	2009	–	1,405	487	401
	2008	–	1,277	–	192

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

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests of US$1,336,000 (2008: US$1,277,000) reflect the market rate based costs of chartering the services of an aeroplane used for the transport of senior management and Directors of the group on company business, which is owned by an offshore trust of which the Chief Executive of the Company is a beneficiary.

Also included in purchases in respect of key management personnel interests is US$69,000 (2008: US$ nil) relating to client entertainment provided by a business owned by a member of the group's key management.

Amounts owed by key management personnel comprises a temporary loan of US$487,000 (2008: US$ nil) provided in respect of income tax payable on vesting of Restricted Share Plan shares pending disposal of shares to meet this liability once the close period for trading Petrofac shares ends.

Compensation of key management personnel

The following details remuneration of key management personnel of the group comprising executive and Non-executive Directors of the Company and other senior personnel. Further information relating to the individual Directors is provided in the Directors' Remuneration report on pages 76 to 86.

	2009 US$'000	2008 US$'000
Short-term employee benefits	11,209	5,542
Other long-term employment benefits	129	59
Share-based payments	3,368	1,311
Fees paid to Non-executive directors	506	554
	15,212	7,466

Increase in compensation of key management personnel in 2009 is mainly due to increase in the number of members of the executive management committee as a result of the management reorganisation of the group effective 1 January 2009.

31 Risk management and financial instruments

Risk management objectives and policies

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

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

The Board of Directors of the Company has established an Audit Committee and Risk Committee to help identify, evaluate and manage the significant financial risks faced by the group and their activities are discussed in detail on pages 74 and 75.

The other main risks besides interest rate and foreign currency risk arising from the group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

31 Risk management and financial instruments continued

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the group's interest-bearing financial liabilities and assets.

The group's exposure to market risk arising from changes in interest rates relates primarily to the group's long-term variable rate debt obligations and its cash and bank balances. The group's policy is to manage its interest cost using a mix of fixed and variable rate debt. At 31 December 2009, after taking into account the effect of interest rate swaps and collars, 0.0% (2008: 65.1%) of the group's term borrowings are at a fixed or capped rate of interest. The group's cash and bank balances are at floating rates of interest.

Interest rate sensitivity analysis

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

	Pre-tax profit		Equity	
	100 basis point increase US$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2009	**(1,096)**	**1,096**	**–**	**–**
31 December 2008	(882)	882	(705)	(1,615)

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

Year ended 31 December 2009

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facility (note 24)	20,000	–	–	–	–	–	20,000
Bank overdrafts (note 24)	26,619	–	–	–	–	–	26,619
Term loans (note 24)	11,452	18,901	24,221	21,863	–	–	76,437
	58,071	**18,901**	**24,221**	**21,863**	**–**	**–**	**123,056**
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	1,417,363	–	–	–	–	–	1,417,363
Restricted cash balances (note 15)	7,431	226	–	–	–	2,654	10,311
	1,424,794	**226**	**–**	**–**	**–**	**2,654**	**1,427,674**

Year ended 31 December 2008

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facility (note 24)	–	20,000	–	–	–	–	20,000
Bank overdrafts (note 24)	45,256	–	–	–	–	–	45,256
Term loans (note 24)	9,156	12,186	19,837	25,302	16,242	–	82,723
Interest rate collars (note 31)	1,137	–	–	–	–	–	1,137
Interest rate swap (note 31)	37	–	–	–	–	–	37
	55,586	32,186	19,837	25,302	16,242	–	149,153
Financial assets							
Floating rates							
Cash and short-term deposits (note 19)	694,415	–	–	–	–	–	694,415
Restricted cash balances (note 15)	2,736	207	–	–	–	1,692	4,635
	697,151	207	–	–	–	1,692	699,050

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective rate adjustments of US$5,790,000 (2008: US$5,379,000).

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

Derivative instruments designated as cash flow hedges

At 31 December 2009, the group held no derivative instruments designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings:

				Fair value of asset/(liability)	
Instrument	Nominal amount (US$ equivalent)	Date matured	Date commenced	2009 US$'000	2008 US$'000
UK LIBOR interest rate swap	2,629,000	30 September 2009	31 December 2004	–	(37)
UK LIBOR interest rate collar	30,131,000	31 December 2009	31 December 2007	–	(705)
US LIBOR interest rate collar	34,138,000	31 December 2009	31 December 2007	–	(432)

During 2009, changes in fair value of US$ nil (2008: US$1,607,000 loss) relating to these derivative instruments were taken to equity and a loss of US$1,470,000 (2008: US$63,000 gain) were recycled from equity into interest expense in the income statement. The time value portion of these derivatives of US$ nil (2008: US$433,000 gain) was netted-off against interest expense.

Foreign currency risk

The group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The group is also exposed to the translation of the functional currencies of its units to the US Dollar reporting currency of the group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US Dollar terms, of the group totals.

	2009 % of foreign currency denominated items	2008 % of foreign currency denominated items
Revenues	39.5%	43.8%
Costs	50.1%	61.6%
Current financial assets	35.3%	57.9%
Non-current financial assets	1.0%	0.0%
Current financial liabilities	42.3%	64.8%
Non-current financial liabilities	34.6%	25.6%

The group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

Foreign currency sensitivity analysis

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

	2009		2008	
	Average rate	Closing rate	Average rate	Closing rate
Sterling	1.56	1.62	1.85	1.46
Kuwaiti Dinar	3.47	3.48	3.72	3.62
Euro	1.40	1.44	1.48	1.39

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

	Pre-tax profit		Equity	
	+10% US Dollar rate increase US$'000	–5% US Dollar rate decrease US$'000	+10% US Dollar rate increase US$'000	–5% US Dollar rate decrease US$'000
31 December 2009	**(10,238)**	**5,119**	**7,964**	**(3,990)**
31 December 2008	(16,355)	8,177	10,597	(6,135)

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

31 Risk management and financial instruments continued

Foreign currency sensitivity analysis continued

At 31 December 2009, the group had foreign exchange forward contracts designated as cash flow hedges with a fair value gain of US$32,800,000 (2008: US$10,165,000) in equity as follows:

	Contract value		Fair value		Net unrealised gain/(loss)	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Euro currency purchases (sales)	101,909	(41,655)	29,496	7,761	28,430	9,488
Sterling currency purchases	38,700	26,747	4,703	(2,585)	4,966	(2,956)
Yen currency (sales) purchases	(160)	7,465	(942)	1,173	(862)	–
Kuwaiti Dinars sales	(211,034)	(90,545)	(1,295)	5,160	266	3,633
					32,800	10,165

The above foreign exchange contracts mature and will affect income between January 2010 and July 2013 (2008: between January 2009 and April 2010). Also included in the net unrealised gains of US$32,800,000 (2008: US$10,165,000) is minority share of gains of US$4,200,000 (2008: US$ nil).

At 31 December 2009, the group had cash and short-term deposits designated as cash flow hedges with a fair value gain of US$1,786,000 (2008: US$2,205,000 loss) as follows:

	Fair value		Net unrealised gain/(loss)	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Euro currency cash and short-term deposits	91,660	269,409	1,163	2,653
Sterling currency cash and short-term deposits	5,264	15,667	772	(4,858)
Kuwaiti Dinars cash and short-term deposits	19,146	–	(149)	–
			1,786	(2,205)

During 2009, changes in fair value of US$28,043,000 (2008: loss US$25,950,000) relating to these derivative instruments and financial assets were taken to equity and US$5,161,000 (2008: US$31,713,000) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portion of the above foreign exchange forward contracts and gains on maturity of undesignated derivatives of US$19,508,000 (2008: US$11,826,000 losses) was recognised in the income statement (note 4b and 4d).

Commodity price risk – oil prices

The group is exposed to the impact of changes in oil & gas prices on its revenues and profits generated from sales of crude oil & gas. The group's policy is to manage its exposure to the impact of changes in oil & gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long-term forecast production data is available.

During the year the group entered into various crude oil swaps hedging oil production of 96,000 bbl with maturities ranging from 1 July 2009 to 31 December 2010. Three crude oil collars were also contracted hedging 90,000 bbl of oil production with maturities from 1 January 2010 to 31 December 2010. In addition, six fuel oil swaps were also entered into for hedging gas production of 27,000MT with maturities from 1 October 2009 to 31 December 2010.

The fair value of oil derivatives at 31 December 2009 was US$1,813,000 liability (2008: US$1,349,000 asset) with a loss recognised in equity of US$1,813,000 (2008: US$1,494,000 gain).

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

	Pre-tax profit		Equity	
	+10 US$/bbl increase US$'000	–10 US$/bbl decrease US$'000	+10 US$/bbl increase US$'000	–10 US$/bbl decrease US$'000
31 December 2009	82	(82)	(861)	861
31 December 2008	–	–	251	(250)

Credit risk

The group trades only with recognised, creditworthy third parties. Divisional Risk Review Committees (DRRC) have been set up by the Board of Directors to evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the DRRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2009, the group's five largest customers accounted for 57.5% of outstanding trade receivables and work in progress (2008: 50.7%).

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

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, revolving credit facilities, project finance and term loans to reduce its exposure to liquidity risk. The maturity profiles of the group's financial liabilities at 31 December 2009 are as follows:

Year ended 31 December 2009

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	31,863	26,208	18,901	46,084	–	123,056	117,266
Trade and other payables (excluding advances from customers)	576,264	11,843	–	–	–	588,107	588,107
Due to related parties	44,496	12,830	–	–	–	57,326	57,326
Deferred consideration	1,622	–	20,519	11,356	–	33,497	29,060
Derivative instruments	907	906	–	–	–	1,813	1,813
Interest payable	22	–	–	–	–	22	22
Interest payments	816	1,148	2,094	2,291	–	6,349	–
	655,990	52,935	41,514	59,731	–	810,170	793,594

Year ended 31 December 2008

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	49,835	4,577	32,186	61,381	–	147,979	142,600
Trade and other payables (excluding advances from customers)	380,145	56,339	–	–	–	436,484	436,484
Due to related parties	469	90	–	–	–	559	559
Deferred consideration	–	–	29,454	8,894	–	38,348	32,147
Derivative instruments	5,436	808	–	–	–	6,244	6,244
Interest payable	118	–	–	–	–	118	118
Interest payments	1,817	1,817	2,799	4,236	–	10,669	–
	437,820	63,631	64,439	74,511	–	640,401	618,152

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

31 Risk management and financial instruments continued

Capital management

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

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

	2009 US$'000	2008 US$'000
Cash and short-term deposits	1,417,363	694,415
Interest-bearing loans and borrowings (A)	(117,266)	(142,600)
Net cash (B)	1,300,097	551,815
Equity attributable to Petrofac Limited shareholders (C)	890,510	558,822
Profit for the year attributable to Petrofac Limited shareholders (D)	353,603	264,989
Gross gearing ratio (A/C)	13.2%	25.5%
Net gearing ratio (B/C)	Net cash position	Net cash position
Shareholders' return on investment (D/C)	39.7%	47.4%

Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Financial assets				
Cash and short-term deposits	1,417,363	694,415	1,417,363	694,415
Restricted cash	10,311	4,635	10,311	4,635
Available-for-sale financial assets	539	566	539	566
Oil derivative	–	1,349	–	1,349
Forward currency contracts – designated as cash flow hedge	26,891	11,509	26,891	11,509
Forward currency contracts – undesignated	5,070	–	5,070	–
Financial liabilities				
Interest-bearing loans and borrowings	117,266	142,600	117,266	142,600
Deferred consideration	30,178	32,147	30,178	32,147
Interest rate collars	–	1,137	–	1,137
Interest rate swap	–	37	–	37
Oil derivative	1,813	–	1,813	–
Forward currency contracts – designated as cash flow hedge	–	900	–	900
Forward currency contracts – undesignated	–	4,170	–	4,170

Market values have been used to determine the fair values of available-for-sale financial assets and forward currency contracts. The fair values of interest rate swaps and collars have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Assets measured at fair value

Year ended 31 December 2009

	Tier 1 US$'000	Tier 2 US$'000	2009 US$'000
Financial assets			
Available-for-sale financial assets	–	539	539
Forward currency contracts – designated as cash flow hedge	–	26,891	26,891
Forward currency contracts – undesignated	–	5,070	5,070
Financial liabilities			
Interest-bearing loans and borrowings	–	117,266	117,266
Oil derivative	–	1,813	1,813

Year ended 31 December 2008

	Tier 1 US$'000	Tier 2 US$'000	2008 US$'000
Financial assets			
Available-for-sale financial assets	133	433	566
Oil derivative	–	1,349	1,349
Forward currency contracts	–	11,509	11,509
Financial liabilities			
Interest-bearing loans and borrowings	–	142,600	142,600
Interest rate collars	–	1,137	1,137
Interest rate swap	–	37	37
Forward currency contracts – designated as cash flow hedge	–	900	900
Forward currency contracts – undesignated	–	4,170	4,170

32 Events after the reporting period

On 14 January 2010 the group acquired 100% of the share capital of Scotvalve Services Limited, a United Kingdom based company providing servicing and repair of oilfield pressure control equipment, for an initial cash consideration of Sterling 3,000,000 with a further Sterling 2,000,000 of consideration payable on achievement of certain agreed performance targets.

On 4 March 2010, the Company announced its intention to demerge the Don assets in the North Sea held by Petrofac Energy Developments Limited (PEDL) from the Petrofac group and transfer them in to a newly established entity which will hold the combined North Sea assets of PEDL and Lundin North Sea BV. This demerger is planned to be effected via a reorganisation of the Company's ordinary share capital such that existing shareholders in Petrofac receive one additional new share in the newly established merged entity for each share held in Petrofac and the new entity intends to pursue a market listing in the near future.

Notes to the consolidated financial statements continued

For the year ended 31 December 2009

33 Subsidiaries and joint ventures

At 31 December 2009, 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 2009	2008
Trading subsidiaries			
Petrofac Inc.	USA	*100	*100
Petrofac International Ltd	Jersey	*100	*100
Petrofac Energy Developments Limited	England	*100	*100
Petrofac Energy Developments International Limited	Jersey	*100	*100
Petrofac UK Holdings Limited	England	*100	*100
Petrofac Facilities Management International Limited	Jersey	*100	*100
Petrofac Services Limited	England	*100	*100
Petrofac Services Inc.	USA	*100	*100
Petrofac Training International Limited	Jersey	*100	*100
Petroleum Facilities E & C Limited	Jersey	*100	*100
Petrofac Employee Benefit Trust	Jersey	*100	*100
Atlantic Resourcing Limited	Scotland	100	100
Petrofac Algeria EURL	Algeria	100	100
Petrofac Engineering India Private Limited	India	100	100
Petrofac Engineering Services India Private Limited	India	100	100
Petrofac Engineering Limited	England	100	100
Petrofac Offshore Management Limited	Jersey	100	100
Petrofac FZE	United Arab Emirates	100	100
Petrofac Facilities Management Group Limited	Scotland	100	100
Petrofac Facilities Management Limited	Scotland	100	100
Petrofac International Nigeria Ltd	Nigeria	100	100
Petrofac Pars (PJSC)	Iran	100	100
Petrofac Iran (PJSC)	Iran	100	100
Plant Asset Management Limited	Scotland	100	100
Petrofac Nuigini Limited	Papua New Guinea	100	100
PFMAP Sendirian Berhad	Malaysia	100	100
Petrofac Caspian Limited	Azerbaijan	100	100
Petrofac (Malaysia-PM304) Limited	England	100	100
Petrofac Training Group Limited	Scotland	100	100
Petrofac Training Holdings Limited	Scotland	100	100
Petrofac Training Limited	Scotland	100	100
Petrofac Training Inc.	USA	100	100
Petrofac Training (Trinidad) Limited	Trinidad	100	100
Monsoon Shipmanagement Limited	Jersey	100	100
Petrofac E&C International Limited	United Arab Emirates	100	100
Petrofac Saudi Arabia Limited	Saudi Arabia	100	100
Petrofac Energy Developments (Ohanet) Jersey Limited	Jersey	100	100
Petrofac Energy Developments (Ohanet) LLC	USA	100	100
PEDL Limited	England	100	100
Petrofac (Cyprus) Limited	Cyprus	100	100
PKT Technical Services Ltd	Russia	**50	**50
PKT Training Services Ltd	Russia	100	100
Pt PCI Indonesia	Indonesia	80	80
Process Control and Instrumentation Services Pte Ltd	Singapore	100	100
Process Control and Instrumentation Sendirian Berhad	Malaysia	100	100
Sakhalin Technical Training Centre	Russia	80	80
Petrofac Norge AS	Norway	100	100

* Directly held by Petrofac Limited.
** Companies consolidated as subsidiaries on the basis of control.

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the group 2009	2008
Trading subsidiaries continued			
SPD Group Limited	British Virgin Islands	51	51
SPD UK Limited	Scotland	51	51
SPD FZCO	United Arab Emirates	51	51
SPD LLC	United Arab Emirates	**25	**25
Petrofac Energy Developments Oceania Limited	Cayman Islands	100	100
PT. Petrofac IKPT International	Indonesia	51	51
Petrofac Kazakhstan Limited	England	100	100
Petrofac International (UAE) LLC	United Arab Emirates	100	100
Petrofac E&C Oman LLC	Oman	100	100
Petrofac International South Africa (Pty) Limited	South Africa	100	100
Eclipse Petroleum Technology Limited	England	100	100
Caltec Limited	England	100	100
i Perform Limited	Scotland	100	100
Petrofac FPF1 Limited	Jersey	100	–
Joint Ventures			
Costain Petrofac Limited	England	50	50
Kyrgyz Petroleum Company	Kyrgyz Republic	50	50
MJVI Sendirian Berhad	Brunei	50	50
Spie Capag – Petrofac International Limited	Jersey	50	50
TTE Petrofac Limited	Jersey	50	50
Petrofac Emirates LLC	United Arab Emirates	**49	**49
Dormant subsidiaries			
ASJV Venezuela SA	Venezuela	100	100
Joint Venture International Limited	Scotland	100	100
Montrose Park Hotels Limited	Scotland	100	100
RGIT Ethos Health & Safety Limited	Scotland	100	100
Scota Limited	Scotland	100	100
Petrofac Russia Limited	England	100	100
Monsoon Shipmanagement Limited	Cyprus	100	100
Rubicon Response Limited	Scotland	100	100

** Companies consolidated as subsidiaries on the basis of control.

Independent auditors' report

To the members of Petrofac Limited

We have audited the parent company financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2009 which comprise the company income statement, the company statement of comprehensive income, the company statement of financial position, the company cash flow statement, the company statement of changes in equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards (IFRSs).

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 87, the Company's Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. The Directors are also responsible for the preparation of the Directors' Remuneration Report, which they have chosen to prepare as if the Company was required to comply with relevant requirements of both the UK Companies Act 2006 (and Regulations there under) and the Listing Rules of the Financial Services Authority. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APBs) Ethical Standards for Auditors. In addition the Company has also instructed us to review whether the section of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation described therein.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended; and
- Have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matters

In our opinion the part of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- Proper accounting records have not been kept by the Company;
- The Company's accounts are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Petrofac Limited for the year ended 31 December 2009.

Ernst & Young LLP
London
5 March 2010

Company income statement

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Revenue	3	**161,994**	98,540
General and administration expenses	4	(11,440)	(7,839)
Other expenses		(577)	(438)
Profit before tax and finance income/(costs)		**149,977**	90,263
Finance costs	5	(5,349)	(6,504)
Finance income	5	9,858	8,168
Profit before tax		**154,486**	91,927
Income tax expense	6	–	(68)
Profit for the year		**154,486**	91,859

Company statement of comprehensive income

For the year ended 31 December 2009

	2009 US$'000	2008 US$'000
Profit for the year	**154,486**	91,859
Net (loss)/gains on maturity of cash flow hedges recycled in the year	(537)	7
Net changes in fair value of derivatives and financial assets designated as cash flow hedges	962	(376)
Other comprehensive income/(loss)	425	(369)
Total comprehensive income for the year	**154,911**	91,490

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of financial position

At 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Assets			
Non-current assets			
Property, plant and equipment		27	41
Investment in subsidiaries	8	265,599	214,088
Long-term loan receivable from a subsidiary	9	–	219,491
		265,626	433,620
Current assets			
Trade and other receivables		189	249
Amounts due from subsidiaries	10	379,939	19,937
Cash and short-term deposits	11	64,387	14,516
		444,515	34,702
Total assets		710,141	468,322
Equity and liabilities			
Equity attributable to Petrofac Limited shareholders			
Share capital	17	8,638	8,636
Share premium		69,712	68,203
Capital redemption reserve		10,881	10,881
Treasury shares	12	(56,285)	(69,333)
Share-based payments reserve	13	43,790	32,202
Net unrealised losses on derivatives	15	–	(425)
Retained earnings	18	119,103	61,577
Total equity		195,839	111,741
Non-current liabilities			
Interest-bearing loans and borrowings	14	39,008	65,464
Long-term employee benefit provisions		176	144
Other financial liabilities		–	118
		39,184	65,726
Current liabilities			
Trade and other payables		811	492
Amounts due to subsidiaries	10	448,048	284,930
Interest-bearing loans and borrowings	14	26,259	5,000
Other financial liabilities		–	433
		475,118	290,855
Total liabilities		514,302	356,581
Total equity and liabilities		710,141	468,322

The financial statements on pages 131 to 142 were approved by the Board of Directors on 5 March 2010 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 18 form part of these Company financial statements.

Company cash flow statement

For the year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
Operating activities			
Profit before tax		154,486	91,927
Adjustments for:			
Depreciation	4	27	42
Share-based payments	13	912	588
Difference between other long-term employment benefits paid and amounts recognised in the income statement		32	51
Net finance income	5	(4,509)	(1,644)
Other non-cash items, net		1,843	(2,060)
Operating profit before working capital changes		152,791	88,904
Trade and other receivables		60	40
Amounts due from subsidiaries		(109,097)	5,953
Trade and other payables		319	(94)
Amounts due to subsidiaries		160,583	210,593
Current financial liabilities		(433)	417
		204,223	305,813
Other non-current items, net		307	(425)
Cash generated from operations		204,530	305,388
Interest paid		(1,443)	(9,228)
Income taxes paid, net		–	(68)
Net cash flows generated from operating activities		203,087	296,092
Investing activities			
Purchase of property, plant and equipment		(13)	(31)
Investment in subsidiaries		(50,000)	(23,569)
Long-term loans made to a subsidiary		–	(183,579)
Interest received		187	1,523
Net cash flows used in investing activities		(49,826)	(205,656)
Financing activities			
Proceeds from interest-bearing loans and borrowings		–	25,000
Repayment of interest-bearing loans and borrowings		(5,121)	(1,312)
Treasury shares purchased	12	–	(42,500)
Equity dividends paid		(98,995)	(64,135)
Net cash flows used in financing activities		(104,116)	(82,947)
Net increase in cash and cash equivalents		49,145	7,489
Net foreign exchange difference on cash and cash equivalents		726	(1,379)
Cash and cash equivalents at 1 January		14,516	8,406
Cash and cash equivalents at 31 December	11	64,387	14,516

The attached notes 1 to 18 form part of these Company financial statements.

Company statement of changes in equity

For the year ended 31 December 2009

	Attributable to shareholders of Petrofac Limited							
	Issued share capital US$'000 (note 17)	Share premium US$'000	Capital redemption reserve US$'000	Treasury* shares US$'000 (note 12)	Share-based payment reserve US$'000 (note 13)	Net unrealised gains/ (losses) on derivatives US$'000	Retained earnings US$'000 (note 18)	Total equity US$'000
Balance at 1 January 2008	8,636	68,203	10,881	(29,842)	16,161	(56)	34,418	108,401
Net profit for the year	–	–	–	–	–	–	91,859	91,859
Other comprehensive income/(expense)	–	–	–	–	–	(369)	–	(369)
Total comprehensive income/(expense)	–	–	–	–	–	(369)	91,859	91,490
Share-based payments charge (note13)	–	–	–	–	588	–	–	588
Shares vested during the year	–	–	–	3,009	(3,009)	–	–	–
Treasury shares purchased (note 12)	–	–	–	(42,500)	–	–	–	(42,500)
Transfer to reserve for share-based payments (note 13)	–	–	–	–	18,462	–	–	18,462
Dividends (note 7)	–	–	–	–	–	–	(64,700)	(64,700)
Balance at 1 January 2009	8,636	68,203	10,881	(69,333)	32,202	(425)	61,577	111,741
Net profit for the year	–	–	–	–	–	–	154,486	154,486
Other comprehensive income	–	–	–	–	–	425	–	425
Total comprehensive income	–	–	–	–	–	425	154,486	154,911
Shares issued as payment of deferred consideration	2	1,509	–	–	–	–	–	1,511
Share-based payments charge (note 13)	–	–	–	–	912	–	–	912
Shares vested during the year	–	–	–	13,048	(12,617)	–	(431)	–
Transfer to reserve for share-based payments (note 13)	–	–	–	–	23,293	–	–	23,293
Dividends (note 7)	–	–	–	–	–	–	(96,529)	(96,529)
Balance at 31 December 2009	**8,638**	**69,712**	**10,881**	**(56,285)**	**43,790**	**–**	**119,103**	**195,839**

* Shares held by Petrofac Employee Benefit Trust.

The attached notes 1 to 18 form part of these Company financial statements.

Notes to the Company financial statements

For the year ended 31 December 2009

1 Corporate information

The consolidated financial statements of Petrofac Limited (the Company) and Petrofac Employee Benefit Trust together referred to as the Company financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Directors on 5 March 2010.

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

2 Summary of significant accounting policies

Basis of preparation

The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The functional and presentation currency of the separate financial statements is United States Dollars and all values in the separate financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated.

Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Long-term loan receivables from subsidiaries

Long-term loan receivables from subsidiaries are initially stated at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Due from/due to subsidiaries

Due from/due to subsidiaries are both interest bearing and non-interest bearing short-term funding to and from subsidiaries. These are recognised at the fair value of consideration received/paid, less any provision for impairment.

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

Share-based payment transactions

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

Equity-settled transactions

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

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

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

The Company operates a number of share award schemes on behalf of the employees of the group which are described in detail in note 22 of the consolidated financial statements of the group.

The reserve for share-based payments is used to record the value of equity-settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The share-based payments charges pertaining to fellow group companies employees is reimbursed by them to the Company.

Long-term employee benefit provisions

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

Revenues

Revenues comprise dividends from subsidiaries which are recognised when the right to receive payment is established.

Notes to the Company financial statements continued

For the year ended 31 December 2009

3 Revenues

	2009 US$'000	2008 US$'000
Dividend income from subsidiaries	161,994	98,540

4 General and administration expenses

	2009 US$'000	2008 US$'000
Staff costs	7,595	5,170
Depreciation	27	42
Other operating expenses	3,818	2,627
	11,440	7,839

Included in other operating expenses above are auditors' remuneration of US$67,000 (2008: US$68,000) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the group financial statements, which are borne by Petrofac Services Limited.

5 Finance costs/(income)

	2009 US$'000	2008 US$'000
Interest payable:		
Long-term borrowings	1,443	1,356
On amounts due to subsidiaries	3,906	5,141
Expense of time value portion of derivative financial instrument	–	7
Total finance cost	5,349	6,504
Interest receivable:		
Bank interest receivable	(55)	(525)
On amounts due from subsidiaries	(9,803)	(7,643)
Total finance income	(9,858)	(8,168)

6 Income tax

	2009 US$'000	2008 US$'000
Current income tax		
Withholding tax on loan interest income from subsidiaries	–	68

The income tax expense in 2008 arose due to irrecoverable withholding tax deducted on payments to the Company. As explained in detail in note 6 of the consolidated financial statements of the group the Company has no income tax expense in Jersey. In addition, as any deferred tax on temporary differences would be recognised at a 0% tax rate there are no deferred tax assets or liabilities for the Company.

7 Dividends paid

	2009 US$'000	2008 US$'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2007: 11.50 cents per share	–	39,164
Interim dividend 2008: 7.50 cents per share	–	25,536
Final dividend for 2008: 17.90 cents per share	60,332	–
Interim dividend 2009: 10.70 cents per share	36,197	–
	96,529	64,700

	2009 US$'000	2008 US$'000
Proposed for approval at AGM (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares		
Final dividend for 2009: 25.10 cents per share (2008: 11.50 cents per share)	86,729	61,831

8 Investments in subsidiaries

	2009 US$'000	2008 US$'000
At 1 January	214,088	172,057
Investment in Petrofac UK Holdings Limited	1,511	42,031
Investment in Petrofac Energy Developments Limited	50,000	–
As at 31 December	265,599	214,088

The Investment in Petrofac Energy Developments Limited comprises of additional loans made for its investments in Don assets.

At 31 December 2009, the Company had investments in the following subsidiaries:

Name of company	Country of incorporation	Proportion of nominal value of issued shares controlled by the Company 2009	2008
Trading subsidiaries			
Petrofac Inc.	USA	100	100
Petrofac International Ltd	Jersey	100	100
Petrofac Energy Developments Limited	England	100	100
Petrofac Energy Developments International Limited	Jersey	100	100
Petrofac UK Holdings Limited	England	100	100
Petrofac Facilities Management International Limited	Jersey	100	100
Petrofac Services Limited	England	100	100
Petrofac Services Inc.	USA	100	100
Petrofac Training International Limited	Jersey	100	100
Petroleum Facilities E & C Limited	Jersey	100	100

9 Long-term loan receivable from a subsidiary

Long-term loan receivable from a subsidiary at 31 December 2008 represents a loan made to one of the Company's subsidiaries, Petrofac Energy Developments International Limited, for the purpose of its appraisal of and development activities on its oil & gas assets. The loan carried an interest rate of US LIBOR + 2.0% margin.

10 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 8 above.

11 Cash and short-term deposits

	2009 US$'000	2008 US$'000
Cash at bank and in hand	4,857	2,284
Short-term deposits	59,530	12,232
Total cash and bank balances (cash and cash equivalents)	64,387	14,516

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$64,387,000 (2008: US$14,516,000).

12 Treasury shares

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

The movements in total treasury shares are shown below:

	2009		2008	
	Number	US$'000	Number	US$'000
At 1 January	9,540,306	69,333	4,052,024	29,842
Acquired during the year	–	–	5,854,194	42,500
Vested during the year	(2,329,341)	(13,048)	(365,912)	(3,009)
At 31 December	7,210,965	56,285	9,540,306	69,333

As at 31 December 2009 5,504,819 (2008: 5,504,819) of the above shares were held by Lehman Brothers in a client custody account which is now being managed by their appointed Administrator. The Company anticipates that the Administrators will release these assets in the near future under a signed Claim Resolution Agreement approved by the creditors.

Included in the above treasury shares are 274,938 (2008: 274,938) shares held in relation to the acquisition of SPD Group Limited in 2007.

Notes to the Company financial statements continued

For the year ended 31 December 2009

13 Share-based payments reserve

Share-based payment plan information is disclosed in note 22 of the consolidated financial statements of the group.

During the year, a share-based payment scheme charge of US$912,000 (2008: US$588,000) was recognised by the Company in respect of its own employees' time spent on shareholder related services.

The transfer during the year into share-based payment reserve disclosed in the statement of changes in equity of US$23,293,000 (2008: US$18,462,000) represents amounts collected from subsidiaries in respect of their employees share-based payment transactions.

14 Interest-bearing loans and borrowings

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

		31 December 2009 Actual interest rate %	31 December 2008 Actual interest rate %	Effective interest rate %	Maturity	2009 US$'000	2008 US$'000
Current							
Revolving credit facility	(iii)	US LIBOR + 1.50%	US LIBOR + 0.875%	US LIBOR + 1.50%	2010	20,000	–
Current portion of term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	3.71% (2008: 4.18%)	–	5,296	5,000
Current portion of term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	2.65% to 3.44% (2008: 3.74% to 5.02%)	–	963	–
						26,259	5,000
Non-current							
Term loan	(ii)	US/UK LIBOR + 0.875%	US/UK LIBOR + 0.875%	2.65% to 3.44% (2008: 3.74% to 5.02%)	2013	18,291	18,720
Revolving credit facility	(iii)	–	US LIBOR + 0.875%	(2008: 3.11%)	2010	–	20,000
Term loan	(i)	US LIBOR + 0.875%	US LIBOR + 0.875%	3.71% (2008: 4.18%)	2010-2013	23,581	28,998
						41,872	67,718
Less:							
Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments						(2,864)	(2,254)
						39,008	65,464

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

(i) Term loan

This term loan at 31 December 2009 comprised drawings of US$28,877,000 (2008: US$33,998,000) repayable over a period of four years ending 30 September 2013.

(ii) Term loan

This term loan is to be repaid over a period of three years ending 30 September 2013.

(iii) Revolving credit facility

This facility is repayable on 31 December 2010.

15 Risk management and financial instruments

Risk management objectives and policies

The Company's principal financial assets and liabilities, other than derivatives, are amounts due from and due to subsidiaries, cash and short-term deposits and interest-bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings which are addressed by using derivative instruments to hedge this exposure. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest bearing funding to/from subsidiaries.

Interest rate sensitivity analysis

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

	Pre-tax profit		Equity	
	100 basis point increase US$'000	100 basis point decrease US$'000	100 basis point increase US$'000	100 basis point decrease US$'000
31 December 2009	(823)	823	–	–
31 December 2008	(521)	521	(210)	(695)

The following table reflects the maturity profile of interest-bearing financial liabilities and assets, excluding interest-bearing subsidiary related financial assets and liabilities:

Year ended 31 December 2009

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facility (note 14)	20,000	–	–	–	–	–	20,000
Term loan (note 14)	6,259	11,688	15,567	14,617	–	–	48,131
Amount due to subsidiaries (interest bearing)	–	448,048	–	–	–	–	448,048
	26,259	459,736	15,567	14,617	–	–	516,179
Financial assets							
Floating rates							
Cash and short-term deposits (note 11)	64,387	–	–	–	–	–	64,387
Amount due from subsidiaries (interest bearing)	358,693	–	–	–	–	–	358,693
	423,080	–	–	–	–	–	423,080

Year ended 31 December 2008

	Within 1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–4 years US$'000	4–5 years US$'000	More than 5 years US$'000	Total US$'000
Financial liabilities							
Floating rates							
Revolving credit facility (note 14)	–	20,000	–	–	–	–	20,000
Term loan (note 14)	5,000	6,561	12,025	15,927	13,205	–	52,718
Amount due to subsidiaries (interest bearing)	–	284,930	–	–	–	–	284,930
Interest rate collar	432	–	–	–	–	–	432
	5,432	311,491	12,025	15,927	13,205	–	358,080
Financial assets							
Floating rates							
Cash and short-term deposits (note 11)	14,516	–	–	–	–	–	14,516
Amount due from subsidiaries (interest bearing)	10,900	–	–	–	–	–	10,900
Long-term loan receivable from a subsidiary	–	–	–	–	–	219,491	219,491
	25,416	–	–	–	–	219,491	244,907

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$2,864,000 (2008: US$2,254,000).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

Financial statements

Notes to the Company financial statements continued

For the year ended 31 December 2009

15 Risk management and financial instruments continued

Derivative instrument designated as cash flow hedge

There were no outstanding interest rate derivatives designated as cash flow hedges at 31 December 2009. At 31 December 2008, the Company held the following derivative instrument, designated as a cash flow hedge in relation to floating rate interest-bearing loans and borrowings:

Instrument	Nominal amount (US$ equivalent)	Period to maturity	Date commenced	Fair value of asset/(liability) 2009 US$'000	2008 US$'000
US LIBOR interest rate collar	34,138,000	Matured	31 December 2007	–	(432)

During 2009 an interest expense of US$ nil (2008: US$7,000) was recognised as the time value portion and US$ nil (2008: US$425,000) was classified as equity being the intrinsic value portion of the above derivative financial instrument.

Foreign currency risk

Almost all of the financial assets and liabilities of the Company are denominated in US Dollars. The foreign currency exposure is limited to Sterling 3,300,000 (US$5,354,000) of its interest-bearing loans and borrowings.

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

	Pre-tax profit		Equity	
	+10% US Dollar rate increase US$'000	–5% US Dollar rate decrease US$'000	+10% US Dollar rate increase US$'000	–5% US Dollar rate decrease US$'000
31 December 2009	(3,821)	1,911	–	–
31 December 2008	(425)	212	–	–

Credit risk

The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2009 are as follows:

Year ended 31 December 2009

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	2,649	23,611	11,688	30,183	–	68,131	65,267
Trade and other payables	811	–	–	–	–	811	811
Amounts due to subsidiaries	–	448,048	–	–	–	448,048	448,048
Interest payments	563	798	1,273	1,472	–	4,106	–
	4,023	472,457	12,961	31,655	–	521,096	514,126

Year ended 31 December 2008

	6 months or less US$'000	6–12 months US$'000	1–2 years US$'000	2–5 years US$'000	More than 5 years US$'000	Contractual undiscounted cash flows US$'000	Carrying amount US$'000
Financial liabilities							
Interest-bearing loans and borrowings	2,500	2,500	26,561	41,157	–	72,718	70,464
Trade and other payables	492	–	–	–	–	492	492
Amounts due to subsidiaries	–	284,930	–	–	–	284,930	284,930
Derivative instruments	–	432	–	–	–	432	432
Interest payable	1	–	–	–	–	1	1
Interest payments	3,576	3,578	1,796	2,559	–	11,509	–
	6,569	291,440	28,357	43,716	–	370,082	356,319

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

Capital management

The Company's gearing ratio is as follows:

	2009 US$'000	2008 US$'000
Cash and short-term deposits	64,387	14,516
Interest-bearing loans and borrowings (A)	(65,267)	(70,464)
Net debt (B)	(880)	(55,948)
Total equity (C)	195,839	111,741
Gross gearing ratio (A/C)	33.3%	63.1%
Net gearing ratio (B/C)	0.4%	50.0%

Fair values of financial assets and liabilities

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

	Carrying amount 2009 US$'000	Carrying amount 2008 US$'000	Fair value 2009 US$'000	Fair value 2008 US$'000
Financial assets				
Cash and short-term deposits	64,387	14,516	64,387	14,516
Long-term receivable from a subsidiary	–	219,491	–	219,491
Financial liabilities				
Interest-bearing loans and borrowings	65,267	70,464	65,267	70,464
Interest rate collar	–	432	–	432

The fair values of interest rate collars have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are equivalent to amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables, other current financial liabilities approximate their fair values and are therefore excluded from the above table.

Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

Assets measured at fair value

	Tier 2 US$'000	2009 US$'000
Financial liabilities		
Interest-bearing loans and borrowings	65,267	65,267

	Tier 2 US$'000	2008 US$'000
Financial assets		
Long-term receivable from a subsidiary	219,491	219,491
Financial liabilities		
Interest-bearing loans and borrowings	70,464	70,464
Interest rate collars	432	432

Notes to the Company financial statements continued

For the year ended 31 December 2009

16 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of a funding or investing nature (note 9 & 10). The Company is recharged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$2,182,000 (2008: US$1,576,000). For further details of the full amount of key management personnel costs see Directors' Remuneration Report on pages 84 to 86.

17 Share capital

The movements in share capital are disclosed in note 20 to the consolidated financial statements of the group.

18 Retained earnings

	US$'000
At 1 January 2008	34,418
Net profit for the year	91,859
Dividends paid (note 7)	(64,700)
At 1 January 2009	61,577
Net profit for the year	154,486
Dividend shares vested during the year	(431)
Dividends paid (note 7)	(96,529)
As at 31 December 2009	**119,103**

Oil & gas reserves (unaudited)

At 31 December 2009

	Europe	Africa		South East Asia	Total		
	Oil & NGLs mmbbl	Oil & NGLs mmbbl	Gas bcf	Oil & NGLs mmbbl	Oil & NGLs mmbbl	Gas bcf	Oil equivalent mmboe
Proven reserves							
At 1 January 2009							
Developed	–	2.4	18.7	3.5	5.9	18.7	9.1
Undeveloped	12.2	–	0.1	–	12.2	0.1	12.2
Proven	12.2	2.4	18.8	3.5	18.1	18.8	21.3
Changes during the year:							
Revisions	(4.4)	(0.2)	5.3	1.3	(3.3)	5.3	(2.3)
Additions	6.5	–	–	–	6.5	–	6.5
Acquisitions	–	–	–	–	–	–	–
Production	(1.2)	(0.8)	(4.3)	(1.2)	(3.2)	(4.3)	(4.0)
At 31 December 2009							
Developed	3.4	1.4	19.3	3.6	8.4	19.3	11.8
Undeveloped	9.7	–	0.5	–	9.7	0.5	9.7
Proven	**13.1**	**1.4**	**19.8**	**3.6**	**18.1**	**19.8**	**21.5**
Probable reserves							
At 1 January 2009	10.0	–	5.0	1.7	11.7	5.0	12.6
Changes during the year:							
Revisions	(6.7)	–	1.2	(1.2)	(7.9)	1.2	(7.6)
Additions	3.1	–	–	–	3.1	–	3.1
Acquisitions	–	–	–	–	–	–	–
Production	–	–	–	–	–	–	–
At 31 December 2009	**6.4**	**–**	**6.2**	**0.5**	**6.9**	**6.2**	**8.1**
Total proven & probable reserves							
At 1 January 2009	22.2	2.4	23.8	5.2	29.8	23.8	33.9
Changes during the year:							
Revisions	(11.1)	(0.2)	6.5	0.1	(11.2)	6.5	(9.9)
Additions	9.6	–	–	–	9.6	–	9.6
Acquisitions	–	–	–	–	–	–	–
Production	(1.2)	(0.8)	(4.3)	(1.2)	(3.2)	(4.3)	(4.0)
At 31 December 2009	**19.5**	**1.4**	**26.0**	**4.1**	**25.0**	**26.0**	**29.6**

Notes

These estimates of reserves were prepared by the group's engineers and audited by a competent, independent third party based on the guidelines of the Petroleum Resources Management System (sponsored by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers).

The reserves presented are the net entitlement volumes attributable to the Company, under the terms of relevant production sharing contracts and assuming future oil prices equivalent to US$70 per barrel (Brent).

For the purpose of calculating oil equivalent total reserves, volumes of natural gas have been converted to oil equivalent volumes at the rate of 5,800 standard cubic feet of gas per barrel of oil.

Glossary

mmbbl – million barrels
bcf – billion cubic feet
mmbbl – million barrels of oil equivalent
NGLs – natural gas liquids

Shareholder information

At 31 December 2009

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

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Capita Registrars
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Corporate and Financial PR
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London EC4Y 1AE

Financial Calendar

13 May 2010	Annual General Meeting
21 May 2010	Final dividend payment
23 August 2010	Interim results announcement
October 2010	Interim dividend payment

Dates correct at time of print, but subject to change

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

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