Lamprell plc
Annual Report & Accounts 2006

Lamprell plc is a leading contractor in the Arabian Gulf, providing specialist services to the offshore and onshore oil and gas industry. The principal markets in which the Company operates are:

- upgrade and refurbishment of offshore jackup rigs;
- new build construction for the oil and gas sector; and
- oilfield engineering services

Contents

01 Highlights 2006
02 Lamprell plc – well positioned
04 Chairman's and Chief Executive's statement
08 Committed to people
10 Operational review
15 Health, Safety and Environment
16 Quality and customer satisfaction
18 Financial review
22 Board of Directors
24 Directors' report
26 Independent auditor's report to the members of Lamprell plc
27 Consolidated income statement
28 Consolidated balance sheet
29 Company balance sheet
30 Consolidated statement of changes in equity
31 Company statement of changes in equity
32 Consolidated cash flow statement
33 Notes to the financial statements
48 Definitions
ibc Corporate Advisers

Highlights **2006**

Flotation in October 2006 on London AIM

Increased scope and growth in value of projects with a record turnover of $330 million, up by 57.5% on 2005

Expansion of client base including Rowan Drilling, Diamond Offshore, Clough Projects, Aker FP and British Gas

Investment of over US$24 million in capital expenditure to increase capacity and efficiency

Lamprell plc – well positioned

Lamprell is located in the United Arab Emirates in the Arabian Gulf, one of the most important oil and gas regions in the world. The Group has four facilities in three locations in the UAE and is in the process of developing a new, much larger facility in the Hamriyah Free Zone.

Sharjah facility

Lamprell's facility in Sharjah is located in Port Khalid and has 360m of direct quayside access at which the majority of jackup rig upgrade and refurbishment projects are executed.

- Total surface area of 36,000m² including 28,000m² of open fabrication areas 3,500m² of covered fabrication areas
- A core workforce of over 1,000 skilled tradesman

Hamriyah facility

In response to the demand for its services Lamprell has taken a two year lease on a facility in the Hamriyah Free Zone. This 42,000m² portside facility has 195m direct quayside access and is used primarily for undertaking jackup rig upgrade and refurbishment projects.

- Total surface area of 42,000m²
- A core workforce of over 500 skilled tradesmen

Jebel Ali facility

Lamprell's Jebel Ali facility was purpose built in 2002 and is one of the most modern in the region with internal overhead cranes suitable for carrying out fabrication and assembly activities under cover.

- Total surface area of 125,000m² which includes 15,000m² covered work space
- Extensive open fabrication areas that are equipped with gantry and mobile crawler cranes
- First class project, production, engineering and client offices
- A core workforce of over 1,000 skilled tradesmen

Oilfield Engineering facility

The Oilfield Engineering facility was completed in 2005 and is a purpose-built facility located within the boundaries of the Jebel Ali facility. The Oilfield Engineering facility is accredited with all relevant API licences and certifications.

- Total surface area of 36,000m² that includes 1000m² of mechanical shops
- A core workforce of over 300 skilled tradesmen

Chairman's and Chief Executive's statement

"I am delighted to have the unique opportunity of presenting to our shareholders this first Annual Report for Lamprell plc."

It is with a considerable degree of pride that we see Lamprell's well established and widely recognised record of quality, growth and profitability being maintained as we made the transition into a publicly listed Company with our results for the year 2006 exceeding all our expectations. The Company has, throughout 2006, made huge progress operationally, both in terms of major acquisitions of equipment and a significant expansion of our management and labour force.

During this period of major expansion we have significantly expanded our client base and have further expanded the Company's construction activities with the award of the two new build jackup liftboats for Seajacks. All of this has been achieved whilst satisfying the needs of our existing clients and whilst maintaining our outstanding safety record.

Market overview

During the past year we have seen an unparalleled period of high activity in the oil and gas industry worldwide but particularly in the Middle Eastern market where drilling activity, both onshore and offshore, is at an all time high with the expectation that this will continue for a considerable period to come. We have also witnessed a period of major growth in the number of oil and gas field developments taking place in different parts of the world. In all cases Lamprell has been particularly well placed to take full advantage of this upsurge in rig refurbishment, FPSO projects and offshore construction activity.

It is with confidence that we enter 2007 witnessing these high levels of drilling and construction activity which we see continuing into the foreseeable future. In the case of the regional drilling activities we see an even greater level of activity taking place in 2007 and 2008, which supports our belief that, in one of our core business activities of rig refurbishment and upgrade, we will see further growth and development throughout 2007 and 2008.

We are also witnessing a significant increase in the planned number of FPSO field developments through 2007 and beyond, with an estimated US$6 billion worth of worldwide development expenditure budgeted each year up to 2010. This again provides us with a high level of confidence that our new build process module fabrication facility in Jebel Ali will see significant additional growth through 2007 and beyond.

We have entered 2007 with the highest level of confirmed orders in the Company's history, with projects extending into 2009 which provides us with a secure foundation to further expand and develop the Company.

It is with confidence that we are now seeing significant long term visibility related to the awarded and prospective projects which are currently being developed by Lamprell.

Future development
There is currently a well recognised shortage of marine construction yard space worldwide and Lamprell is moving to quickly develop its new 330,000m^2 facility at the Hamriyah Free Zone in the United Arab Emirates, which will greatly increase quayside facilities to handle more jackup rig refurbishment projects whilst also placing us in a stronger position to undertake further new build marine projects.

We see this development being enthusiastically embraced by our existing clients and it will enable us to extend our client base particularly to those companies who are now entering into the Middle Eastern oil and gas market for the first time.

With regard to our labour force, Lamprell is making a great effort to overcome the limitations and constraints of acquiring and maintaining the core skills that inevitably prove to be a constraint in a buoyant and highly specialised market. To help overcome this we have now established our own training school in India to develop all the key artisan skills necessary to support our needs for the coming years, and we are already seeing the benefits of training our own committed workforce.

- Maintain our leading position in the jackup repair and refurbishment market
- Expand the range and size of new build projects
- Maintain focus on our repeat business clients
- Selectively expand our client base
- Continued expansion of the business in terms of capacity and quality of service
- Reinvestment to continue the growth of the Company
- Continue to deliver on commitments
- Provide shareholder value and satisfaction

Chairman's and Chief Executive's statement continued

"A major highlight of 2006 was the successful listing of Lamprell on the London Stock Exchange AIM."

We continue to retain a clear focus on our core business competencies in offshore jackup and land rig refurbishment, new build FPSO modules and offshore structures. We consider that our primary focus will be in maintaining our dominant regional position in these markets. Whilst holding these positions we are also seeing areas of related opportunity. We have now entered into contracts, valued at US$224 million, for the construction of two new build jackup lift boats with additional options for three other similar units to follow. We see this as a natural and progressive step in the growth and development of the Company and one which provides us with significant long term visibility and construction continuity.

We have entered a period in the oil and gas industry of unprecedented long term growth and development with a sustainable high oil price and with demand for resources far outstripping supply. Located in the Middle East with extensive modern facilities, a dedicated workforce of over 3,000 and a strong and well respected reputation, we feel that Lamprell is well placed to capitalise on the many opportunities that we see for the future.

Acknowledgements

I would like to take this opportunity to acknowledge the contribution of Steven Lamprell, the founding owner of Lamprell, in taking the Company from the small family business created over 30 years ago, to the successful publicly quoted Company we have today.

Mr. Lamprell still retains 34% of the shares in Lamprell plc, holds the title of President and continues to provide the Company with ongoing local support and assistance in dealings with senior local dignitaries in the United Arab Emirates. This continued association is, and will continue to be, a valuable asset for the Company.

Management structure

Our strong management team has been further enhanced with the arrival of Scott Doak, the former Head of Finance at Reuters for Middle East and Africa, who takes over from David Moran as Chief Financial Officer. David will now focus on his role as Chief Operating Officer. Chris Hand has been promoted from within the Company to Vice President Commercial. Both of these positions provide us with added managerial strength to support the progressive long term growth and development of our Company. We would like to welcome Scott and Chris to the management team and would also like to thank David Moran for standing in as Chief Financial Officer in the interim period.

Awards

In 2006 Lamprell was awarded the Lloyds List Middle East and India Oil and Gas Energy Award. This prestigious award has been given to Lamprell for the second successive year. This award sets out to recognise the organization which has demonstrated the highest levels of business initiative, creativity, commitment to investment and growth, and above all a company which has demonstrated a strong safety culture.

This safety culture was additionally highlighted on the SBM Kashagan Project, where a major award was presented by our client for achieving 2 million man-hours without a LTI for a recordable accident. We have currently increased our LTI free performance on the project to over 3.0 million man-hours. During 2006 we completed a period of continuous productivity in our Jebel Ali facility, which began in late 2004, of 7.5 million man-hours without an LTI which is an outstanding achievement by construction industry standards.

In addition in 2006 Lamprell attained the prestigious OHSAS 18001 Occupational Health and Safety Management System Standard Accreditation, further underscoring our commitment to maintain the highest safety standards in the execution of all of our projects.

Admission to the London Stock Exchange

A major highlight of 2006 was the successful listing of Lamprell on the London Stock Exchange AIM. The listing was well received in October 2006, at a time when the

markets in general were going through a period of some uncertainty.

The institutional marketing was well received and since the listing took place the share price has performed well for which we would express our appreciation for the positive support being shown by our existing and new shareholders.

Dividend

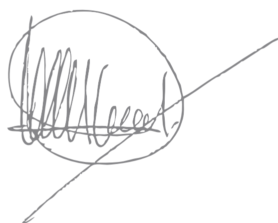
For the year ended 31 December 2006, the Board recommends a final dividend of 3.80 cents per ordinary share with a Sterling equivalent of 1.93 pence per ordinary share which, if approved, will be paid on 18 June 2007 to eligible shareholders on the register at 11 May 2007. This proposed final dividend is approximately half of the level that the Directors would have expected to recommend had the Group been listed for the whole of the half year to 31 December 2006, having taken account of the intention to pay two thirds of the annual dividend as a final dividend.

Conclusion

This has been an exceptional year for Lamprell and these excellent results have been achieved during a period of significant corporate development.

In the year ahead, we believe that Lamprell will see significant growth in each of its core activities of jackup rig refurbishment, land rig refurbishment, marine and new build FPSO process module construction and related construction activities.

On behalf of the Board of Directors and from myself personally, I would like to thank everyone in the Lamprell team for the tremendous efforts that have been made throughout the past year. I am confident that we will continue to deliver the highest standard of service to our customers, win new business and reward our shareholders for their support. Together with the Lamprell management team I look forward to another successful year ahead.



Peter Whitbread
Chairman and
Chief Executive Officer

A BUOYANT ENERGY MARKET

- Oil price has remained at a high level above $50 per barrel
- International oil majors continue long term investment in offshore developments
- National Oil Companies drive ahead with aggressive plans to raise domestic and international exploration and production
- Middle East offshore developments highly visible up to 2012
- India now a considerable market alongside Saudi Arabia, Qatar and UAE
- UAE maintains a leading position as the preferred construction, service and support area for Middle East market
- Arabian Gulf leads world energy supply accounting for one quarter of current production and proven reserves in excess of 60%

Committed to people

We recognise that repeat business is secured through consistent supply of a high quality product, which is largely dependent on the skill and dedication of the workforce. Many of Lamprell's employees are highly skilled, and all of them are led by an experienced group of managers and work in a supportive and committed environment. As a result, Lamprell believes it has a highly motivated workforce and consequently a comparatively low staff turnover compared to the market norm in this sector.

To meet future staffing requirements and to ensure that appropriately skilled staff are always available, Lamprell has made arrangements with the Don Bosco Institute of Technology in Mumbai, India to open a dedicated training facility there. The training facility will offer 12-week courses in welding and steel fabrication for up to 100 persons at any one time, with those who successfully complete the course being offered long term positions within the Group.

Lamprell's focus on its personnel is reflected in the long service of many of its employees, for both its senior management team as well as administrative and workshop personnel.

Operational review

"As part of our development strategy, we have continued a programme of capital investment throughout 2006. This investment, aimed at increasing the operating capacity and efficiency of our facilities, has included investment in buildings, equipment and general infrastructure."

Lamprell enjoyed a very successful year in 2006, with each operating facility enjoying substantial revenue growth. This growth reflects a buoyant market environment and the successful implementation of our business plan for the year. We further believe, that by maintaining our core business values and by continuing a collaborative approach to projects with customers that focuses on quality, safety and timely delivery, we will be able to carry forward the success of 2006 into 2007 and beyond.

The principal markets in which Lamprell operates, and the principal services we provide are:

- upgrade and refurbishment of offshore jackup rigs;
- new build construction for the offshore oil and gas sector; including FPSOs and other offshore and onshore structures;
- oilfield engineering services, including the upgrade and refurbishment of land rigs.

The operational aspects of these business areas are reviewed as follows:

Upgrade and refurbishment of offshore jackup rigs

During 2006 we have successfully undertaken the refurbishment of 26 offshore jackup rigs and one semi-submersible drilling rig. This compares to 25 jackup rigs that were refurbished in 2005. The scope and value of projects executed in 2006 increased by more than 30% compared to those executed in 2005. This volume of work reflects our leading position in the growing jackup refurbishment market and the fact that the regional market is experiencing record levels of drilling activity leading to high levels of rig demand.

The projects were carried out for 11 different international clients, demonstrating the depth of our market and a diverse client base that will continue to support us in the future.

The refurbishment and upgrade projects included smaller projects generating turnover of less than US$0.5 million, as well as major upgrade projects valued at more than US$40.0 million. Project durations ranged from three weeks to 45 weeks.

The specific work scopes carried out on jackup upgrade and refurbishment projects vary greatly from project to project, dependent on the rig's age, condition and the requirements of the rig owner. Typical upgrade and refurbishment projects include some of the following work scopes:

- leg extension and/or strengthening;
- conversion of slot rigs to cantilever mode;
- living quarters extension, upgrade and refurbishment;
- engine replacement and re-power works;
- mud process system upgrade and/or refurbishment;
- helideck replacement, upgrade and/or refurbishment; and
- condition driven refurbishment, including structural steel and piping replacement.

In addition to rig refurbishment projects carried out at our facilities, we offer smaller scale services to our customers. These projects range in scope from the supply of materials and equipment, to the execution of repair and upgrade works on rigs carried out whilst the rigs remain operational offshore. Whilst not as significant in terms of turnover, these minor projects represent an important part of the service we offer to our clients, who continue to rely on us to keep their jackup fleets operational.

The upgrade and refurbishment projects carried out in 2006 included:

Client: Noble
Rig name: Dhabi II
Rig type: Baker Marine BMC-200
Year built: 1981

The Noble Dhabi II arrived at our Sharjah facility in May to undergo general refurbishment and upgrade works including the refurbishment of the existing living quarters as well as the fabrication and installation of an additional module to increase the capacity of the rig accommodation. The refurbishment works were completed in 64 days after which the rig mobilised to Abu Dhabi.

C.K. Rhein

Client: Transocean
Rig name: C.K. Rhein
Rig type: Aker H-3 (semi-submersible)
Year built: 1976

The Transocean C.K. Rhein is the first semi-submersible drilling rig to be refurbished by Lamprell. The project, lasting 125 days, was carried out at our temporary Hamriyah facility. The rig arrived at our facility in September en route to India, where it had secured a contract with Reliance. The scope of work for the project centred on the reactivation of the rig, as it had not worked for the previous four years. Specific work included the overhaul of the rig mooring systems, refurbishment of the drilling systems and refurbishment of the accommodation and office units.

Client: National Drilling Company ("NDC")
Rig name: Junana
Rig type: Hitachi S-4633C
Year built: 1980

This major project was carried out as part of the Rig Integrity Assurance Programme that NDC is applying to their fleet of rigs. The extensive work scope included the conversion of the rig from a slot unit to cantilever mode, the complete re-power of the rig including the installation of five new 3516 Caterpillar engines and the installation of a brand new accommodation block with a capacity for 100 men. In addition over 600 tonnes of corroded steel was replaced in the hull.

It should also be noted that the project achieved high safety standards that resulted in the project being completed, with the expenditure of 1.7 million man-hours over a period of 310 days, without a LTI. The rig is now working in Abu Dhabi for Abu Dhabi National Oil Company.

Operational review continued

Client: Rowan Drilling
Rig name: Midtown, California and Arch Rowan
Rig type: LeTourneau 116C
Year built: 1980

After the much published award of a multiple rig contract from Saudi Aramco, Rowan Drilling mobilised three rigs; the Rowan California, Arch Rowan and Rowan Midtown from their long term US Gulf Coast area of operation to the Middle East. All these rigs underwent work at our Sharjah facility to ensure that they were compliant with the requirements stipulated by Saudi Aramco.

The scope of work on each rig was similar and included hull painting, minor upgrades to the existing accommodation including a purpose built mosque, piping modifications and the upgrade of operational equipment on the drill floor. The projects were completed within one month and the rigs are now operational in Saudi Arabia.

Nabors 660 arriving in Hamriya

Client: Nabors
Rig name: 660
Rig type: Levingston 111-S
Year built: 1971

The rig 660 arrived at our facility in Hamriyah in November, after being towed on board our barge, the Hamriyah Pride, from the Gulf of Mexico. The rig itself was severely damaged by the hurricane "Katrina" in 2005 and the resulting upgrade and refurbishment work scope will represent the largest project of its type undertaken by Lamprell. The project will continue throughout 2007.

Major work scopes include the complete fabrication and installation of new legs, a new drill floor, major steel renewals and the complete renewal of the rig's electrical systems. In addition we will be completely renewing the piping systems and the rig will be completely repainted.

New build construction for the offshore oil and gas sector

During 2006 work was carried out on several major projects at the Jebel Ali facility. These projects were carried out for existing clients including SBM and Saipem as well as new clients such as Clough Projects International Limited ("Clough"), Aker FP and British Gas Exploration and Production India Limited ("British Gas"). The turnover produced at the Jebel Ali facility was more than double the value achieved during 2005. This growth reflects the ongoing improvements in the operating capacity of the facility as well as a successful marketing campaign that has broadened the client base and given customers the confidence to award Lamprell significantly larger and more prestigious projects.

Mooring systems, turrets and buoys

SBM – Enfield Turret project

The year started with the completion and load-out of the SBM Enfield Turret Column. This operation marked the close of a highly successful project and followed the delivery of the Rigid Arm at the end of 2005. The column, built in 10 separate modules, weighed more than 1,200 tonnes at load out and required a detailed lifting and turning sequence to be engineered to ensure that the load-out proceeded without incident. Since it left our facility the turret has been successfully installed on the FPSO in Korea.

FPSO process modules construction

Throughout 2006 there were a number of process modules under construction at our Jebel Ali facility. These were being constructed for several clients, namely Saipem, Aker and Grenland Framnaes.

Saipem – Vitoria project

The Vitoria project consisted of the fabrication, construction and load out of five process modules with a combined weight of more than 5,000 tonnes.

- Module 12: Gas compression rotary unit;
- Module 14: Gas compression static unit;
- Module 33: Manifold module;
- Module 50: Power generation unit;
- Module 51: Local equipment room.

This project started at the end of 2005 and culminated with the delivery of the modules to Saipem for installation on the FPSO vessel between October and December, 2006.

Saipem – Gimboa project

We are also pleased to report, as noted in our January 2007 press release, that Saipem have awarded Lamprell the contract to build six topside process modules for the Gimboa FPSO vessel which is destined for the Gimboa field, offshore Angola, operated by Sonangol P&P Angola. The contract, scheduled for delivery in 2007, includes the fabrication of the lift gas and flash gas compression modules, a chemical injection skid, low and high pressure separation modules, a process manifold and a local equipment room.

Kashagan

Oilfield engineering

Offshore fixed structures: Topside platforms

Clough – Panna topsides project

During March and April 2006, three topsides constructed at our Jebel Ali facility were delivered to Clough Projects on board ocean going barges, ready for transportation to the Panna Field Development, located offshore Mumbai, India. The three decks had a combined load-out weight in excess of 2,800 tonnes. The construction itself consisted of structural steel work, piping fabrication and the installation of specialist process and electrical equipment such as test separator skids, glycol pots and manifold control panels.

British Gas – NRPOD platform fabrication project

Underlining our commitment to continue to develop our capabilities and experience with regard to the fabrication of topside platforms we were pleased to secure the award in early 2006 of the NRPOD platform fabrication contract for British Gas for the Tapti Field offshore India, in alliance with their joint venture partners, Reliance Industries and Indian state oil company ONGC. The MTA Wellhead Platform Deck and the TCPP Process Platform Decks (East and West) were successfully loaded-out in the first quarter of 2007. The load-out weight of the platforms on completion was approximately 5,800 tonnes.

Process barges

SBM – Kashagan Flash Gas Compression ("FGC") barges

Throughout 2006 work has continued on three FGC barges for SBM for the Kashagan project. This is a large scale project, with more than 20 barges under construction in various parts of the world. Lamprell is one of the key contractors involved in the project and we are fully committed to maintaining high performance and productivity levels through to the eventual delivery of the barges.

Each of the barges will weigh in excess of 3,000 tonnes at the time of delivery in 2007. This load out weight encompasses approximately 1,800 tonnes of topsides that include the following components:

- piperack;
- aircoolers;
- compressor room including gas turbine compressor;
- equipment module; and
- local equipment room.

Oilfield Engineering services

The turnover in the Oilfield Engineering facility, compared to that achieved in 2005 has increased by approximately one third. This increase reflects an increased awareness of our capabilities amongst regional contractors and that 2006 represents the first full year of operation for the facility, which was fully opened in 2005.

The operating condition of each land rig is governed by the API. As an API approved facility we are able to offer a complete land rig refurbishment service. A complete refurbishment project typically includes the following work scopes:

- mast and sub-base structural repairs;
- complete electrical re-power;
- construction of land camp; and
- inspection and overhaul of mechanical and rotary equipment.

In some instances we also fabricate land camps and mud systems for customers without the land rig coming to our facility for refurbishment and we also inspect and overhaul mechanical and rotary equipment. These minor projects complete our service offering to regional drilling contractors and a wide range of such projects were executed for a variety of customers during 2006.

Upgrade and refurbishment of land rigs

We successfully carried out 10 land rig refurbishment projects during 2006. These rigs, owned by Nabors, Dalma Energy, KCS Deutag and Ensign, included all of the work scopes described above.

Operational review continued

New land camps
In addition to the complete rig refurbishment projects we also fabricated 14 complete land camps for Nabors, of which 12 were delivered in 2006. Each land camp was constructed to very high standards and is suitable for utilization in a harsh desert environment.

Resources
Human resources
To enable us to manage and execute the increased volume of work throughout the Group, we have focused on increasing the level of suitably qualified and experienced personnel that we employ. In reflection of these efforts the number of core administration and workshop personnel increased by more than one quarter in 2006 to approximately 3,300. This team was also successfully supplemented with both contract and locally hired workshop personnel. As a result, at the end of 2006, the Group had more than 5,700 personnel working in an administrative and project capacity.

To support our recruitment process we aim to offer attractive remuneration packages in comparison to our industry to ensure that we employ the most suitably qualified staff and we have recognised the need to keep a clear focus on this in what has become a more competitive marketplace for human resources.

From an administrative perspective the headcount increased by more than a quarter in 2006 to 664 people. This expansion included all key departments, of both an operational nature and those that offer support services.

To continue to increase the number of qualified workshop personnel, both now and in the future, an Indian training school was established in 2006. This initiative will provide us with the capability to train welders and fabricators in India, the main source of our skilled construction personnel, prior to them mobilising to the United Arab Emirates.

Operating facilities
As part of our development strategy, we have continued a programme of capital investment throughout 2006. This investment, aimed at increasing the operating capacity and efficiency of our facilities, has included investment in buildings, equipment and general infrastructure.

Notably the investments have included the purchase of the Hamriyah Pride, a bottom reaction semi-submersible barge that will enhance our rig refurbishment capacity by enabling us to effectively "dry dock" jackup rigs, as well as providing us with the capacity to transport new build structures to clients throughout the region and

Jebel Ali

Sharjah

beyond. Major equipment procured in 2006 included eight cranes, multiple forklift trucks, generators, and automated welding equipment, all of which will improve our operating efficiency and make us less reliant on hired equipment.

Our investment in infrastructure in 2006 included the extension of our temporary Hamriyah facilities from 20,000m^2 to 42,000m^2 (with a further 9,200m^2 added in 2007), including extended construction and fabrication areas, as well as the completion of a new 100 man client office block in the Jebel Ali facility.

This capital investment programme, particularly in operating equipment, will continue over the next three years. In addition a detailed design is currently being finalised for our new 330,000m^2 facility in the Hamriyah Free Zone in the United Arab Emirates, which is budgeted to cost approximately US$50 million. This development will commence in 2007, in order that the facility will be operational at the end of 2008.

David Moran
Chief Operating Officer

Health, Safety and Environment

The successful management of HSE issues has been identified as an essential component of the Lamprell business strategy. Through awareness, observance and encouragement of this belief, Lamprell will continue to strive for zero LTIs in the execution of all projects. To achieve this the Lamprell HSE management system identifies HSE risks at an early stage and puts in place programmes to reduce them to the lowest practical levels. The Company's goal is to minimise the impact of these risks on the environment and to prevent harm to employees, clients, shareholders, communities and all others who could be affected by our activities.

In keeping with the Company's well established HSE policies there exists a proactive approach towards the upkeep and improvement to our working practices. This proactive approach is actively pursued in a number of different aspects of our HSE policy.

Increased communication and openness

There are regular awareness campaigns directed at all employees on the managerial "open door" policy related to any issues causing concern from any level within the Company. Supporting systems and initiatives to assist in this have been introduced in the form of an Incentive Linked Hazard/Observation reporting programme.

Increased training

Lamprell has always utilised training and employee appraisal processes to ensure that all personnel working with the Company are suitably qualified in terms of education, knowledge, skills, capabilities and fitness, as appropriate for the individual positions.

In 2006, the Lamprell recruitment and placement process was reviewed and revised to ensure that all employees and subcontractors have the necessary physical and mental abilities for the job assignment or could acquire these through training and experience.

Lamprell has shown the commitment to improved HSE awareness and training by establishing dedicated, fully equipped Training Centres in each of the Company facilities with audio/visual aids and simulation facilities which are run by dedicated training personnel under the direction of a fully qualified HSE manager.

Lamprell has developed a unique monitoring and record keeping system specifically identifying each individual worker. The system identifies the worker's own individual training requirements together with a training schedule to ensure the identified training needs are recognised and are suitably addressed with a personalised training programme.

Motivation and incentives

Lamprell has implemented, during the past year, various schemes on HSE related promotional awareness programmes and practices, all of which have been performance linked. However, the encouragement of the workforce to "choose" the safe way has, and will remain, a priority in the Lamprell campaign to promote safety to its employees. Lamprell has recognised that mere instruction, procedure, rules and discipline are not enough to completely change the culture of an individual or a group of individuals. During this reportable year we have introduced interactive incentives that focus on the employee choosing to be safe over complying to be safe.

Statistics

Lamprell has established a safety record which is exceptional for the oil and gas construction industry and we have seen ongoing, progressive improvements in these safety figures over the past five years. In 2006 there were approximately 12.3 million man-hours worked in the Group's operations and there were seven LTIs, with an LTI frequency rate of 0.57 per million man-hours (2005: 0.78). There is a very significant ongoing commitment to further reduce these incidence frequencies through the various programmes that have been initiated in our facilities and we are confident that we will continue to see the positive benefits resulting in a safer workplace for our employees and clients.

Awards

In 2006 Lamprell was awarded the Lloyd's List Middle East and India Oil and Gas Energy Award. This prestigious award has been given to Lamprell for the second successive year and recognises the organisation which has demonstrated the highest levels of business initiative, creativity, commitment to investment and growth, and above all, a company which has demonstrated a strong safety culture.

This safety culture was additionally highlighted on the SBM Kashagan Project, where a major award was presented by our client for achieving 2 million man-hours without an LTI for a recordable accident. We have currently increased our LTI free performance on the project to over 3.0 million man-hours. During 2006 we completed a period of continuous productivity in our Jebel Ali facility, which began in late 2004, of 7.5 million man-hours without an LTI which is an outstanding achievement by construction industry standards.

In addition, in 2006, Lamprell attained the prestigious OHSAS 18001 Occupational Health and Safety Management System Standard Accreditation, further underscoring our commitment to maintain the highest safety standards in the execution of all of our projects and in the operation of our facilities.

Quality and customer satisfaction

Lamprell has a proactive quality assurance and quality control (QA/QC) department. There is a separate QA/QC department at the Sharjah and Jebel Ali facilities, each managed by a QA/QC Manager who reports to the facility Vice President.

This structured approach to the management of quality leads to a consistently high level of quality which the management believe is comparable to any similar facility in the world.

Lamprell has recently updated its quality systems to the ISO 9001:2000 accreditation which reinforces Lamprell's long-standing quality programme. Lamprell is also currently one of few companies in the region to hold API Certification for oilfield equipment mechanical works including rotary equipment, crane repairs, mast and substructure repairs.

Customer satisfaction is also maintained through the timely delivery of projects. Each project is constantly monitored by the project management team to ensure it is on time and that all resources are available for timely completion. Lamprell has a strong track record of providing clients with completed projects on time and to the right specification. This record engenders a trust from the client and a willingness to embark on more complicated and higher value projects with Lamprell.

Financial review

"Gross profit increased from 20.6% to 22.2% in 2006. This improvement is attributable to improved average margins across all areas of activity, particularly in new build activities in the Jebel Ali facility on a number of major projects undertaken during the year."

Financial summary

	2006 US$'000	2005 US$'000
Revenue	**329,587**	209,245
Gross profit	**73,246**	43,033
Operating profit	**32,963**	29,426
Net profit	**33,815**	29,801
EBITDA	**38,045**	33,031

Economic environment

High levels of demand for oil and gas, particularly from the large developing countries such as China and India, have put pressure on the world's reducing oil and gas reserves with the result that energy prices have remained at high levels in comparison to earlier years.

Against this backdrop the drilling and oilfield service sectors are experiencing buoyant market conditions. Furthermore, expenditure on exploring for new reserves by oil companies globally has increased dramatically and jackup rigs, land rigs, offshore fixed facilities and floating production, storage and off-loading vessels are required in increasing numbers to meet increasing levels of demand for both exploration and production.

The Middle East region in particular is of critical importance to the world's oil supply as it is estimated that it contributes up to 28% of current production and has approximately 61% of the world's proven reserves. Furthermore, benign operating conditions, including shallow water and large fields, contribute to low operating costs and this market is expected to continue to have a very important role in the world oil and gas market in the future.

Results of the year from operations

Group revenue increased by 57.5% to US$330 million (2005: US$209 million) reflecting a significant growth over the prior year. This growth was largely driven by a significant increase in new build activity in the Jebel Ali facility, both in the number of projects and their value compared to 2005. Significant increases in revenue were also achieved from jackup rig upgrade and refurbishment activities, managed from the Sharjah facility, and improved oilfield services revenue from the refurbishment of land rigs. The Group revenue in 2006 includes US$4.8 million (2005: US$4.2 million) from Inspec, acquired on 11 September 2006 for a consideration of US$4 million. As Inspec was a business under common control, the uniting of interests method was adopted for accounting for the business combination and the results of Inspec for the full year 2006 are included in the Group's financial statements. The information for the prior year has been restated to include the Inspec results.

The cost of sales for the year was US$256.3 million (2005: US$166.2 million). The increase in the cost of sales has been driven predominantly by the increase in the revenue during the year. As a percentage of revenue, cost of sales has decreased from 79.4% in 2005 to 77.8% in 2006 and reflects the improved sales pricing of projects, especially in the new build activities sat the Jebel Ali facility, together with increased operational efficiencies.

Gross profit increased from 20.6% to 22.2% in 2006. This improvement is attributable to improved average margins across all areas of activity, particularly in new build activities in the Jebel Ali facility on a number of major projects undertaken during the year, including the Tapti process topsides for British Gas in India, the Kashagan flash gas compression barges built for Single Buoy Moorings and the Vitoria FPSO process modules built for Saipem. Rig refurbishment activities carried out in the Sharjah and temporary Hamriyah facilities continued to provide very positive margins along with a significant amount of increased work scopes through variation orders which further supported margin growth.

Operating profit in 2006 was US$33.0 million (2005: US$29.4 million), an increase of 12.0%. However this includes exceptional costs in the current year for share based payments of US$15.6 million to selected directors and employees, and US$7.5 million incurred mainly towards various legal and professional charges in connection with the admission of the Company to AIM. The operating profit before these exceptional charges was US$56.1 million, representing an increase of 90.6% over the previous year and reflects the strong growth in revenue and increased gross margin.

The operating profit margin decreased from 14.1% in 2005 to 10.0% in 2006 as a result of the significant dilutive impact of the exceptional costs noted above. However the underlying operating margin prior to charging these exceptional costs rose to 17.0%, representing the benefit of operational gearing from the significant growth in revenue and gross margin but with a lower rate of growth in overheads.

The net profit attributable to the shareholders of Lamprell plc increased by 13.5% to US$33.8 million (2005: US$29.8 million), in line with operating profit and reflects the dilutive impact of the exceptional charges as noted above.

EBITDA increased to US$38.0 million (2005: US$33.0 million) reflecting an increase of 15.2% over the prior year. EBITDA margin for the year has decreased to 11.5% (2005: 15.8%) and the decrease has largely arisen as previously noted due to the lower operating margin as a result of exceptional charges booked in the current year. Prior to charging these exceptional costs, EBITDA increased to US$61.2 million in 2006 with a margin of 18.6%.

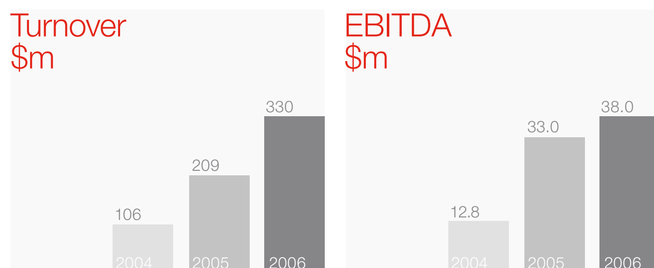
Interest income

Interest income of US$0.9 million (2005: US$0.4 million) related mainly to bank interest earned on surplus funds deposited on a short term basis with the Company's bankers. The increase reflects a higher level of funds on deposit during the year and an increase in the average deposit rates.

Taxation

The Company, which is incorporated in the Isle of Man, is not subject to income tax in the Isle of Man for the period ended 31 December 2006 as it has been registered as a tax exempt company. With effect from 6 April 2007 the tax exempt company will cease to exist in Isle of Man legislation and the Company will then be taxable at 0% in the Isle of Man. The Group is not currently subject to income tax in respect of its operations carried out in the United Arab Emirates, and does not anticipate any liability to income tax arising in the foreseeable future.

Financial review continued



Earnings per share

Fully diluted earnings per share for 2006 increased to 16.91 cents (2005: 14.90 cents) reflecting primarily the improved profit of the Group for the year.

Operating cash flow and liquidity

The Group's net cash flow from operating activities for the year was US$16.6 million (2005: US$38.0 million). The net cash flow from operations was lower than the prior year mainly due to short term timing differences in collections from debtors and an increase in amounts due from customers on contracts, largely due to variations and change orders agreed on certain large contracts that were invoiced and paid after the year end. The amounts due by customers on contracts and not invoiced as at the year end was US$36.9 million (2005: US$25.8 million). Advance payments amounting to US$14.4 million made to LeTourneau Inc. during the year for the purchase of a Super 116E jackup drilling rig kit also reduced cash flow from operating activities. The rig kit has been purchased as the Group intends shortly to enter the new build jackup drilling rig construction market.

Investing activities for the year absorbed US$23.0 million (2005: US$7.1 million) as a result of a significant increase in investment in property, plant and equipment amounting to US$24.0 million (2005: US$7.0 million). This included the purchase of a semi-submersible barge for US$7.4 million, which was used on acquisition to transport a damaged jackup rig from the Gulf of Mexico for a major refurbishment at the Group's temporary facility in Hamriyah. In addition US$2.7 million was realised during the year by the disposal of a small jackup rig that had been held for resale.

Net cash used in financing activities was US$7.8 million (2005: US$11.1 million). This represents dividend payments made of US$26.3 million (2005: US$3.8 million) offset by a reduction in net amounts due from related parties of US$18.5 million.

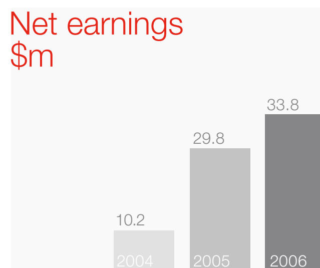
Capital expenditure

Capital expenditure on property, plant and equipment during the year amounted to US$24.0 million (2005: US$7.0 million). The predominant area of expenditure was the investment in operating equipment amounting to US$18.9 million to support the growth in activities experienced during the year and to replace a significant amount of hired equipment that was in use at the time, and also included the acquisition of a semi-submersible barge, as noted above. Further expenditure on buildings and related infrastructure at Group facilities amounted to US$2.8 million.

Shareholders' equity

Shareholders' equity increased from US$75.7 million at 31 December 2005 to US$89.9 million at 31 December 2006. The movement mainly reflects the retained profits for the year of US$33.8 million net of dividends declared of US$31.3 million. The movement also reflects a credit for the accounting of share based payments of US$15.6 million (2005: US$nil) made to certain directors and employees of the Group and charged to General and Administrative expenses.

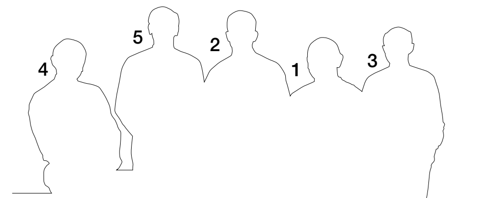
Shareholders' equity includes a Merger reserve of US$22.4 million as a result of LEL acquiring 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of US$4 million on 11 September 2006.



This acquisition was accounted for using the uniting of interests method and the difference between the purchase consideration (US$4 million) and share capital of Inspec (US$0.15 million) was taken to the Merger reserve. In addition, on 25 September 2006, Lamprell plc entered into a share for share exchange agreement with LEL and LHL under which it acquired 100% of the 49,003 shares of LEL from LHL in consideration for the issue and transfer to LHL of 200,000,000 shares of the Company. This acquisition was also accounted for using the uniting of interests method and the difference between the nominal value of shares issued by the Company (US$18.7 million) and the nominal value of LEL shares acquired (US$0.082 million) was taken to the Merger reserve.

Scott Doak
Chief Financial Officer
11 April 2007

Board of Directors



1 Peter Whitbread (63)
Chief Executive Officer and Chairman

Peter Whitbread joined Lamprell in 1992. Peter is a Chartered Quantity Surveyor with over 35 years of experience in the oil and gas services sector, with extensive experience in managing marine construction companies and in the direct project management of a wide range of major marine projects, heavy marine equipment and vessels. He is currently the Chief Executive Officer and the Chairman of the Group. Over a period of 25 years, he has held a number of other senior management positions and directorships with marine construction companies in the Middle East region.

2 David Moran (45)
Chief Operating Officer

David Moran joined Lamprell in 1992. David is responsible for the entire operational, finance and administration activities of Lamprell. Together with Peter Whitbread, he has overseen the restructuring and expansion of the Group and the diversification into related areas of business. Prior to his appointment as Chief Operating Officer in 2004, David held the position of Chief Financial Officer. Prior to joining Lamprell, David was responsible for the Business Support Unit in the foreign exchange department of Midland Montagu. He has a BSc in chemical engineering from Imperial College, London and is a Chartered Accountant, having trained with Coopers and Lybrand.

3 Peter Gibbs Birch (69)
Senior Independent Non-Executive Director

Peter Birch was appointed to the Board on 7 July 2006. Peter Birch was Chief Executive at Abbey National plc from 1984 to 1998. He held various positions with Gillette Industries Ltd from 1965 to 1984, including Managing Director of Gillette UK Ltd and Group General Manager for Gillette's operations in Africa, the Middle East and Eastern Europe. He is Chairman of Kensington Group plc and Chairman of Land Securities plc. Peter is also the senior Non-Executive Director of the recently merged Trinity Mirror plc (having been Chairman of Trinity plc since June 1998), Travelex plc and Dah Sing Financial Services (HK).

4 Nigel Robert McCue (55)
Non-Executive Director

Nigel McCue was appointed to the Board on 7 July 2006. Nigel has over 30 years of experience in the upstream sector of the petroleum industry. He is the CEO, and a Director, of Jura Energy Corporation, a company listed on the Toronto Stock Exchange. He is a Director of Nemmoco Petroleum Limited, a private exploration and production company. Prior to this he was a Director and the Chief Financial Officer of Lundin Oil Plc. Nigel has also held various positions with Chevron Overseas Inc. and Gulf Oil Corporation. Nigel is a Non-Executive Director of Dragon Oil Plc, where he is Chairman of its audit committee and a member of the remuneration and nomination committees.

He is also a Non-Executive Director of Sky Petroleum Inc., where he is also Chairman of its audit committee and a member of the remuneration and nomination committees.

5 Richard Germain Daniel Raynaut (51)
Non-Executive Director

Richard Raynaut was appointed to the Board on 7 July 2006. Richard has been involved in the oil and gas industry since 1977 when he was appointed as an accountant at IHC Caland. Between 1977 and 2004, he held a variety of positions at IHC Caland (renamed SBM Offshore), including Chief Accountant, Treasurer and Financial Controller. From 2000 to 2004, he was appointed the Chief Financial Officer of the offshore division and was an Executive board member of Single Buoy Moorings Inc. From January 2005 onwards he has been involved in Sri Lanka, with the charity Monaco Aide et Presence.

Directors' report

The directors present their annual report on the affairs of the Group together with the financial statements and Auditors' Report, for the year ended 31 December 2006. Information on the Company's subsidiaries is contained in note 1 to the financial statements.

Principal activities

The principal activity of the Group is the provision of specialised refurbishment and construction services to the oil and gas industry.

Results and dividends

The Group net profit for the year amounted to US$33.815 million (2005: US$29.801 million).

The Directors recommend a final dividend of 3.80 cents per ordinary share with a Sterling equivalent of 1.93 pence per ordinary share being payable which, if approved, will be paid on 18 June 2007 to eligible shareholders on the register at 11 May 2007. The proposed final dividend is approximately half of the amount that the Directors would have expected to recommend had the Group been listed for the whole of the half year to 31 December 2006, having taken account of the intention to pay two-thirds of the annual dividend as a final dividend.

There was a transfer of US$18.144 million to retained earnings for the year ended 31 December 2006 representing the profit for the year less dividends paid and adjustments for share based payments and a transfer to the Legal reserve. For details refer to the consolidated statement of changes in equity on page 30.

Business review and future developments

A full review of the Group's activities during the year, recent events and future developments is contained in the Chairman & Chief Executive Officer's statement on pages 4 to 7, the Operations review on pages 10 to 14, and the Financial review on pages 18 to 21.

All the Directors acquired the shares held at 31 December 2006 just prior to the admission of Lamprell plc to AIM. There have been no changes to the Directors' share interests since the year end.

Board of Directors

The Board currently comprises five Directors, made up of three non-executive and two executive Directors. The Board has determined that each of the non-executive Directors are independent and contribute independent judgement and experience to the proceedings of the Board. The executive Directors are responsible for the management of the activities of the Group. Peter Birch is the Senior Independent Director. Brief biographies of the Directors appear on page 23.

During the year the Board met six times and the current intention is that henceforth the Board should meet at least six times a year and additionally as required. All the Directors attended all of the Board meetings held during the year.

The Board has a schedule of matters reserved for decision making which includes, but is not limited to, approval of the annual budget; approval of matters of a strategic nature; the recommendation or approval of dividends; the entry into material contracts; appointments to the Board; the maintenance of a sound system of internal controls; reviewing its own and its committees' performance and for reviewing the Group's corporate governance.

Management ensures that the Board receives timely and appropriate information to enable it to perform its duties, including a detailed report of operational and financial issues at each Board meeting.

Committees of the Board

The Board has established a number of committees to assist it in its duties which are the Audit Committee, the Remuneration Committee and the Nomination Committee. Details of the activities of each committee are set out below.

Directors' beneficial interests in ordinary shares at 31 December 2006

	Number of shares as at 31 December 2006	Number of deferred shares as at 31 December 2006	Number of shares on date of appointment	Number of deferred shares on date of appointment
Executive Directors				
Peter Whitbread[1]	2,800,000	–	–	–
David Moran[1]	1,625,441	828,689[3]	–	–
Non-executive Directors				
Peter Birch[2]	100,000	–	–	–
Nigel McCue[2]	38,461	–	–	–
Richard Raynaut[2]	–	–	–	–

1 Appointed to the Board of Lamprell plc on 4 July 2006

2 Appointed to the Board of Lamprell plc on 7 July 2006

3 David Moran was granted a deferred share award just prior to admission, see note 7 of the financial statements for details.

Audit Committee
The members of the Audit Committee are Nigel McCue (Chairman), Peter Birch and Richard Raynaut. Others may be co-opted onto the Committee by the Committee members. All members of the Audit Committee are non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, or could or would be likely to, or which appears to, affect their judgement. Meetings are held not less than three times a year. The Chief Financial Officer is invited to attend meetings where appropriate and the Company's auditors are regularly invited to attend meetings, including once at the planning stage before the audit and once after the audit at the reporting stage. Other Board members may also be invited to attend, although at least once a year the Audit Committee must meet the Company's external auditors without management being present.

The terms of reference of the Audit Committee include consideration of matters relating to the appointment of the Company's auditors and the independence of the Company's auditors, reviewing the integrity of the Company's Annual and Interim Reports, preliminary results' announcements and any other formal announcement relating to its financial performance. The Committee also reviews the effectiveness of the Group's system of internal control and compliance procedures.

The Audit Committee met once during the year and all the members were in attendance.

Remuneration Committee
The members of the Remuneration Committee are Peter Birch (Chairman), Nigel McCue and Richard Raynaut.

The terms of reference of the Remuneration Committee provide for it to determine and agree with the Board the framework or broad policy for the remuneration of the Company's chief executive officer and chairman, the Company's chief operating officer and chief financial officer, any other executive directors, the company secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive Directors is a matter for the chairman and the executive Directors. No Director or manager may be involved in any decisions as to his own remuneration.

Details of Directors' remuneration for the year ended 31 December 2006 can be found in note 9 to the financial statements. It should be noted that the Remuneration Committee did not deem it necessary to meet during the year but that it intends to meet not less than twice per year in future.

Nomination Committee
The members of the Nomination Committee are Richard Raynaut (Chairman), Peter Birch and Nigel McCue.

The Nomination Committee's terms of reference are to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make its recommendations to the Board with regard to any changes. The Nomination Committee also considers future considerations of the composition of the Board, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board.

The Nomination Committee also makes recommendations to the Board about the membership of the Audit and Remuneration Committees.

The Nomination Committee did not meet during the year.

Statement of Directors' responsibilities
The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the Company website. We draw attention to the fact that legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from other jurisdictions and uncertainty regarding the legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Auditors
The auditors for the year ended 31 December 2006 were PricewaterhouseCoopers. They have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

David Moran
Company Secretary
11 April 2007

Independent auditor's report
to the members of Lamprell plc

Report on the financial statements
We have audited the accompanying consolidated and parent company financial statements of Lamprell plc which comprise the consolidated and parent company balance sheets as of 31 December 2006 and the consolidated income statement, consolidated and parent company statements of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards;
- the parent company financial statements give a true and fair view of the financial position of the parent company as of 31 December 2006 in accordance with International Financial Reporting Standards as applied in accordance with the provisions of the Isle of Man Companies Acts 1931-2004 except as disclosed at Note 29;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931-2004 except as disclosed at Note 29.

PricewaterhouseCoopers
Douglas, Isle of Man
11 April 2007

Consolidated income statement

	Note	Year ended 31 December 2006 US$'000	2005 US$'000
Revenue		**329,587**	209,245
Cost of sales	5	**(256,341)**	(166,212)
Gross profit		**73,246**	43,033
Other operating income		**767**	368
Expenses			
Selling and distribution	6	**(988)**	(675)
General and administrative – share based payments	7	**(15,584)**	–
General and administrative – others	8	**(24,478)**	(13,300)
Operating profit		**32,963**	29,426
Interest income		**852**	375
Profit for the year		**33,815**	29,801
Earnings per share	11		
Basic		**16.91c**	14.90c
Diluted		**16.91c**	14.90c

The notes on pages 33 to 47 form an integral part of these financial statements.

Consolidated balance sheet

	Note	As at 31 December 2006 US$'000	2005 US$'000
Assets			
Non-current assets			
Property, plant and equipment	13	**40,595**	21,673
Current assets			
Inventories	15	**4,531**	3,432
Trade and other receivables	16	**113,508**	60,252
Due from related parties	17	**–**	18,403
Cash and bank balances	18	**19,777**	32,344
		137,816	114,431
Asset classified as held for sale		**–**	1,932
		137,816	116,363
Total assets		**178,411**	138,036
Equity and liabilities			
Capital and reserves			
Share capital	19	**18,654**	18,654
Legal reserve	20	**22**	18
Merger reserve	22	**(22,422)**	(18,422)
Retained earnings		**93,616**	75,472
		89,870	75,722
Non-current liabilities			
Provision for employees' end of service benefits	23	**8,039**	5,868
Current liabilities			
Trade and other payables	24	**72,404**	56,446
Due to a related party	17	**8,098**	–
		80,502	56,446
Total liabilities		**88,541**	62,314
Total equity and liabilities		**178,411**	138,036

The notes on pages 33 to 47 form an integral part of these financial statements.

These financial statements were approved by the Board on 11 April 2007 and signed on its behalf by:

Peter Whitbread
Chief Executive Officer and Director

David Moran
Chief Operating Officer and Director

Company balance sheet

	Note	As at 31 December 2006 US$'000
Assets		
Non-current assets		
Investment in a subsidiary	14	740,052
Current assets		
Other receivable		53
Total assets		740,105
Equity and liabilities		
Capital and reserves		
Share capital	19	18,654
Share premium	21	708,852
Retained earnings		11,997
		739,503
Non-current liability		
Provision for employees' end of service benefits	23	536
Current liability		
Due to a related party	17	66
Total liabilities		602
Total equity and liabilities		740,105

The notes on pages 33 to 47 form an integral part of these financial statements.

These financial statements were approved by the Board on 11 April 2007 and signed on its behalf by:

Peter Whitbread
Chief Executive Officer and Director

David Moran
Chief Operating Officer and Director

Consolidated statement of changes in equity

	Note	Share capital US$'000	Legal reserve US$'000	Merger reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2005	19,22	18,654	14	(18,422)	49,489	49,735
Profit for the year		–	–	–	29,801	29,801
Transfer to Legal reserve	20	–	4	–	(4)	–
Dividends	10	–	–	–	(3,814)	(3,814)
At 31 December 2005		18,654	18	(18,422)	75,472	75,722
Profit for the year		–	–	–	33,815	33,815
Share based payments – value of services provided	7	–	–	–	15,584	15,584
Transfer to Legal reserve	20	–	4	–	(4)	–
Dividends	10	–	–	–	(31,251)	(31,251)
Acquisition of Inspec	22	–	–	(4,000)	–	(4,000)
At 31 December 2006		18,654	22	(22,422)	93,616	89,870

The notes on pages 33 to 47 form an integral part of these financial statements.

Company statement of changes in equity

	Note	Share capital US$'000	Share premium US$'000	Retained earnings US$'000	Total US$'000
At 4 July 2006					
Issue of share capital	19,21	18,654	708,852	–	727,506
Loss for the period	25	–	–	(3,587)	(3,587)
Share based payments – value of services provided	7	–	–	3,038	3,038
Share based payments – investment in a subsidiary	14	–	–	12,546	12,546
At 31 December 2006		18,654	708,852	11,997	739,503

The notes on pages 33 to 47 form an integral part of these financial statements.

Consolidated cash flow statement

	Note	Year ended 31 December 2006 US$'000	2005 US$'000
Operating activities			
Profit for the year		**33,815**	29,801
Adjustments for:			
Share based payments – value of services provided	7	**15,584**	–
Depreciation	13	**5,082**	3,605
Loss/(profit) on disposal of property, plant and equipment		**6**	(360)
Profit on disposal of asset held for sale		**(773)**	–
Provision for slow moving and obsolete inventories	15	**396**	169
Charge for provision for impairment of trade receivables	16	**65**	6
Provision for employees' end of service benefits	23	**3,221**	1,742
Interest income		**(852)**	(375)
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**56,544**	34,588
Payment of employees' end of service benefits	23	**(1,050)**	(141)
Changes in working capital:			
Inventories before movement in provision	15	**(1,495)**	(1,083)
Trade and other receivables before movement in provision for impairment of trade receivables	16	**(53,321)**	(19,385)
Trade and other payables	24	**15,958**	23,975
Net cash generated from operating activities		**16,636**	37,954
Investing activities			
Payments for property, plant and equipment	13	**(24,037)**	(6,990)
Acquisition of Inspec	22	**(1,000)**	–
Proceeds from sale of property, plant and equipment		**27**	543
Proceeds from disposal of asset held for sale		**2,705**	–
Interest income		**852**	375
Margin deposits	18	**(1,523)**	(979)
Net cash used in investing activities		**(22,976)**	(7,051)
Financing activities			
Due from/(to) related parties net of unpaid dividend and purchase consideration payable for acquisition of Inspec	17,22	**18,501**	(7,255)
Dividends paid	10,17	**(26,251)**	(3,814)
Net cash used in financing activities		**(7,750)**	(11,069)
Net (decrease)/increase in cash and cash equivalents		**(14,090)**	19,834
Cash and cash equivalents, beginning of the year		**30,500**	10,666
Cash and cash equivalents, end of the year	18	**16,410**	30,500

The notes on pages 33 to 47 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2006

1 Legal status and activities

The Company was incorporated and registered on 4 July 2006 in the Isle of Man as a public company limited by shares under the Isle of Man Companies Acts with the registered number 11710C. The Company acquired 100% of the legal and beneficial ownership in LEL from LHL, under a share for share exchange agreement dated 25 September 2006 and this transaction is accounted for using the uniting of interests method (Notes 14 and 19). The Company was admitted to the AIM of the London Stock Exchange with effect from 16 October 2006. The address of the registered office of the Company is 15-19 Athol Street, Douglas, Isle of Man and the Company is managed from the UAE.

The principal activities of the Group are: the upgrade and refurbishment of offshore jack up rigs, fabrication, assembly and new build construction for the offshore oil and gas sector, including FPSO and other offshore and onshore structures, oilfield engineering services, including the upgrade and refurbishment of land rigs.

The Company has either directly or indirectly the following subsidiaries:

Name of the subsidiary	Percentage of legal ownership %	Percentage of beneficial ownership %	Country of Incorporation
LEL	100	100	Isle of Man
LD	49*	100	UAE
LS	49*	100	UAE
MOL	100	100	Isle of Man
MOCL	100	100	Isle of Man
Inspec** (acquired in 2006)	100	100	Isle of Man
CBL	100	100	British Virgin Islands

* The balance of 51% in each case is registered in the name of a UAE National who has assigned all the economic benefits attached to his shareholding to the Group entity in lieu of the loan advanced by the Group entity to the UAE National towards contribution of his share of the capital. Further, LEL has the power to exercise control over the financial and operating policies of the entities incorporated in the UAE through management agreements and accordingly, these entities are consolidated as wholly owned subsidiaries in these consolidated financial statements.

** During the year, LEL acquired 100% of the legal and beneficial ownership of Inspec from LHL. As the transaction involves the acquisition of an entity under common control, it is accounted for using the uniting of interests method (Note 22).

These financial statements were approved for issue by the Board on 11 April 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and parent company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the parent company have been prepared in accordance with IFRS. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and parent company financial statements are disclosed in Note 4. A cash flow statement has not been presented for the Company because it has neither a bank account nor cash balances.

a) Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment does not have a material impact on the Group's consolidated financial statements.

Notes to the financial statements continued

for the year ended 31 December 2006

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

b) Interpretations to published standards early adopted

IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 March 2007). This interpretation deals with the accounting for share based payments given by the parent company to employees of a subsidiary or any other entity in the same group. The impact of adoption of this interpretation is to increase the investment in the subsidiary by US$12.5 million with a corresponding credit to Retained earnings in the separate financial statements of the Company (Note 14).

c) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

IAS 21 (Amendment), Net Investment in a Foreign Operation;

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

IAS 39 (Amendment), The Fair Value Option;

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

IFRS 6, Exploration for and Evaluation of Mineral Resources;

IFRIC 4, Determining Whether an Arrangement Contains a Lease;

IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

d) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but which the Group has not early adopted:

Standards

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. The Group will apply IFRS 7 from 1 January 2007.

IFRS 8, Operating Segments (applicable for annual periods beginning on or after 1 January 2009). IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. Management is currently assessing the impact of IFRS 8 on the Group's operations.

Interpretations

IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. IFRIC 7 is not relevant to the Group's operations.

IFRIC 8, Scope of IFRS 2. Effective for annual periods beginning on or after 1 May 2006. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

IFRIC 9, Reassessment of Embedded Derivatives. IFRIC 9 is not relevant to the Group's operations.

IFRIC 10, Interim Financial Reporting and Impairment. Effective for annual periods beginning on or after 1 November 2006. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

IFRIC 12, Service concession arrangements. IFRIC 12 is not relevant to the Group's operations.

2.2 Revenue recognition

Contract revenue is recognised under the percentage of completion method. When the outcome of the contract can be reliably estimated, revenue is recognised by reference to the proportion that accumulated costs up to the year end bear to the estimated total costs of the contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year end which are considered recoverable.

Revenue related to variation orders is recognised when it is probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured. A claim is recognised as contract revenue when settled or when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount that it is probable will be accepted by the customer can be measured reliably.

Losses on contracts are assessed on an individual contract basis and provision is made for the full amount of the anticipated losses, including any losses relating to future work on a contract, in the period in which the loss is first foreseen.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against progress billings at the year end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown under trade and other receivables as amounts recoverable on contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown under trade and other payables as amounts due to customers on contracts.

In determining contract costs incurred up to the year end, any costs relating to future activity on a contract are excluded and are presented as inventories, prepayments or other assets depending on their nature.

2.3 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for acquisitions involving entities under common control, which are accounted for using the uniting of interests method. The cost of an acquisition under the purchase method is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination under the purchase method are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Business combinations involving entities under common control do not fall within the scope of IFRS 3. Consequently, the Directors have a responsibility to determine a suitable accounting policy. The Directors have decided to follow the uniting of interests method for accounting business combinations involving entities under common control.

Under the uniting of interests method there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill is created as balances remain at book value. Consolidated financial statements include the profit or loss and cash flows for the entire year (pre and post merger) as if the subsidiary had always been part of the Group. The aim is to show the combination as if it had always been combined.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed or adjustments have been made to the financial statements of subsidiaries, where necessary, to ensure consistency with the policies adopted by the Group.

2.4 Investment in a subsidiary

In the Company's separate financial statements, the investment in a subsidiary is stated at cost less provision for impairment. Cost is the amount of cash paid or the fair value of the consideration given to acquire the investment. Income from such investment is recognised only to the extent that the Company receives distributions from accumulated profits of the investee company arising after the date of acquisition. Distributions received in excess of such profit i.e. from pre-acquisition reserves, are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Notes to the financial statements continued
for the year ended 31 December 2006

2 Summary of significant accounting policies continued

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's activities are carried out from the UAE and its currency the UAE Dirham, which is pegged to the US Dollar, is the functional currency of all the entities in the Group. The consolidated and parent company financial statements are presented in US Dollars.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment is the purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated on a straight line basis over the expected useful economic lives of the assets as follows:

	Years
Buildings	10 – 20
Operating equipment	5 – 10
Fixtures and office equipment	3 – 5
Motor vehicles	5

The assets' residual values, if significant, and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to property, plant and equipment and depreciated in accordance with Group policies.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

2.7 Inventories

Inventories comprise consumables which are stated at the lower of cost and estimated net realisable value. Cost is determined on the weighted average basis and comprises direct material costs. Net realisable value is the estimate of the replacement cost of consumables.

2.8 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

2.9 Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10 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 embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

2.11 Employee benefits
(a) Provision for staff benefits
A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date. The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.

(b) Share based payments
The Group and LHL operate a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares/options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares/options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of shares/options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to Retained earnings.

The Company has granted rights to its equity instruments to the employees of a subsidiary company conditional upon the completion of continuing service with the Group for a specified period. The total amount of the grant over the vesting period is determined by reference to the fair value of the equity instruments granted and is recognised in each period as an increase in the investment in the subsidiary with a corresponding credit to its Retained earnings. In the separate financial statements of the subsidiary, the fair value of the employee services received in exchange for the grant of the equity instruments of the Company i.e. parent is recognised as an expense with a corresponding credit to its Retained earnings.

2.12 Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.13 Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, current accounts with banks less margin deposits, and other short term highly liquid investments with original maturity of less than three months.

2.14 Non-current assets held for sale
Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.15 Dividend distribution
Dividend distribution is recognised as a liability in the Group's consolidated and parent company financial statements in the period in which the dividends are approved by the shareholders.

Notes to the financial statements continued

for the year ended 31 December 2006

2 Summary of significant accounting policies continued

2.16 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Given the nature of the business and operations the Group has assessed that it has one business and one geographical segment.

2.17 Taxation

The Company, which is incorporated in the Isle of Man, is not subject to income tax in the Isle of Man for the period ended 31 December 2006 as it has been registered as a tax exempt company. With effect from 6 April 2007 the tax exempt company will cease to exist in Isle of Man legislation and the Company will then be taxable at 0% in the Isle of Man. The Group is not currently subject to income tax in respect of its operations carried out in the UAE.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow and interest rate risk.

(a) Market risk – foreign exchange risk

The Group does not have any significant foreign currency exposure, as the majority of the revenue and purchases are denominated in US Dollars or the UAE Dirham which is pegged to the US Dollar.

(b) Credit risk

The Group's exposure to credit risk is detailed in Notes 16 and 18. The Group has a policy for dealing with customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business and through progress billings, the Group maintains adequate bank balances to fund its operations.

(d) Cash flow and fair value interest rate risk

The Group holds its surplus funds in short term bank deposits. The Group has no other interest bearing assets or borrowings and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its contract revenue. Use of the percentage-of-completion method requires the Group to estimate the stage of completion of the contract to date as a proportion of the total contract work to be performed in accordance with the accounting policy set out in Note 2.2. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end. The application of a 10% sensitivity to management estimates of the total costs to completion of all outstanding projects at the year end results in the revenue and profit increasing by US$3.5 million if the total costs to completion are decreased by 10% and the revenue and profit decreasing by US$4.1 million if the total costs to completion are increased by 10%.

5 Cost of sales

	2006 US$'000	2005 US$'000
Materials and related costs	**84,647**	53,089
Sub-contract	**70,713**	40,321
Staff costs (Note 9)	**45,378**	32,079
Sub-contract labour	**27,175**	21,718
Equipment hire	**8,867**	7,237
Repairs and maintenance	**3,222**	2,073
Depreciation	**3,089**	2,011
Yard rent	**2,153**	1,507
Others	**11,097**	6,177
	256,341	166,212

6 Selling and distribution expenses

	2006 US$'000	2005 US$'000
Advertisement and marketing	**441**	257
Entertainment	**123**	135
Travel	**275**	167
Other expenses	**149**	116
	988	675

7 General and administrative expenses – share based payments

	US$'000
Fair value of shares vested in October 2006	**11,882**
Proportionate amount of share based charge for the year:	
– relating to shares gifted/granted	**3,414**
– relating to deferred share award	**288**
	15,584

On 10 October 2006, LHL agreed with selected directors and management personnel of the Group to gift a total of 9,311,996 shares of Lamprell plc. The fair value, computed based on the Company's share price on 11 October 2006 (195 pence), amounted to US$33.9 million. As part of the arrangements, 3,266,414 shares with a fair value of US$11.9 million vest immediately and the balance is held under lock-in arrangements and vests over a period of two years. A charge of US$15.3 million has been recognised in the consolidated income statement with a corresponding credit to the consolidated Retained earnings. This includes an amount of charge recognised in the income statement of the Company with a corresponding credit to Retained earnings of US$2.7 million.

On 16 October 2006, the Company also granted a director a deferred share award that gives him an entitlement to receive a certain number of shares equivalent to US$3 million at no cost. The award, subject to satisfaction of a performance target, will normally vest in three equal tranches on the announcement of the Company's final results for each of the financial years ending 31 December 2007, 2008 and 2009. The performance target relates to the growth in the Company's earnings per share. The number of shares awarded under this scheme, computed based on the Company's share price on 11 October 2006 (195 pence), is 828,689. Accordingly, the Group and Company have each recognised a charge of US$0.3 million in the income statement with the corresponding credit to Retained earnings.

Notes to the financial statements continued

for the year ended 31 December 2006

7 General and administrative expenses – share based payments continued

An analysis of the number of shares gifted/granted, vested during the year and expected to vest in future periods is provided below:

	Number of shares
Shares gifted/granted in October 2006	9,311,996
Shares under deferred share award	828,689
Shares vested during the year	(3,266,414)
Shares expected to vest in future periods	6,874,271

The period over which the number of shares are expected to vest is as follows:

Year	Number of shares
2007	2,212,721
2008	4,109,091
2009	276,230
2010	276,229
	6,874,271

8 General and administrative expenses – others

	2006 US$'000	2005 US$'000
Staff costs (Note 9)	10,626	9,090
Utilities and communication	1,370	1,113
Other expenses	12,482	3,097
	24,478	13,300

Other expenses include US$7.5 million incurred mainly towards various legal and professional charges in connection with the admission of Lamprell plc to AIM.

9 Staff costs

	2006 US$'000	2005 US$'000
Wages and salaries	36,239	28,870
Employees' end of service benefits (Note 23)	3,221	1,742
Share based payments – value of services provided (Note 7)	15,584	–
Other benefits	16,544	10,557
	71,588	41,169
Staff costs are included in:		
Cost of sales (Note 5)	45,378	32,079
General and administrative expenses – share based payments (Note 7)	15,584	–
General and administrative expenses – others (Note 8)	10,626	9,090
	71,588	41,169
Number of employees at 31 December	3,331	2,499

Directors' remuneration comprises:

	Salary 2006 US$'000	Fees 2006 US$'000	Allowances and benefits 2006 US$'000	Bonus 2006 US$'000	Share based payments – value of services provided 2006 US$'000	Post employment benefits 2006 US$'000	**Total 2006 US$'000**	Total 2005 US$'000
Executive directors								
Steven Lamprell*	–	–	–	–	–	–	**–**	–
Gillian Lamprell*	–	–	–	–	–	–	**–**	–
Peter Whitbread	182	–	136	500	6,104	175	**7,097**	1,837
David Moran†	161	–	262	500	6,298	194	**7,415**	–
Non-executive directors§								
Richard Raynaut	–	27	–	–	–	–	**27**	–
Nigel McCue	–	27	–	–	–	–	**27**	–
Peter Birch	–	70	–	–	–	–	**70**	–
	343	124	398	1,000	12,402	369	**14,636**	1,837

The emoluments of the Chief Operating Officer, which were also the emoluments of the highest paid Director, were US$7.4 million (2005: nil) and these principally comprised salary, benefits and share based payments.

* Directors of LEL in 2005 and resigned with effect from 10 October 2006.

† Appointed as a Director on 4 July 2006 and is also the Chief Operating Officer. The remuneration represents the amount for the full year.

§ Appointed as Directors on 7 July 2006.

10 Dividends

During the year (on 30 June 2006 and 20 September 2006), the Board of LEL approved a total dividend amounting to US$30.8 million (2005: US$3.8 million) of which US$5 million is unpaid at 31 December 2006 (Note 17). In addition, on 30 June 2006, the Board of Inspec approved a dividend of US$0.4 million (2005: US$Nil). These dividends were payable to the former shareholders of LEL and Inspec.

11 Earnings per share

	2006 US$'000	2005 US$'000
The calculations of earnings per share are based on the following profit and numbers of shares:		
Profit for the year	**33,815**	29,801
Weighted average number of shares of the Company		
Basic	**200,000,000**	200,000,000
Diluted	**200,000,000**	200,000,000
Earnings per share:		
Basic	**16.91c**	14.90c
Diluted	**16.91c**	14.90c

The Group did not exist in its current structure at 31 December 2005. Hence, the same weighted average number of shares has been used in both the years presented.

Notes to the financial statements continued
for the year ended 31 December 2006

12 Operating profit

	2006 US$'000	2005 US$'000
Operating profit is stated after charging/(crediting):		
Depreciation	**5,082**	3,605
Auditors' remuneration – audit services	**252**	115
Auditors' remuneration – non-audit services	**2,270**	–
Operating lease rentals – land and buildings	**4,773**	3,412
Provision for impairment of trade receivables	**73**	31
Release of provision for impairment of trade receivables	**(9)**	(25)

13 Property, plant and equipment

	Buildings US$'000	Operating equipment US$'000	Fixtures and office equipment US$'000	Motor vehicles US$'000	Capital work-in-progress US$'000	Total US$'000
Cost						
At 1 January 2005	10,996	14,886	3,229	1,082	122	30,315
Additions	2,224	3,239	1,034	270	223	6,990
Disposals	–	(1,160)	–	(105)	–	(1,265)
At 31 December 2005	13,220	16,965	4,263	1,247	345	36,040
Additions	2,825	18,914	1,325	739	234	24,037
Disposals	–	(8)	(2)	(54)	–	(64)
At 31 December 2006	**16,045**	**35,871**	**5,586**	**1,932**	**579**	**60,013**
Depreciation						
At 1 January 2005	2,526	6,363	2,331	624	–	11,844
Charge for the year	749	2,011	650	195	–	3,605
Disposals	–	(1,001)	–	(81)	–	(1,082)
At 31 December 2005	3,275	7,373	2,981	738	–	14,367
Charge for the year	966	3,089	739	288	–	5,082
Disposals	–	(8)	(1)	(22)	–	(31)
At 31 December 2006	**4,241**	**10,454**	**3,719**	**1,004**	**–**	**19,418**
Net book amount						
31 December 2006	**11,804**	**25,417**	**1,867**	**928**	**579**	**40,595**
31 December 2005	9,945	9,592	1,282	509	345	21,673

Buildings have been constructed on land leased, on a renewable basis, from the relevant Government authorities in the UAE. The remaining life of the leases range between three to ten years. The Group has renewed the land lease, upon its expiry, in the past and its present intention is to continue to use the land and renew the leases for the foreseeable future.

Depreciation charge of US$3,089,000 (2005: US$2,011,000) has been charged to cost of sales and US$1,993,000 (2005: US$1,594,000) to general and administrative expenses.

14 Investment in a subsidiary

	2006 US$'000
Balance at 1 January	**–**
Acquired during the year	**727,506**
Effect of share based payment to subsidiary's employees under IFRIC 11	**12,546**
	740,052

On 25 September 2006, the Company entered into a share for share exchange agreement with LEL and LHL under which it acquired 100% of the 49,003 issued shares of LEL from LHL in consideration for the issue/transfer to LHL of 200,000,000 shares of the Company.

On 11 October 2006, the Company obtained a listing on the AIM.

As a part of the listing on the AIM, LHL sold a number of shares of the Company to investors at 195 pence. The investment in LEL is recognised at cost which is computed based on the fair value of 200,000,000 shares of the Company at 195 pence. The difference between the cost of the investment (US$727,506,000) in LEL and the nominal value of Share capital of the Company (US$18,654,000) is transferred to Share premium (Note 21). The acquisition of LEL has been accounted for using the uniting of interests method in the consolidated financial statements.

During the year, the Company has granted rights to its equity instruments to certain employees of LEL. The fair value of these shares at grant date was US$17.8 million. The fair value was computed based on the Company's share price on 11 October 2006 (195 pence). As part of the arrangements, shares with a fair value of US$11.9 million vest immediately and the balance are held under lock-in arrangements and vest over a period of two years. Accordingly, US$12.5 million is recorded as an increase in the investment in LEL with a corresponding credit to Retained earnings.

15 Inventories

	2006 US$'000	2005 US$'000
Consumables	**5,535**	4,040
Less: Provision for slow moving and obsolete inventories	**(1,004)**	(608)
	4,531	3,432

The cost of consumable inventories recognised as an expense and included in contract costs amounted to US$10.4 million (2005: US$7.7 million).

16 Trade and other receivables

	2006 US$'000	2005 US$'000
Trade receivables	**52,335**	27,943
Other receivables and prepayments	**5,653**	3,405
Advances to suppliers	**18,760**	3,105
	76,748	34,453
Less: Provision for impairment of trade receivables	**(97)**	(32)
	76,651	34,421
Amounts due from customers on contracts	**36,857**	25,831
	113,508	60,252
Amounts due from customers on contracts comprise:		
Costs incurred to date	**133,697**	83,571
Attributable profits less losses recognised	**34,119**	21,363
	167,816	104,934
Less: Progress billings	**(130,959)**	(79,103)
	36,857	25,831

The Group had a significant concentration of credit risk at the balance sheet date with nine (2005: nine) of its largest customer balances accounting for 79% (2005: 90%) of trade receivables at 31 December 2006. Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers, and the majority of the outstanding balances at the balance sheet date have been subsequently received.

Notes to the financial statements continued
for the year ended 31 December 2006

17 Related party balances and transactions
Related parties comprise the Company's shareholders, associated companies, other entities in which the shareholders of the Group have the ability to control or exercise significant influence over their financial and operating decisions and key management personnel. During the year, the Group entered into the following significant transactions with related parties at prices and on terms agreed between the related parties:

	2006 US$'000	2005 US$'000
Payments to suppliers made on behalf of Lamprell Energy Oil and Gas Limited	–	418
Key management compensation	**19,814**	4,898
Sponsorship fees paid to legal shareholders of Lamprell Dubai LLC and Lamprell Sharjah WLL	**80**	74
Payments for use of a vessel	**37**	127
Interest charged on loans to key management personnel	**7**	24
Key management compensation comprises:		
Salaries and other short term employee benefits	**3,980**	4,492
Share based payments – value of service provided	**15,160**	–
Post-employment benefits	**674**	406
	19,814	4,898
Loans to directors and key management personnel		
Beginning of the year	**239**	117
Loans advanced during the year	**210**	163
Loan repayments received	**(449)**	(41)
Interest charged	**7**	24
Interest received	**(7)**	(24)
End of the year	**–**	239

Loan to a director
The loan advanced to a director has the following terms and conditions:

Name of director	Amount of loan (US$'000)	Term	Interest rate
2005			
Peter Whitbread	1	Payable on demand	2.53%
2006			
Peter Whitbread	–	–	–

Due from/due to related parties

	2006 US$'000	2005 US$'000
Due from related parties		
Group		
Lamprell Holdings Limited (payments to or on behalf of the previous ultimate parent company)	**–**	18,164
Loans to directors and key management personnel	**–**	239
	–	18,403
Due to a related party		
Group		
Lamprell Holdings Limited (US$5 million and US$3 million payable principally in respect of dividend declared and acquisition of Inspec respectively, by LEL)	**8,098**	–
Company		
Lamprell Energy Limited (payable in respect of payments made on behalf of the Company)	**66**	–

LEL has provided a financial guarantee on behalf of LEOGL, a company under control of LHL, in respect of certain royalty payment obligations of LEOGL. LHL has indemnified LEL for any payment it may have to make under its obligation to LEOGL and LHL has, in turn, been indemnified to the extent of 50% of the liability, if any, by a director of LEL.

In light of the above, and based on information available at 31 December 2006 and 2005, the possibility of an outflow of resources embodying economic benefits in relation to this guarantee is remote.

18 Cash and bank balances

	2006 US$'000	2005 US$'000
Cash at bank and on hand	8,705	4,633
Short term and margin deposits	11,072	27,711
Cash and bank balances	19,777	32,344
Less: Margin deposits	(3,367)	(1,844)
Cash and cash equivalents	16,410	30,500

At 31 December 2006, the cash at bank and short term deposits were held with three (2005: three) local branches of international banks operating in the UAE. The effective interest rate on short term deposits was 4.68% (2005: 3.30%) per annum. These deposits have an average maturity of seven days to one month. The margin deposits with the bank are held under lien against guarantees issued (Note 27).

19 Share capital

Issued and fully paid ordinary shares

Group

	Equity share capital	
	Number	US$'000
At 1 January 2005	–	–
At 25 September 2006 – issued in connection with the acquisition of LEL and treated as if always in issue (Note 22)	200,000,000*	18,654
At 1 January 2005 – restated for the effect of the uniting of interests method of accounting†	200,000,000	18,654
At 31 December 2005 and 2006	200,000,000	18,654

* Includes two shares issued on incorporation of the Company.

† In line with the Group's policy of the uniting of interests method of accounting for the acquisition of entities under common control as set out in Note 2.3, the shares issued on 25 September 2006, in connection with the acquisition of LEL, have been treated as if they have always been in issue hence are shown on the Group balance sheet at 31 December 2005. The difference between the nominal value of the shares issued by the Company (US$18,654,000) and the nominal value of the LEL shares acquired (US$82,000) has been taken to the Merger reserve (Note 22).

Company

	Equity share capital	
	Number	US$'000
At 1 January 2006	–	–
4 July 2006 – Issued on incorporation of the Company	2	–
25 Sept 2006 – Issued in connection with acquisition of LEL (Note 14)	199,999,998	18,654
At 31 December 2006	200,000,000	18,654

On 25 September 2006, the authorised share capital of the Company was increased from two ordinary shares of £1 each to 400,000,000 ordinary shares of 5 pence each.

20 Legal reserve

The Legal reserve of US$22,088 (2005: US$18,296) relates to subsidiaries incorporated as limited liability companies in the UAE. In accordance with the respective subsidiary's Articles of Association and the UAE Federal Law No. (8) of 1984, as amended, 10% of the profit for the year of such companies is transferred to a Legal reserve. Such transfers are required to be made until the reserve is equal to, at least, 50% of the Share capital of such companies.

Notes to the financial statements continued
for the year ended 31 December 2006

21 Share premium
Share premium of US$708,852,000 represents the difference between the cost of the investment in LEL (US$727,506,000) and the nominal value of Share capital issued by the Company to acquire LEL (US$18,654,000) (Notes 14 and 19). The Share premium is not available for distribution.

22 Merger reserve

	2006 US$'000	2005 US$'000
Nominal value of shares of the Company	**18,654**	18,654
Share capital of LEL	**(82)**	(82)
Merger reserve on acquisition of LEL	**18,572**	18,572
Purchase consideration relating to acquisition of Inspec	**4,000**	–
Share capital of Inspec	**(150)**	(150)
Merger reserve on acquisition of Inspec	**3,850**	(150)
Total	**22,422**	18,422

On 11 September 2006, LEL acquired 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of US$4 million. This acquisition is accounted for using the uniting of interests method and the difference between the purchase consideration (US$4million) and Share capital of Inspec (US$150,000) is taken to the Merger reserve. During the year, a payment of US$1 million was made against the purchase consideration and the balance of US$3 million is unpaid at 31 December 2006 (Note 17).

On 25 September 2006, the Company entered into a share for share exchange agreement with LEL and LHL under which it acquired 100% of the 49,003 shares of LEL from LHL in consideration for the issue/transfer to LHL of 200,000,000 shares of the Company. This acquisition has been accounted for using the uniting of interests method and the difference between the nominal value of shares issued by the Company (US$18,654,000) and the nominal value of LEL shares acquired (US$82,000) is taken to the Merger reserve (Note 19).

23 Provision for employees' end of service benefits
Group

	2006 US$'000	2005 US$'000
At 1 January	**5,868**	4,267
Charge for the year (Note 9)	**3,221**	1,742
Payments during the year	**(1,050)**	(141)
At 31 December	**8,039**	5,868

Company

	2006 US$'000	2005 US$'000
At 1 January	**–**	–
Transfer from LEL	**184**	–
Charge for the period	**352**	–
At 31 December	**536**	–

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2006 and 2005, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 3% to 4% (2005: 3% to 5%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 6.11% (2005: 5.28%).

24 Trade and other payables

	2006 US$'000	2005 US$'000
Trade payables	**26,388**	17,398
Other payables and accruals	**34,125**	23,795
Amounts due to customers on contracts	**11,891**	15,253
	72,404	56,446
Amounts due to customers on contracts comprise:		
Progress billings	**93,859**	46,392
Less: Cost incurred to date	**(63,175)**	(25,253)
Less: Attributable profits less losses recognised	**(18,793)**	(5,886)
	11,891	15,253

25 Loss of the parent company

In accordance with the provisions of the Isle of Man Companies Act 1982, the Company has not presented its own income statement. A loss of US$3,586,876 (2005: Nil) of the Company has been included in these consolidated financial statements.

26 Commitments

(a) Operating lease commitments

The future minimum lease payments payable under operating leases are as follows:

	2006 US$'000	2005 US$'000
Not later than one year	**1,620**	1,650
Later than one year but not later than five years	**8,395**	5,251
Later than five years	**57,044**	5,911
	67,059	12,812

(b) Other commitments

	2006	2005
Letters of credit for purchase of materials and operating equipment	**21,913**	1,565
Capital commitments for purchase of operating equipment	**1,664**	268
Capital commitments for construction of a facility	**8,173**	–

27 Bank guarantees

	2006 US$'000	2005 US$'000
Performance/bid bonds	**24,138**	19,027
Advance payment, labour visa and payment guarantees	**3,364**	5,870
	27,502	24,897

The various bank guarantees, as above, were issued by the Group's bankers in the ordinary course of business. In the opinion of the Management the above bank guarantees are unlikely to result in any liability to the Group.

28 Fair value

At 31 December 2006 and at 31 December 2005, the fair values of the financial assets and liabilities approximate their net book amounts as reflected in these financial statements.

29 Events after balance sheet date

The Board have proposed a dividend of US$7.6 million (3.80 cents per share) at a meeting held on 2 April 2007. In accordance with the accounting policy under IFRS set out at Note 2.15 this dividend has not been accrued at 31 December 2006. However, this is not in accordance with the Isle of Man Companies Acts 1931 to 2004 which require such a proposed dividend to be accrued at the balance sheet date. The Directors understand that the relevant section of the law is likely to be repealed in the coming year so as not to be in conflict with IFRS.

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

"Admission" – the admission of the entire issued ordinary share capital of the Company to AIM becoming effective in accordance with paragraph 6 of the AIM Rules

"AIM" – Alternative Investment Market – a market operated by London Stock Exchange Plc

"API" – American Petroleum Institute

"Board" or "Directors" – the Board of Directors of the Company

"CBL" – Cleopatra Barges Limited

"Company" – Lamprell plc

"EBITDA" – Earnings before Interest, Taxes, Depreciation and Amortisation

"FPSO" – Floating, Production, Storage and Offloading

"Group" – The Company and its subsidiaries

"HSE" – Health, Safety and Environment

"IAS" – International Accounting Standards

"IFRIC" – International Financial Reporting Interpretations Committee interpretation

"IFRS" – International Financial Reporting Standards

"Inspec" – International Inspection Services Limited

"Labour Law" – Labour Law (Federal Law No.8 of 1980 (as amended))

"Lamprell" or "Group" – the Company and its subsidiary undertakings

"LD" – Lamprell Dubai LLC

"LEL" – Lamprell Energy Limited

"LEOGL" – Lamprell Energy Oil & Gas Limited

"LHL" – Lamprell Holdings Limited

"LS" – Lamprell Sharjah WLL

"LTI" – Lost Time Incident

"MOCL" – Maritime Offshore Construction Limited

"MOL" – Maritime Offshore Limited

"UAE" – the Federation of the United Arab Emirates

"United States" or "US" – the United States of America

Corporate Advisers

Nominated Adviser and Broker
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
UK

Legal Advisers to the Company
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS
UK

Clyde & Co.
P.O. Box 7001
City Tower 2
Sheikh Zayed Road
Dubai
UAE

Auditors
PricewaterhouseCoopers
Sixty Circular Road
Douglas
Isle of Man IM1 1SA

Principal Bankers
Lloyds TSB Bank plc
P.O. Box 3766
Dubai
UAE

Registrars
Capita Registrars (Jersey) Limited
Victoria Chambers
Liberation Square
1/3 The Esplanade
St Helier
Jersey JE2 3QA

Megasilk is made from woodpulp which is sourced from sustainable forests and Elemental Chlorine Free (ECF), all inks used are vegetable based and 98% of this report can be recycled.

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **020 7729 9090** **www.emperordesign.co.uk**

Source of photography – Lamprell archives

Registered Office:
15-19 Athol Street
Douglas
Isle of Man
IM1 1LB

Operations:
PO Box 5427
Dubai
United Arab Emirates
Telephone: +971 6 5282323
Fax: +971 6 5284325

Email: lamprell@lamprell.com
Website: www.lamprell.com