Lamprell plc
Annual Report & Accounts 2007

Lamprell

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;
» oilfield engineering services; and
» EPC new build construction of jackup drilling rigs and liftboats.

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Highlights

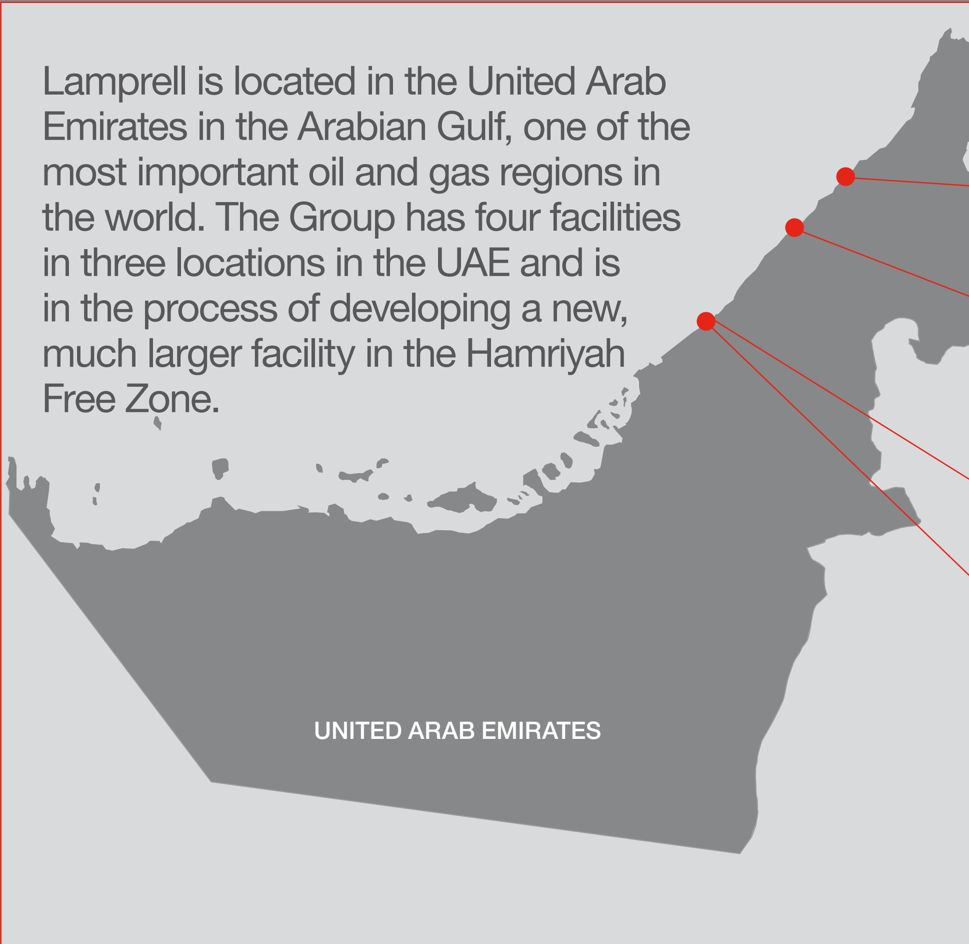
Operational and financial highlights

» Lamprell continues to be the regional market leader in rig upgrade and refurbishment
» High level of repeat business from existing clients
» Increased turnover and profit
» Increased long-term revenue visibility
» Broader client base

$467.3m up 42%
Turnover

$67.3m up 104%
Operating profit

$71.5m up 112%
Net profit



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.

Major offshore oil producing areas

Our facilities

Hamriyah facility
In response to the demand for its services Lamprell has established a facility in the Hamriyah Free Zone. This 52,000m² portside facility has 195m direct quayside access.

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.

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.

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.

Lamprell's workforce has grown to over 4,000 and this growth has been built upon the loyalty and commitment of our long-term employees.

Talented people

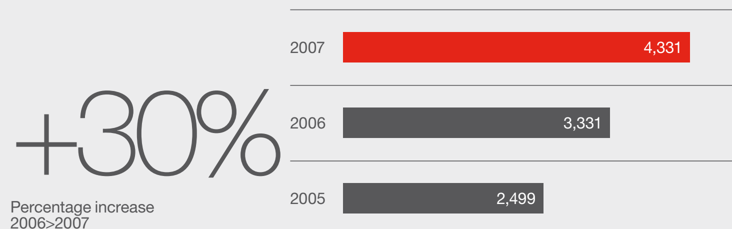
With Lamprell's overriding focus on operational excellence and quality, our employees are a vital resource to the Company.

Lamprell's workforce has grown to over 4,000 and this growth has been built upon the loyalty and commitment of our long-term employees. As we continue to grow and develop as a company we are still seeing this long-term commitment and loyalty of our key workforce as being at the heart of our ongoing success and confidence in the future. Their expertise and commitment helps drive innovation which enables us to provide added value to our customers.

We are totally committed to the growth of our employees as individuals, challenging them to progress through training and personal development.

Our overriding commitment in the workplace is to the health and safety of our employees. The Board provides health and safety leadership and is responsible for setting the overriding health and safety goals.

Headcount



Year in review

This has been a year of significant opportunities for Lamprell both in terms of additional major projects and also opportunities to further expand the scope and reach of the Company.

Clients and contracts

- Commenced the simultaneous construction of the first two liftboats for Seajacks International
- Commenced construction of the first of the two Super 116E LeTourneau jackup drilling rigs awarded by Scorpion Rigs
- Successful launch of two of the three flash gas compression barges for SBM for the Kashagan Field Development in the Caspian Sea, the largest single project completed to date by Lamprell
- Major refurbishments of jackup drilling rigs for Global Santa Fe and Nabors Drilling
- Completion of the Tapti process decks for British Gas Exploration and Production India

Continued commitment to corporate and social responsibility

- Purchase of three state-of-the-art emergency vehicles for its sites in Sharjah, Jebel Ali and Hamriyah, highlighting Lamprell's continuing effort and commitment to improve the health and safety of its employees
- In conjunction with Don Bosco Maritime Academy, Lamprell has initiated a technical training and development programme for the underprivileged street children in Gujarat, Madhya Pradesh and Maharashtra

Recognition

- Voted "Best Newcomer to the AIM Market" of the London Stock Exchange
- Lloyds List Middle East and India Oil and Gas Energy Award for an unprecedented third consecutive year
- Seatrade Middle East and India Energy Oil and Gas Award

Chairman's statement

Steven D. Lamprell
President

This is my first letter to you as Chairman of Lamprell plc, a position I have held since February 2008. It is a great honour and I look forward to working with you, our shareholders, as well as our customers and staff.

Lamprell was founded by Steven Lamprell, your President, in Dubai more than thirty years ago, and today is a leading oil and engineering services, rig building and rig refurbishment company in the UAE, and one of the largest of its kind in the world. After I joined the Board in July 2006 we listed our shares on the London AIM market at a price of £1.95 per share (market capitalisation of £390 million) and the Company is growing rapidly.

Peter Whitbread was Chairman and CEO until it was decided to separate those roles in February this year. I am exceptionally pleased that he will continue as CEO. Under his direction the Company has grown significantly, and at the date of writing, has a market capitalisation of more than US$ 1.5 billion.

The Company's order book is strong, and the demand for its services, particularly in the rig building and rig refurbishment businesses, are at an all time high. Costs are increasing due to inflationary pressure, but margins remain healthy. The new Hamriyah facility will come on stream at the beginning of 2009 and this will give the Company additional capacity as it seeks to grow the business and capitalise on new business prospects.

The Board is now of the view that due to Lamprell's successful growth since flotation, the Company will move its listing to the Main Market of the London Stock Exchange. This in turn will bring greater exposure, increase the Company's profile, and attract a broader range of shareholders. The move is likely to happen in the fourth quarter of this year.

We see a long period ahead with high oil prices driving business in the worldwide oil services sector. Lamprell's location in the Middle East, at the heart of the world oil and gas market, coupled with its long-standing reputation for quality and performance, provides an excellent platform for long-term confidence in the ability of the Company to continue to develop and expand in the prevailing positive market climate.

I believe that Lamprell is well positioned to weather the current turbulence in the world's financial markets as we offer a compelling proposition unlike any of our competitors. We are debt free and maintain strong cash reserves and this, combined with Lamprell's strong management team with many years of success under Peter Whitbread's leadership, indicate the outlook for the Company continues to be extremely encouraging.

Peter G Birch
Chairman

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Chief Executive Officer's statement

In this, the second Annual Report to Shareholders, I am pleased to be able to announce that we have had another outstanding year in 2007, having seen significant growth in revenues of 42% compared to 2006, and a net profit (adjusted for exceptional charges) for the year of US$ 86.2 million (and US$ 71.5 million after exceptional charges) which once again exceeded our initial projections for the year.

We are currently in a period of high oil prices and unprecedented demands on all aspects of the services provided by Lamprell. We continue to focus on our core business activities of drilling rig refurbishment, new build rigs and the fabrication of FPSO topside process modules. This focus, coupled with our ongoing commitment to quality, schedule, safety and customer service, has ensured that the Company has continued to benefit from the strong support that we receive from our clients and encouraging levels of repeat business.

We see the current high level of oil and gas related activity, both onshore and offshore, coupled with a sustained high oil price, continuing for many years to come. In this underlying economic climate we see real opportunity for continued progressive growth and expansion of our Company interests both in the region and internationally. We also see continued commitment from our long-term clients supporting our declared intentions to expand and develop the Company over the coming years.

During 2007, we have seen a significant increase in new clients, some of whom have already become repeat clients. We have additionally commenced a range of major new build projects, with the two Scorpion LeTourneau Super 116 jackup drilling rigs and the two Seajacks liftboats being the primary projects that were started during the year. At the turn of the year we also successfully completed the largest single jackup rig rehabilitation and upgrade project ever undertaken by the Company, the Nabors Drilling 660 project, worth approximately US$ 77 million in revenue.

We have also started the construction of our new facility at Hamriyah which is on schedule to come on stream at the beginning of 2009.

At the beginning of 2008 we entered the year with an unprecedented forward visibility of contracted work in excess of US$ 580 million and a cash and bank balance of US$ 159 million. We continue to run our business without debt and our organic expansion and development is supported from our own free cash flow. We have a strong balance sheet and we maintain a business model without claims or cases of litigation either against us or against our clients, subcontractors or suppliers. Against this background we enter the new financial year in an excellent position to capitalise on the opportunities that exist in this buoyant business climate.

All the initiatives we undertook in 2007 were consistent with our declared strategy laid out

Our ongoing commitment to quality, schedule, safety and customer service, has ensured that the Company has continued to benefit from the strong support that we receive from our clients and encouraging levels of repeat business.

at the time of our IPO in October 2006. Our successful full year results are testament that we are pursuing the right strategy and we remain confident in our ability to maintain our growth and to continue to deliver shareholder value and customer satisfaction.

The Board

During 2007, and into 2008, there have been a number of actual and proposed changes to the Board of Directors of Lamprell plc. In early February 2008, I stepped down as Chairman of the Board handing over to Peter Birch, who previously held the position of Deputy Chairman. Peter brings a wealth of long-term corporate experience to the position of Chairman of the Board and is a well known and much respected figure within the City.

This change is in preparation for our intended move to have a primary listing on the Main Market of the London Stock Exchange plc, subject to regulatory approvals, in the fourth quarter of 2008 and accords with the recommendations of the Combined Code. It also ensures that the continuing role as Chief Executive Officer can be carried out with a singular focus on the ongoing expansion and development of the Company.

As previously announced, David Moran will step down as Chief Operating Officer in May 2008, but will continue on the Board in the capacity of Director of Corporate Communications. This is an undertaking that demonstrates to the investment community the high level of importance that we place on the interface with our clients, investors, and market analysts, and carries with it a particular remit to broaden our investor base.

Nigel McCue, currently a Non-Executive Director, will take over the role of Chief Operating Officer in May 2008, bringing with him a wealth of experience in the oil and gas industry. I am confident that Nigel will continue to build upon the significant contribution he has already made to the management team in his Non-Executive role.

In August 2007 Jonathan Silver joined the Board of Lamprell plc as a Non-Executive Director. Jonathan has for many years been a principal legal advisor to the Company and has lived and worked in the United Arab Emirates for over thirty years and brings to the Board a huge amount of industrial, legal and local knowledge.

I would also like to particularly thank Steven Lamprell (President of the Company) for his ongoing support and enthusiasm in assisting in the growth and development of the Company; also to Peter Birch who, in his capacity as Chairman of the Board, is providing invaluable support to myself and the Board as we prepare to move to the Main Market of the London Stock Exchange.

Market overview

Throughout 2007 we have seen a sustained high level of business activity in all sectors of the oil and gas services industry. In the Middle East we continue to see high levels of drilling activity, both onshore and offshore. We believe this market strength will continue for some years to come and expect to see a significant increase in the regional rig count over the next few years. There are no indications that any of the operators in the region are considering relocating any of their rig fleet away from the region.

The majority of this rig count increase will most likely come from our existing client base, and we therefore anticipate that we will see many of these rigs come through the Lamprell facilities.

There continues to be a high demand world wide for deep water FPSO field developments and Lamprell is well placed to take advantage of these projects with its already well proven track record of quality and timely delivery of FPSO topside process modules.

The continued high oil price together with worldwide demand placing pressure on limited oil and gas service resources provides us with a high level of confidence that the current market conditions will prevail for some considerable period of time. We have already seen our long-term visibility for contracted work significantly increase through 2007 and we believe that this visibility will continue to improve through 2008 and beyond.

Future developments

The construction phase of the new Hamriyah deep water facility in the Hamriyah Free

Chief Executive Officer's statement
continued

Zone, in the United Arab Emirates, is currently well underway and on schedule, having commenced construction works in the early part of 2008. The facility will be ready to commence fabrication activities in early 2009, and progress is in line with expectations.

When completed, the new facility will have a developed area of 250,000m^2 with a deepwater berthing quay wall 1,250m in length and 9m deep. This will enable us to work on up to 10 rigs simultaneously and construct up to three new build jackups. The new facility will also enable us to move into the refurbishment of drill ships and semi-submersible drilling units which, up to this time, we have been unable to service in any significant capacity because of space and water depth constraints.

Our existing client base is looking very positively at the potential that this new facility will offer to them to provide further services to meet their ever increasing regional needs.

We are additionally developing and expanding our facilities at the Jebel Ali facility with further workshops, client offices, corporate offices and warehousing to support the planned increase in liftboat, tender barge and FPSO process module building which we foresee arising this year and beyond.

Awards

In November 2007, Lamprell was presented with the award of "Best Newcomer to the AIM Market" of the London Stock Exchange at the annual AIM Awards evening in London, which we accepted with a great deal of pride. In December 2007 Lamprell received further industry recognition through the award of the Lloyd's List Middle East and India Oil and Gas Energy Award for an unprecedented third consecutive year and the Company was also the recipient of the Seatrade Middle East and India Energy Oil and Gas Award earlier in the year. Both of these industry awards set out to recognise the Company or organisation which has demonstrated the highest levels of business initiative, creativity, commitment to investment and growth, and above all, a company which has clearly demonstrated a strong and committed safety culture.

In 2007 Lamprell was also accredited with the management system certificate ISO 14001: 2004 and the Occupational, Health and Safety Assessment Series, OHSAS 18001: 1999.

Dividend

As previously stated, it has been our intention to reward shareholders with a dividend subject to the performance of the business and the cash flow requirements of our expansion plans. Given the strength of 2007 for the Company and our continued growth, the Board of Directors is recommending a final dividend payment of 12.25 cents per ordinary share, with a Sterling equivalent of 6.17 pence per ordinary share. This will be payable, when approved, on 18 June 2008 to eligible shareholders on the register at 16 May 2008.

In November 2007, Lamprell was presented with the award of "Best Newcomer to the AIM Market" of the London Stock Exchange at the annual AIM Awards.

Outlook

This has once again been an outstanding year for Lamprell. We have seen significant revenue and earnings growth, exceeding all targets set at the beginning of the year, alongside growth across all our operating businesses. This is coupled with an ever improving forward visibility of revenue on contracted work.

We continue to maintain a strong balance sheet with no debt. This is combined with strong cash generation that will support our investment plans for the new facilities which in turn will enable us to realise our expansion plans for the business.

Going forward we see these dynamics for growth, development and success helping to underpin the business model that we have and the strong client retention that we have maintained.

It is the commitment of a loyal and dedicated workforce and management team that has created and maintained this success and it will be these same qualities that will continue to be the essential elements that that will enable us to continue the development, growth and success of the business.

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 can continue to deliver the highest standards of service to our customers, win new work and reward our shareholders for their support. After a successful 2007, I firmly believe that we can look forward with confidence to an equally successful 2008 and beyond.

Peter Whitbread
Chief Executive Officer

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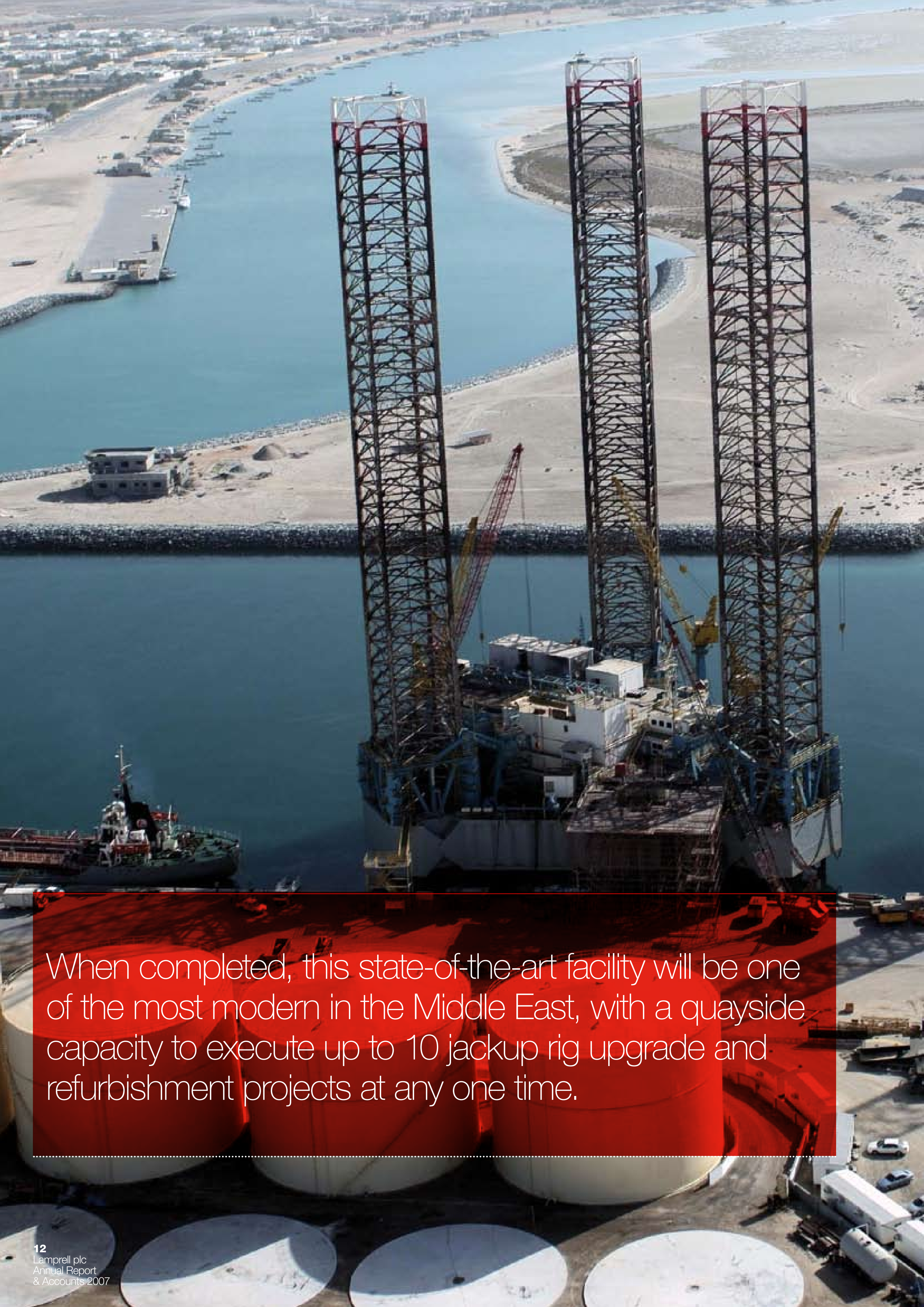


When completed, this state-of-the-art facility will be one of the most modern in the Middle East, with a quayside capacity to execute up to 10 jackup rig upgrade and refurbishment projects at any one time.

Expanding facilities

In response to the current high workloads and to meet the anticipated additional needs of the business going forward, Lamprell is developing a new 250,000m^2 facility in the Hamriyah Free Zone, with operations planned to commence at the beginning of 2009.

This facility, when fully developed, will have 1.25km of direct quayside access and a low tide water depth of 9m.

When completed, this state-of-the-art facility will be one of the most modern in the Middle East, with a quayside capacity to execute up to 10 jackup rig upgrade and refurbishment projects at any one time. It will also contain large covered and open fabrication areas that will allow Lamprell to undertake major new build projects, such as the construction of jackup rigs and the integration of process modules onto FPSO vessels.

We are additionally developing and expanding our facilities at the Jebel Ali facility with further workshops, client offices, corporate offices and warehousing to support the planned increase in liftboat, tender barge and FPSO process module building which we foresee arising this year and beyond.

Operating review

Lamprell had a very successful year in 2007, with all operating facilities successfully working on a wide range of different projects. During the year Lamprell has not only maintained and indeed strengthened its relationships with its existing customers, but also added a number of new key customers to our expanding client base. The market environment has remained buoyant throughout the year and this has enabled us to achieve our highest volumes of work to date and to exceed the operational targets we established at the beginning of the year. The current financial year has started well and we continue to receive a high level of enquiries for our services. This healthy new business pipeline, combined with the buoyant trading environment, gives us confidence that we will build on the success achieved in 2007.

Lamprell endeavours to provide a differentiated quality service that is founded on a flexible and proactive approach to the management and execution of projects. Within this operational framework and by using established and proven contracting models and strategies, Lamprell focuses on ensuring that projects are executed safely, whilst maintaining high levels of quality and adhering to agreed schedules. By following this operational philosophy which is central to our proposition, we continue to win repeat business as our customers value working alongside Lamprell.

A function of the buoyant business environment in the oil and gas sector and ensuing high levels of drilling activity is that resources are becoming increasingly scarce. During 2007 we therefore initiated a process of enhancing our methods of procurement as part of an integrated approach to supply chain management and we are confident that we can build on this initiative in the future to the mutual benefit of both our customers and ourselves.

Whilst focusing on our core business during the year, Lamprell has now expanded its scope of projects to include EPC new build projects, such as the construction of jackup drilling rigs and liftboats. These projects are a natural extension of our refurbishment activities and they provide greater revenue visibility which allows us to take a longer term approach to the development of our facilities and the management of our internal resources.

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;
- oilfield engineering services, including the upgrade and refurbishment of land rigs;
- EPC new build construction of jackup drilling rigs and liftboats.

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

Whilst focusing on our core business during the year, Lamprell has now expanded its scope of projects to include EPC new build projects, such as the construction of jackup drilling rigs and liftboats.

Upgrade and refurbishment of offshore jackup rigs

During 2007 Lamprell executed refurbishment and upgrade works on a total of twenty four jackup rigs and one semi-submersible drilling rig. The rigs, owned by a wide range of international drilling contractors including Nabors Drilling, Global Santa Fe, Noble Drilling, Transocean, Rowan, National Drilling Company and Japan Drilling Company, were all berthed at our Sharjah and existing Hamriyah facilities.

Refurbishment and upgrade projects such as these vary greatly in scope from project to project and depend on the existing condition of each rig and the owner's upgrade requirements. A minor project can have a work schedule lasting a few days, whereas a major upgrade project with a significant engineering requirement can last for twelve months or more. Typical upgrade and refurbishment projects include some of the following work scopes:

- leg extensions 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;
- condition-driven refurbishment, including structural steel and piping replacement and painting.

The jackup rig upgrade and refurbishment projects carried out in 2007 included:

Nabors Drilling 660

The rig, which was relocated from the Gulf of Mexico after it was severely damaged by hurricane "Katrina", arrived at our Hamriyah facility in late 2006 and has been the largest project of its type undertaken to date by Lamprell. The work scopes on this project included the construction and installation of replacement leg sections and spud cans, the complete renewal of the rig's electrical system including the installation of five new Caterpillar 3516 engines and extensive steel renewals and painting work. The project has been completed in the first quarter of 2008, and the rig will now undertake a long-term drilling programme in the Arabian Gulf.

Global Santa Fe High Island 2 & 4 and Main Pass 1 & 4

These four rigs were mobilised to the Middle East to work for Saudi Aramco and prior to commencing their contracts they required extensive refurbishment works. The work scopes on the rigs included steel and piping replacement, electrical works and accommodation refurbishment. These projects are particularly noteworthy as the lead time allotted to undertake the project was very short. Despite the aggressive schedule, Lamprell completed all of the work to the satisfaction of GSF and recorded three million man hours of work on the projects without a single LTI.

Grup Servicii Petroliere Jupiter

In addition to the works executed at our facilities in the UAE, Lamprell undertook an extensive refurbishment and upgrade work scope on GSP's rig Jupiter at a shipyard in Croatia. The project commenced in 2006 with the prefabrication of a large range of steel and piping components at our Sharjah facility including a cantilever and drill floor. These components were then shipped to Croatia where they were installed on the rig. In addition to the installation of these prefabricated items, the existing rig accommodation was refurbished and extensions were added to increase its capacity, the existing rig cranes were replaced and the rig was completely repainted. This was a major project for the Company and illustrates our core competencies are transferable geographically. The experience gained on this project will be invaluable if we perform future major refurbishment projects outside the UAE.

Offsite and other services

In addition to major refurbishment projects we also undertook a wide range of minor projects including the supply of engineering services, procurement activities and various smaller rig refurbishment projects carried out on board rigs whilst they remain in operation. These projects do not account for a large proportion of revenue but they provide a critical service to our customers and reflect Lamprell's flexible approach to servicing our clients' needs.

New build construction for the offshore oil and gas sector

Throughout 2007 our Jebel Ali facility has been working on a variety of major projects for clients including Single Buoy Moorings, Saipem, British Gas Exploration and Production India Limited and Aker FP. These projects all require the utilisation of our state-of-the-art facility as well as high levels of project management control to ensure that safety and quality standards are maintained whilst keeping a strong focus on delivering on schedule.

The Jebel Ali facility undertakes a range of different new build construction projects which in 2007 included:

Offshore fixed structures: topside platforms

BG India Limited Tapti topside decks

The contract, awarded in 2006, included the fabrication, mechanical completion and load out of the TCPP (East and West) and MTA decks including all necessary engineering and the procurement of materials and equipment. The schedule for this project was very ambitious, but Lamprell delivered the decks ahead of schedule and as a result BG India were able to secure first gas earlier than planned.

Process barges

SBM Kashagan flash gas compression barges

In 2006 Lamprell commenced the construction of three process barges for SBM. These barges form part of the ongoing development

> Engineering services and procurement activities provide a critical service to our customers and reflect Lamprell's flexible approach to servicing our clients' needs.

of the Kashagan project, the world's largest oil and gas project, and each weighs in excess of 3,000 tonnes, including 1,800 tonnes of topside process components. In July 2007, the first two barges were successfully loaded out from our Jebel Ali facility onto the Lamprell owned semi-submersible barge, the "Hamriyah Pride". The third barge remained at our facility until the first quarter of 2008 when it was also delivered to SBM. Apart from the operational and technological successes achieved on a project of this magnitude, the project was also constructed within our rigorous safety guidelines with more than 3.6 million hours being expended without an LTI.

FPSO process modules

Aker FP SMART FPSO process modules

At the end of 2007, Lamprell completed the fabrication of process modules for Aker Kvaerner Production Systems. These modules were designed and constructed as part of a generic and modular design concept to suit typical production of around 60,000 barrels of oil per day. The design was developed by Aker throughout the fabrication phase of the project and this approach required that both the Aker and Lamprell project teams had to work very closely to minimise the impact that design changes could have on the construction sequence and delivery date. This team approach to managing the project worked extremely well and the modules were delivered in December 2007.

SBM Frade FPSO process modules

In the first quarter of 2007 Lamprell was awarded the contract to build seven process modules and turret manifold deck by SBM for their Frade FPSO. The work scope includes structural, piping, E&I and pressure vessel works and on completion, the modules will be delivered to SBM ready for integration onto the converted tanker currently located at Dubai Drydocks.

Oilfield Engineering services

Lamprell's Oilfield Engineering operation is located within our main Jebel Ali facility and it was busy throughout 2007, executing contracts for a variety of clients including Nabors Drilling, KCA Deutag and Ensign. Projects executed during 2007 included the upgrade and refurbishment of nine land rigs, as well as the construction of land camps and the inspection and overhaul of mechanical and rotary equipment. In addition to these projects, we also executed a number of minor offsite projects to assist our clients by providing our services on location at drilling sites.

During the year Lamprell also signed a memorandum of understanding with LeTourneau Technologies to build a new build 2,000 horsepower land rig. This rig is being fabricated to LeTourneau's "Lightening Rig" design and will be ready for delivery in mid 2008.

Engineering, Procurement and Construction

As part of Lamprell's strategic growth plan, in 2007 we expanded our range of projects to include major EPC new build projects. These projects can be executed at either

our Jebel Ali or current Hamriyah facilities and they underpin the expansion of our business activities to larger, more prestigious projects.

Seajacks liftboats

In February 2007 we secured the award of contracts from Seajacks International Limited for two harsh environment special purpose self-propelled four legged jackup liftboats. These turnkey contracts cover all aspects of project development from design to delivery. The first unit will be delivered in early 2009 with the second unit being delivered four months later. These projects are being built at our Jebel Ali facility and are progressing well and on schedule.

Scorpion S116E jackup drilling rigs

In July 2007 we successfully negotiated a contract with Scorpion Rigs Ltd for the construction and delivery of a completely outfitted and equipped, LeTourneau designed, Super 116E jackup drilling unit. This contract was followed later in the year by the award of another contract by Scorpion to build a second rig. These contracts will allow Lamprell to utilise our significant experience gained in the refurbishment sector and the construction of both units is progressing on schedule and on budget. The first rig will be delivered in mid 2009 and the second at the end of 2009.

Human resources

Attracting and retaining talented staff is one of the key issues we face in the oil and gas sector. At Lamprell we consider our employees to be our greatest asset and in support of this core principle of our business the Human Resources Department has undergone a transformation with the addition of a dedicated Recruitment Specialist and more recently the introduction of a senior HR professional to oversee the HR and Administration support functions.

Managing such a culturally diverse workforce presents both challenges and opportunities for Lamprell in the coming years. To prepare us for these challenges we will be reorganising the Human Resources Department to respond with innovative, professional and efficient solutions and support. Providing integrated HR systems with consistent practices will provide stability to both the employee and the Company. The adoption of these HR and administrative guidelines will impart a clear statement of employee expectations, reduce duplication, increase efficiency and ensure stability across functions and employees.

New and promoted employees with relevant skills and new ideas will enhance the Company's progress as it evolves, with clearly defined roles and responsibilities. The continued development of our performance review process that captures a continuous improvement and development philosophy will ensure a stable and dependable delivery of services through a trained and sustained workforce.

We aim to provide a safe and supportive work environment to our employees from diverse cultural backgrounds and in an environment that provides a competitive compensation programme that is affordable to the Company. We believe this continues

New and promoted employees with relevant skills and new ideas will enhance the Company's progress as it evolves, with clearly defined roles and responsibilities.

to be our market differentiator and will strengthen our position as an "employer of choice". These will continue to be our goals in 2008 and beyond.

Don Bosco Maritime Academy

To continue to increase the number of qualified workshop personnel, both now and in the future, an Indian training programme was established in early 2007. In collaboration with our Indian based training provider, Don Bosco Maritime Academy (in Mumbai, India), an advanced fabrication and welding training facility has now been established and, whilst it is still early days, the results have been extremely encouraging. This facility provides our trainees with hands-on, heavy-engineering experience, thus substantially improving their capabilities prior to joining Lamprell. To date, some 173 personnel have successfully undertaken this course and have been relocated for permanent employment at our facilities in the UAE. An additional 47 people will complete the training course in March 2008.

Furthermore, we are working with and supporting the local community through a corporate social responsibility programme which has been established with the Don Bosco Salesian Society in Mumbai Province. This will provide annually up to 150 personnel from poor and underprivileged families with training in basic first year trades skills. For those trainees capable of undertaking further studies, a learning pathway has been created so that they can further improve their skills to a level acceptable to Lamprell, with the potential of eventual employment within the Company.

Alongside these practical training programmes, we are providing financial support to a shelter for homeless street children. This shelter is located in Vadodara and serves as a halfway house with the aim of returning these children safely to their families.

General recruitment

The recruitment drive continues with 4,331 permanent staff in the Company at the end of 2007, a 30% increase in headcount during the year. Our search for new and talented staff is a continual process as a result of the competitive market in which the Company operates. As a result of the growth that Lamprell has experienced, we aim to recruit staff with the requisite skills and professional experience to add value to the Company and the service which we offer to our clients. This is particularly so in the areas of engineering and project management, where we clearly differentiate ourselves from our competitors.

Operating facilities

A key part of our strategy is to facilitate organic growth. To this end, we have maintained a high level of capital investment throughout 2007. The aim of this investment is to increase our capacity, increase our existing levels of productivity and improve the working environment for both yard and administrative personnel.

In Jebel Ali we commissioned the construction of an extension to our existing production facility. This building has three levels and it will provide increased storage capacity on the ground floor and additional office space for production personnel on the first and second floors. In addition we have started the design of a new welfare and office building, as well as a corporate office. The construction of both these buildings will commence in 2008.

In 2007 we also completed the concept plan for our new 250,000m^2 facility in the Hamriyah Free Zone and subsequently awarded the detailed design and construction contracts for various elements of our facility. In parallel to these internal activities, the marine work contract, including the dredging of the access channel and quay wall construction work, has been awarded by the Hamriyah Free Zone Authority and the selected contractor has subsequently commenced work. Our facility, when completed, will include 1.25km of quayside dredged to 9m in depth, offices, workshops and construction areas. The development is on schedule and we will be operational in early 2009.

During the year our investment continued in operating equipment including forklift trucks, generators and automated welding equipment; buildings as we develop the infrastructure across all facilities; and cranes which includes initial payments on larger units with increased delivery lead times.

David Moran
Chief Operating Officer

In addition to the high level of repeat business from existing clients, we have been successful in substantially broadening our client base.

Strong customer base

Oil and gas exploration activities in the Middle East continue to increase and this has created an increase in demand for offshore jackup drilling units in the region.

Consequently many drilling contractors have relocated jackup rigs from other regions into the Middle East and this trend is expected to continue during 2008. These additional units, as well as the existing units based in the region, will continue to provide a long-term refurbishment workload to consolidate our position as the regional market leader in rig upgrade and refurbishment.

The market for new build construction for the offshore oil and gas sector is also very strong, with the global capital expenditure backlog continuing to grow. In addition to the high level of repeat business from existing clients, we have been successful in substantially broadening our client base.

Financial review

Results for the year from operations

	2007 US$ '000	2006 US$ '000
Revenue	**467,332**	329,587
Gross profit	**107,800**	73,246
Operating profit	**67,301**	32,963
Net profit	**71,550**	33,815
EBITDA	**74,830**	38,045

Group revenue increased by 41.8% to US$ 467.3 million (2006: US$ 329.6 million) reflecting strong growth over the prior year. This was largely driven by significant increases in both of Lamprell's key business activities of rig refurbishment, based in Sharjah, and offshore new build activity at the Jebel Ali facility. The key drivers for the increase in revenue generated from rig refurbishment were a number of high value projects including the Global Santa Fe four rig fleet and the refurbishment of the Nabors 660 rig. This revenue also reflected revenue from the first Scorpion Offshore Super 116E jackup rig which commenced construction in the second half of the year.

The increase in revenue generated from offshore construction projects largely reflects the completion of a number of projects with extensions in scope in the first half of the year and progress on a number of FPSO projects in the latter half of the year. In addition, the second half reflects the recognition of revenues on the new build liftboat projects for Seajacks International Limited. Revenue from Oilfield Engineering services, related to the refurbishment of land rigs and land camps, reflected a strong performance for the year. The Group revenue includes the results of International Inspection Services Limited, with revenue growth resulting from a significant increase in the demand for the inspection and non-destructive testing services the subsidiary provides.

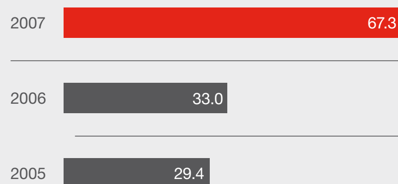
The cost of sales for the year was US$ 359.5 million (2006: US$ 256.3 million) with the increase driven predominantly by the increase in the revenue during the year. As a percentage of revenue, cost of sales has decreased from 77.8% in 2006 to 76.9% in 2007, reflecting the improved sales pricing of projects together with increased operational efficiencies. Material costs have increased as a percentage of total contract costs as the level of procurement undertaken on projects increased. Also the level of staff cost has increased as a percentage of total contract costs as we seek to increase our permanent headcount to meet increased activity. Consequently the level of sub-contracted labour costs incurred in the year has decreased.

Gross profit increased by 47.2% to US$ 107.8 million (2006: US$ 73.2 million) resulting in a gross margin of 23.1% (2006: 22.2%). This improvement is attributable to improved average margins across most areas of activity but particularly in new build activities in the Jebel Ali facility where a number of major projects were completed during the year. These projects included the Tapti process topsides for British Gas in India, the Kashagan flash gas compression barges

Operating profit

+104%

Percentage increase 2006>2007



built for Single Buoy Moorings and the Vitoria FPSO process modules built for Saipem, and in all projects positive variations were seen. Rig refurbishment activities carried out in the Sharjah and Hamriyah facilities continue 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 2007 was US$ 67.3 million (2006: US$ 33.0 million) reflecting an increase of 104.2%. This includes exceptional charges in the current year for share based payments of US$ 14.7 million (2006: US$ 15.6 million) related to shares gifted in connection with the admission of Lamprell plc to AIM. Exceptional charges in 2006 also included US$ 7.5 million incurred towards various legal and professional charges in connection with the admission of the Company to AIM which were charged to general and administrative expenses. The operating profit before these exceptional charges amounts to US$ 82.0 million (2006: US$ 56.1 million) representing an increase of 46.1% over the previous year and reflects the strong growth in revenue and increased gross margin achieved in 2007.

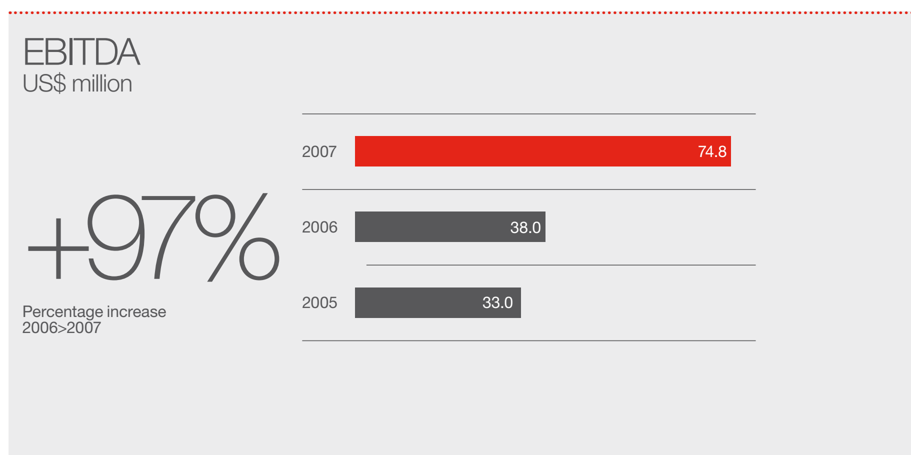
The operating profit margin increased from 10.0% in 2006 to 14.4% in 2007 reflecting strong revenue growth, increased gross margin and lower exceptional charges. The operating margin prior to exceptional charges increased to 17.5% (2006: 17.0%).

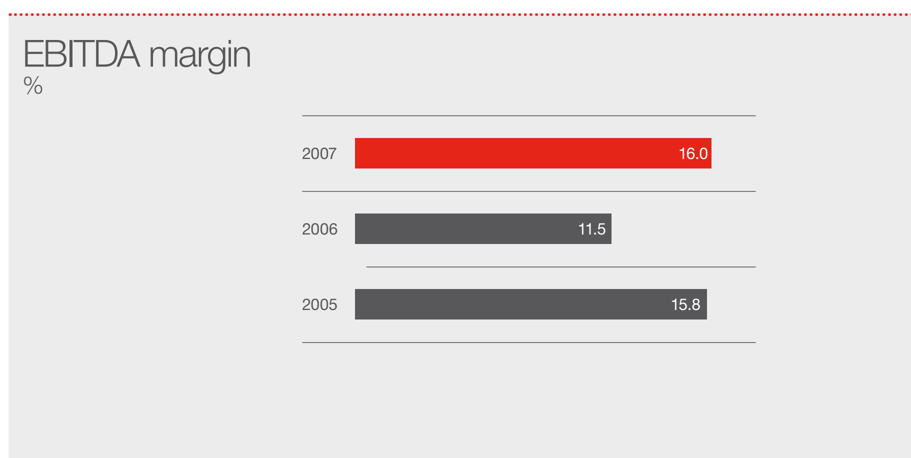
The net profit attributable to the shareholders of Lamprell plc increased by 111.6% to US$ 71.5 million (2006: US$ 33.8 million). The net margin increased to 15.3% (2006: 10.3%) due primarily to the 4.4% increase in the Group's operating margin and an increase in net interest income to US$ 4.2 million (2006: US$ 0.9 million) largely reflecting higher average cash balances held by the Group during the year. The net profit before exceptional charges amounts to US$ 86.2 million (2006: US$ 56.9 million) reflecting an increase of 51.4% over the previous year. The net margin before exceptional charges increased to 18.4% (2006: 17.3%).

EBITDA increased to US$ 74.8 million (2006: US$ 38.0 million) reflecting an increase of 96.7% over the prior year. EBITDA margin for the year increased to 16.0% (2006: 11.5%) and the increase has largely arisen due to the higher operating margin as a result of lower exceptional charges booked in the current year and also operational gearing as driven by the significant increase in revenue in the year. Prior to charging these exceptional costs, EBITDA increased to US$ 89.5 million in 2007 with a margin of 19.1% (2006: 18.6%).

Interest income

Interest income of US$ 4.2 million (2006: US$ 0.9 million) relates 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 a marginal increase in the average deposit rates.





Taxation

The Company, which is incorporated in the Isle of Man, has no income tax liability for the year ended 31 December 2007 as it is taxable at 0% in line with local Isle of Man tax legislation. Prior to 6 April 2007 the Company was registered as a tax exempt entity, however, from that date the tax exempt company status ceased to exist in Isle of Man legislation. 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.

Earnings per share

Fully diluted earnings per share for 2007 increased to 35.72 cents (2006: 16.91 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$ 176.8 million (2006: US$ 16.6 million) largely reflecting a significant increase in advance payments received from customers, primarily from the new build liftboat and jackup projects. The amounts due to customers on contracts was US$ 120.1 million (2006: US$ 11.9 million) which includes cash advances due to customers of US$ 111.5 million (2006: US$ 3.4 million). Other working capital movements reflect short-term timing differences in collections from debtors and a decrease in amounts due from customers on contracts of US$ 24.9 million (2006: US$ 36.9 million) reflecting a lower level of accrued income at the year end. Contract work-in-progress amounting to US$ 54.0 million (2006: US$ nil) largely reflects advances made to subcontractors on key projects and results in reducing the cash flow from operating activities.

Investing activities for the year absorbed US$ 21.4 million (2006: US$ 23.0 million) as a result of a significant investment in property, plant and equipment amounting to US$ 15.0 million (2006: US$ 24.0 million) largely comprising the purchase of operating equipment and investment in new buildings. The outstanding purchase consideration due to the previous Holding Company for the purchase of Inspec, amounting to US$ 3.0 million, was also settled in the year. This investment activity was offset by significant interest income of US$ 4.2 million received from surplus funds.

Net cash used in financing activities was US$ 22.6 million (2006: US$ 7.8 million). This represents dividend payments of US$ 22.5 million (2006: US$ 26.3 million) including the settlement of amounts due to the previous Holding Company comprising pre IPO dividends of US$ 5.0 million.

Capital expenditure

Capital expenditure on property, plant and equipment during the year amounted to US$ 15.0 million (2006: US$ 24.0 million). The main area of expenditure was the investment in operating equipment amounting to US$ 6.4 million to support the growth in activities

experienced during the year and to replace hired equipment where this was deemed cost effective. Expenditure on cranes reflects an investment of US$ 2.4 million. Further expenditure on buildings and related infrastructure at Group facilities amounted to US$ 3.3 million with additional committed expenditure amounting to US$ 14.0 million reflecting the development of the infrastructure of the Company at all facilities including initial expenditure at the new Hamriyah facility.

Shareholders' equity

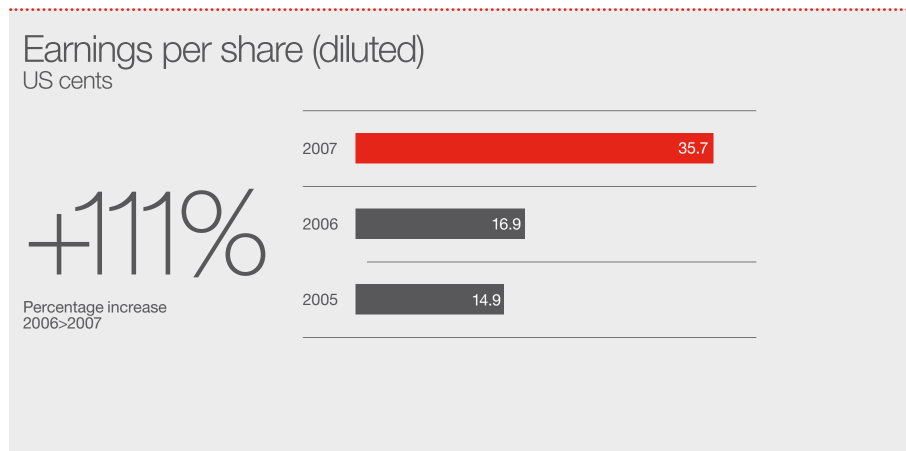
Shareholders' equity increased from US$ 89.9 million at 31 December 2006 to US$ 158.8 million at 31 December 2007. The movement mainly reflects the retained profits for the year of US$ 71.5 million net of dividends declared of US$ 17.6 million. The movement also reflects a credit for the accounting of share based payments of US$ 14.9 million made to certain Directors and employees of the Group and charged to General and administrative expenses.

Shareholders' equity includes a Merger reserve amounting to US$ 22.4 million that was created in the year ended 31 December 2006 as a result of Lamprell plc, on 25 September 2006, entering 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 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. In addition, during 2006 LEL acquired 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.

Dividends

For the year ended 31 December 2007, the Board of Directors of the Group having duly considered the profit earned, cash generated during the year and taking note of the capital commitments for the year 2008, recommend a final dividend of 12.25 cents per share. The basis of the recommendation is in line with the dividend policy set out in the admission document issued at the time of the Company listing on AIM.

Scott Doak
Chief Financial Officer



Corporate social responsibility

A longstanding commitment to the local community

At Lamprell, we recognise the value of fulfilling our responsibilities as a corporate citizen, believing that by doing so we will bring benefits to all our stakeholders. Having been based in Dubai since 1977, the Company is rooted in a community within which it has worked for over thirty years and it has both benefited from and been a contributor to that community's development during that period. As a result of both this history and the international nature of our business, we believe we are fortunate to have a local business with a genuinely global perspective, and a rich variety of cultures and backgrounds from which to draw expertise and experience.

Formalising our principles

Our commitment to act as a responsible corporate player has long been reflected throughout the entire organisation, but the Group has recently formalised this approach by creating and implementing a set of policies that state the principles by which we seek to manage our operational activities, work with our staff and host communities, and minimise our impact on the environment.

Our business, the provision of construction services to the oil and gas industry, requires the highest standards of engineering skill and Health, Safety and Environment awareness. Our fundamental principle is to carry out these activities in a way that delivers the best possible product to our customers whilst minimising risks and maximising rewards to our wider stakeholders.

Accordingly, when we make all our investment and operational decisions, we take account of the social and environmental impacts that they may have, and minimising these is a central part of our decision-making process.

As a publicly listed company our aim is to ensure that our reporting meets all the requisite levels of scrutiny for a business of our size and areas of activity. Maintaining our reputation by aligning our commercial goals with our ethical standards is an essential part of achieving this aim.

Social initiatives

In 2007, we continued to work closely with local communities, business partners and regulatory authorities to make a positive difference within the localities where we operate.

In particular we at Lamprell are aware of the cultural mix of our employees with some 80% originating from India. In January 2007 Lamprell established a training and development programme called "LEARN2WORK", developed jointly with the Don Bosco Maritime Academy in Mumbai, India. This had been initially set up as a training school for potential welders and fabricators who would ultimately join the Company after qualification. Lamprell has now significantly extended this initiative to the point where this is now the corner stone of our Corporate Social Responsibility policy.

Part of the expansion is the new "WORK2LIVE" programme to provide welfare, education and support to disadvantaged young people in the North West of India. The concept of the programme is to provide sufficient support to the disadvantaged such that they will ultimately acquire a working skill which will enable them to become self sufficient. This broad spectrum education and training programme will ultimately produce better educated and skilled members of society who can rise above the poverty line and become productive members of society. We believe that both the wider community and Lamprell will benefit. We have the advantage of not only providing the financial resources to provide this education and training but ultimately to provide direct employment within our Company.

Don Bosco Snehalaya is a project focused on the street children and youth, living in the city of Vadodara. The basic objective of Snehalaya is to provide shelter to the young living on the railway platforms and in the streets, and other vulnerable children who are in need of care and protection. Snehalaya provides food, clothes, medicines, recreational facilities, counselling, job placement, contact with their families, and training in trades according to their capacities and individual circumstances. They are given opportunities to interact with the public, to express their potential and their talents. This helps them to develop their self confidence and the awareness that they too can contribute something to society.

Ultimately, Snehalaya aims at enabling these street children to return to a decent life within mainstream society.

People

Attracting, developing and retaining talented staff is a major challenge for the oil and gas industry currently and at Lamprell we are fortunate to have high quality people across the whole range of our services. It is therefore vital for our continued success that we encourage our staff's personal development and career progression, and treat our people with respect, maturity and openness. We also invest significantly in building their skill sets. We are confident that this approach is the one most likely to enable us to achieve our business objectives by providing quality, continuity and growth. Our policy is to ensure equal opportunity in career development, promotion, training and reward for all of our employees. We aim to ensure that all our employees understand our business goals and our business principles through ongoing communications programmes.

With a diverse range of nationalities working within the Group, we also respect and recognise the value of different cultures.

Health, safety, environment and quality summary

Given the nature of our business, ensuring a high level of performance in health, safety, environment and quality is absolutely essential, and Lamprell has a strong track record in these areas. We are very conscious though that there is no room for complacency in HSEQ and we seek to improve our performance year-on-year.

Health and safety

Internal measures for health and safety performance are very important to ensure focus on this area of our business. We aim to instill a culture of "safety first" within the organisation, with all staff encouraged to report any activities they perceive as not conforming to best practice so that any areas of oversight can be rectified and brought up to the highest possible standard as quickly as possible. As a result of this approach, we have developed a strong track record in the area of safety. A key indicator of this is our LTI reporting. 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.

The facilities individually achieved LTI statistics as follows:

Sharjah LTI	0
LTI Frequency Rate	0.00
Jebel Ali LTI	2
LTI Frequency Rate	0.41
Hamriyah LTI	6
LTI Frequency Rate	2.83

However, whilst our own measurement of our safety performance is essential, we also recognise the importance of external analysis of our methods and have achieved relevant accreditation by third parties of our capabilities.

In 2007 Lamprell was accredited with the management system certificate ISO 14001: 2004 and the Occupational, Health and Safety Assessment Series, OHSAS 18001: 1999.

Environment

Across all our activities we seek to minimise the mark we leave on the sites at which we work. A good example is at Hamriyah, where as we expand our existing facility, we will seek ways to minimise our impact on the local environment and increase our energy efficiency and recycling capability.

Throughout our business by delivering the best possible product to our customers utilising the most up to date technologies, we also have a direct impact on the environmental performance of the rigs we refurbish by improving their systems and ensuring they conform to all relevant international legislation.

Our policy is to strive to achieve continual improvement in environmental performance. We are committed to preventing pollution and reducing the overall impact of our operations on the environment. In addition, we maintain an internal management structure for the management of environmental issues which includes clearly defined responsibilities for environmental management capable of delivering this policy commitment.

At all times Lamprell aims to comply with, and where possible exceed, applicable legal and other requirements relating to the organisation. We are also committed to monitoring our environmental performance and setting objectives and targets for improvement and at all times provide appropriate training and awareness programmes for our staff.

Waste Management Policy

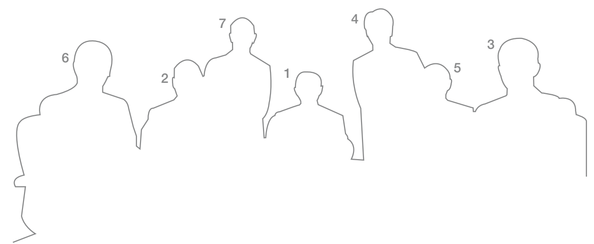
All businesses affect the environment through the use of resources and discharge of waste products. Our Waste Management Policy is therefore consistent with our broader Environmental Policy, which includes a stated commitment to minimise the environmental impacts of our operations and prevent pollution. Our aim is to limit our discharge of waste material wherever we can and the policy lays out how we seek to achieve this goal.

Quality

Lamprell aims to achieve maximum customer satisfaction and quality of product. In the pursuit of this objective the Company will comply with all national and international standards and requirements with respect to quality assurance. Lamprell will also strive to optimise resources and reduce wastage in the development of our facilities and training of personnel. Whilst aiming to meet these objectives the Company ensures cost effective jobs and services, and delivery on time.

Lamprell meets these objectives by understanding customer requirements, working together with our customers to meet those requirements, understanding our processes well and monitoring and measuring our activities. Ultimately the Company strives to continually improve the Quality Management Systems and operations.

Board of Directors



1 Peter Gibbs Birch (70)
Chairman

Peter Birch was appointed to the Board on 7 July 2006 and was appointed as the Chairman of the Company on 5 February 2008. Peter Birch was Chief Executive at Abbey National plc from 1984 to 1998. He has held various positions with Gillette Industries Ltd. including Managing Director of Gillette UK Ltd. and Group General Manager of Gillette's operations in Africa, the Middle East and Eastern Europe, and he was the Chairman of Land Securities plc from 1998 to 2007. He serves on the boards of several other companies including Trigold plc, Travelex plc, Dah Sing Financial Services (HK) and Banco Finantia, S.A.

2 Peter Whitbread (63)
Chief Executive Officer

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 of the Group and was the Chairman of the Group until 5 February 2008 when he resigned from that position. During his career he has held a number of other senior management positions and directorships with marine construction companies in the Middle East region.

3 David Moran (46)
Chief Operating Officer

David Moran joined Lamprell in 1992. David is currently responsible for the operational activities of Lamprell but will in May 2008 undertake a new Board position as Director of Corporate Communications. 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.

4 Scott Doak (46)
Chief Financial Officer

Scott Doak joined Lamprell in March 2007. Scott is responsible for the finance and administration activities of Lamprell. Prior to joining Lamprell, he worked for Reuters Limited, based in Dubai, in the position of Head of Finance for Middle East & Africa, where he was a member of the Senior Management Group involved in strategic planning and market development. Previously he has held senior financial roles with Telerate Limited, Dubai; Price Waterhouse, Dubai and Whinney Murray & Company (Saudi affiliate to Ernst & Young). Scott is a member of the Institute of Chartered Accountants of Scotland and has a Bachelor of Accountancy from the University of Glasgow.

5 Nigel Robert McCue (56)
Non-Executive Director

Nigel McCue was appointed to the Board on 7 July 2006 as a Non-Executive Director and will in May 2008 take up the role of Chief Operating Officer. 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 senior 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.

6 Richard Germain Daniel Raynaut (52)
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.

7 Jonathan Silver (55)
Non-Executive Director

Jonathan Silver was appointed to the Board on 24 August 2007. Jonathan trained and qualified as a solicitor with a leading City of London law firm, working first in London and later in the United Arab Emirates. In 1981, he started his own practice in the United Arab Emirates and merged that practice with Clyde & Co in 1989. Since then he has headed up Clyde & Co's operations in the region. His working experience in the Middle East in the areas of international banking and finance, mergers & acquisitions, private equity, project and construction work has involved him in most sectors of commercial activity including international trade, energy, construction, shipping, commodities and insurance. Jonathan, through Clyde & Co, has been associated with the Lamprell Group for more than 17 years, providing legal advice on numerous matters including the IPO.

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 2007. 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.

The principal activity of the Company is to act as a Holding Company for the Group.

Results and dividends

The Group net profit for the year amounted to US$ 71.5 million (2006: US$ 33.8 million).

The Directors recommend a final dividend of 12.25 cents per ordinary share with a Sterling equivalent of 6.17 pence per ordinary share which, if approved, will be paid on 18 June 2008 to eligible shareholders on the register at 16 May 2008. The Company has paid an interim dividend of 5 cents per share in November 2007, which makes the total dividend per ordinary share for the year 17.25 cents.

There was a transfer of US$ 68.9 million to retained earnings for the year ended 31 December 2007 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 37.

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's statement on pages 7, the Chief Executive Officer's statement on pages 8 to 11, the Operating review on pages 14 to 19, and the Financial review on pages 22 to 25.

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

Board of Directors

The Board currently has seven Directors, four of whom are Non-Executive Directors. The Board considers all the Non-Executive Directors, which includes the Chairman, other than Jonathan Silver, to be independent in character and judgement and their appointment to be in the best interests of the shareholders.

The position of Peter Whitbread acting in the combined role of Chief Executive Officer and Chairman ceased on 5 February 2008, when Peter Birch was appointed as the Chairman of the Company. The Company has put in place further restructuring of the Board effective 15 May 2008, as David Moran, due to personal family reasons, has decided not to accept the position of the Chief Executive Officer. As per the Admission Document issued at the time of the Company's admittance to AIM, David Moran was expected to assume the role of the Chief Executive Officer, with Peter Whitbread continuing as the Chairman of the Company. Peter Whitbread will continue as the Chief Executive Officer, having relinquished the position of the Chairman. Nigel McCue has been appointed to the position of the Chief Operating Officer, with David Moran appointed as the Director of Corporate Communications, with both changes being effective on 15 May 2008.

Lamprell intends to strengthen the Board through the future appointment of further independent Non-Executive Directors and will appoint suitably qualified Chairmen and members to the Board Committees where appropriate.

The current membership of the Board is stated on page 29. The names of the Chairman and members of each of the Audit, Remuneration and Nomination Committees are detailed below under the respective Committee summaries.

The Board met nine times during the year and of these meetings three were conducted by telephone via a conference call. These meetings were required to deal with specific business matters which arose as part of the normal business of the Group and which needed to be addressed between scheduled Board meetings. The Chairman and Non-Executive Directors have met without the

Directors' beneficial interests in ordinary shares at 31 December 2007

	Number of shares as at 31 December 2007	Number of deferred shares as at 31 December 2007	Number of shares as at 31 December 2006	Number of deferred shares as at 30 December 2006
Executive Directors				
Peter Whitbread	2,800,000	–	2,800,000	–
David Moran	1,625,441	828,689[3]	1,625,441	828,689[3]
Scott Doak[1]	8,000	–	–	–
Non-Executive Directors				
Peter Birch	100,000	–	100,000	–
Nigel McCue	38,461	–	38,461	–
Richard Raynaut	–	–	–	–
Jonathan Silver[2]	–	–	–	–

1 Appointed to the Board of Lamprell plc on 11 June 2007
2 Appointed to the Board of Lamprell plc on 24 August 2007
3 David Moran was granted a deferred share award just prior to admission of Lamprell plc to AIM, see note 7 of the financial statements for details

executives present when necessary. The agenda and appropriate supporting Board papers are distributed by the Secretary to the Board on a timely basis.

The role of the Board is to provide leadership of the Group, set values and standards, and to ensure that the Company's obligations to its shareholders and other stakeholders are met. The Board has a formal schedule of matters reserved to itself for decision, including but not limited to, matters of a strategic nature, approval of the annual budget, approval of major acquisitions, investments and disposals, major changes to the Group's capital structure, the preparation of financial statements, the recommendation or declaration of dividends, the entry into contracts which are deemed to be material strategically or by reason of size, succession planning and appointments to the Board, executive remuneration, ensuring the maintenance of a sound system of internal controls, reviewing its own and its Committees' performance, and reviewing the Group's overall corporate governance arrangements.

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 is assisted by the Audit, the Remuneration and the Nomination Committees. A summary of the activities of each Committee is set out below. The Committees are constituted with appropriate written terms of reference, which are reviewed on an annual basis and are available on the Company's website. The minutes of meetings and/or reports from the Chairmen of the Committees are made available to the Board for its next scheduled meeting following the Committee meeting in question, or as soon as practicable thereafter.

Audit Committee

The members of the Audit Committee are Nigel McCue who acts as Chairman, Peter Birch and Richard Raynaut. Others may be co-opted onto the Committee by the Committee members. The Board considers all the members of the Audit Committee who are Non-Executive Directors, to be 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 four times during the year.

Nomination Committee

The members of the Nomination Committee are Richard Raynaut, who acts as Chairman, Peter Birch and Nigel McCue. The Nomination Committee's terms of reference are to periodically review 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 the future 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 met once during the year.

Remuneration Committee

The members of the Remuneration Committee are Peter Birch, who acts as 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, the Chief Operating Officer and the Chief Financial Officer, any such other Executive Directors, the Company Secretary and other such members of the executive management as it is designated to consider. The remuneration of the Non-Executive Directors is a matter for 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 2007 can be found in note 9 to the financial statements.

The Remuneration Committee met three times during the year.

Retirement and re-election

In accordance with the Company's Articles of Association, one third or the number nearest to one third of the Board shall retire from office at every Annual General Meeting and any Director in office for more than three years at the start of Annual General Meeting shall also retire. Accordingly, Peter Whitbread and David Moran being the longest serving Directors will retire and offer themselves for re-election at the forthcoming Annual General Meeting. Jonathan Silver who was appointed to the Board on 24 August 2007 will also retire and offer himself for re-election at the forth coming Annual General Meeting. The Board supports the re-election of all three Directors.

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 2007 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 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. Your attention is drawn 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 2007 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

Ravindra Dabir
Company Secretary
25 March 2008

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 2007 and the consolidated income statement, consolidated and parent company statements of changes in equity and consolidated and parent company cash flow statements 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.

Auditor's 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 auditor's 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;
- except in respect of the non accrual of proposed dividends as disclosed at Note 31, the parent company financial statements give a true and fair view of the financial position of the parent company as of 31 December 2007, and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Acts 1931-2004;
- except in respect of non accrual of the proposed dividends as disclosed at Note 31, the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931-2004.

PricewaterhouseCoopers
Douglas, Isle of Man
25 March 2008

Consolidated income statement

	Note	Year ended 31 December 2007 USD'000	2006 USD'000
Revenue		**467,332**	329,587
Cost of sales	5	**(359,532)**	(256,341)
Gross profit		**107,800**	73,246
Selling and distribution expenses	6	**(1,395)**	(988)
General and administrative expenses:			
– share based payments	7	**(14,942)**	(15,584)
– others	8	**(25,517)**	(24,478)
		(40,459)	(40,062)
Other gains/(losses) – net	11	**1,355**	767
Operating profit		**67,301**	32,963
Interest income		**4,249**	852
Profit for the year attributable to equity holders of the Company		**71,550**	33,815
Earnings per share attributable to equity holders of the Company	12		
Basic		**35.78c**	16.91c
Diluted		**35.72c**	16.91c

The notes on pages 41 to 65 form an integral part of these financial statements.

Consolidated balance sheet

	Note	As at 31 December	
		2007 USD'000	2006 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**47,766**	40,595
Intangible asset	16	**1,490**	–
		49,256	40,595
Current assets			
Inventories	18	**6,705**	4,531
Trade and other receivables	19	**149,950**	113,508
Derivative financial instruments	14	**964**	–
Cash and bank balances	21	**159,088**	19,777
		316,707	137,816
Total assets		**365,963**	178,411
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	**18,654**	18,654
Legal reserve	23	**24**	22
Merger reserve	25	**(22,422)**	(22,422)
Retained earnings		**162,506**	93,616
Total equity		**158,762**	89,870
Non-current liabilities			
Provision for employees' end of service benefits	26	**9,740**	8,039
Current liabilities			
Trade and other payables	27	**197,461**	72,404
Due to a related party	20	**–**	8,098
		197,461	80,502
Total liabilities		**207,201**	88,541
Total equity and liabilities		**365,963**	178,411

These financial statements were approved by the Board of Directors on 25 March 2008 and signed on its behalf by:

Peter Whitbread
Chief Executive Officer and Director

David Moran
Chief Operating Officer and Director

Scott Doak
Chief Financial Officer and Director

The notes on pages 41 to 65 form an integral part of these financial statements.

Company balance sheet

	Note	As at 31 December 2007 USD'000	2006 USD'000
ASSETS			
Non-current assets			
Investment in subsidiaries	17	**743,314**	740,052
Current assets			
Other receivable		**59**	53
Due from a related party	20	**15,798**	–
Cash and bank balances		**47**	–
		15,904	53
Total assets		**759,218**	740,105
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	**18,654**	18,654
Other reserve	24	**708,852**	708,852
Retained earnings		**31,161**	11,997
Total equity		**758,667**	739,503
Non-current liabilities			
Provision for employees' end of service benefits	26	**551**	536
Current liabilities			
Due to a related party	20	**–**	66
Total liabilities		**551**	602
Total equity and liabilities		**759,218**	740,105

These financial statements were approved by the Board of Directors on 25 March 2008 and signed on its behalf by:

Peter Whitbread
Chief Executive Officer and Director

David Moran
Chief Operating Officer and Director

Scott Doak
Chief Financial Officer and Director

The notes on pages 41 to 65 form an integral part of these financial statements.

Consolidated statement of changes in equity

	Notes	Share capital USD'000	Legal reserve USD'000	Merger reserve USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2006	22,23,25	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	23	–	4	–	(4)	–
Dividends	10	–	–	–	(31,251)	(31,251)
Acquisition of Inspec	25	–	–	(4,000)	–	(4,000)
At 31 December 2006	22,23,25	18,654	22	(22,422)	93,616	89,870
Profit for the year		–	–	–	71,550	71,550
Share based payments – value of services provided	7	–	–	–	14,942	14,942
Transfer to Legal reserve	23	–	2	–	(2)	–
Dividends	10	–	–	–	(17,600)	(17,600)
At 31 December 2007	22,23,25	18,654	24	(22,422)	162,506	158,762

The notes on pages 41 to 65 form an integral part of these financial statements.

Company statement of changes in equity

	Notes	Share capital USD'000	Other reserve USD'000	Retained earnings USD'000	Total USD'000
At 4 July 2006					
Issue of share capital	22,24	18,654	708,852	–	727,506
Loss for the period	28	–	–	(3,587)	(3,587)
Share based payments – value of services provided	7	–	–	3,038	3,038
Share based payments – investment in a subsidiary	17	–	–	12,546	12,546
At 31 December 2006	22,24	18,654	708,852	11,997	739,503
Profit for the year	28	–	–	21,822	21,822
Share based payments – value of services provided	7	–	–	11,680	11,680
Share based payments – investment in subsidiaries	17	–	–	3,262	3,262
Dividends	10	–	–	(17,600)	(17,600)
At 31 December 2007	22,24	18,654	708,852	31,161	758,667

The notes on pages 41 to 65 form an integral part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2007 USD'000	2006 USD'000
Operating activities			
Profit for the year		**71,550**	33,815
Adjustments for:			
Share based payments – value of services provided	7	**14,942**	15,584
Fair value gain on derivative financial instruments	14	**(964)**	–
Depreciation	15	**7,485**	5,082
Amortisation of intangible asset	16	**44**	–
(Profit)/loss on disposal of property, plant and equipment	11	**(4)**	6
Profit on disposal of asset held for sale	11	**–**	(773)
(Release)/provision for slow moving and obsolete inventories	18	**(657)**	396
Provision for impairment of trade receivables, net	13	**17**	65
Provision for employees' end of service benefits	26	**2,215**	3,221
Interest income		**(4,249)**	(852)
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**90,379**	56,544
Payment of employees' end of service benefits	26	**(514)**	(1,050)
Changes in working capital:			
Inventories before movement in provision		**(1,517)**	(1,495)
Trade and other receivables before movement in provision for impairment of trade receivables		**(36,459)**	(53,321)
Trade and other payables excluding unpaid dividend		**124,914**	15,958
Net cash generated from operating activities		**176,803**	16,636
Investing activities			
Payments for property, plant and equipment	15	**(14,978)**	(24,037)
Acquisition of a subsidiary net of cash acquired	16	**(1,586)**	–
Proceeds from sale of property, plant and equipment		**378**	27
Proceeds from disposal of asset held for sale		**–**	2,705
Interest income		**4,249**	852
Payments for acquisition of Inspec	20,25	**(3,000)**	(1,000)
Movement in margin deposits	21	**(6,457)**	(1,523)
Net cash used in investing activities		**(21,394)**	(22,976)
Financing activities			
Due (to)/from a related party net of unpaid dividend and purchase consideration payable for acquisition of Inspec		**(98)**	18,501
Dividends paid	10	**(22,457)**	(26,251)
Net cash used in financing activities		**(22,555)**	(7,750)
Net increase/(decrease) in cash and cash equivalents		**132,854**	(14,090)
Cash and cash equivalents, beginning of the year		**16,410**	30,500
Cash and cash equivalents, end of the year	21	**149,264**	16,410

The notes on pages 41 to 65 form an integral part of these financial statements.

Company cash flow statement

	Notes	**Year ended 31 December 2007 USD'000**	Period from 4 July 2006 to 31 December 2006 USD'000
Operating activities			
Profit/(loss) for the year/period		**21,822**	(3,587)
Adjustments for:			
Share based payments – value of services provided	7	**11,680**	3,038
Provision for employees' end of service benefits	26	**15**	352
Dividends received from LEL		**(22,100)**	–
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**11,417**	(197)
Changes in working capital:			
Other receivable		**(6)**	(53)
Due from/(to) a related party – net	20,26	**(15,864)**	250
Net cash used in operating activities		**(4,453)**	–
Investing activities			
Dividends received from LEL		**22,100**	–
Net cash generated from investing activities		**22,100**	–
Financing activities			
Dividends paid	10	**(17,600)**	–
Net cash used in financing activities		**(17,600)**	–
Net increase in cash and cash equivalents		**47**	–
Cash and cash equivalents, beginning of the year/period		**–**	–
Cash and cash equivalents, end of the year/period		**47**	–

The notes on pages 41 to 65 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2007

1 Legal status and activities

Lamprell plc 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 117101C. The Company acquired 100% of the legal and beneficial ownership in Lamprell Energy Limited from Lamprell Holdings Limited, under a share for share exchange agreement dated 25 September 2006 and this transaction was accounted for in the consolidated financial statements using the uniting of interests method (Notes 17 and 25). The Company was admitted to the Alternative Investment Market 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 United Arab Emirates. The address of the principal place of the business is PO Box 5427, Dubai, UAE.

The principal activities of the Company and its subsidiaries are: the upgrade and refurbishment of offshore jackup rigs, fabrication, assembly and new build construction for the offshore oil and gas sector, including jackup rigs, Floating, Production, Storage and Offloading 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
Lamprell Energy Limited	100	100	Isle of Man
Lamprell Dubai LLC	49*	100	UAE
Lamprell Sharjah WLL	49*	100	UAE
Maritime Offshore Limited	100	100	Isle of Man
Maritime Offshore Construction Limited	100	100	Isle of Man
International Inspection Services Limited	100	100	Isle of Man
Cleopatra Barges Limited	100	100	British Virgin Islands
Lamprell plc employee benefit trust	100	†	Unincorporated
Jebel Ali Investments Limited** (acquired in June 2007)	100	100	British Virgin Islands
Ahbab FZCO** (acquired in June 2007)	90+	100	UAE

* 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. 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. The UAE National shareholders of these entities receive sponsorship fees from the Group (Note 20).

** During the year, LEL acquired 100% of the legal and beneficial ownership of JIL (which has 100% of the beneficial ownership of Ahbab) from LHL for a total purchase consideration of USD 1,594,000 (Note 16).

\+ A FZCO is required to have a minimum of two shareholders and consequently the balance of 10% is held by an employee of LEL in trust for the beneficial interest of the Group.

† The beneficiaries of the EBT are the employees of the Group.

These financial statements were approved for issue by the Board of Directors on 25 March 2008.

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 International Financial Reporting Standards as adopted by the European Union, International Financial Reporting Interpretations Committee interpretations and Isle of Man Companies Acts 1931 to 2004. In accordance with the provisions of the Isle of Man Companies Act 1982, the Company has not presented its own income statement. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting polices 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.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

a) Standards, amendments and interpretations effective in 2007

IFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to International Accounting Standard ("IAS") 1, 'Presentation of Financial Statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

b) Interpretations to published standards early adopted

The Group and the Company have not early adopted any published standards during 2007.

c) Standards, amendments and interpretations effective in 2007 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 2007 but are not relevant to the Group's operations in 2007:

Revised guidance on implementation of IFRS 4, 'Insurance Contracts';

IFRIC 7, 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyper Inflationary Economies';

IFRIC 8, 'Scope of IFRS 2';

IFRIC 9, 'Reassessment of Embedded Derivatives'; and

IFRIC 10, 'Interim Financial Reporting and Impairment'.

d) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

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 January 2008 or later periods but which the Group has not early adopted:

IAS 1 (Amendment), 'Presentation of Financial Statements', (effective for annual periods beginning on or after 1 January 2009). The main aim of the amended version of IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. Consequently changes in equity (net assets) of an entity arising from transactions with owners in their capacity as owners will be disclosed separately from other changes in equity. The Group will apply this revised standard from 1 January 2009.

IAS 23 (Amendment), 'Borrowing Costs' (effective from 1 January 2009). This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

IAS 27 (Revised), 'Consolidated and Separate Financial Statements', (effective for annual periods beginning on or after 1 July 2009). IAS 27 (Revised) requires the effect of all transactions with non-controlling interest to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply this revised standard from the effective date and is currently not expected to have an impact on the Group financial statements.

IFRS 2 'Vesting Conditions and Cancellation – Amendment to IFRS 2 Share-based Payment', (effective for annual periods beginning on or after 1 January 2009). The amendment addresses two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply this revised standard from the effective date and is currently not expected to have an impact on the Group financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

d) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 3 (Revised), 'Business Combinations', (effective for annual periods beginning on or after 1 July 2009). The standard continues to apply the acquisition method to business combinations, with some significant changes. These changes include a requirement that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured through the income statement. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to minority interest. All transactions costs will be expensed. The Group will apply this revised standard for acquisitions, if any, made on or after the effective date.

IFRS 8, Operating Segments (effective from annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US Statement of Financial Accounting Standard 131, 'Disclosures about Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply this standard from the effective date and is currently assessing the impact on the Group financial statements.

e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

Certain new interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

IFRIC 12, 'Service Concession Arrangements' (effective from 1 January 2008);

IFRIC 13, 'Customer Loyalty Programmes' (effective from 1 July 2008);

IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective from 1 January 2008); and

IAS 32 (Amendment), 'Financial Instruments: Presentation', (effective for annual periods beginning on or after 1 January 2009).

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 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 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 amounts incurred relating to future activity on a contract are excluded and are presented as contract work-in-progress.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Summary of significant accounting policies (continued)

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 for 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 subsidiaries

In the Company's separate financial statements, the investment in subsidiaries 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 investments 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.

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 Summary of significant accounting policies (continued)

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 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 Intangible assets

Intangible assets representing operating leasehold rights are carried at cost (being the fair value on the date of acquisition where intangibles are acquired in a business combination) less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of the leasehold right over its estimated useful life (17 years).

2.8 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.

2.9 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.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'general and administrative expenses - others'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses – others' in the income statement.

2.10 Trade payables

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

2.11 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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Summary of significant accounting policies (continued)

2.12 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 operates 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 subsidiary companies 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.

2.13 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.

2.14 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.

2.15 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 expected to be recovered principally through a sale transaction rather than through a continuing use.

2.16 Dividend distribution

Dividend distributions are 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.

2.17 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.

2.18 Taxation

The Company, which is incorporated in the Isle of Man, was not subject to income tax in the Isle of Man up to 5 April 2007 as it was registered as a tax exempt company. With effect from 6 April 2007 the tax exempt company status ceased to exist in Isle of Man legislation and the Company is 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.

2 Summary of significant accounting policies (continued)

2.19 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. Currently the Group does not have any held to maturity and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The Group has not classified any derivatives as hedges in a hedging relationship. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains/(losses) – net' in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 2.9) and cash and cash equivalents (Note 2.14) in the Group balance sheet and amounts due from a related party in the Company balance sheet.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.20 Derivative financial instruments

Derivatives embedded in other financial instruments or other host contracts (e.g. sales contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts. Such derivative financial instruments are stated at fair value with movements in fair value recorded in the income statement.

The fair value of the resulting (embedded) forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.21 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Any material impairment loss is recognised in the income statement and separately disclosed.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, cash flow and fair value interest rate risk), credit risk and liquidity risk. These risks are evaluated by the management on an ongoing basis to assess and manage critical exposures. The Group's liquidity and market risks are managed as part of the Group's treasury activities. Treasury operations are conducted within a framework of established policies and procedures.

(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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Market risk – 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. During the year ended 31 December 2007, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 447,000 (2006: USD 91,000).

(c) Credit risk

The Group's exposure to credit risk is detailed in Notes 14, 19 and 21. 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.

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks, derivative financial instruments and trade receivables. The Group has a formal procedure of monitoring and follow up of customers for outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

The Group had a significant concentration of credit risk at the balance sheet date with nine (2006: nine) of its largest customer balances accounting for 75% (2006: 82%) of trade receivables at 31 December 2007. 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.

The table below shows the rating and balance of the thirteen (2006: twelve) major counterparties at the balance sheet date.

	2007		2006	
Counterparty	**External rating+**	**USD'000**	External rating+	USD'000
Bank A	**AA**	**31,618**	AA	5,920
Bank B	**AA**	**16,813**	AA	10,457
Bank C	**AA-**	**4,009**	AA-	3,266
Bank D	**A**	**106,337**	–	–
		158,777		19,643

+ Based on Standard & Poor's long term rating.

	2007		2006	
	Internal rating++	**USD'000**	Internal rating++	USD'000
Customer 1	**Group B**	**11,269**	Group B	8,846
Customer 2	**Group B**	**8,982**	Group A	7,874
Customer 3	**Group B**	**5,311**	Group C	5,487
Customer 4	**Group A**	**4,813**	Group A	5,300
Customer 5	**Group A**	**3,176**	Group A	3,989
Customer 6	**Group B**	**2,806**	Group B	3,642
Customer 7	**Group A**	**2,617**	Group A	2,858
Customer 8	**Group A**	**2,589**	Group A	2,392
Customer 9	**Group A**	**2,589**	Group B	2,378
		44,152		42,766

++ Refer to Note 14 for the description of internal rating.

The nine major customers in 2006 are not necessarily the same customers in 2007.

Management does not expect any losses from non-performance by these counterparties.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) 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 nature of the underlying business and through progress billings, the Group maintains adequate bank balances to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The Group is currently financed from the Shareholders' equity and Retained earnings with no debt. All contractual commitments for financial liabilities are due within twelve months from the balance sheet date.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. Total capital for the Group and the Company is calculated as 'total equity' as shown in the Consolidated balance sheet and in the Company balance sheet respectively.

Presently, the Group has a dividend policy which takes into account the Group's capital requirements, cash flows and earnings.

During each of the years ended 31 December 2007 and 2006 the Group did not have any external borrowings.

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 would result in the revenue and profit increasing by USD 6.5 million (2006: USD 3.5 million) if the total costs to completion are decreased by 10% and the revenue and profit decreasing by USD 5.7 million (2006: 4.1 million) if the total costs to completion are increased by 10%.

5 Cost of sales

	2007 USD'000	2006 USD'000
Materials and related costs	**146,019**	84,647
Sub-contract	**82,860**	70,713
Staff costs (Note 9)	**67,095**	45,378
Sub-contract labour	**27,586**	27,175
Equipment hire	**8,392**	8,867
Repairs and maintenance	**4,968**	3,222
Depreciation	**4,978**	3,089
Yard rent	**2,511**	2,153
Others	**15,123**	11,097
	359,532	256,341

6 Selling and distribution expenses

	2007 USD'000	2006 USD'000
Advertisement and marketing	**436**	441
Entertainment	**187**	123
Travel	**324**	275
Other expenses	**448**	149
	1,395	988

7 General and administrative expenses – share based payments

	2007 USD'000	2006 USD'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 in 2006	**13,276**	3,414
– relating to deferred share award in 2006	**1,382**	288
– relating to Free Share Plan	**228**	–
– relating to Executive Share Option Plan	**56**	–
	14,942	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 (£ 1.95), amounted to USD 33.9 million. The vesting of these shares is conditional upon the continued employment of the Director/management personnel concerned and these shares also accrue dividends which are also transferred to employees on vesting. In the event of the vesting condition not being satisfied by the employees the respective shares and the accumulated dividend revert to LHL. As part of the arrangements, 3,266,414 shares with a fair value of USD 11.9 million vested immediately in 2006 and the balance (held under lock-in arrangements) vests over a period of two years, of which 2,212,721 shares vested during 2007. A charge of USD 13.3 million (2006: USD 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 USD 10.3 million (2006: USD 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 USD 3 million at no cost. The award, subject to satisfaction of a performance target and continued employment, 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 (£1.95), is 828,689. Accordingly, the Group and Company have each recognised a charge of USD 1.4 million (2006: USD 0.3 million) in the income statement with the corresponding credit to Retained earnings.

On 16 May 2007, the Company granted 99,365 shares to selected employees under the Free Share Plan that gives them entitlement to receive these shares at no cost. These free shares are conditional on the employee completing eighteen months' service (the vesting period). The award does not have any performance conditions and does not entitle participants to dividend equivalents during the vesting period. The fair value of the share awards made under this plan (£ 3.16 per share) is based on the share price at the date of the grant less the value of the dividends foregone during the vesting period. The expected withdrawal rate for the free shares awarded under this plan is 5%.

7 General and administrative expenses – share based payments (continued)

Accordingly a charge of USD 228,000 has been recognised in the consolidated income statement with a corresponding credit to the consolidated Retained earnings.

The Group has no legal or constructive obligation to settle the deferred/free share award in cash.

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 2006	(3,266,414)
Shares expected to vest in future periods at 31 December 2006	6,874,271
Shares gifted under Free Share Plan	99,365
Shares vested during 2007	(2,212,721)
Shares forfeited during 2007	(6,873)
Shares expected to vest in future periods at 31 December 2007	4,754,042

The above includes 1,613,269 shares (2006: 1,620,142 shares) gifted by LHL on 10 October 2006 and held by the EBT in trust for certain management personnel.

The shares are expected to vest as follows:

	Number of shares	
Year	2007	2006
2007	–	2,212,721
2008	**4,201,583**	4,109,091
2009	**276,230**	276,230
2010	**276,229**	276,229
	4,754,042	6,874,271

On 16 May 2007, the Company also granted share options to certain employees under the Executive Share Option Plan. This option plan does not entitle the employees to dividends. The exercise price of the granted options is £ 3.22. These options are conditional on the employee completing three years' service (the vesting period) and hence the options are exercisable starting three years from the grant date, and have a contracted option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the option in cash.

The movement in the number of share options outstanding and their related weighted average exercise price are as follows:

	2007	
	Average exercise price in £ per share	Options
At 1 January	–	–
Granted during the year	**3.22**	**105,369**
At 31 December	**3.22**	**105,369**

Share options outstanding at the end of the year have an expiry date of 16 May 2017, and none of the options outstanding were exercisable at 31 December 2007.

The weighted average fair value of options granted during the year determined using a binomial valuation model was £ 1.61 per option. The significant inputs into the model were a share price of £ 3.20 at the grant date, exercise price shown above, volatility of 40%, dividend yield of 0.81%, an expected option term of ten years, an annual risk-free interest rate of 4.95% and withdrawal rate of 5% per annum. As the company was only listed in October 2006, the share price volatility is based on FTSE AIM peers in the same sector, Oil Equipment and Services. A charge of USD 56,000 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 USD 10,585.

Notes to the financial statements for the year ended 31 December 2007 (continued)

7 General and administrative expenses – share based payments (continued)

In January 2008, 99,337 free shares amounting to USD 814,059 were granted to a Director and certain key management personnel. These free shares have a vesting period of twenty four months.

8 General and administrative expenses – others

	2007 USD'000	2006 USD'000
Staff costs (Note 9)	**15,450**	10,626
Utilities and communication	**1,548**	1,370
Depreciation	**2,507**	1,993
Other expenses	**6,012**	10,489
	25,517	24,478

Other expenses for the year 2006 include USD 7.5 million incurred mainly towards various legal and professional charges in connection with the admission of Lamprell plc to AIM.

9 Staff costs

	2007 USD'000	2006 USD'000
Wages and salaries	**53,283**	36,239
Employees' end of service benefits (Note 26)	**2,215**	3,221
Share based payments – value of services provided (Note 7)	**14,942**	15,584
Other benefits	**27,047**	16,544
	97,487	71,588
Staff costs are included in:		
Cost of sales (Note 5)	**67,095**	45,378
General and administrative expenses – share based payments (Note 7)	**14,942**	15,584
General and administrative expenses – others (Note 8)	**15,450**	10,626
	97,487	71,588
Number of employees at 31 December	**4,331**	3,331

9 Staff costs (continued)

Directors' remuneration comprises:

	Salary 2007 USD'000	Fees 2007 USD'000	Allowances and benefits 2007 USD'000	Bonus 2007 USD'000	Share based payments – value of services provided 2007 USD'000	Post employment benefits 2007 USD'000	Total 2007 USD'000	Total 2006 USD'000
Executive Directors								
Steven Lamprell*	–	–	–	–	–	–	**–**	–
Gillian Lamprell*	–	–	–	–	–	–	**–**	–
Peter Whitbread	300	–	108	720	6,508	24	**7,660**	7,097
David Moran**	300	–	212	720	5,160	(19)	**6,373**	7,415
Scott Doak+	155	–	98	673	12	10	**948**	–
Non-Executive Directors								
Richard Raynaut++	–	60	–	–	–	–	**60**	27
Nigel McCue++	–	60	–	–	–	–	**60**	27
Peter Birch++	–	153	–	–	–	–	**153**	70
Jonathan Silver+++	–	23	–	–	–	–	**23**	–
	755	296	418	2,113	11,680	15	**15,277**	14,636

The emoluments of the Chief Executive Officer (2006: Chief Operating Officer), which were also the emoluments of the highest paid Director, were USD 7.7 million (2006: USD 7.4 million) and these principally comprised salary, benefits and share based payments.

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

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

\+ Joined as Chief Financial Officer on 1 March 2007 and appointed as a Director on 11 June 2007. The remuneration represents amount from the date of joining as Chief Financial Officer.

++ Appointed as Directors on 7 July 2006.

+++ Appointed as a Director on 24 August 2007.

10 Dividends

During the year (on 2 April 2007 and 25 September 2007), the Board of Directors of the Company approved dividends of USD 17.6 million comprising USD 7.6 million (US cents 3.8 per share) relating to 2006 and an interim dividend of USD 10 million (US cents 5 per share) for 2007. At 31 December 2007, the unpaid dividend amounted to USD 143,000 (Note 27).

During 2006 (on 30 June 2006 and 20 September 2006), the Board of Directors of LEL approved a total dividend amounting to USD 30.8 million of which USD 5 million was unpaid at 31 December 2006 (Note 20). In addition, on 30 June 2006, the Board of Directors of Inspec approved a dividend of USD 0.4 million. These dividends were payable to the former shareholders of LEL and Inspec. The unpaid dividend of USD 5 million was paid in 2007 (Note 20).

11 Other gains/(losses) – net

	2007 USD'000	2006 USD'000
Insurance reimbursement for property, plant and equipment and inventory damaged	3,275	–
Write off of property, plant and equipment damaged	(315)	–
Write off of inventory damaged	(2,960)	–
Fair value gain on derivative financial instruments	1,351	–
Profit/(loss) on disposal of property, plant and equipment	4	(6)
Profit on disposal of asset held for sale	–	773
	1,355	767

Notes to the financial statements for the year ended 31 December 2007 (continued)

12 Earnings per share

	2007 USD'000	2006 USD'000
The calculations of earnings per share are based on the following profit and numbers of shares:		
Profit for the year	**71,550**	33,815
Weighted average number of shares for basic earnings per share	**200,000,000**	200,000,000
Adjustments for:		
–Assumed vesting of deferred share awards+	**249,275**	–
– Assumed exercise of free share awards	**52,766**	–
Weighted average number of shares for diluted earnings per share	**200,302,041**	200,000,000
Earnings per share:		
Basic	**35.78c**	16.91c
Diluted	**35.72c**	16.91c

+ In the prior year there was no dilution impact of the assumed conversion of deferred share awards as the performance condition relating to this award had not been met at 31 December 2006

13 Operating profit

Operating profit is stated after charging:

	2007 USD'000	2006 USD'000
Depreciation	**7,485**	5,082
Auditors' remuneration – audit services	**337**	252
Auditors' remuneration – non-audit services re IPO	**–**	2,270
Operating lease rentals – land and buildings	**8,758**	4,773
Provision for impairment of trade receivables	**88**	74
Release of provision for impairment of trade receivables (Note 19)	**(71)**	(9)
	17	65

14 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Group

	Loans and receivables USD'000	Assets at fair value through profit and loss USD'000	Total USD'000
31 December 2007			
Derivative financial instruments	–	964	964
Trade receivables	58,565	–	58,565
Cash and bank balances	159,088	–	159,088
Total	217,653	964	218,617
31 December 2006			
Trade receivables	52,335	–	52,335
Cash and bank balances	19,777	–	19,777
Total	72,112	–	72,112

Derivative financial instruments represents embedded derivatives arising in respect of two sale contracts (Note 2.20).

14 Financial instruments by category (continued)

Group

	Liabilities at amortised cost	
	2007 USD'000	2006 USD'000
Trade payables	**24,329**	26,388
Other payables and accruals	**52,902**	34,125
Due to a related party	**–**	8,098
Total	**77,231**	68,611

Company

	Loans and receivables	
	2007 USD'000	2006 USD'000
Cash and bank balances	**47**	–
Due from a related party	**15,798**	–
Total	**15,845**	–

Company

	Liabilities at amortised cost	
	2007 USD'000	2006 USD'000
Due to a related party	**–**	66
Total	**–**	66

Credit quality of financial assets

Group

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	2007 USD'000	2006 USD'000
Trade receivables		
Group A	**9,592**	23,318
Group B	**14,755**	10,384
Group C	**1,806**	1,032
	26,153	34,734
Derivative financial assets		
Group A	**964**	–
	964	–

Group A – Last six months average debtor days is less than 45.
Group B – Last six months average debtor days is between 46 and 90.
Group C – Last six months average debtor days is above 90.

None of the financial assets that are fully performing have been renegotiated in the last year.

14 Financial instruments by category (continued)

Cash at bank and short-term bank deposits

	2007 USD'000	2006 USD'000
Standard & Poor ratings		
AA	**48,576**	16,377
AA-	**4,009**	3,266
A	**106,344**	–
	158,929	19,643
Cash in hand	**159**	134
Cash at bank and in hand	**159,088**	19,777

15 Property, plant and equipment

	Buildings USD'000	Operating equipment USD'000	Fixtures, and office equipment USD'000	Motor vehicles USD'000	Capital work-in-progress USD'000	Total USD'000
Cost						
At 1 January 2006	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
Additions	537	8,866	1,702	834	3,039	14,978
Acquisition of a subsidiary (Note 16)	52	–	–	–	–	52
Transfers	27	521	11	–	(559)	–
Disposals	(506)	(230)	(116)	(68)	–	(920)
At 31 December 2007	16,155	45,028	7,183	2,698	3,059	74,123
Depreciation						
At 1 January 2006	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
Charge for the year	1,179	5,035	957	314	–	7,485
Disposals	(274)	(120)	(105)	(47)	–	(546)
At 31 December 2007	5,146	15,369	4,571	1,271	–	26,357
Net book amount						
31 December 2007	11,009	29,659	2,612	1,427	3,059	47,766
31 December 2006	11,804	25,417	1,867	928	579	40,595

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 two to nine 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 USD 4,978,000 (2006: USD 3,089,000) has been charged to cost of sales and USD 2,507,000 (2006: USD 1,993,000) to general and administrative expenses.

16 Business combinations

On 25 June 2007, the Group acquired 100% of the share capital of JIL for a purchase consideration of USD 1,594,000 from LHL (a related party). JIL is a holding company and beneficially owns 100% of Ahbab which in turn has a favourable lease of land in Jebel Ali Free Zone up to November 2014. This lease is renewable for a further period of 10 years.

	USD'000
Purchase consideration	1,594
Fair value of net identifiable assets acquired (see below)	1,594
Goodwill/negative goodwill	–

The details of net assets acquired are as follows:

	Acquiree's carrying value USD'000	Fair value USD'000
Value of identifiable assets and liabilities acquired:		
Property, plant and equipment	52	52
Intangible asset *	–	1,534
Deposits and prepaid expenses	21	21
Cash and bank balance (margin deposit)	8	8
Trade and other payables	(21)	(21)
Net identifiable assets acquired	60	1,594

* Intangible asset represents a favourable operating leasehold right acquired, the value of which has been determined by calculating the present value of the expected future economic benefits to arise from the favourable lease term (17 years). The movement in intangible asset is as follows:

	USD'000
Acquired during the year	1,534
Amortisation charge during the year	(44)
At 31 December 2007	1,490

If the acquisition had occurred on 1 January 2007, consolidated revenue and consolidated profit for the year ended 31 December 2007 would have been USD 467.3 million and USD 71.5 million respectively. The post acquisition revenue of Ahbab arises only from sub-leasing its land to a Group company.

	USD'000
Outflow of cash to acquire business, net of cash acquired:	
– cash consideration	1,594
– cash and bank balance in subsidiary acquired	(8)
Cash outflow on acquisition	1,586

17 Investment in subsidiaries

	2007 USD'000	2006 USD'000
Balance at 1 January	**740,052**	–
Acquired during the year	**–**	727,506
Effect of share based payment to subsidiary's employees under IFRIC 11		
	3,262	12,546
	743,314	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 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 £ 1.95. The investment in LEL has been recognised at cost being the fair value of 200,000,000 shares of the Company at £ 1.95. The difference between the cost of the investment (USD 727,506,000) in LEL and the nominal value of Share capital of the Company (USD 18,654,000) has been recorded as Other reserve (Note 24). The acquisition of LEL has been accounted for using the uniting of interests method in the consolidated financial statements.

During 2006, the Company granted rights to its equity instruments to certain employees of LEL. The fair value of these shares at grant date was USD 17.8 million. The fair value was computed based on the Company's share price on 11 October 2006 (£ 1.95). As part of the arrangements shares with a fair value of USD 11.9 million vested immediately and the balance is held under lock-in arrangements and vest over a period of two years. Accordingly, USD 3 million (2006: USD 12.5 million) has been recorded as an increase in the investment in LEL with a corresponding credit to Retained earnings.

During the year, the Company granted free shares and stock options to employees of LEL, LD and Inspec under its Free Share Plan and Executive Share Option Plan (Note 7). The fair value of these free shares and options at grant date was USD 968,000. These shares and options have a vesting period of eighteen months and thirty six months respectively. Accordingly, USD 0.3 million has been recorded as an increase in investment in subsidiaries with a corresponding credit to Retained earnings.

18 Inventories

	2007 USD'000	2006 USD'000
Consumables	**7,052**	5,535
Less: Provision for slow moving and obsolete inventories	**(347)**	(1,004)
	6,705	4,531

The cost of consumable inventories recognised as an expense and included in contract costs amounted to USD 11.7 million (2006: USD 10.4 million).

19 Trade and other receivables

	2007 USD'000	2006 USD'000
Trade receivables	**58,565**	52,335
Other receivables and prepayments	**12,571**	5,653
Advances to suppliers	**–**	18,760
	71,136	76,748
Less: Provision for impairment of trade receivables	**(87)**	(97)
	71,049	76,651
Amounts due from customers on contracts	**24,868**	36,857
Contract work in progress (Note 2.2)	**54,033**	–
	149,950	113,508

Amounts due from customers on contracts comprise:		
Costs incurred to date	**216,007**	133,697
Attributable profits	**73,683**	34,119
	289,690	167,816
Less: Progress billings	**(264,822)**	(130,959)
	24,868	36,857

An analysis of trade receivables is as follows:

	2007 USD'000	2006 USD'000
Fully performing	**26,153**	34,734
Past due but not impaired	**32,325**	17,504
Impaired	**87**	97
	58,565	52,335

As of 31 December 2007, trade receivables of USD 26.2 million (2006: USD 34.7 million) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, trade receivables of USD 32.3 million (2006: USD 17.5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007 USD'000	2006 USD'000
Up to 3 months	**27,993**	13,038
3 to 6 months	**3,432**	4,164
Over 6 months	**900**	302
	32,325	17,504

19 Trade and other receivables (continued)

During 2007, trade receivables of USD 87,931 (2006: USD 74,184) were impaired and provided for. The ageing of these receivables is as follows:

	2007 USD'000	2006 USD'000
Over 6 months	**87**	97

Group

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2007 USD'000	2006 USD'000
US Dollar	**53,731**	49,710
UAE Dirham	**3,711**	2,625
Euro	**1,123**	–
	58,565	52,335

Movements on the Group provision for impairment of trade receivables are as follows:

	2007 USD'000	2006 USD'000
At 1 January	**97**	32
Provision for receivables impairment	**88**	74
Receivables written off during the year as uncollectible	**(27)**	–
Unused amounts reversed	**(71)**	(9)
At 31 December	**87**	97

The creation and release of provision for impaired receivables have been included in 'general and administrative expenses – others' in the income statement (Note 8). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security in respect of the outstanding trade receivables at the year end.

The carrying value of trade receivables approximates their fair value.

20 Related party balances and transactions

Related parties comprise LHL (which owns 33% of the issued share capital of the Company), certain legal shareholders of the Group companies and Directors and key management personnel of the Group. Related parties for the purpose of parent company financial statements also include subsidiaries owned directly or indirectly. Other than disclosed elsewhere in the financial statements, the Group entered into the following significant transactions during the year with related parties at prices and on terms agreed between the related parties:

	2007 USD'000	2006 USD'000
Key management compensation	**21,714**	19,814
Sponsorship fees paid to legal shareholders of Lamprell Dubai LLC and Lamprell Sharjah WLL (Note 1)	**131**	80
Payments for use of a vessel owned by a former Director	**–**	37
Interest charged on loans to key management personnel	**–**	7

Key management compensation comprises:		
Salaries and other short term employee benefits	**7,495**	3,980
Share based payments – value of service provided	**14,250**	15,160
Post-employment benefits	**(31)**	674
	21,714	19,814

Loans to Directors and key management personnel:		
Beginning of the year	**–**	239
Loans advanced during the year	**–**	210
Loan repayments received	**–**	(449)
Interest charged	**–**	7
Interest received	**–**	(7)
End of the year	**–**	–

Due from/due to related parties

	2007 USD'000	2006 USD'000
Due from a related party		
Company		
Lamprell Energy Limited (receivable in respect of management fees charged by the Company)	**15,798**	–
Due to a related party		
Group		
Lamprell Holdings Limited (USD 5 million and USD 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 Lamprell Energy Oil and Gas Limited, 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 2007 and 2006, the possibility of an outflow of resources embodying economic benefits in relation to this guarantee is considered to be remote.

During the year, the Company has provided performance guarantees on behalf of its subsidiary. These guarantees issued in the normal course of business are outstanding at the year end and no outflow of resources embodying economic benefits in relation to these guarantees is expected by the Company.

Dividends paid by the Company include an amount of USD 6.4 million (2006: nil) in respect of free shares held by key management personnel (including those held by the EBT in respect of shares gifted) of which USD 5.8 million was paid to LHL, a company controlled by Steven Lamprell who is a member of key management.

21 Cash and bank balances

Group

	2007 USD'000	2006 USD'000
Cash at bank and on hand	**11,828**	8,705
Short term and margin deposits	**147,260**	11,072
Cash and bank balances	**159,088**	19,777
Less: Margin deposits	**(9,824)**	(3,367)
Cash and cash equivalents	**149,264**	16,410

At 31 December 2007, the cash at bank and short term deposits were held with six (2006: three) banks. The effective interest rate on short term deposits was 4.75% (2006: 4.68%) 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 30).

22 Share capital

Issued and fully paid ordinary shares

Group

	Equity share capital	
	Number	USD'000
At 1 January 2006	–	–
At 25 September 2006 – issued in connection with the acquisition of LEL and treated as if always in issue (Note 25)	200,000,000+	18,654
At 1 January 2006 – restated for the effect of the uniting of interests method of accounting*	200,000,000	18,654
At 31 December 2006 and 2007	200,000,000	18,654

The above includes 1,613,269 shares (2006:1,620,142 shares) gifted by LHL on 10 October 2006 and held by the EBT in trust for certain management personnel (Note 7).

+ Includes 2 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 2006. The difference between the nominal value of the shares issued by the Company (USD 18,654,000) and the nominal value of the LEL shares acquired (USD 82,000) has been taken to the Merger reserve (Note 25).

Company

	Equity share capital	
	Number	USD'000
At 1 January 2006	–	–
4 July 2006 - Issued on incorporation of the Company	2	–
25 September 2006 - Issued in connection with acquisition of LEL (Note 17)	199,999,998	18,654
At 31 December 2006 and 2007	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.

23 Legal reserve

The Legal reserve of USD 24,077 (2006: USD 22,088) 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.

24 Other reserve

Other reserve of USD 708,852,000 represents the difference between the cost of the investment in LEL (USD 727,506,000) and the nominal value of Share capital issued by the Company to acquire LEL (USD 18,654,000) (Notes 17 and 22). The Other reserve is not available for distribution. In the prior year this reserve was termed as "Share premium", whereas since the Company had utilised the merger relief provisions existing under Isle of Man Law the reserve should have been termed "Other reserve" arising from the application of IAS 27, "Consolidated and Separate Financial Statements".

25 Merger reserve

	2007 USD'000	2006 USD'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**	4,000
Share capital of Inspec	**(150)**	(150)
Merger reserve on acquisition of Inspec	**3,850**	3,850
Total	**22,422**	22,422

On 11 September 2006, LEL acquired 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of USD 4 million. This acquisition has been accounted for using the uniting of interests method and the difference between the purchase consideration (USD 4 million) and Share capital of Inspec (USD 150,000) has been recorded in the Merger reserve.

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 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 (USD 18,654,000) and the nominal value of LEL shares acquired (USD 82,000) has been recorded in the Merger reserve (Note 22).

26 Provision for employees' end of service benefits

Group

	2007 USD'000	2006 USD'000
At 1 January	**8,039**	5,868
Charge for the year (Note 9)	**2,215**	3,221
Payments during the year	**(514)**	(1,050)
At 31 December	**9,740**	8,039

Company

	2007 USD'000	2006 USD'000
At 1 January	**536**	–
Transfer from LEL	**–**	184
Charge for the year/period	**15**	352
At 31 December	**551**	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 2007 and 2006, 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 4% to 5% (2006: 3% to 4%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 6.25% (2006: 6.11%).

Notes to the financial statements for the year ended 31 December 2007 (continued)

27 Trade and other payables

	2007 USD'000	2006 USD'000
Trade payables	**24,329**	26,388
Other payables and accruals	**52,902**	34,125
Amounts due to customers on contracts+	**120,087**	11,891
Dividend payable++	**143**	–
	197,461	72,404
Amounts due to customers on contracts comprise:		
Progress billings	**327,710**	93,859
Less : Cost incurred to date	**(165,495)**	(63,175)
Less : Attributable profits	**(42,128)**	(18,793)
	120,087	11,891

+ Amounts due to customers on contracts include USD 25 million in respect of advances received from a customer before the related contract work has been carried out.

++ The dividend payable represents amount held by the EBT in respect of shares gifted to employees held under lock-in arrangements. This dividend will be paid by the EBT to the employees upon completion of the vesting period.

28 Profit of the parent company

The profit of USD 21,822,143 (2006: Loss of USD 3,586,876) in respect of the Company has been included in these consolidated financial statements.

29 Commitments

(a) Operating lease commitments

The Group leases land and staff accommodation under various operating lease agreements. The remaining lease terms of the majority of the leases are between 7 to 24 years and are renewable at mutually agreed terms. The future minimum lease payments payable under operating leases are as follows:

	2007 USD'000	2006 USD'000
Not later than one year	**3,753**	1,620
Later than one year but not later than five years	**8,951**	8,395
Later than five years	**52,308**	57,044
	65,012	67,059

(b) Other commitments

Letters of credit for purchase of materials and operating equipment	**12,029**	21,913
Capital commitments for purchase of operating equipment	**6,976**	1,664
Capital commitments for construction of a facility	**13,962**	8,173

30 Bank guarantees

	2007 USD'000	2006 USD'000
Performance/bid bonds	**107,672**	24,138
Advance payment, labour visa and payment guarantees	**6,838**	3,364
	114,510	27,502

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.

31 Events after balance sheet date

The Board of Directors of the Company have proposed a dividend of 12.25 cents per share amounting to USD 24.5 million at a meeting held on 25 March 2008. In accordance with the accounting policy under IFRS set out at Note 2.16 this dividend has not been accrued at 31 December 2007 (2006: 3.80 cents per share amounting to USD 7.6 million declared on 2 April 2007 was not 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.

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

"Ahbab" – Ahbab FZCO

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

"API" – American Petroleum Institute

"BG India" – British Gas Exploration and Production India Limited

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

"CBL" – Cleopatra Barges Limited

"CEO" – Chief Executive Officer

"CSR" – Corporate Social Responsibility

"Company" – Lamprell plc

"DBMA" – Don Bosco Maritime Academy

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

"EBT" – Lamprell plc Employee Benefit Trust

"EPC" – Engineering, Procurement and Construction

"E&I" – Electrical & Instrumentation

"FPSO" – Floating, Production, Storage and Offloading

"FTSE" – Financial Times Stock Exchange index

"Group" – The Company and its subsidiaries

"GSF" – Global Santa Fe

"GSP" – Grup Servicii Petroliere

"HSE" – Health, Safety and Environment

"HSEQ" – Health, safety, environment and quality

"IAS" – International Accounting Standards

"IFRIC" – International Financial Reporting Interpretations Committee interpretation

"IFRS" – International Financial Reporting Standards

"Inspec" – International Inspection Services Limited

"IPO" – Initial Public Offering

"ISO" – International Organisation for Standards

"JIL" – Jebel Ali Investments 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

"SBM" – Single Buoy Moorings

"UAE" – the Federation of the United Arab Emirates

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

Notes

Notes

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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.

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