Lamprell

Lamprell plc Annual Report & Accounts 2012

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Annual Report & Accounts 2012

# Lamprell is a leading provider of diversified engineering and contracting services to the onshore and offshore oil & gas and renewable energy industries.

## Lamprell Business

| Oil & Gas | Renewable Energy | Services |
|---|---|---|
| New Build Jackup Drilling Rigs | Wind Farm Installation Vessels | Engineering Services |
| New Build Offshore | Transformer Stations (AC & HVDC) | INSPEC (NDT, Mechanical & Calibration Services) |
| Rig Refurbishment | Wind Turbine Foundations | Sunbelt $H_2S$ Safety Services |
| Engineering & Construction | | Operations & Maintenance |
| Land Rig Services | | |

| | UAE | | | | Other | | |
|---|---|---|---|---|---|---|---|
| Facilities | Hamriyah | Sharjah | Jebel Ali | Dubai | Saudi Arabia* | Kuwait | Total |
| Land (m²) | 365,000 | 210,000 | 178,849 | 30,000 | 131,469 | 10,000 | 925,318 |
| Quayside (m) | 1,440 | 760 | – | – | – | – | 2,200 |

* JV

Lamprell is listed on the London Stock Exchange (symbol “LAM”).

# Company Overview
# Highlights

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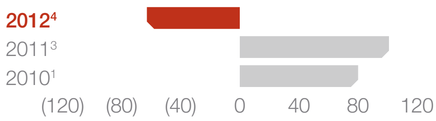
> Order book of USD 1.3bn as at 28 February 2013
> New contract awards USD 1.1bn from January 2012 to 28 February 2013
> A year of exceptional challenges and changes within the organisation
> Delivery of six major projects in the period
> Good health and safety track record

USD 1,045m
Revenue

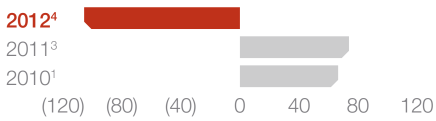
USD (105.0)m
Loss before income tax and exceptional items

USD (110.5)m
Loss for the year

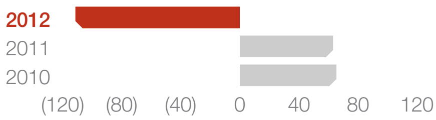
**EBITDA before exceptional items** USD m



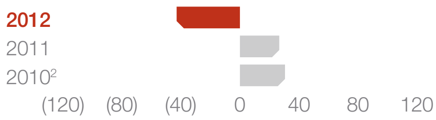

**Net profit (loss) before income tax and exceptional items** USD m




**Net profit (loss)** USD m




**Earnings per share – Diluted** cents




Previous years' figures have been normalised in line with current year presentation of results to include exceptional items for all years.

1 Exceptional items during 2010 relate to Lamprell Asia Limited liquidation costs.
2 EPS has been restated for the bonus element of the 2011 rights issue.
3 Exceptional items during 2011 relate to MIS acquisition costs.
4 Exceptional items during 2012 relate to regulatory fine and related charges.

## Company Overview
# Lamprell at a Glance

## Delivering our expertise

**Lamprell, based in the United Arab Emirates ("UAE"), and with operations throughout the region, has played a prominent role in the development of the offshore industry in the Arabian Gulf for over 30 years and is the regional market leader in the rig market.**

Lamprell is a leading provider of diversified engineering, construction and contracting services to the onshore and offshore oil & gas and renewable energy industries.

Lamprell employs over 11,000 people (including labour personnel) across multiple facilities.

Lamprell operates across multiple facilities in the UAE, Saudi Arabia (through a joint venture structure) and Kuwait, with a combined total area of over 925,000m² and over 2km of quayside.



## Primary facilities

**1 Hamriyah Free Zone, Sharjah, UAE**
Purpose-built for new build construction and refurbishment of offshore drilling rigs, land drilling rigs, wind farm installation vessels and oil & gas structures.

**2 Port Khalid, Sharjah, UAE**
Well suited for Lamprell's upgrade and refurbishment projects as well as new build jackup drilling rigs.

**3 Jebel Ali, Dubai, UAE**
Purpose-built in mid-2002 and ideally suited to new build offshore structures and platforms.

**4 Dubai Investments Park, Dubai, UAE**
Focused on the Land Rig Services division of the Group.

**5 Saudi Arabia**
MIS Arabia's facility in Jubail is dedicated to the manufacture of process vessels, equipment and large components. Also, a new facility* is being built to cater to the refurbishment and upgrade of land rigs in-country.

**6 Kuwait**
Part of the Land Rig Services division and caters to drilling and oilfield service contractors in West Shuaiba, Kuwait and other surrounding areas.

* A three-way JV between Lamprell, Shoaibi Group and AYTB.

# Company Overview
# Lamprell Businesses


## Oil & Gas

### New Build Jackup Drilling Rigs

Lamprell is firmly established as one of the world's leading facilities for the construction of new build jackup drilling rigs.

With a highly sophisticated engineering capability and custom-built construction and load out facilities, Lamprell has gained a reputation as a reliable and professional builder of state-of-the-art drilling rigs. The Group has successfully delivered several LeTourneau 116E and Friede & Goldman Super M2 jackup rigs to international and regional drilling operators.

### New Build Offshore

Lamprell's expertise in the new build offshore segment extends beyond jackup drilling rigs and covers a wide range of offshore fixed and floating facilities. This includes the construction of process modules for floating production, storage and offloading units ("FPSOs") and floating storage and regasification units ("FSRUs"), tender assist drilling barges, mobile offshore production units ("MOPUs"), turrets, process & utility decks, living quarters ("LQ"), wellhead decks ("WH") and other offshore fixed structures. Lamprell's New Build Offshore centre of excellence is one of the few facilities in the MENA region that has both the expertise and the capability in building large-scale complex process decks (+10,000 tonnes).

### Rig Refurbishment

Since 1990, Lamprell has completed over 300 rig refurbishment projects. The rig refurbishment scope varies with every project and can range from a simple repair to a major docking lasting several months for the upgrade or replacement of older and sometimes damaged equipment and machinery.

The Company has successfully completed numerous refurbishment projects for drilling contractors, including Arabian Drilling Company, Ensco, Japan Drilling Company, Nabors, National Drilling Company, Noble Drilling, Rowan, Saipem and Transocean.

### Engineering & Construction

Lamprell Engineering & Construction ("E&C") offers a full scope of service from wellhead to delivery and beyond, extending to all areas of onshore and offshore design and construction.

With a strong regional presence, excellent project execution track record, certified systems & processes and strong engineering capabilities (providing engineering services from concept design to commissioning), Lamprell E&C delivers fully integrated engineered solutions to the onshore and offshore oil & gas and renewable energy sectors.

### Land Rig Services

Land Rig Services covers all projects and services related to onshore drilling rigs, oilfield service companies and drilling equipment refurbishment for land and offshore rigs. The Land Rig Services group operates from facilities in Hamriyah, Jebel Ali, Dubai Investments Park and Kuwait and also provides field services as required.

## Renewable Energy

### Wind Farm Installation Vessels

Lamprell's strategic goal of becoming the fabricator of choice in the growing wind farm installation market is endorsed by the experience and expertise that the Group has gained with the new build construction of wind turbine installation vessels for Seajacks and Fred. Olsen Windcarrier; two major companies in this expanding marketplace.

The offshore wind sector provides Lamprell with the opportunity to utilise its engineering skills in a sector where there is a recognised lack of installation capacity. Having constructed five high tech, specialised vessels for the European market and with one more currently under construction, Lamprell has the right skills and experience in this market.

## Services

### Engineering Services

Lamprell's Engineering Services provides a range of engineering solutions from conceptual engineering and FEED through to detailed and construction engineering including offshore drilling rigs, land rigs, onshore and offshore Engineering, Procurement & Construction projects, pipelines, pressure vessels, skids, modules, decks and jackets. This is delivered by a team of experienced multi-discipline engineers and designers using the latest engineering software and 3D modelling techniques.

### INSPEC (NDT, Mechanical & Calibration Services)

International Inspection Services Ltd. ("INSPEC") provides high quality inspection services to several countries within the Middle East and Africa. Established in 1993, INSPEC is predominantly engaged in the supply of inspection personnel and equipment for heat treatment and Non-Destructive Testing ("NDT") services to the oil & gas, district cooling and other infrastructure-intensive industries including desalination and energy. Its primary markets of operation are the UAE, Oman and Bahrain with projects also completed in other parts of the Middle East and Africa.

### Sunbelt $H_2S$ Safety Services

Lamprell's Sunbelt $H_2S$ safety services division provides complete safety solutions to its clients through a range of specialised products and services. As an authorised distributor for a number of safety equipment manufacturers, Sunbelt ensures that it offers products that adhere to British, European and US standards. Sunbelt also provides technical consultancy, services and support specialised in the detection and handling of the highly toxic $H_2S$ gas.

### Operations & Maintenance

Lamprell's Operations & Maintenance ("O&M") business has a proven record of excellent performance and service with a core workforce of over 500 tradesmen and administrative personnel who are supported by a larger base of skilled field staff from the various divisions of the Lamprell Group. O&M provides manpower, equipment and materials services to a diverse customer base at oil & gas and petrochemical facilities and plants, drilling rigs, offshore facilities, marine docks and marine vessels.

# Chairman's Statement

**2012 was unquestionably the most challenging year in Lamprell's history. After years of sustained growth and profitability, the Company experienced a number of significant operational and reporting issues, which resulted in substantial financial losses prompting the Board to make major changes to the way in which the business is structured and managed.**

## A challenging year for Lamprell

At the time I took over as Lamprell's Non-Executive Chairman in the middle of June 2012, the Company had already announced that there were significant operational difficulties and delays in delivery of the wind farm installation vessel Windcarrier 1 Brave Tern. Unfortunately, as the Summer progressed, it became clear that the scale of these issues was far greater than previously anticipated, and that it affected other key contracts, including notably the Windcarrier 2 Bold Tern and the Caspian Sea jackup project.

On 3 October, the Board made the difficult but necessary decision to replace the entire senior management team and directed the newly appointed, interim management team to reassess Lamprell's business in light of the deteriorating financial position. At the same time the Board appointed PricewaterhouseCoopers to conduct an independent review of the financial performance of the underperforming projects. The results of this comprehensive assessment were announced on 19 November, revealing total projected losses far in excess of what had been previously anticipated or announced.

Despite the disappointing update, the Board worked closely with the interim management team to address the problems facing the business as efficiently and effectively as possible. During the following months, we made excellent progress in mitigating the losses from the underperforming key projects and stabilising the Group's financial position. With support from Lamprell's lenders, we also began the process of restructuring the Group's financial arrangements which is expected to be completed in Q2 2013.

In spite of the setbacks of 2012, the durability of our industrial franchise continues to prove strong and our clients, especially our existing clients, have continued to place their trust in our ability to perform to high standards. As a result, Lamprell has maintained its competitive position and support from its customers by winning new contracts with an aggregate value in excess of USD 930 million during 2012. Notably in our recent statement on 6 February 2013, we were pleased to announce that the Jindal Group had awarded a new contract to Lamprell for one confirmed, together with one optional, jackup rig.

In another positive development, Lamprell signed a joint venture agreement for the fabrication, refurbishment and repair of land drilling rigs in Saudi Arabia, enhancing our strong presence in that market. We plan to leverage on our long-term relationships with our Saudi partners and our well-established expertise in the land rig sector.

## Board and management changes

It has been a very busy year with changes both at the Board and at the management levels, some planned and others required in response to the events of 2012.

In October, Nigel McCue, Jon Cooper and Chris Hand stood down from their respective positions as Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. At the same time, Peter Whitbread, who had previously served as Lamprell's Chief Executive from 1992 to 2009, was appointed to the Board as Interim Chief Executive Officer. In November, Frank Nelson was appointed as Interim Chief Financial Officer. Their efforts have ensured a smooth transition of the stabilised business to the new management team led by James (Jim) Moffat, whose appointment as the new Chief Executive Officer was announced in early December. I am absolutely delighted that someone of Jim's expertise and calibre has agreed to join our team. He assumed his responsibilities on 1 March 2013, and will bring the highest standards of leadership, engineering and project execution to Lamprell.

It was also pleasing that, after stepping down from his interim CEO role, Peter Whitbread has agreed to stay on as a Director to support Jim and his team in rebuilding the business and positioning it for future success.

Other Board changes in 2012 included the retirement of Richard Raynaut and resignation of Brian Frederick as Directors, and the appointment of Deena Mattar as a Non-Executive Director with effect from 1 April 2012. Jonathan Silver stepped down from the position of Chairman to become Deputy Chairman, followed closely by my appointment on 15 June as Non-Executive Chairman.

Further Board changes will be taking place during the next few months. As a result of the considerable time commitment required of the Non-Executive Directors during the past year, Colin Goodall and Deena Mattar have informed the Board that they will not be standing for re-election at the forthcoming Annual General Meeting. A search is underway for additional independent Non-Executive Directors.

As a Board, it is our objective to deliver long-term, sustainable success for the benefit of all Lamprell's stakeholders. While there have been many changes at the most senior levels in the Company, I consider that the Board has reasserted its position to provide a clear direction and strong and effective leadership for the future of the business.

## FSA investigation

In November 2012, Lamprell announced an investigation by the Financial Services Authority ("FSA") into the Company's handling of inside information. Having completed the investigation, the FSA imposed a fine of approximately USD 3.7 million on Lamprell for failing in its obligations as a listed company to keep the market fully informed of its deteriorating financial position during early 2012.

From early in 2012, Lamprell's financial performance began to deteriorate due to operational issues and to delays in completing key projects. It became clear that the Company's systems did not allow management to assess fully the impact of these operational issues. Lamprell was, therefore, unable to update the market in a timely manner as to its financial performance. When the extent of the financial deterioration was recognised, the FSA concluded that Lamprell did not act sufficiently quickly to update the market or to prevent employees from continuing to deal in its shares once the inside information regarding the poor financial performance had been recognised. The steps that the Company has taken to improve its systems and controls are set out in the Corporate Governance report.

## Dividends

Given the post-tax losses in 2012, Lamprell will not pay a dividend for the year. We look into the future with optimism, and will review our dividend policy once the business returns to profitability.

## Outlook

As a result of the events of 2012, the Company has been forced to re-evaluate its business structure and the projects that it wishes to pursue. We have had to make many significant changes to the business, to return to our core activities, but it is important to reaffirm the underlying strength of the Company's franchise and its sustainable competitive advantages in the marketplace. As previously mentioned, the continued and ongoing support of our customers has been particularly heartening. On behalf of all the employees and Directors of Lamprell, I would like to express our appreciation.

Despite continued global macroeconomic uncertainty, demand for our products and services remains strong in the midst of a robust and expansive oil and gas industry. In particular, we see a steady stream of new build and refurbishment projects in our home market of the Middle East as well as increased activity in the North Sea. In recent years there have been significant changes in our competitive landscape, in particular the entry of Asian players who can offer very competitive financial incentives to clients. However, we are confident that Lamprell's strong, historic track record of delivery and continued commitment to quality positions the Company well to benefit from continued growth in the oil and gas industry. Our current order book of USD 1.3 billion and the bid pipeline of USD 4.1 billion collectively represent a solid foundation for the business to grow in the coming years.

In light of the above, I sincerely believe that Lamprell can look forward to 2013 and beyond with renewed confidence. During 2013, we will be focusing on our traditional areas of strength, namely new build jackup rigs, rig refurbishment and offshore platform construction. With the strong bidding activity across the business in these areas, we expect this year to show signs of stability returning with the first shoots of growth appearing towards the end of the year.

On behalf of the Board, I would like to thank all of Lamprell's stakeholders and in particular our employees for their continued trust and support during these challenging times.

**John Kennedy**
Chairman of the Board
Lamprell plc

# Consolidating our position

**Although our yards remained busy throughout 2012 and generated revenues for the year of USD 1,045 million, the Group suffered a loss before tax and exceptional items of USD 105 million as a result of a series of operational hurdles, the failure to appreciate certain project risk and project delays.**

The challenges that Lamprell experienced in 2012 led to major changes within the Company, including a complete change of leadership and a comprehensive review of our projects and operations. With a new management team in place and a number of improvements to our business processes underway, we are now confident that Lamprell is well placed to overcome these challenges and leverage its leading market position to return to profitability.

## 2012 challenges/overview

Starting in mid-2012, Lamprell experienced significant delays on several of its largest projects, including the wind farm installation vessels Windcarrier 1 and 2 for Fred Olsen, as well as the jackup rig that was built in modular form in the UAE and is being assembled at a facility in Astrakhan, Russia. As the year progressed, it became clear that these delays would result in material financial losses. However, the previous management team struggled to quantify the losses or prevent the situation from deteriorating further.

As a result of the departure of the previous senior management team in October 2012, Lamprell's Board asked me to rejoin on an interim basis to assess the full extent of the issues

facing the Company, and to help stabilise its operations while it recruited a new, permanent management team. With the Board's support, the interim management team conducted a comprehensive assessment of Lamprell's operations, with a primary focus on the key underperforming projects and their effect on the Group's financial position. The results of the assessment, published on 19 November 2012, revealed a series of operational and financial issues contributing to major losses in 2012.

One of the cornerstones of Lamprell's success has always been its rigorous approach to project execution. Since my retirement as Lamprell's CEO in 2009, the Company's business has undergone significant change; over the past several years, the Company's operations have grown significantly as the Group has taken on a number of increasingly large and complex projects. This has generated higher revenues but the growth came at a price as the Company's existing project management systems were unable to cope with these larger projects of a prototype nature. This left Lamprell struggling to fulfil its commitments to its stakeholders.

Having established the scale of the problems and identified key areas of weakness, my team negotiated revised delivery schedules for the key underperforming projects still under construction, and fully focused its efforts on their completion under these new terms. In spite of the financial setbacks arising from certain key projects, Lamprell continued to deliver major projects to a consistently high standard, including the first two new build jackup rigs to NDC, as well as the Seajacks "Zaratan" and the Windcarrier 1 Brave Tern liftboats. Most recently, and perhaps most significantly, the Group fulfilled its promises to deliver the Windcarrier 2 Bold Tern vessel to the client in mid-February 2013. This only became possible as a result of improved project management and strict financial controls, as well as the dedication and commitment of the project team who worked tirelessly on this complex project.

## New contract awards

The recent operating environment has been demanding, both because of the Company's internal issues which we are now resolving and also due to the increasingly competitive nature of the sectors in which the Company operates. Nevertheless, the Company managed to maintain the support of its clients and was awarded more than USD 930 million in new contract wins during 2012. This included various, major new build projects in both the oil and gas industry, such as two more fully outfitted and equipped LeTourneau rigs for our key client, NDC, and the fabrication of two topsides and jackets for a new client, and the renewables sector where Seajacks awarded us a new contract for a fourth liftboat vessel, of a similar design as those already delivered to Seajacks.

The rig refurbishment market for both the onshore and offshore segments remained positive in 2012, which allowed Lamprell to win multiple orders for jackup rig upgrade and refurbishment projects. This has historically been a keystone for our franchise and we continue to be the regional leader by market share for this type of business.

## Saudi Arabia joint venture

In another positive development, in September 2012 Lamprell signed a joint venture agreement with Shoaibi Group, a Saudi industry and energy services provider, and Al Yusr Townsend and Bottum, a Saudi integrated logistical services provider, to form Lamprell Arabia Ltd. The joint venture, which will be based in the oil-rich Eastern province of Saudi Arabia, intends to establish a presence for fabrication, refurbishment and repair of land drilling rigs. I am excited by the opportunities presented by the joint venture which builds on the Group's existing business in a country where we foresee extensive needs for such services, which are a core part of our offering.

## Our people

Our employees are the foundation of our business. Their hard work over the past four decades has built Lamprell into the business we are proud of today, and their wellbeing is essential for the continued success of our Company. Since my return to the business in October 2012, a primary focus has been to re-energise the workforce, with a view to improving morale and thereby increasing productivity. These efforts have produced results such as delivery of the Windcarrier 2 vessel on the promised revised delivery date.

At the same time, we have been forced to take some tough decisions to control costs in the Group at a time when it was struggling financially. This put additional pressure on our operations and has been a delicate balance to manage. However, once we re-established control over the key operational issues, we have been able to reassure our staff of the attractiveness of Lamprell as an employer. Today, Lamprell employs over 11,000 staff.

## Ongoing changes and outlook

In 2012 we encountered numerous operational and financial problems, which forced us to reassess how we run our business. The interim management team has introduced new initiatives aimed at strengthening Lamprell's project reporting systems, organisational structure, financial controls and risk management. One such initiative was the introduction of a new organisational structure which prioritised project management and aligned project execution with the Group's reporting structures.

These initiatives will take some time to bed down into the business but, as I pass the mantle of leadership to the permanent CEO, James Moffat, I am proud of the genuine progress that we have made over the last six months and I believe that the outlook for our business remains strong for 2013 and beyond.

**Peter Whitbread**
Interim Chief Executive Officer
October 2012 – March 2013

# Chief Executive's Review

**As I join Lamprell as its new Chief Executive, I see a business with an attractive regional footprint and significant potential where several, very serious issues undermined its financial health in 2012 and threatened its ability to win and execute work. Despite this, the Company managed to retain the trust of its clients and its leading market position and that is a testament to the fundamentals of this business and its historic ability to execute projects.**

Health, Safety, Environment and Security ("HSES"), in particular safety, has always been a core value for me. Hence I was pleased to see that, despite the operational challenges faced by the Group in 2012 as well as increasing the total number of manhours worked to over 37 million, Lamprell maintained and in fact improved its strong safety track record. The total recordable incident rate ("TRIR") in 2012 declined by nearly 80% over 2011, having already improved by 58% in 2011 over the previous year. This is a significant achievement.

Given the nature of our business there are inherently significant health, safety and environment risks and despite our recent successes we must continue to improve. To this end, I have already tasked the management to implement several new HSES strategic objectives and key initiatives such as personal HSES contracts and hazard identification, which I expect to deliver results during 2013. Across the Group, I will be driving a culture where HSES will be a key consideration in making everyday decisions, both at a corporate and at an individual level.

The interim management team has done a great deal to stabilise Lamprell's operations and financial position after the events of 2012. Our key priority this coming year is to implement and complete the initiatives introduced by them, in order to avoid similar issues in the future, and to position the Company for the next stage in its development. We will continue to improve operations by increasing focus on risk management, project execution and financial controls.

I would like to thank Peter and his team for their efforts during the challenging transition period, and I look forward to working closely with them to rebuild Lamprell's reputation for operational excellence and profitable growth.

**James Moffat**
Chief Executive Officer
Since 1 March 2013


> Renewed focus on core capabilities

> Delivery of eight major projects from January 2012 through to March 2013

> USD 1.1bn of new contracts from January 2012 through to 28 February 2013

Despite the significant challenges faced by the Group in 2012, Lamprell's operational capabilities and the fundamental processes and principles upon which it operates resulted in the successful completion of several landmark projects, the achievement of key milestones and the award of significant new contracts. The Group continued to focus on growing its reputation for delivering high quality work and has consolidated its competitive advantage within its core business. The Company continued to develop its project controls to enhance its financial performance and project execution and to improve the processes and systems that will drive our performance.

## Landmark projects

In 2012 and early into 2013, the Group successfully delivered eight landmark new build projects:

| Project | Customer | Segment | Vessel type | Delivery date | Destination |
|---|---|---|---|---|---|
| **Two 3000hp land rigs** | Weatherford | Oil & Gas – Land Rig Services | 3000hp Aker slingshot | March 2012 | Kuwait |
| **Seajacks “Zaratan”** | Seajacks Ltd. | Renewable Energy – Wind Farm Installation Vessels | GustoMSC NG-5500C self-elevating and self-propelled offshore wind turbine installation vessel | May 2012 | Europe |
| **“Haffar 2” (Hull 108)** | PEMSA | Oil & Gas – New Build Jackup Drilling Rigs | F&G Super M2 new build jackup drilling rig | June 2012 | Mexico |
| **NDC “Makasib”** | National Drilling Company | Oil & Gas – New Build Jackup Drilling Rigs | LeTourneau Super 116E (enhanced), self-elevating, 310ft new build jackup rig | August 2012 | Abu Dhabi, UAE |
| **Windcarrier “Brave Tern”** | Fred. Olsen Windcarrier | Renewable Energy – Wind Farm Installation Vessels | GustoMSC NG-9000C self-elevating and self-propelled offshore wind turbine installation vessel | October 2012 | North Sea |
| **NDC “Muhaiyimat”** | National Drilling Company | Oil & Gas – New Build Jackup Drilling Rigs | LeTourneau Super 116E (enhanced), self-elevating, 310ft new build jackup rig | December 2012 | Abu Dhabi, UAE |
| **“Greatdrill Chaaya”** | Greatship Global Energy | Oil & Gas – New Build Jackup Drilling Rigs | LeTourneau Super 116E (enhanced), self-elevating, 310ft new build jackup rig | January 2013 | Offshore India |
| **Windcarrier “Bold Tern”** | Fred. Olsen Windcarrier | Renewable Energy – Wind Farm Installation Vessels | GustoMSC NG-9000C self-elevating and self-propelled offshore wind turbine installation vessel | February 2013 | North Sea |

## Highlights by business sectors

### New Build Jackup Drilling Rigs

Lamprell consolidated its position as a leading international builder of jackup drilling rigs in the sub-350ft class with a total of 12 new build rigs completed since the Group entered this segment five years ago. Lamprell is currently constructing eight more LeTourneau Super 116E class design jackup rigs, for a number of its existing customers.

### Wind Farm Installation Vessels

Despite the challenges faced on the Fred Olsen Windcarrier vessels, the projects remain worthy of mention given their prototype design and their scale. Each weighed more than 15,000 tonnes at delivery and they were the first wind farm installation vessels of their size to be built in the region, and the largest vessels ever to be built by the Group. At load out, the “Brave Tern” and its sister vessel the “Bold Tern” represented the largest transport moves on wheels ever to take place in the Middle East.

The Group’s award of a fourth vessel by Seajacks, the “Hydra”, further reinforced its strong position in the wind turbine installation segment. The “Hydra” is a repeat design of the first generation of smaller vessels that the Company successfully delivered on time and budget (Seajacks “Kraken” and “Leviathan”).

### New Build Offshore Facilities

With the capability to build large-scale complex process decks (more than 10,000 tonnes), Lamprell’s expertise in the new build offshore segment covers a wide range of offshore fixed and floating facilities. Progress on the construction of an offshore topside structure comprising a two level utility deck and a five level accommodation module for a leading integrated energy provider continued on schedule as did construction on the Nexen Petroleum project (wellhead and a Production, Utilities and Quarters (“PUQ”) deck). Both projects are currently proceeding on schedule and on budget.

# Business Review
## Operational Highlights


**Upgrade and refurbishment of offshore jackup rigs**
Lamprell maintained its reputation as the region's leading rig upgrade and refurbishment facility with the completion of over 300 upgrade and refurbishment projects representing a regional market share in excess of 60%. Recent notable projects included the "Noble George McLeod" and the "Noble Jimmy Puckett" for Noble Drilling; Rig "657" for Nabors and the "Rowan Gilbert Rowe" for Rowan Drilling along with the Hercules 266 among others. The combined work scope on these projects included, but was not limited to, living quarter upgrades and refurbishment, as well as high volumes of class driven work such as structural steel renewal, piping replacement, machinery upgrades, recertification and painting. In addition, many customers approach Lamprell for its expertise in the stringent "Saudi Aramco Schedule G" compliance which allows rigs to operate offshore Saudi Arabia. In recent months, similar projects have been awarded to Lamprell on a repeat basis by these same, existing customers.

**Land Rig Services**
In addition to the two new build land drilling rigs delivered to Weatherford, the Land Rig Services business unit focused its activities on land rig upgrade and refurbishment and the inspection and overhaul of mechanical and rotary equipment. A major milestone was the successful completion of NDC's rig "ND 32", the "walking rig". The Group has recently expanded its Land Rig Services business into Saudi Arabia through the establishment of the "Lamprell Arabia" joint venture. This will be a key focus for this business unit over the coming few years because of the anticipated levels of land rig refurbishment work which will be required in Saudi Arabia.

**Service businesses**
The Group continued to see demand for its service business offerings across a range of complementary markets. The Group has a strong regional market presence through O&M, INSPEC and Sunbelt services, which offer a substantially different profile to the core new build operations.

## Major new contract awards

| Project | Customer | Segment | Contract value (USD m) | Contract date | New or repeat customer |
|---|---|---|---|---|---|
| **Topsides and jackets** | Leighton Offshore Pte Ltd. | Oil & Gas – New Build Offshore Facilities | 62.0 | February 2012 | Repeat |
| **NDC "5 and 6"** | NDC | Oil & Gas – New Build Jackup Drilling Rigs | 333.3 | April 2012 | Repeat (exercise of options) |
| **Jackup new build drilling rig** | International drilling contractor | Oil & Gas – New Build Jackup Drilling Rigs | 227.0 | May 2012 | Repeat |
| **Seajacks "Hydra"** | Seajacks | Renewable Energy – Wind Farm Installation Vessels | 120.9 | July 2012 | Repeat |
| **North Sea project** | Not disclosed | Oil & Gas – New Build Offshore Facilities | 40.0 | December 2012 | Repeat |
| **Jackup new build drilling rig (one firm, one optional)** | Jindal Group | Oil & Gas – New Build Jackup Drilling Rigs | Not disclosed | February 2013 | Repeat |

### HSES performance

Lamprell has always held itself to the highest HSES standards. In 2012, the Group achieved some significant HSES milestones across some of the more complex projects, including the achievement of 1 million manhours without lost time incident ("LTI") on the "Jindal Star" jackup drilling rig, the completion of the "Greatdrill Chaaya" with 3.9 million manhours without a single LTI, the completion of NDC "Makasib" and "Muhaiyimat" with 3.4 and 4.1 million manhours without LTI respectively, among others. Even in relation to the underperforming key contracts, Lamprell's commitment to safety was paramount and self-evident as can be seen by the fact that the Windcarrier "Brave Tern" windfarm vessel was delivered after 4.9 million manhours without a single LTI. This strong HSES performance is reflected in the Group's overall results with the achievement of a combined LTI Frequency Rate of 0.22.

To build on this safety track record and to ensure consistency across all divisions and branches, the Group further expanded its Safety Observation Audit Programme ("SOAP") by adding the Work Area Safety Hazard system ("WASH") to assist workers to identify potential hazards at an early stage. Both systems will eventually lead to the launch of a new internal HSES identity programme entitled "Nothing to Chance" which will encompass all aspects of internal HSES management, training, processes and communication in order to further engage the workforce with HSES.

### Quality

Lamprell's reputation is founded upon its ability to deliver high quality projects to its customers on time and on budget and is focused on ensuring delivery of its existing contracts. Lamprell aims to achieve maximum customer satisfaction and quality of product and service. The Company achieves this objective through compliance with all national and international standards and requirements with respect to quality assurance and through ensuring cost-effective jobs and services, and delivery on time. Lamprell achieves this by understanding customer requirements, working together with our customers to meet those requirements, understanding our processes well and monitoring and measuring our activities.

To address some of the challenges faced in 2012, the Group continued to take measures to improve its systems and processes. The Group has reorganised the project management team to allow further control by the respective project manager on the landmark long-term projects. This key change will make project managers more accountable for their respective projects while enabling senior management to have greater visibility of individual projects, thereby improving project controls and reporting. The Company also strengthened the systems controlling key vendor deliveries and, under the leadership of a new Vice President for Procurement and Supply Chain, is working to ensure that new contracts and orders are currently being received in accordance with agreed delivery schedules. The restructuring of the Group's core engineering function headed by a new Vice President for Engineering, has also helped to address some of the engineering-related challenges faced in 2012.

# Risk Assessment

## Principal risks and uncertainties

The Board recognises that Lamprell's business is potentially exposed to many different risks but believes that there are some business risks which can be accepted by the Group provided that acceptance of such risks creates value for the Group and that the risks are properly managed. On that basis, the Board and management take steps to identify and evaluate the inherent risks, thereby enabling better management and mitigation of their impact on the business. Risk management, being critical to achieving the Group's strategic objectives and stakeholders' expectations, is coordinated by senior managers in the Group with the overall responsibility residing with the Board. Outlined below is a description of the principal risks and uncertainties facing the Group, together with the mitigating actions or circumstances.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing and, in light of the events of 2012, the Board has tasked the new management team to refresh the risk management processes. These risk management systems cannot completely eliminate risks and thus there can never be an absolute assurance against the Group failing to achieve its objectives or a material loss arising. In the Board's regular review of the Group's strategic plans, consideration is given to those risks which have been identified as potential impediments to achieving the Group's strategic objectives. The management will, where practicable, deploy strategies to mitigate or transfer risks, such as, for example, the purchase of insurance, the development of contractual mechanisms to limit liabilities, and the employment of expertise either in-house or externally sourced to manage potential hazards.

The risk factors below are not intended to be presented in any assumed order of priority. Any of the risks and uncertainties discussed in this document could have a material adverse effect on the Company's business. In addition, the risks set out below may not be exhaustive and additional risks and uncertainties, not presently known to the Company, or which the Company currently deems immaterial, may arise in the future. In particular, the Company's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements.

| Headline risk | | Potential impact that we face | How we protect the business |
|---|---|---|---|
| **Financial and economic risks (Detailed analysis of the financial risks can be found on pages 69 to 72)** | Availability of financing | If the Company is unable to find financing for its future projects, the business will not grow. | The Company has the support of its lender group and is continuing discussions with the various lenders for the refinancing of its debt, with a view to securing a longer-term financial platform to fund future growth and also, in the short term, to ensure that there is no impact on operations in the meantime. |
| | Liquidity risk | There is a risk that the Company is unable to meet its financial obligations as they fall due. | Management maintains adequate levels of liquidity in the form of cash and committed credit facilities. It also manages the cash flow exposure proactively and very regularly.<br>The financial assets are spread across multiple, creditworthy financial institutions. |
| | Counterparty credit risk | The Company will suffer financial or commercial exposure resulting from the failure of key institutions, customers, partners or subcontractors. | Before entering into major contracts, the Company may undertake credit checks with a view to determining the risk of counterparty default. It has also developed close relationships with key suppliers to ensure early identification of problems and to react quickly. |
| | Geopolitical risk, changes to fiscal regime(s) | The Company operates in markets where legal systems are still developing and which do not offer the certainty or predictability of legal systems in mature markets. Changes could adversely impact the financial condition of the Group. | The majority of the Company's business and personnel are located in the UAE which is a very stable fiscal regime with minimal taxation and with international standards of living and conducting business. |
| | Equity financing risks | The Group may, in the longer term, seek to raise further funds through the issue of additional shares or other securities. Any funds raised in this way may have a dilutive effect on existing shareholdings. | The Board considers that it must be able to avail of all options to fund growth in the business, whichever is determined to be in the best interests of the business including equity financing, if required. |

# Risk Assessment

| Headline risk | | Potential impact that we face | How we protect the business |
| --- | --- | --- | --- |
| **Operational risks** | Project delivery | Failure to deliver on time and/or on budget may subject the Company to financial or commercial risks under the contract with customers and/or reputational damage to Lamprell's franchise.<br>There are also risks attached to delays caused by our subcontractors or suppliers, which will have a knock-on impact to our delivery schedule with the end client. | Lamprell operates a system of procedures and project reviews which, combined with management oversight, rigorous contract management and internal audit, aim to mitigate any risk of unsuccessful project delivery and to improve efficiencies.<br>The Company has developed long and stable relationships with customers and suppliers evidencing the strong track record of successful project execution in our core competencies. The Company will not compete for prototype projects, but rather will focus on projects which are well-understood and where the risks can be managed more effectively. |
| | Human capital risks | There are currently significant challenges to attract and retain sufficient numbers of skilled personnel, on whose performance the Company depends for success; if it loses any of these key personnel, the overall business may be impaired.<br>The Company's ability to perform its contractual obligations may be adversely affected by inflation and rising labour costs, as well as by work stoppages and other labour problems. | By using market-based compensation levels and providing an appealing work environment conducive to development of individual skills and experience, the Company seeks to implement a clear HR strategy designed to align the business strategy with the goal of attracting, developing and retaining the best people for Lamprell.<br>A key differentiator for many staff is that the Company is based in and principally operates out of the UAE which generally has high living standards. |
| | Business disruption | The Company could be subject to substantial liability claims due to the hazardous nature of its business, such as fire and flood, and this potentially can delay or disrupt operations. Certain countries in which the Company's customers operate have experienced armed conflict, terrorism or civil disorder. | Hazards are managed through prevention, mitigation, continuity planning and risk transfer through the purchase of insurance.<br>The Company monitors closely the changing landscape of political risk, particularly high risk countries. |
| | Contractual commitments Warranty claims | The Company could be exposed to liability to customers under contractual provisions (resulting from product defects, faulty workmanship or errors in design as well as warranty claims and other liabilities, or from a failure to identify and report possible contractual risks) that may materially and adversely affect the Company's earnings. | The Company seeks to mitigate these risks through the operation of working practices and processes designed to deliver high quality products and services, as well as seeking contractual limits to its liability, and maintaining an appropriate insurance programme. All significant contracts are reviewed internally prior to submission to the client. |
| | HSES risks | The Company conducts its business within an increasingly strict environmental and health and safety framework and may be exposed to potential liabilities and increased compliance costs. | The Company takes all reasonable steps to ensure that the right people doing the right job to a high quality. It maintains high standards in these important areas through effective HSES leadership and organisational arrangements, together with appropriate policies and planning, which are all in place to deliver a strong culture of safety awareness. |

| Headline risk | | Potential impact that we face | How we protect the business |
|---|---|---|---|
| **Strategic risks** | Competitive environment, cyclical market | Demand for the Company's services may be adversely impacted by a fall in the levels of expenditure by existing customers, or in the market in general.<br>Equally, the Company operates in a highly competitive industry, both regionally and from international competitors. | We market the Company on the basis of its ability to provide and service high quality products and systems.<br>The Company has developed long-term and stable relationships with customers. Existing customers have often awarded new contracts to the Company, showing the underlying strength of the business.<br>The Company operates in both the oil & gas and the renewables sectors. We are continually seeking to differentiate our offering by reviewing our competitive advantage and targeting customers accordingly. |
| | Fluctuations in order book<br>Over-reliance on limited number of customers | The Company operates on a project-by-project basis for major contracts and it does not have long-term commitments with the majority of its customers, which may cause its visible order book to fluctuate significantly (particularly in relation to rig refurbishment work).<br>The Company is dependent on a relatively small number of significant contracts at any given time, some of which are with the same customers. | Given the amount of repeat business from many of our existing clients, this is testament to the Company's ability to consistently deliver high quality products and systems.<br>This risk is addressed by seeking to improve the balance in the business portfolio between clients, service offerings and sectors, crossing both the oil & gas and the renewables sectors. |
| | Mergers and acquisitions | A failure to identify, complete and successfully integrate target acquisitions represents a brake on growth and can also impact morale among employees. | Lamprell has taken various steps to integrate MIS (which was acquired in 2011) into its business, including rebranding, alignment of remuneration packages among employees and regular communication from senior management to all levels of staff. |
| **Compliance and legal risks** | Major shareholder | Lamprell Holdings Ltd, the entity holding a major shareholding in the Company, may have interests which conflict with the interests of other stakeholders. | Lamprell Holdings Ltd.'s shareholding has been stable for years and is a stated long-term strategic shareholder in the Company. |
| | Breach of ethics | A substantive breach of the Lamprell code of conduct and/or non-compliance with laws or regulations may potentially lead to damage to the business, reputation and even to claims for compensation or fines. | Lamprell has implemented a number of enterprise-wide policies and procedures to prevent and/or mitigate the likelihood of any breach or non-compliance including by way of example updating the anti-bribery policy, internal audit reviews and ethics training programmes. Further measures are expected to be taken during 2013 and beyond.<br>The Board and management will take all appropriate action for any breach of the Company's ethical standards. |

**Significant operational issues and delays on a number of Lamprell's large projects adversely affected the Group's financial performance in 2012, resulting in a loss before income tax and exceptional items for the year of USD 105.0 million, as we anticipated in our announcement to shareholders in November 2012.**

# Our financial recovery underway

## Results from operations

In 2012, Lamprell's Group total revenue was down on the previous year to USD 1,045.5 million (2011: USD 1,147.9 million). Revenue arises from various business streams with the majority generated from new build construction projects, which included 10 new build jackup rigs, four liftboats for the offshore wind farm installation sector and two land rigs. Revenue from new build fabrication projects across the Group decreased by 29% to USD 560.0 million (2011: USD 789.7 million).

The reduction in new build revenue was driven primarily by the renewables segment, which saw a substantial reduction to USD 66.4 million (2011: USD 289.1 million). This segment suffered not only from lower levels of activity but also from the Group's contractual obligations to pay liquidated damages for delays in delivery to a number of significant projects, in particular the Windcarrier 1 and Windcarrier 2 wind farm installation vessels which were deducted from the final value of the contract.

The revenues for the Company's new build oil & gas segment, which comprises the fabrication and construction of offshore jackup and land rigs, were broadly in line with the previous year, totalling USD 493.6 million compared to USD 500.6 million in 2011. The small decline in revenues in this segment was a result of the Caspian Sea jackup rig project where, as announced by the Company in November 2012, there were delays which deferred revenues for that project from 2012 to 2013.

The Group has historically performed well in the field of rig refurbishment (which includes both repair and maintenance as well as rig upgrades). However the 2012 revenues for this segment were impacted by lower volumes following a strong performance experienced in 2011, resulting in USD 176.9 million in revenue for the year (2011: USD 191.0 million).

On a more positive note, the Group's offshore platform construction business saw significantly higher levels of revenue during the year following the award of two large projects. Revenue in this segment increased from USD 52.5 million in 2011 to USD 179.7 million in 2012.

Other revenue increased to USD 128.9 million (2011: USD 114.6 million) driven by additional revenue streams from the other businesses that were acquired in 2011 as part of the MIS group of companies.

## Group's losses for 2012

Delays and cost overruns caused by operational issues on a number of major projects resulted in a gross loss of USD 19.6 million for the year (2011: profit of USD 132.9 million), and a corresponding negative gross margin of 1.9% (2011: positive 11.5%). The major components of this loss, which are in line with the Company's announcement to shareholders in November 2012, relate to the following key projects:

> Windcarrier 1 "Brave Tern": USD 36.3 million;
> Windcarrier 2 "Bold Tern": USD 32.5 million;
> Seajacks "Zaratan": USD 7.1 million;
> Caspian Sea jackup project: USD 25.8 million;
> Minor EPC projects: USD 12.0 million.

The operating loss for the year before exceptional items and income tax was USD 84.5 million (2011: profit of USD 90.2 million before exceptional items) and includes marginally higher overhead costs resulting primarily from changes in the executive management team, the consulting fees associated with the external review of the business and an impairment of USD 4.4 million in relation to the continued implementation of the Group's ERP system together with certain lease-hold rights. These costs are partially offset by the effect of other income including a one-off gain of USD 4.3 million in relation to an insurance claim.

EBITDA for the year before exceptional items was negative USD 62.3 million (2011: positive USD 100.8 million before exceptional items). The EBITDA margin declined from 8.8% in 2011 to a negative 6.0% in 2012, reflecting the operating performance of the business.

## Finance costs

Net finance costs in the 2012 period increased to USD 21.5 million (2011: USD 16.2 million). This increase is largely the result of the banking facilities relating to the acquisition of MIS, utilisation of new facilities and increased facility and guarantee charges related to new contract awards in the year.

## Taxation

The tax charge of USD 0.8 million in 2012 is in respect of tax on the Group's service operations in Kazakhstan and Qatar acquired in 2011 as part of the MIS group of companies (2011: USD 0.2 million). The Group is not currently subject to income tax in respect of its operations which are substantially undertaken in the UAE, and the Company does not anticipate any liability to income tax arising on these operations in the foreseeable future. The Company, which is incorporated in the Isle of Man, had no income tax liability, or benefit for the year ended 31 December 2012, as it is taxable at a 0% rate in line with the local tax legislation.

## Net loss and loss per share

The Group recorded a loss before income tax and exceptional items for the year of USD 105.0 million (2011: profit before exceptional items of USD 74.0 million) in line with our expectation as announced in November and the operating losses noted above.

The fully diluted loss per share amounts to 42.45 cents (2011: earnings per share before exceptional items of 26.47 cents) reflecting the operational performance of the Group for the year.

Exceptional items in these financial statements relates to a regulatory fine recorded in the relevant year amounting to GBP 2.43 million (equivalent USD 3.72 million converted at an exchange rate of USD 1.53 per GBP) and related legal expenses of USD 1.0 million. In the prior year, exceptional items related to the acquisition of MIS.

## Operating cash flow and liquidity

The Group's net cash flow from operating activities for the year reflected a net inflow of USD 250.7 million (2011: net outflow of USD 54.6 million) generated by a combination of successful post-MIS project completions, in particular the sale proceeds of Hull 108 for USD 126.5 million in May 2012, and improved working capital management. Prior to working capital movements, the Group's net cash outflow was USD 50.8 million (2011: inflow of USD 101.4 million) due to the losses described above.

Net cash outflow from investing activities totalled USD 18.5 million (2011: USD 408.8 million). The change is a result of lower levels in investment activity compared to 2011, which included the acquisition of MIS, as well as reduced margin deposits of USD 22.3 million.

Net cash used in financing activities was an outflow of USD 148.9 million (2011: inflow of USD 371.1 million). This largely arose from repayment of borrowing of USD 173.9 million including mandatory repayment of debt under the MIS acquisition facilities, which were drawn in July 2011, and an increase in finance costs due to servicing of this debt.

## Capital expenditure

Following significant investment in 2011 resulting from the completion of our Hamriyah facility, and as a result of losses made during 2012, the Group had reduced capital expenditure i n 2012. Expenditure on property, plant and equipment during the year amounted to USD 16.8 million (2011: USD 55.5 million). The main areas of expenditure were buildings and related infrastructure at Group facilities (including capital work in progress completions) amounting to USD 8.2 million (2011: USD 26.0 million) and operating equipment of USD 6.5 million (2011: USD 9.9 million).

## Balance sheet

Total non-current assets at the end of 2012 were USD 390.4 million (2011: USD 417.1 million), which have been negatively impacted by a USD 9.5 million decrease in the net book value of property, plant and equipment and a USD 11.0 million decrease in identified intangible assets due to higher depreciation and amortisation charges following the completion of the MIS acquisition and the minor impairment of intangibles referenced above.

Trade and other receivables decreased to USD 398.3 million (2011: USD 668.8 million) as a result of a number of successful project completions, namely the disposal of Hull 108 and the completion of the Seajacks "Zaratan" project, and the improved debtor management within the business. The working capital position improved significantly in the last quarter of 2012 as the Group's collection of trade debtors and other receivables improved and accordingly the Group ended the year with a strong net cash position of USD 104.1 million (2011: net debt of USD 101.7 million).

Of the total cash of USD 263.4 million at 31 December 2012, USD 115.3 million was restricted in the form of margin deposits primarily for guarantees on major projects.

The period end outstanding borrowings was USD 159.3 million (2011: USD 251.1 million), which has reduced as a result of the part repayment of the debt facility used for the MIS acquisition.

Shareholders' equity decreased from USD 533.9 million at 31 December 2011 to USD 406.1 million at 31 December 2012. The movement reflects lower retained earnings of USD 192.8 million (2011: USD 322.2 million) and a total comprehensive loss for the year of USD 109.0 million (2011: comprehensive income of USD 61.4 million).

### Restructuring of debt facilities and going concern

The consolidated financial statements have been prepared on a going concern basis. The ability of the Group to continue as a going concern is reliant upon the continued availability of external debt financing and access to bank guarantees for its major projects. The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long-term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

The Group expects to conclude discussions with lenders in a satisfactory manner and has continued to meet all interest and other payment obligations. After reviewing its cash flow forecasts for a period of not less than 12 months, from the date of signing of these financial statements, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

### Dividends

Given the post-tax losses in 2012, the Board of Directors of Lamprell recommends that the Group makes no dividend payment for the year. We look to the future with optimism, and will review our dividend policy once the business returns to profitability.

### Financial outlook

The Board anticipates that in the early part of 2013 revenue levels will decrease due to reduced activity. However, activity levels are expected to improve towards the middle of the year in line with the solid order book which is already USD 1.3 billion. In the longer-term, the Company is encouraged by the strong bidding activity across the business with the pipeline totalling more than USD 4.1 billion. The Company has taken and will continue to take further action to stabilise the business and prepare the foundations for growth in the coming years, by focusing on its traditional areas of strength.

With all this in mind, the Company expects 2013 to be a recovery year, with stable revenues as compared to 2012 and a gradual return to profitability during the year.

**Frank Nelson**
Chief Financial Officer

# Corporate Governance
# Board of Directors

## John Kennedy (63)
Non-Executive Chairman

**Appointment**
Appointed as a Director and the Non-Executive Chairman on 15 June 2012

**Committee membership**
Appointed as Chairman of the Nomination Committee on 23 August 2012
Member of the Audit and Remuneration Committees

**Skills and experience**
Mr Kennedy is a highly experienced engineer who spent most of his executive career in the oilfield services sector. He started his career in Schlumberger and then moved to Halliburton where he ultimately held the role of Executive Vice President. From 2003 to 2011 Mr Kennedy held the position of Executive Chairman of Wellstream Holdings Plc, a FTSE 250-listed plc, until its successful acquisition by GE in 2009. Currently he also serves as an advisor and consultant to several oilfield service companies. In 1993, Mr Kennedy received the Sloan Fellowship, London Business School. He is a Chartered Engineer (CEng) and fellow of the Institution of Electrical Engineers (FIEE). Mr Kennedy also holds an MSc in 1993, BE in 1972, and CEng from University College Dublin.

**Current external appointments**
Non-Executive Director of CRH plc
Non-Executive Chairman of Maxwell Drummond International Limited, Hydrasun Holdings Limited, Welltec A/S and BiFold Group Limited.

## Jonathan Silver (60)
Deputy Chairman

**Appointment**
Appointed to the Board on 24 August 2007
Appointed as the Chairman of the Company on 27 March 2009 and remained in that role until June 2012, when he assumed the role of Deputy Chairman

**Committee membership**
Member of the Nomination Committee

**Skills and experience**
Jonathan qualified as a solicitor in 1978, working first in London and later in the United Arab Emirates. In 1981, he started his own practice in the UAE and merged that practice with Clyde & Co in 1989. Since then he has headed up Clyde & Co's operations in the region, creating the largest international law firm operating in the Middle East. Jonathan chairs Clyde & Co's regional management board and represents the region on the firm's global management board. Jonathan has worked in the areas of international banking and finance, mergers & acquisitions, private equity, project and construction work involving him in most sectors of commercial activity including international trade, energy, construction, shipping, commodities and insurance. Jonathan has, for more than 20 years, been associated with the Lamprell Group, providing legal advice on numerous matters.

**Current external appointments**
Director of Tri-Emirates Investments Limited and its various subsidiary companies
Director of CCIP Limited and its subsidiary company

## James Moffat (59)
Chief Executive Officer

**Appointment**
Appointed as the Chief Executive Officer on 1 March 2013 and appointed to the Board with effect from 19 March 2013

**Committee membership**
None

**Skills and experience**
James Moffat has over 35 years of experience in the offshore engineering, construction and project management sectors. From 1996 and until joining the Lamprell Group, Mr Moffat was employed with KBR group of companies, working in various roles including heading up the KJV on the Gorgon Project, Australia since August 2010 and, before that, acting as VP of worldwide Offshore Construction and, subsequently VP Project Management (Asia Pacific) from 2008 to 2010. As the General Manager of KJV (Gorgon), Mr Moffat managed a very large integrated project management team comprising contractor and client staff.

Mr Moffat worked for the McDermott group from 1977 to 1996 where he latterly managed the Batam facility in Indonesia. Before his time in Indonesia, Mr Moffat was working for the McDermott group in Scotland, concentrating on the structural and engineering requirements for construction and load-out of jackets, decks and modules.

Mr Moffat is a Chartered Engineer and has a BSc (Hons) in Civil Engineering from Edinburgh University and is a member of the Institution of Civil Engineers.

**Current external appointments**
None

## Peter Whitbread (68)
Executive Director

### Appointment
Appointed as an Executive Director and the Interim Chief Executive Officer on 4 October 2012, before standing down as the Interim Chief Executive Officer on 1 March 2013

### Committee membership
None

### Skills and experience
A Chartered Quantity Surveyor with over 35 years of experience in the oil & 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. Peter joined Lamprell in 1992, holding a variety of senior positions until he was appointed as the Chief Executive Officer of the Group in 2006. He held this position until May 2009 and was also the Chairman of the Group until 5 February 2008. He was appointed as the Director of International Development in May 2009. During his career he has held a number of other senior management positions and directorships with marine construction companies in the Middle East region.

### Current external appointments
None

## Colin Goodall (68)
Senior Independent Non-Executive Director

### Appointment
Appointed to the Board on 14 September 2008
Appointed as Senior Independent Non-Executive Director on

19 January 2009

### Committee membership
Appointed as Chairman of the Remuneration Committee on 23 August 2012
Member of the Audit and Nomination Committees

### Skills and experience
Colin was the former Chairman of Dana Petroleum plc and Parkmead Group plc. Colin qualified as a chartered accountant and is a member of the Chartered Institute of Taxation. He spent most of his career in the upstream oil & gas industry with BP plc, where he joined the finance team in 1975, later becoming the first Chief of Staff within the BP Group. From 1995 to 1999 he served as Chief Financial Officer for BP Europe and then as BP's senior representative in Russia. His career has involved assignments in Africa, the Middle East, Europe, Russia and the Americas.

### Current external appointments
Non-Executive Chairman of Sindicatum Sustainable Resources Ltd.
Non-Executive Chairman of Golden Horde Ltd.
Non-Executive Chairman of Australia Oriental Minerals

## Deena Mattar (47)
Non-Executive Director

### Appointment
Appointed as a Non-Executive Director on 1 April 2012

### Committee membership
Appointed as Chairman of the Audit Committee on 23 August 2012
Member of the Remuneration and Nomination Committees

### Skills and experience
Deena served as Group Finance Director of Kier Group plc, a major construction, property and services group, from 2001 to 2010, having joined Kier in 1998 as Finance Director of Kier National, a major division of that group. Prior to this she held senior positions at KPMG where she was involved in both audit and transaction services. Deena is a Fellow of the Institute of Chartered Accountants in England and Wales.

### Current external appointments
Non-Executive Director of Invensys plc
Non-Executive Director of RM plc.
Non-Executive Director of Wates Group Limited, a privately owned construction business

## Frank Nelson (61)
Chief Financial Officer

### Appointment
Appointed as the Interim Chief Financial Officer on 12 November 2012
Appointed to the Board and as Chief Financial Officer on 21 March 2013

### Committee membership
None

### Skills and experience
Prior to joining Lamprell, Frank was Finance Director of construction and house-building group Galliford Try Plc from 2000 until October 2012. He was previously Finance Director of Try Group Plc from 1987, leading the company through its flotation on the London Stock Exchange in 1989, business expansion throughout the 1990s, and subsequently the company's merger with Galliford in 2001 to form a leading UK player in construction. In all, Frank has over 25 years of experience in the construction, contracting and energy sectors. He has been a Fellow of the Institute of Cost and Management Accounting since 1975.

### Current external appointments
Non-Executive Director of Thames Valley Housing Association

# Corporate Governance
# Directors' Report

The Directors present their Annual Report on the affairs of the Company and the Group together with the financial statements and Auditor's Report, for the year ended 31 December 2012. Lamprell plc is the holding company of the Group, and it was admitted to listing on the main market of the London Stock Exchange on 6 November 2008.

## Principal activities

The principal activity of the Group is the provision of diversified engineering and contracting products and services to the onshore and offshore oil and gas and renewables industries. The Group operates through a number of subsidiaries which are set out in Note 1 to the financial statements.

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

## Results and dividends

The financial statements of the Group for the year ended 31 December 2012 are set out on pages 51 to 58. The Group's loss before income tax and exceptional items for the year amounted to USD 105.0 million (2011: profit before exceptional items of USD 74.0 million).

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2012.

There was a reduction of USD 129.4 million (2011: increase of USD 35.2 million) in retained earnings for the year ended 31 December 2012 representing the loss for the year, the dividend declared in respect of 2011, adjustments for share-based payments and the purchase of treasury shares. For details refer to the Consolidated Statement of Changes in Equity on page 55.

## 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 6 to 7, the Chief Executive's Review on pages 8 to 11, the Operations Highlights on pages 12 to 15, and the Financial Review on pages 20 to 23.

## Principal risks and uncertainties

The Board has established a process for identifying, evaluating and managing the significant risks the Group faces. A detailed analysis of the principal risks and uncertainties can be found on pages 16 to 19.

## Corporate governance and corporate social responsibility

The Corporate Governance Report on pages 29 to 36 and the Corporate Social Responsibility Report on page 49 in combination provide full details on the efforts made by the Company in these areas.

## Directors' Remuneration Report

Details of Directors' remuneration for the year ended 31 December 2012 can be found in the Directors' Remuneration Report on pages 37 to 48.

## Directors

The Company's Articles of Association provide for a Board of Directors consisting of not fewer than two but not more than 12 Directors, who manage the business and affairs of the Company. The Directors may appoint additional or replacement Directors, who shall serve until the next AGM of the Company at which point they will be required to stand for re-election by the members.

At each AGM one third or the number nearest to one third of the Directors are required to retire by rotation and they may stand for re-election. A Director may be removed from office at a general meeting by the passing of an Ordinary Resolution. At the Company's 2013 AGM all current Executive and Non-Executive Directors will retire and seek re-election (in accordance with the UK Corporate Governance Code), except for Deena Mattar and Colin Goodall.

The Directors who served in office during the financial year were as follows:

- John Kennedy (appointed on 15 June 2012)
- Jonathan Silver
- Colin Goodall
- Deena Mattar (appointed on 1 April 2012)
- Peter Whitbread (appointed on 4 October 2012)
- Richard Raynaut (retired on 7 June 2012)
- Brian Fredrick (resigned on 14 June 2012)
- Nigel McCue (stood down from the Board on 3 October 2012)
- Christopher Hand (stood down from the Board on 3 October 2012)
- Jonathan Cooper (stood down from the Board on 3 October 2012)
- James Moffat was subsequently appointed to the Board on 19 March 2013.

## Directors' interests

The Directors' interests in the ordinary shares of the Company are set out in the Directors' Remuneration Report on pages 37 to 48.

## Capital structure and significant shareholders

Details of the authorised and issued share capital together with details of movements in share capital during the year are included in Note 26 to the financial statements. The Company has one class of share in issue, ordinary shares of 5 pence each, all of which are fully paid. Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Company's Articles of Association and applicable laws. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. There are no restrictions on the transfer of shares.

Details of employee share schemes are disclosed on pages 41 to 42 of the Directors' Remuneration Report and in Note 8 to the financial statements. During the year the following awards of ordinary shares of 5 pence were granted:

| | Granted | | Outstanding | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Lamprell plc Free Share Award Plan | **287,500** | Nil | **217,500** | Nil |
| Lamprell plc Retention Share Plan | **Nil** | Nil | **Nil** | Nil |
| Lamprell plc Executive Share Option Plan | **Nil** | Nil | **Nil*** | 50,531 |
| Lamprell plc Performance Share Plan | **507,216** | 377,960 | **161,918** | 930,833 |

* All Directors' Outstanding Executive Share Options were exercised during 2012. Please see the Directors' Remuneration Report on pages 37 to 48 for more details.

The awards under the Lamprell plc Free Share Plan, the Lamprell plc Retention Share Plan and the Lamprell plc Performance Share Plan are granted at Nil price.

Pursuant to the Company's share schemes, the Employee Benefit Trust, as at the year-end, held a total of 14,686 (2011: 449,734) ordinary shares of 5 pence, representing less than 0.01% (2011: 0.17%) of the issued share capital. The voting rights attaching to these shares cannot be exercised directly by the employees, but can be exercised by the Trustees. However, in line with good practice, the Trustees do not exercise these voting rights. In the event of another company taking control of the Company, the employee share schemes operated by the Company have set change of control provisions. In short, awards may, in certain circumstances and in approved proportions, be allowed to vest early or be allowed to be exchanged for awards of equivalent value in the acquiring company.

The Company was given authority at the 2012 AGM to make market purchases of up to 26,000,000 ordinary shares of 5 pence. This authority will expire at the 2013 AGM, where approval from shareholders will be sought to renew the authority.

Approval from shareholders is also proposed to be sought to authorise the Directors to allot the Company's unissued shares up to a maximum nominal amount of £3,900,000, representing approximately 30% of the Company's current issued ordinary share capital (excluding treasury shares) and to issue equity securities of the Company for cash to persons other than existing shareholders, other than in connection with existing exemptions contained in the Company's Articles of Association or in connection with a rights, scrip dividend, or other similar issue, up to an aggregate nominal value of £650,000, representing approximately 5% of the current issued ordinary share capital of the Company. Similar authorities were given by the shareholders at the AGM in 2012 and the authorities now sought, if granted, will expire on the earlier of the conclusion of the AGM of the Company next year and the date which is 15 months after the granting of the authorities.

As at 20 March 2013, being the latest practicable date prior to the publication of this Annual Report, the significant interests in the voting rights of the Company's issued ordinary shares as per notification received by the Company (at or above the 3% notification threshold) were as follows:

| | Voting rights attaching to issued total of ordinary shares | % of total voting rights |
|---|---|---|
| Lamprell Holdings Limited | 86,234,127 | 33.12 |
| Schroder plc | 31,198,599 | 11.98 |
| Massachusetts Financial Services Co | 13,328,527 | 5.12 |
| Legg Mason Inc | 12,968,030 | 4.98 |

## Essential contracts

There are no individual contracts or other arrangements which are deemed essential to the Group's business.

## Annual General Meeting

The Company's 2013 Annual General Meeting ("AGM") will be held at Level 15, Rolex Tower, Sheikh Zayed Road, Dubai, United Arab Emirates on Monday 27 May 2013 at 10:00 AM (UAE time). The notice of meeting and an explanatory circular to shareholders setting out the AGM business accompanies this Annual Report.

## Payment policy

The Group's policy in respect of its vendors is to agree and establish terms of payment when contracting for the goods or services and to abide by those payment terms. The Company is the holding company of the Group and has no trade creditors.

## Charitable and political donations

During the year the Group made no political donations (2011: Nil), and made charitable donations amounting to USD 62,708 (2011: USD 62,000).

# Corporate Governance
# Directors' Report

## Auditors
As far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. In addition, each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The auditor for the year ended 31 December 2012 was PricewaterhouseCoopers. PricewaterhouseCoopers has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

## Going concern
The consolidated financial statements have been prepared on a going concern basis. The ability of the Group to continue as a going concern is reliant upon the continued availability of external debt financing and access to bank guarantees for its major projects. The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long-term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

The Group expects to conclude discussions with lenders in a satisfactory manner and has continued to meet all interest and other payment obligations. After reviewing its cash flow forecasts for a period of not less than 12 months, from the date of signing of these financial statements, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

The financial information has been prepared under the historical cost convention, except as disclosed in the accounting policies below.

## 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 2012 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and 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 the 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.

## Subsequent events
As announced in December 2012, James Moffat joined the Company in the role of Chief Executive Officer on 1 March 2013. Mr Moffat was then appointed to the Board on 19 March 2013. The interim Chief Executive Officer, Peter Whitbread, stepped aside from that role on 1 March 2013 but retained his position as an Executive Director on the Board.

The Company announced on 18 March 2013 that it had concluded a settlement with the Financial Services Authority ("FSA") in relation to the FSA's investigation into the Company's handling of inside information, as previously announced to the market. As a result, the FSA has found that Lamprell breached Listing Principle 2, DTR 1.3.4R, DTR 2.2.1 and LR 9 Annex 1 (R) and imposed a fine of GBP 2,428,300 on Lamprell (which had been discounted by 30% pursuant to the stage 1 early settlement discount scheme).

By order of the Board

**Alex Ridout**
Company Secretary
20 March 2013

## Committee Membership

| Audit Committee: | Length of Service on Committee: |
|---|---|
| Deena Mattar* | 1 year |
| Colin Goodall | 4.5 years |
| John Kennedy | 0.5 years |

| Nomination Committee: | Length of Service on Committee: |
|---|---|
| John Kennedy | 0.5 years |
| Jonathan Silver | 1.5 years |
| Colin Goodall | 4.5 years |
| Deena Mattar | 1 year |

| Remuneration Committee: | Length of Service on Committee: |
|---|---|
| Colin Goodall | 4.5 years |
| John Kennedy | 0.5 years |
| Deena Mattar | 1 year |

| Senior Independent Non-Executive Director |
|---|
| Colin Goodall |

* Audit Committee Financial Expert.

## Letter from the Chairman

It is the Board's duty to create a culture of strong corporate governance and transparency within Lamprell and in this way provide a clear direction and strong and effective leadership for the business as a whole. Good governance sets the tone for an organisation and any company that fails to maintain such standards will suffer as a result.

My primary focus since I became your Chairman in June 2012 has been to stabilise the business and to steer the business back to focus on its core competencies. To this end, the Board has concentrated on a few key issues. The top priority was to establish the right kind of relationship between the Board and the executive management team, where the management team reports on key projects in an effective and comprehensive manner and submits proposals to the Board and the Board in turn delivers an appropriate balance of positive support combined with healthy, constructive challenge where required.

The Board has been forced to restructure itself during the course of 2012 and all three Executive Directors left the Board in October 2012. However, there have been some welcome changes on the Board including the appointment of Deena Mattar as an independent Non-Executive Director. Deena represents the first woman to be appointed to the Board but, more than this, her wealth of experience in the area of financial reporting and in acting on the board of a large listed company has been invaluable. This has helped to strengthen the control framework for the business.

Contrary to previous years, in 2012 the Board has decided not to undertake a process for evaluation of the effectiveness of the Board and the individual Directors because of the many changes to the Board composition during the year and because of the recent arrivals of Peter Whitbread and James Moffat as Executive Directors. This may be contrary to best practice but we are working towards creating a good, strong mix of skills represented on the Board, though additional work is required to ensure that the complexity of Lamprell's business is reflected at Board level.

I have had many discussions with key stakeholders in our business and these have allowed me to understand better their views on our Company, its strategy and perceived risks facing the business. In return, I will ensure that clear views and a strong leadership translate into effective risk management and a focus by the Company on its strengths.

Finally, looking forward to 2013, enhanced corporate governance will remain a high priority for me as well as the wider Board. As well as looking to make further appointments to the Board, I expect the Board to place particular emphasis on monitoring and mitigating risk and controls, as well as on the structured approach to risk management across the enterprise.

**John Kennedy**
Non-Executive Chairman
Lamprell plc
20 March 2013

# Corporate Governance Report

## Listings and Corporate Governance Codes

The Company is incorporated in the Isle of Man. The Company has a Premium Listing on the Official List of the London Stock Exchange and therefore, the Board maintains a strong commitment to the highest standards of corporate governance with the application of the provisions of the UK Corporate Governance Code (the "Code") to the business, as if the Company was incorporated in the United Kingdom. The Company has largely complied with the provisions of the Code throughout the year ended 31 December 2012, with the only exceptions as set out and explained below.

## The Board

### Role of the Board

The role of the Board is to provide leadership of the Company, 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 material contracts, succession planning and appointments to the Board, executive remuneration and reviewing the Company's overall corporate governance arrangements.

### Composition and balance of the Board

The Board at the date of publication has six Directors, consisting of the Non-Executive Chairman, three Non-Executive Directors and two Executive Directors. The Board of Directors represents a strong combination of industry specific, regional and operational experience, supported by the diverse professional skills and experience of the Non-Executive Directors.

It has been a very busy year with many changes at the Board, some planned and others required in reaction to the events of 2012. The Company is delighted to welcome John Kennedy, Deena Mattar, Peter Whitbread and Jim Moffat to the Board of Directors, further enhancing the Board's skills, experience and diversity. Meanwhile, the Company notes that Nigel McCue, Jon Cooper and Chris Hand stood down from the Board and also notes the retirement of Richard Raynaut and resignation of Brian Frederick as Directors respectively.

The Directors believe that the current extensive knowledge and experience of the Non-Executive Directors, combined with the focus and experience of the Executive Directors, enable the Board to lead and give direction to the Group without any imbalance that may allow any individual or group of individuals to dominate its decision-making. Any Director having a concern in this or any other regard may raise this with the Chairman or the Senior Independent Non-Executive Director, Colin Goodall.

The current membership of the Board and the commitments of the Directors are detailed on pages 24 to 25, which records the names of the Chairman, the Senior Independent Director and the Chief Executive Officer. The names of the Chairmen and members of each of the principal Board Committees are detailed along with the biographical information on each of the Directors which can be found on pages 24 to 25.

### Independence on the Board

The Board considers that independence is a matter of judgement and therefore it believes that the Non-Executive Directors should be free from any business or other relationships that could materially interfere in the exercise of their independent judgement. It is the Board's policy to provide its Non-Executive Directors with fair remuneration for the contribution they make with respect to the business and affairs of the Company and the responsibilities they undertake in performing their duties as Non-Executive Directors.

The Board considers the Non-Executive Chairman and two of the Non-Executive Directors to be independent in accordance with the definition of the Code and their appointment to be in the best interests of the shareholders. The Deputy Chairman, Jonathan Silver, is not considered to be independent in accordance with the definition of the Code. However, in light of his experience and detailed knowledge of the Company and the Middle East, the Board has determined that his continuing role is in the best interests of the Company and its shareholders.

In light of the above, at the time of publication of this report, only two out of five members of the Board (excluding the Chairman) are considered as independent Non-Executive Directors. This is consistent with the requirements for "smaller companies" as defined by the Code, although it should be noted that, for much of the first half of 2012, the Company was not considered a "smaller company" as it was a member of the FTSE250 index. The Board is actively searching for additional candidates to act in the role of independent Non-Executive Directors and the Company will make announcements in that regard as required.

### Attendance at meetings during 2012

The Board plans to meet at least six times in a year but, in 2012, the Board actually met a total of 14 times due to the extraordinary events that took place during the year. Because of the urgency of many issues arising from those events, many of the meetings were conducted by telephone conference call. However, the Board was still able to attend scheduled Board meetings with the Directors present in person on six occasions.

The Board executes a number of resolutions in writing to conduct Company business. The Chairman and Non-Executive Directors met without the executives present when necessary and the Executive Directors maintain frequent verbal and written contact with the Non-Executive Directors to discuss various issues affecting the Company and its business. The agenda for each Board and Committee meeting is considered by the relevant Chairman and papers for each scheduled formal Board and Committee meeting are distributed by the Secretary to the Board beforehand. The Chairman maintains regular contact with the Executive Directors to discuss specific issues.

Attendance by the Directors at the meetings of the Board and its Committees during 2012 is summarised in the table below:

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Total number of meetings** | 13 | 2 | 7 | 3 |
| **Current Directors** | | | | |
| John Kennedy[1] | 8 | 1 | 2 | 1 |
| Jonathan Silver | 13 | n/a | n/a | 2 |
| Colin Goodall | 12 | 2 | 7 | 3 |
| Deena Mattar[2] | 11 | 1 | 5 | 1 |
| Peter Whitbread[3] | 5 | n/a | n/a | n/a |
| **Former Directors** | | | | |
| Nigel McCue[4] | 8 | n/a | n/a | n/a |
| Jon Cooper[4] | 8 | n/a | n/a | n/a |
| Chris Hand[4] | 8 | n/a | n/a | n/a |
| Brian Fredrick[5] | 5 | 0 | 3 | 2 |
| Richard Raynaut[6] | 0 | 1 | 0 | 0 |

1 John Kennedy joined the Board of Directors on 15 June 2012.
2 Deena Mattar joined the Board of Directors on 1 April 2012.
3 Peter Whitbread joined the Board of Directors on 4 October 2012.
4 Nigel McCue, Jonathan Cooper and Chris Hand stood down from the Board on 3 October 2012.
5 Brian Fredrick resigned as a Director on 14 June 2012.
6 Richard Raynaut retired from the Board on 7 June 2012.

### Chairman of the Board and Chief Executive Officer ("CEO")

Until he stood down on 15 June 2012, Jonathan Silver was the Non-Executive Chairman. Mr Silver is a partner of a firm that represents the Company as one of its legal advisers and was therefore deemed not independent on appointment as the Chairman of the Company.

John Kennedy assumed the role of Non-Executive Chairman on 15 June 2012 and the Board determined that he was independent within the definition in the Code and that his appointment as the Chairman of the Company was in the best interests of the Company and its shareholders.

Nigel McCue was the Chief Executive Officer and an Executive Director until 4 October 2012 when he was replaced by Peter Whitbread who was appointed as Interim Chief Executive Officer and an Executive Director. Mr Whitbread assumed this management role until he stood down on 1 March 2013 but he continued in the role of an Executive Director thereafter. James Moffat took up the role of full-time Chief Executive Officer with effect from 1 March 2013 and was subsequently appointed as an Executive Director on 19 March 2013.

There is a documented and approved split within the Group for the roles and responsibilities between the Chairman and the CEO, which are summarised below.

The Chairman manages the Board and leads implementation of Board decisions meaning that he:

- presents a strong and coherent leadership to external stakeholders;
- leads the Board to drive the strategic leadership for the Group including vision and direction;
- chairs all Board and general meetings, and ensures that they are run in an effective and efficient manner;
- ensures that there are constructive and effective relationships and open communication between all Directors, and between the Board and the management team;
- leads the Board and Committee performance evaluation and Director induction processes;
- ensures effective communication with shareholders and that the views of key stakeholders are understood by the Board; and
- operates the Board smoothly and efficiently for effective decision-making to ensure the long-term sustainability of the business.

# Corporate Governance Report

The CEO has the Board's delegated authority on all matters of management and is accountable for the same (where such matters are not reserved for the Board) meaning that, among other things, he:

> leads the Executive Directors and the senior executive team in the day-to-day running of the Group's business, including chairing the Executive Committee and communicating its decisions/recommendations to the Board;
> executes the Group's business plans and objectives;
> establishes organisation structure, plans and policies and effectively implements the same;
> recommends the Group's business plans and budgets prior to Board approval;
> monitors and appraises performance of all key management personnel;
> reviews operational and financial performance of the Group against established goals;
> manages the Group's risk profile;
> together with the CFO, communicates with investors, analysts, shareholders and the market; and
> together with the Chairman, presents a strong and coherent leadership to external stakeholders.

**Appointments to the Board**

Appointments to the Board are ordinarily based on the recommendation of the Nomination Committee. The composition and working of the Nomination Committee are explained under "Principal Board Committees" on page 33. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during normal business hours and will be available at the AGM 15 minutes prior to the meeting and during the meeting.

**Induction and training**

A formal induction programme is provided to new Directors on their appointment. The programme is designed to cover Companies Act requirements, dealing restrictions as outlined in the Disclosure and Transparency Rules and the Model Code on Directors' dealings in securities contained in the Listing Rules of the Financial Services Authority in the United Kingdom, Board and business related matters, meetings with senior management, site visits and the opportunity to meet with major shareholders.

The Company encourages Directors to refresh their knowledge and skills and to keep up to date with the latest developments in corporate governance, financial reporting, the oilfield construction industry and wider market conditions. The Board and its Committees receive briefings on legislative and regulatory developments and new accounting requirements as appropriate and believe that, given the experience and skills of its Directors, the identification of general training needs is best left to individual discretion.

**Retirement and re-election of Directors**

In accordance with the Company's Articles of Association, all Directors are subject to re-election at the first AGM after their appointment and one third, or the number nearest to one third of the Board, shall retire from office at every Annual General Meeting. Any Director who has been in office for more than three years at the start of an Annual General Meeting shall also retire. At the Company's 2013 AGM all current Executive and Non-Executive Directors will retire and will offer themselves for re-appointment in accordance with section B.7.1 of the Code, with the exception of Colin Goodall and Deena Mattar.

**Performance appraisal and Board evaluation**

In the ordinary course and pursuant to the provisions of the Code, a performance evaluation of the Board (along with the Chairman and the other Directors, the Committees and their members) would take place on an annual basis. However, the year under review was not in the ordinary course and so the Board has not undertaken the evaluation process; there were numerous changes in the composition of the Board and at different times of the year, meaning the Board considers that any performance evaluation process would not deliver results of relevance or value.

The Board expects to re-establish the proper and formal performance evaluation process for 2013 and it will report the results in next year's Annual Report.

**Remuneration of Directors**

The principles and details of Directors' remuneration are contained in the Directors' Remuneration Report on pages 37 to 48. The composition and working of the Remuneration Committee are explained under "Principal Board Committees" on page 33.

**Insurance**

The Company maintains Directors' and Officers' Liability insurance cover, the level of which is reviewed annually by the Board and is determined to be appropriate in the circumstances.

**Secretary and external advisers**

Our Secretary to the Board is responsible to the Board, is available to individual Directors in respect of Board procedures and provides general support and advice. He ensures that the Board is kept properly informed and is consulted on all matters reserved to it, and that written materials and other information are delivered in a timely fashion.

The Directors are also entitled to take independent professional advice, at the Company's expense, if required.

**Conflicts of interest**

The Board has procedures in place for the disclosure of conflicts of interest. Prior to appointment, director-elects provide information on any conflicts of interest by means of a questionnaire, and thereafter potential conflicts are considered at the relevant time during each Board meeting, as they arise. Accordingly, each Director is aware of his or her duties to avoid a situation where he or she has a potential actual conflict of interest, the requirement to keep the same under review and to inform the Chairman and the Company Secretary of any change in circumstances, which are duly minuted.

**Securities dealing policies and codes**

Details of the shares and interests held by the Directors are set out on page 47. Lamprell has a share dealing policy that applies to all Directors and senior management. Under the policy, Directors are required to obtain clearance from the Chairman and Chief Executive before dealing in Lamprell's securities. Directors and management are prohibited from dealing in Lamprell's securities during designated prohibited periods and at any time at which the individual is in possession of inside information (as defined in the relevant legislation). This policy adopts the terms of the Model Code, as set out in the Listing Rules published by the UK Listing Authority.

## Principal Board Committees

The Board is principally assisted by the Audit, Remuneration and Nomination Committees. A summary of the activities of each principal Committee is set out below. The Committees are constituted with appropriate written terms of reference, which are reviewed annually and are available on the Company's website. The Committee terms of reference did not require any material changes further to the annual review. 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

#### Membership and meetings

The members of the Audit Committee are Deena Mattar, who acts and has acted as Chairman since 23 August 2012, Colin Goodall and John Kennedy. 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 that may, or could or would be likely to, or that appears to, affect their judgement.

The Audit Committee met (including meetings by conference call) twice during the year and the attendance at its meetings is reported on page 31. Meetings of the Audit Committee are supposed to be held not less than three times a year. While the actual number of formal meetings was less than the prescribed number, one of the meetings which ordinarily would have been held during the financial year was delayed until February 2013. In addition, due to the extraordinary events of 2012, a number of additional Board meetings were held which addressed many of the issues which would, in the ordinary course, be addressed by the Audit Committee.

The Chief Financial Officer is invited to attend meetings, where appropriate, and the Company's auditors (both internal and external) are regularly invited to attend meetings. Other Board members are invited to attend, although at least once a year the Audit Committee meets the Company's external auditors without management being present.

#### Role of the Audit Committee and areas of key focus during 2012

The terms of reference of the Audit Committee include consideration of matters relating to the appointment and activities 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 Audit Committee also reviews the effectiveness of the Group's system of internal controls and monitors the procedure to ensure that employees may raise ethical concerns in confidence.

The areas of key agenda items for review by the Audit Committee in 2012 included:

- the financial statements for the Group, both for the financial year 2011 as well as 1H 2012;
- review of the internal audit reports and plans;
- external auditor's independence, objectivity and the effectiveness;
- the control environment and systems; and
- anti-bribery and corruption policy and procedures for the business.

In addition, at the Committee meeting in February 2013, the Committee reviewed the report by the external consultants relating to the underperforming major projects.

#### External auditors

PricewaterhouseCoopers acted as the Company's external auditors throughout the year and provide the Audit Committee with relevant reports, reviews, information and advice and the Audit Committee adjudged that they remained effective. In making the assessment, the Committee had due regard to their expertise, resourcing and independence. The Committee remains satisfied of their effectiveness. The Committee was also pleased with the rapid response by PricewaterhouseCoopers to the Company's request to undertake the comprehensive review of the underperforming major projects. In accordance with UK regulations, PricewaterhouseCoopers adheres to a partner rotation policy based on best practices.

The Audit Committee has reviewed the performance of PricewaterhouseCoopers, the external auditors, who retire at the end of the AGM and recommends their reappointment. The Board concurs with the recommendation of the Audit Committee.

#### Non-audit services and activities

The Audit Committee has overall responsibility for ensuring that the external auditors' independence and objectivity are not compromised. One of the key risks to this is the provision of non-audit services by the external auditor. During 2012, in addition to undertaking the external audit, PricewaterhouseCoopers was also engaged to provide various other advice including in connection with our Russia and Iraqi operations and with our refinancing efforts. Further, during Q4 2012, PricewaterhouseCoopers also performed an extensive review of various underperforming, key projects which underpinned the Company's announcement regarding the same on 19 November 2012.

The Audit Committee, in accordance with the Policy on Auditor Independence adopted by the Group, and having considered the nature of work carried out believes that, whilst being cost effective, the appointment of the external auditors to provide this advice did not affect the objectivity, or the independence, of the external auditors.

# Corporate Governance Report

### Remuneration Committee
#### Membership and meetings
The Remuneration Committee was reconstituted in mid-2012 after the departures of Brian Fredrick and Richard Raynaut from the Board. Currently, the members of the Remuneration Committee are Colin Goodall, who acts and has acted as Chairman since 23 August 2012, Deena Mattar and John Kennedy. Colin Goodall took over the Chairmanship of the Committee from Brian Fredrick after his resignation from the Board.

The Remuneration Committee met (including meetings by conference call) seven times during the year. The attendance at its meetings is reported on page 31.

#### Role of the Remuneration Committee and areas of key focus during 2012
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, Chief Operating Officer and Chief Financial Officer, 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 the key agenda items for review by the Remuneration Committee during the year can be found in the Director's Remuneration Report on pages 37 to 48.

### Nomination Committee
#### Membership and meetings
The current members of the Nomination Committee are John Kennedy, who acts as Chairman of the Committee and has acted in this role since 23 August 2012 (in addition to his role as Chairman of the Board), Colin Goodall, Deena Mattar and Jonathan Silver. Until the principal Board Committees were reconstituted in August 2012, Colin Goodall acted as Chairman for both the Remuneration Committee and the Nomination Committee. John Kennedy took over the Chairmanship of the Committee from Colin Goodall after the Nomination Committee was reconstituted in mid-2012.

The Nomination Committee met (including meetings by conference calls) four times during the year and the attendance at its meetings is reported on page 31.

#### Role of the Nomination Committee
The Nomination Committee's terms of reference are to review periodically the structure, size, composition, 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 skills and expertise needed on the Board. The Nomination Committee also makes recommendations to the Board about the membership of the Audit and Remuneration Committees.

#### Nominations to the Board and areas of key focus during 2012
There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. This is a matter for resolution by the Board, taking advice from the Nomination Committee.

Deena Mattar was appointed to the Board with effect from 1 April 2012 and John Kennedy was appointed as Chairman of the Board on 15 June 2012. Later in the year, on 4 October 2012, Peter Whitbread was appointed to the Board (and made Chief Executive Officer). In the ordinary course, for any potential appointments to the Board, details of possible candidates are provided by the consultants and initially reviewed by the Nomination Committee. The Directors then hold meetings with selected candidates. Subsequently, the Nomination Committee meets to recommend an appointment which is then proposed to the Board for approval. This transparent and effective process was not followed in the case of Peter Whitbread because of the extraordinary circumstances of his appointment following the departure of the former Executive Directors from the Board.

#### External consultants
For Board appointments in 2012 and to date in 2013, the Nomination Committee has used the services of several executive recruitment consultants, namely Korn Ferry, Maxwell Drummond and the McNair Partnership. There is no connection between the Company and Korn Ferry or the McNair Partnership. However, with regard to Maxwell Drummond, the Chairman of the Board is also the chairman and a director on the board of that company. The Chairman has declared such interest to the Board as required and the Board has determined that this should not prevent the Company from using Maxwell Drummond's services.

#### Women on boards
The Board noted the publication of the Davies Review on Women on Boards in February 2011 and it recognises the importance of gender diversity throughout the Group, and especially at Board level. The Board aims to have a broad range of skills, backgrounds and experience. With this in mind, the Board was pleased to announce the appointment of Deena Mattar to the Board. Her appointment strengthened the Board and she has made a valuable contribution to the Company at this exciting phase in its development.

#### Other Board Committees
The Board and the principal Board Committees may also delegate authority from time to time to an ad hoc sub-committee or task force, as may be required to review or manage a specific matter. The Board or relevant Board Committee will determine the terms of reference and the membership of such sub-committee or task force, as necessary, and such sub-committee or task force is operated in the same manner as the principal Board Committees.

### Control environment
#### Accountability and audit
The Board plays a direct role in the development of the Group's internal controls and risk management systems in addition to overseeing controls and risk management procedures via the

Audit Committee. However, the primary responsibility for developing and implementing internal control and risk management procedures covering strategic, commercial, operational and financial aspects of the business lies with management.

The Board regularly receives a comprehensive written report from the interim Chief Financial Officer at each face-to-face Board meeting, as well as periodic updates between such meetings. The Board is kept well informed about the Group's financial performance and cash flow position, enabling the Board to identify when delivery of its goals are under threat. In addition to financial reporting, the interim Chief Executive Officer (and now the new Chief Executive Officer) provides a detailed presentation at each face-to-face Board meeting covering the various projects and highlighting any impediments to delivery of the Group's targets.

**Financial reporting**
The statement on the responsibilities of the Directors in relation to the preparation of the accounts and the Directors' evaluation of the business as a going concern is contained in the Directors' Report on pages 26 to 28.

**Risk management and internal controls**
As is consistent with best practices for the industry, Lamprell has an internal control environment and supporting policies and procedures, all of which form part of its risk management strategy. Individual managers are responsible for ensuring compliance within their departments which includes the identification, evaluation and mitigation of risks within their areas of responsibility. The application and consistency of these policies and procedures are regularly reviewed by the Group's Internal Audit function, and are then overseen and reported to the Audit Committee, which is ultimately responsible for reporting on the same to the Board.

In light of the issues which arose in relation to the completion of certain projects in 2012 and the related underperformance of the business, the Group has commenced a series of initiatives to implement additional controls and to enhance the risk management environment within the business, including by way of example:

> improved financial reporting such as the use of a more robust financial forecasting model and cash profiling, as well as ensuring closer links between project budget and procurement;
> closer control over major projects including higher visibility by management of staff utilisation figures and all major new contracts are overseen by the Board to ensure that the project is firmly within the core competencies of the Group; and
> better communication between the Board and senior management through the reconstitution of the Executive Committee, and between senior management and other staff by way of "townhall-style" meetings by management.

The internal systems and controls including financial, operational and compliance controls and risk management systems will be strengthened further during the coming year, to build on the above initiatives. This process is ongoing but, with the appointment of the new executive team, the Board is confident that the controls and processes will continue to improve.

The Board (through the Audit Committee) conducts an annual review of the effectiveness of the systems of internal control including financial, operational and compliance controls and risk management systems. Where significant weaknesses have been identified, additional safeguards have been, and are being, implemented and monitored. Future reviews of the systems' effectiveness will take into account any new controls and processes that are implemented subsequently.

Additional information on the principal risks and uncertainties faced by the Group, together with the mitigating factors, can be found on pages 16 to 19.

**Internal audit and assurance**
Lamprell has an established Internal Audit function within the organisation and the internal auditors report on a regular basis to the Audit Committee. This may cover either planned activities or, for issues of urgency, unscheduled audits. The internal auditors will follow best practices for such audits and will seek input from the management team before making recommendations and/or observations to the Audit Committee, which will evaluate the reports and feedback from management, and will agree any work planned and/or undertaken.

The Directors receive assurances from the following internal and external controls:

> annual self-assessment of agreed internal controls by process owners and review of its results by the internal auditors;
> regular executive reports from management in areas covering key issues, performance, business outlook, human resources and health, safety and environment;
> financial performance reports including analyses of significant variances regularly reported by the management;
> external audit reports, presentations and management letters from the Group's auditors;
> reports from the internal audit function; and
> reports from internal quality audits.

During the year an additional exercise was undertaken by the Company's auditors to review the four key underperforming projects. A report was provided to the Board on the findings of this exercise which supplemented management's own review of the wider business (including these projects).

**Executive Committee**
In order to assist and support the Chief Executive Officer in the implementation of the Group's business plans, the interim Chief Executive Officer reconstituted the Executive Committee ("ExCom"), comprising the members of the executive management team (now including James Moffat since his arrival in March 2013). The ExCom is the primary body that meets to make informed decisions through periodic discussion and deliberations on critical strategic, operational and financial matters (including the review of major risks facing the Group) relating to management of the business, prior to making recommendations to the Board or a principal Board Committee. It meets regularly and in any event not less than once per month.

# Corporate Governance Report

### Memorandum and Articles of Association

The Company's Memorandum of Association sets out the objectives and powers of the Company. The Articles of Association details the rights attaching to each share class, the method by which the Company's shares can be purchased or re-issued and the provisions which apply to the holding and/or voting at general meetings. The Articles also set out the rules relating to Directors (including, by way of example, their appointment, retirement, duties and powers).

## Communications

### Engagement with shareholders

The Board receives regular feedback from research analysts and major shareholders, compiled by the Company's brokers and financial public relations consultants. Lamprell places considerable importance on communication with our shareholders and all shareholders receive hard copies of our Annual Report and Accounts. As a result of the extraordinary events of 2012, there were far fewer meetings with major shareholders and analysts than has historically been the case. However, with the increased stabilisation of the business, it is anticipated that the Chairman, the new Chief Executive Officer, the interim Chief Executive Officer and the interim Chief Financial Officer will start to hold regular meetings with such key stakeholders during the course of 2013.

These documents, as well as all announcements that we make to the market and presentations to analysts and considerable other information, are available on our website at www.lamprell.com. The interim and preliminary results of the Company, along with all other press releases, are posted on the Company's website as soon as they are announced and are available for download.

Colin Goodall is the Senior Independent Non-Executive Director and is available to shareholders if they have any concerns for which contact through the normal channels of the Chairman, the Chief Executive Officer or the Chief Financial Officer cannot be resolved or for which such contact is inappropriate.

### 2013 Annual General Meeting

All shareholders have the opportunity to attend the Annual General Meeting ("AGM"). All Directors were present at the 2012 AGM and all Directors intend to be present at the 2013 AGM, which is scheduled to be held on 27 May 2013, to meet with shareholders and to answer shareholders' questions. The Notice of the AGM, and related papers containing the text of resolutions to be proposed at the AGM, and explanatory notes, where necessary, will be posted to the shareholders at least 20 working days before the AGM.

The total number of proxy votes lodged at the AGM on each resolution categorised as for, against, and votes withheld will be made available both at the meeting and subsequently on the Company's website. Each separate issue is presented as a separate resolution and the Chairmen of the Audit, Nomination and Remuneration Committees will be available to answer questions from shareholders.

### Communication with employees

The Company also sees communication among its employees as a key priority. With the change in leadership team towards the end of 2012, the interim Chief Executive Officer and later the new Chief Executive Officer, as well as other senior managers, have started holding regular "townhall-style" meetings with employees at the Company's main facilities. These meetings represent an opportunity for junior employees to have access to senior management which in turn will feed back any major issues to the Board. The Board expects the management team to build on this improved communication process in the years ahead.

## Statement of compliance with the Code

Details on how we have applied the principles of the Code to our activities (as well as any exceptions to the Code) are set out and explained above in this statement, in the Directors' Report and in the remuneration report on pages 37 to 48.

## Documents available on Lamprell website

The following are available on the Lamprell website at www.lamprell.com:

Corporate Governance Section:

- Biographies of the Company's Directors
- Terms of reference of the Audit Committee
- Terms of reference of the Nomination Committee
- Terms of reference of the Remuneration Committee
- Policy on independence of external auditors

Investors Section:

- Financial and share price information
- News releases
- Annual and Interim Reports, Interim Management Statements
- The materials relating to previous general meetings
- Copies of presentations to analysts and investors
- Financial calendar, including the dates of the general meeting(s), presentations and results
- Frequently asked questions
- The Articles of Association of the Company
- Contact details for key advisers and analysts

### Letter to Shareholders

Dear Shareholder,

I am pleased to present to you, on behalf of the Board and the Remuneration Committee (the “Committee”), the Committee’s report on our Directors’ remuneration for the financial year 2012. The Committee aims to foster shareholder confidence in the integrity of our remuneration decisions and to demonstrate a high level of transparency and disclosure in relation to the same. During 2012, the Company encountered a number of considerable challenges and, as a result, was forced to take certain decisions relating to the remuneration of the Directors on an exceptional basis.

The final quarter of 2012 was particularly challenging as the Company sought to replace the three Executive Directors that left the Board on 3 October. On extremely short notice, the Board was able to secure the services of Peter Whitbread as Interim CEO and Frank Nelson as Interim CFO to bring some immediate stability during a critical period for the Company. The Committee was actively involved in establishing remuneration packages for these interim appointments as well as the permanent CEO, James Moffat, who joined the Group in March 2013.

These packages are explained in full below but, regardless, we will constantly aim to set executive remuneration levels which:
> are in the best interests of the Company;
> take account of pay in the rest of the business;
> are reasonable and in line with shareholder and market guidelines; and
> will be applied consistently for the future.

The Committee has continued to work with and been advised by Mercer and DCG on various points relating to executive remuneration and we consulted them for advice on market trends and other relevant matters.

The terms of reference of the Committee determine the policy for the remuneration of Lamprell’s Executive Directors and various members of senior management. The full terms of reference of the Committee are available on the Company’s website – www.lamprell.com.

Richard Raynaut, Brian Fredrick, Colin Goodall, Deena Mattar and John Kennedy were all members of the Committee for certain periods during 2012. Messrs. Raynaut and Fredrick departed from the Board in June 2012 and the Board subsequently reconstituted the composition of the Committee, with me being appointed as Committee Chairman. In addition, the former CEO (Nigel McCue) and the Interim CEO (Peter Whitbread) attended meetings by invitation but were at no stage present when elements of their own remuneration were discussed.

The following pages provide a more detailed description of current Lamprell Executive Remuneration including changes that have been agreed upon during 2012.

**Colin Goodall**
Chairman of the Remuneration Committee
20 March 2013

# Directors' Remuneration Report

## Executive remuneration policy and pay principles

Our remuneration policy for Executive Directors gives consideration to remuneration policy and levels for the wider employee population and is designed to enable the recruitment, retention and motivation of Executive Directors and senior managers of the highest calibre. Our remuneration policy aims to drive business performance and maximise shareholder value through offering remuneration packages to our senior management that are appropriately balanced between base salary and variable compensation and taking into account policy and practice in the UAE and the wider market.

Our key remuneration principles are:

> base salaries should be competitive and bonuses should reflect both collective financial performance and personal performance. Personal performance will be determined based on stretching, quantitative and qualitative targets set individually at the beginning of each year;

> the individual performance targets for the Executive Directors are recommended by the Company Chairman and approved by the Remuneration Committee. Individual performance targets for the Vice Presidents are recommended by the Chief Executive Officer;

> maintaining the highest possible health and safety standards is of paramount importance to the Company and its business and is the collective responsibility of all Executive Directors, Vice Presidents and Employees. Any fatality that takes place in a facility operated by the Company or any of its subsidiaries will be taken into account when considering whether to pay the whole or part of the personal performance bonus;

> performance shares are awarded in order to align the interests of senior staff and shareholders and to encourage the recipients to remain with the Company.

These principles will only be deviated from in exceptional circumstances in which case those circumstances will be disclosed herein. The Remuneration Committee met seven times during this financial year. Items covered in the meetings included:

> variable pay;

> investor consultation;

> review of PSP awards;

> review and agreement of financial targets for the annual bonus plan;

> impact of 2012 business performance on incentive plans;

> termination packages for the departing Executive Directors;

> terms and conditions for the remuneration packages for the incoming Executive Directors (both interim and permanent); and

> Non-Executive Director fee structure.

## Main elements of remuneration

Total remuneration, in line with our remuneration policy, is made up of a balance of fixed and variable compensation. The current Executive Remuneration packages for Executive Directors and senior managers are structured as follows:

| Component | Objective | Performance period | Performance measure | Delivery vehicle |
|---|---|---|---|---|
| Base salary | Reflect competitive market, level of responsibility and individual contribution to fulfilling role requirements | n/a | Normally reviewed annually taking into account individual performance, competitive positioning and roles and responsibilities | Monthly cash payment |
| Allowances | Provide additional payments in line with local market practice (e.g. housing, vehicle) | n/a | n/a | Monthly cash payment |
| Annual bonus plan | Focus and motivate achievement of annual targets | One year | Pre-defined performance targets split between financial and individual objectives | Annual cash payment |
| Performance share plan | Reward executives for achievement of longer-term earnings, value creation and share price growth. Aligns executives' and shareholder interests | Three years | Growth in Earnings Per Share ("EPS") over the three year performance period (Note: see page 41 for comments on performance measures for 2013) | Full value shares |
| Retirement benefits | Offer executives a retirement benefit in line with minimum legal requirement | n/a | n/a | Lump sum cash payment following retirement based on length of service and final salary in accordance with UAE labour law. |

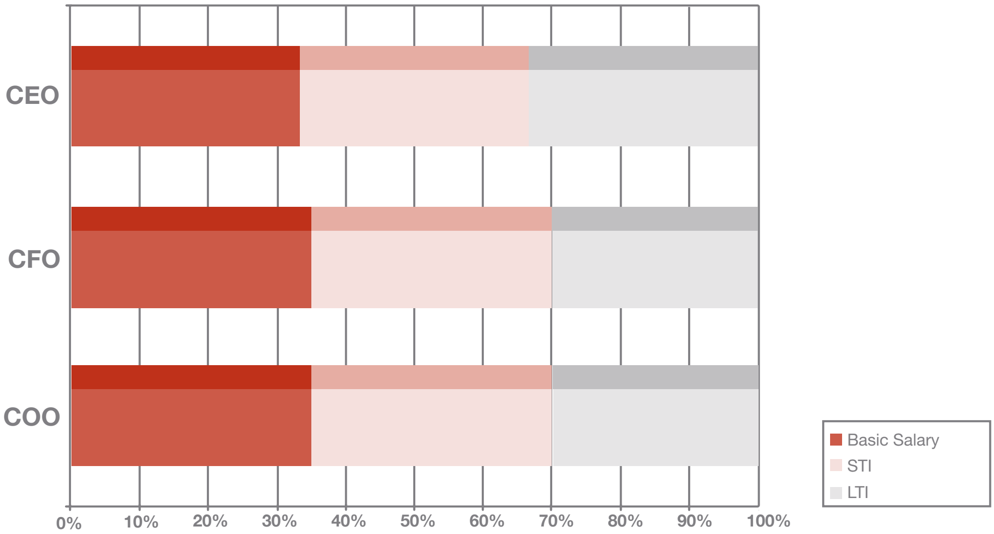
The above table sets out the typical balance of fixed and variable remuneration for executives in the ordinary course. However, as a result of the exceptional circumstances which faced the Company in 2H 2012, the Company also employed additional incentive mechanisms (which are not reflected in the above table) to attract and recruit high calibre executives on very short notice. Further details of these additional mechanisms are set out on pages 43 to 44.

Each element is described in further detail in separate sections below. The Committee considers all elements of the pay structure to be important in supporting the Company's remuneration policy.

# Directors' Remuneration Report

## Pay mix

In 2012, the remuneration mix for Lamprell Executive Directors, including long-term and short-term incentives ("LTI" and "STI" respectively) was as follows:




Note: this table does not include the remuneration mix for either the Interim CEO or the Interim CFO, both of whom were recruited under exceptional circumstances and for limited periods of time.

## Elements of remuneration

### Base salary and allowances

**Provide a market competitive base salary that reflects the role, skills, experience and contribution of the individual.**

The table below shows the base salaries of each current Executive Director effective as at 1 January 2012, and those that will apply from 1 January 2013 (where applicable). The Company has also included information regarding the remuneration package for the Interim CFO, Frank Nelson. While Mr Nelson was not a statutory Director of the Company during 2012, he is a Person Discharging Managerial Responsibility in his capacity as the Interim CFO and the Company has decided to include certain information regarding his remuneration package within this Report in the interests of full disclosure.

All figures in USD'000 unless stated:

| Name | Position | Base salary from 1 January 2012 | Base salary from 1 January 2013 | % increase |
|---|---|---|---|---|
| Nigel McCue[1] | Chief Executive Officer | 841 | 841 | 0% |
| Jonathan Cooper[2] | Chief Financial Officer | 420 | 420 | 0% |
| Christopher Hand[3] | Chief Operating Officer | 440 | 440 | 0% |

| Name | Position | Base salary from 4 October 2012 | Base salary from 1 January 2013 | % increase |
|---|---|---|---|---|
| Peter Whitbread[4] | Interim Chief Executive Officer | 1,281 | 1,281 | 0% |

| Name | Position | Base salary from 12 November 2012 | Base salary from 1 January 2013 | % increase |
|---|---|---|---|---|
| Frank Nelson[5] | Interim Chief Financial Officer | 487 | 487 | 0% |

1 Nigel McCue's contract was terminated, with notice served on 3 October 2012. See page 43 for details.
2 Jonathan Cooper's contract was terminated, with notice served on 3 October 2012. See page 43 for details.
3 Chris Hand's contract was terminated, with notice served on 3 October 2012. See page 43 for details.
4 Peter Whitbread was appointed on 4 October 2012 for an initial term of six months.
5 Frank Nelson was appointed as Interim CFO on 12 November 2012 for an initial term of six months.

In line with market practice in the UAE and consistent with regional peer companies, the Executive Directors also receive other benefits including car allowances, housing allowances, utilities for housing, school fees for children up to the age of 18, annual airline tickets, medical and life insurance, petrol costs and club memberships. The cash value of the benefits received by each Executive Director in 2012 is shown in the summary annual remuneration table on page 46.

## Annual bonus

**Focus and motivate Executive Directors to achieve annual performance targets**

### Performance measures

The Committee establishes performance measures and targets under the annual bonus plan for Executive Directors. Performance measures used are designed to reward the delivery of key priorities for the year. In the 2012 plan year, target pay-out of two thirds of the bonus was based on financial targets, with the remaining one third dependent on the achievement of personal objectives. In setting financial targets, the Board focuses on key annual strategic objectives. For 2012, financial metrics were based upon achievement of a net profit target, and the Committee determined that in order to achieve the maximum pay-out in respect of the portion of the bonus dependent upon the achievement of financial targets, such targets would be required to be exceeded by at least 20%.

In setting the personal objectives for the Executive Directors, the Committee focuses on the Company's strategic plan and taking into account the Company's corporate values. Personal objectives cover a variety of financial and operational targets that contribute to the achievement of goals in the strategic plan. The Committee evaluates executive performance against the individual bonus criteria in determining the level of bonus award to be made.

### 2012 bonus performance

The annual bonus plan is discretionary and the Committee reserves the right to make adjustments to pay-outs if it believes exceptional circumstances warrant doing so. In particular, the Committee has an overriding discretion to consider, if deemed necessary, performance on environmental, social and governance issues when determining the annual bonus payments for the Executive Directors. As a consequence of the disappointing financial performance in 2012 and the failure to achieve key business and personal targets, the Committee declared that no bonus payments would be made to any of the Executive Directors in respect of 2012.

## Long-term incentives

**Reward and motivate executives for achievement of longer-term value creation and align executive and shareholder interests**

Long-term incentives plans ("LTIPs") are provided to eligible employees under the provisions of four different share-based plans: The Lamprell plc Executive Share Option Plan, the Lamprell plc Retention Share Plan, the Lamprell plc Free Share Plan and the Lamprell plc 2008 Performance Share Plan. The 2008 Performance Share Plan is intended to be the Company's primary long-term incentive vehicle for Executive Directors and Senior Management. Any value earned under the Company's LTIPs is not pensionable.

Executive Directors will not receive regular grants of options under the Executive Share Option Plan or receive regular awards under the Retention Share Plan. Awards under these two plans will only be used in exceptional circumstances. Please refer to the commentary on pages 43 to 44 for details of the incentive mechanisms used in order to attract and recruit the interim executives on very short notice in Q3 2012, as well as the permanent CEO in Q4 2012.

The Committee regularly reviews both the overall suitability of the Company's share-based remuneration, the level of awards made under the plan operated and the performance conditions attached to those awards. In light of the events of 2012, the Committee will undertake a review of the Company's current LTIPs to determine whether they fulfil the needs of the Company to attract, retain and incentivise employees of the highest quality.

### The Lamprell plc 2008 Performance Share Plan ("PSP")

In the first instance, the Committee plans to use the PSP as the primary long-term incentive vehicle for Executive Directors, with deviations only in exceptional circumstances. Executive Directors and other key individuals may participate in this plan, which offers performance contingent awards of Lamprell shares on an annual basis. The awards will take the form of a promise to deliver free shares, but may be structured in an economically equivalent form subject to an assessment of local tax and regulatory issues. Annual awards are capped at 100% of base salary (150% of base salary in exceptional circumstances).

Performance shares will normally vest on the third anniversary of the date of grant of the award, subject to any applicable performance conditions having been satisfied. In addition, the Committee will have an overriding discretion, in exceptional circumstances (relating to either the Company or a particular participant) to reduce the number of shares that vest (or to provide that no shares vest).

### PSP performance measures

The Committee believes that the performance conditions for vesting of PSP awards should strike a balance between achieving alignment with shareholder returns and reward for delivery of strong underlying performance.

The Committee decided that the awards made in 2012 will vest subject to achieving predefined Earnings Per Share ("EPS") growth over a three-year period. At that time, the Committee considered that EPS, calculated using the point-to-point method, was an appropriate measure for the Company's success. This method compares the adjusted EPS in the Company's accounts for the financial year ended prior to the date of grant with the adjusted EPS for the financial year ending three years later and calculates the total growth over the three-year period.

The EPS targets for awards made in 2012 and their associated vesting levels are illustrated in the table below (straight-line vesting applies between the hurdles).

| EPS growth over three-year period | Percentage of award vesting |
|---|---|
| Less than 15% | 0% |
| 15% | 25% |
| 45% or more | 100% |

However, as the Company underwent significant changes during the last six months of the year, the Committee was obliged to reconsider the use of PSP awards. In the first instance, the Committee agreed contractual terms with the incoming interim executives, neither of which envisaged an award under the PSP. Secondly, during 2013, the Committee will review whether EPS is the most appropriate performance measure for PSP awards and the appropriate vesting period. The Committee recognises that the driver must be to incentivise strong earnings growth which is in line with the creation of future shareholder value and this must occur over a sustained period. The Committee is reviewing whether EPS is the most appropriate performance measure for the PSP and, to the extent that any change is made, the Committee will report the same in the subsequent Annual Report for the Company.

**The Lamprell plc Executive Share Option Plan ("ESOP")**
The ESOP provides for options over Lamprell shares to be granted at market value to eligible employees. The options will normally vest after three years and be exercisable up to the 10th anniversary of the date of grant. No awards were made to Executive Directors under this plan in 2012. However, please refer to the commentary on pages 43 to 44 for details of the incentive mechanisms used in order to attract and recruit the interim executives on very short notice in Q3 2012, as well as the permanent CEO in Q4 2012.

**The Lamprell plc Retention Share Plan ("RSP")**
The RSP provides for the conditional allocation of shares to eligible employees selected by the Board. Awards will normally vest and the shares be released with any accumulated dividends, if determined by the Board, two years after the date of grant. The RSP is targeted towards mid-level management employees in critical positions and, accordingly, no awards were made to Executive Directors under this plan in 2012.

**The Lamprell plc Free Share Plan ("FSP")**
The FSP provides for the unconditional allocation of shares to eligible employees selected by the Board. Awards will normally vest after such period as the Board may determine. The FSP has effectively been replaced by the RSP. No awards were made to Executive Directors under this plan in 2012.

### Retirement benefits

**Provide retirement benefits in line with local market practice**

Under employment law in the United Arab Emirates, the Executive Directors participate in a terminal gratuity scheme operated by the Company as a pension equivalent. This is operated as a cash payment based on the length of service and final salary of the Executive Director and the value of these cash provisions is c. 5–8% of base salary per annum, depending upon length of service.

Under the terms of the local UAE labour law the terminal gratuity accrues benefit to an employee as follows:
> 21 days per annum for the first five years of employment
> 30 days per annum for the remainder of their employment

The benefit accrues for incomplete years on a pro rata basis, is calculated using the current base salary and has a maximum benefit amounting to two years of the annual base salary.

### Directors' contracts

The policy set out below provides the general framework for service contracts with the Executive Directors. It is the Company's policy that Executive Directors should have contracts with a rolling term. Maximum notice period is one year.

| Aspect of contract | Policy |
|---|---|
| Notice period (both parties) | Twelve calendar months. |
| Termination payment | Up to one times annual basic salary, plus benefits but excluding bonus. The Company may elect to pay sums in lieu of notice in three separate tranches: 50% within seven working days of the termination date; 25% three months after the termination date; and 25% six months after the termination date. |
| Vesting of long-term incentive scheme awards | In line with the rules of the relevant equity incentive scheme. |
| Pension | Based on existing arrangements and terms of the UAE Labour Law with respect to terminal gratuity. |

The general policy on termination is that the Company does not make payments beyond its contractual obligations, i.e. no ex-gratia payments are made. None of the Executive Directors' contracts provides for liquidated damages, longer periods of notice on a change of control of the Company, or additional compensation on an Executive Director's cessation of employment. Directors are obliged to mitigate the costs of termination if at all possible. With the departure of the three Executive Directors from the Board in October 2012, the Company agreed to certain termination payments, further details of which are set out on page 43.

In light of the disappointing business performance in 2012 that led to the termination of the three Executive Directors, the Board has undertaken to review the standard clauses in the Directors' contracts relating to bonuses and other incentive awards. The review will seek to establish discretionary authority for the Board to recover elements of incentive pay in exceptional circumstances.

The table below sets out the details of the Executive Directors' service contracts:

| Director | Date of contract | Effective date | Notice to terminate served |
|---|---|---|---|
| Nigel McCue | 16 May 2008 | 16 May 2008 | 3 October 2012 |
| Chris Hand | 26 January 2011 | 26 January 2011 | 3 October 2012 |
| Jonathan Cooper | 19 April 2011 | 30 October 2011 | 3 October 2012 |
| Peter Whitbread | 5 October 2012 | 4 October 2012[1] | n/a |

1 Peter Whitbread was appointed to the Board on 4 October 2012.

In view of the extenuating circumstances following the termination of the CEO, CFO and COO and the arrival of the incoming Interim CEO in October 2012, the following specific information regarding the service contracts for the Executive Directors and the Interim CFO should be noted.

**Service contract for Executive Director, Nigel McCue**
Mr McCue, who was employed by the Company under a service contract dated 16 October 2006, left the Board on 3 October 2012, and it has been agreed that his employment will terminate on 3 April 2013. Under his service contract he was entitled to full salary and benefits for a notice period of 12 months. However, it has been agreed that the Company will pay Mr McCue, in settlement of all claims, full salary and benefits to 3 April 2013, representing six months of the 12 months' notice period. No compensation will be paid in respect of salary for the balance of his notice period from 3 April to 3 October 2013. All unvested share-based incentives held by Mr McCue will lapse on termination of his employment. The award granted to Mr McCue under the Lamprell plc 2008 Performance Share Plan which was due to vest on 15 April 2013 will lapse in its entirety as the Company's EPS performance has not reached the target set when the award was granted.

**Service contract for Executive Director, Christopher Hand**
Mr Hand, who was employed by the Company under a service contract dated 26 January 2011, left the Board on 3 October 2012, and it has been agreed that his employment will terminate on 3 April 2013. Under his service contract he was entitled to full salary and benefits for a notice period of 12 months. However, it has been agreed that the Company will pay Mr Hand, in settlement of all claims, full salary and benefits to 3 April 2013, representing six months of the 12 months' notice period. No compensation will be paid in respect of salary for the balance of his notice period from 3 April to 3 October 2013. All unvested share-based incentives held by Mr Hand will lapse on termination of his employment. The award granted to Mr Hand under the Lamprell plc 2008 Performance Share Plan which was due to vest on 15 April 2013 will lapse in its entirety as the Company's EPS performance has not reached the target set when the award was granted.

**Service contract for Executive Director, Jonathan Cooper**
Mr Cooper, who was employed by the Company under a service contract dated 18 March 2011, left the Board on 3 October 2012, and it has been agreed that his employment will terminate on 3 October 2013 in accordance with his service contract (or at such time as Mr Cooper commences alternative employment, if earlier). All unvested share-based incentives held by Mr Cooper will lapse on termination of his employment. The award granted to Mr Cooper under the Lamprell plc 2008 Performance Share Plan which was due to vest on 15 April 2013 will lapse in its entirety as the Company's EPS performance has not reached the target set when the award was granted.

**Service contract for interim executives**
Under their service contracts, the Company agreed, among other matters, to grant each of Peter Whitbread and Frank Nelson an option over shares to the value of £400,000 and £195,000 respectively (the "Intended Options"). These grants were agreed to be made subject to the rules of the Lamprell plc Executive Share Option Plan ("ESOP") but were not subject to performance conditions and were scheduled to vest on the earlier of a change of control of the Company or 31 March 2013 (in respect of Mr Whitbread) or 11 June 2013 (in respect of Mr Nelson). These grants were agreed to be made at an exercise price of 76.25 pence (in respect of Mr Whitbread) and 80.50 pence (in respect of Mr Nelson).

The Company was unable to grant the Intended Options by reason of a prohibition on dealings in the Company's shares which is anticipated to end shortly following the date of publication of this report subject to the possibility of a continuing prohibition. In light of this, the Company has agreed with each executive that his service contract will be amended such that he will be granted a special, one-off incentive. This special, one-off incentive is designed to replicate the Intended Options and will be granted shortly after the date of this report, or, if later, as soon as the Company is no longer within a prohibited period. This incentive will comprise two components: a market value option and a cash award.

Mr Whitbread and Mr Nelson will be granted an option over 524,590 and 242,236 shares respectively, at an exercise price equal to the market value of a share immediately before the date of grant. Each option will be granted on one-off terms, which will be set out in deeds of grant. The deeds of grant will incorporate by reference the terms of the ESOP, save that the options will vest in full on the earlier of 11 June 2013 and a change of control of the Company and will not be subject to any performance conditions.

Mr Whitbread and Mr Nelson will also each receive a cash award intended to reflect the difference between (i) the value which the executives would have received if the Intended Options had been granted to them; and (ii) the value which they will receive by way of the market value options granted under the terms described above. Each award will be granted on terms which will be set out in deeds of grant. The cash awards will vest in full on the earlier of 11 June 2013 and a change of control of the Company.

If the Company is unable to grant the special share incentives by 21 March 2014 or the date of a change of control of the Company (if earlier) (the "Long Stop Date"), either because the Company remains in a prohibited period until that date or otherwise, the Company has agreed to pay each of the executives a cash amount equal to the increase in the market value of 524,590 or 242,236 shares (in respect of Mr Whitbread and Mr Nelson respectively) from a price of (i) 76.25 pence or 80.50 pence per share (in respect of Mr Whitbread and Mr Nelson respectively) to (ii) the middle market quotation for a share on the Long Stop Date.

The Committee considered these arrangements to have been essential to secure the services of Mr Whitbread and Mr Nelson, which were secured on a short-term basis during a critical period for the business, and at very short notice. The Committee was satisfied that the incentives are appropriate and align the interests of Mr Whitbread and Mr Nelson with those of shareholders. As these were special arrangements to facilitate, in unusual circumstances, Mr Whitbread's and Mr Nelson's recruitment, shareholder approval was not required for these arrangements by virtue of 9.4.2(2)R of the UK Listing Rules. Any benefits under these arrangements will not be pensionable.

**Service contract for incoming permanent CEO, James Moffat**

As announced, James Moffat joined the Company as Chief Executive Officer on 1 March 2013. Mr Moffat has been an Executive Director of the Company with effect from 19 March 2013 and as such was not a statutory Director of the Company during 2012. However, as with Mr Nelson, the Company has decided to include certain information regarding his remuneration package within this section in the interests of full disclosure.

Mr Moffat is employed on the terms of a service contract dated 25 November 2012, terminable by either party on 12 months' notice. Mr Moffat's base salary is USD 753,000 and his annual bonus, pension and other benefits reflect the Company's policy as stated above. In addition, Mr Moffat will be granted an option over shares with a value of USD 753,000 at an exercise price equal to the market value of a share immediately before the date of grant. The option will be granted on, or as soon as practicable after, the date of this report, or, if later, as soon as the Company is no longer within a prohibited period. The option will be non-pensionable and will be granted on one-off terms, which will be set out in a deed of grant. The deed of grant will incorporate by reference the terms of the ESOP, save that the options will vest in full on the earlier of 1 March 2016 and a change of control of the Company and will not be subject to any performance conditions.

As in the case of Mr Whitbread and Mr Nelson, if the Company is unable to grant the special share incentives by the Long Stop Date, either because the Company remains in a prohibited period until that date or otherwise, the Company has agreed to pay Mr Moffat a cash amount equal to the increase in the market value of options over shares with a value of USD 753,000 as at 1 March 2013 from (A) 130.75 pence per share to (B) the middle market quotation for a share on the Long Stop Date.

As in the case of Mr Whitbread and Mr Nelson, the Committee considered this arrangement to have been essential in order to secure the services of Mr Moffat at a time when the financial position of Lamprell was unstable and when Mr Moffat was well-established in a very senior and secure position within a large, international company. The Committee was satisfied that the grant of the option is appropriate and aligns the interests of Mr Moffat with those of shareholders. As this was a special arrangement to facilitate, in unusual circumstances, Mr Moffat's recruitment, shareholder approval was not required for this arrangement by virtue of 9.4.2(2)R of the UK Listing Rules. Any benefits under this arrangement will not be pensionable.

## Outside appointments for Executive Directors

Outside appointments of Executive Directors of the Company must be approved by the Board. It is the Company's policy that remuneration earned from such appointments may be kept by the individual Executive Director. The external appointments of Nigel McCue for 2012 are noted below:

| Director | Current Directorships |
|---|---|
| Nigel McCue | Dragon Oil Plc<br>Dragon Oil (Holdings) Limited<br>Dragon Oil (Turkmenistan) Limited<br>Dragon Oil (International) Limited<br>Dragon Oil (MENA) Limited<br>Dragon Oil (Block 9) Limited<br>Dragon Oil (Bargou Tunisia) Limited<br>Dragon Resources (Holdings) Limited<br>D&M Drilling Limited<br>Mavignon Shipping Limited<br>Nemmoco Petroleum Limited |

## Non-Executive Directors' fees and contracts

The Company aims to provide Non-Executive Directors ("NEDs") with fees that are competitive with other companies of a similar size and complexity. The table below sets out the annual fees payable in respect of different roles and responsibilities during 2012. The Company reviewed the Non-Executive fee structure in December 2012 and determined to maintain a fee structure with basic fees and additional fees for chairing a committee of the Board, and the fees were increased for 2013 in order to maintain a competitive market position.

### Regular fees applicable throughout 2012

| Fee category | £ |
|---|---|
| Non-Executive Chairman | 164,000 |
| Senior Independent Director | 75,500 |
| Basic Member Fee | 42,225 |
| Committee Chair Fee (Excluding Nominations Committee) | 7,000 |

Non-Executive Directors are not eligible to participate in any of the Company's incentive schemes.

Fees are based on a time commitment that is regarded as typical in normal operating conditions for the respective fee category. As a result of business performance in 2012 resulting in the CEO, CFO and COO standing down on 3 October 2012, operating conditions became atypical and workload levels for certain of the NEDs in the second half of 2012 increased substantially beyond what is regarded as the norm.

Based on Mercer guidance, the typical method of addressing a temporary increase in workload is to apply a per diem that recognises the additional commitment. Taking into consideration the extraordinary circumstances that gave rise to increased workload during the period July to December 2012, the Board agreed to an additional payment of £24,000 to Deena Mattar in recognition of 12 additional days' work at a per diem rate of £2,000.

It was further agreed that, with effect from 1 January 2013, in recognition of the increased projected commitments of each NED, and in line with market data, the following fee structure shall be applied:

### Regular fees applicable for 2013

| Fee category | £ |
|---|---|
| Non-Executive Chairman | 180,000 |
| Deputy Chairman | 88,000 |
| Senior Independent Director | 80,000 |
| Basic Member Fee | 65,000 |
| Committee Chair Fee (Excluding Nominations Committee) | 8,000 |

It should be noted that the fees payable to the Deputy Chairman, Jonathan Silver, are paid to Mr Silver's law firm, Clyde & Co, further details of which are set out on page 46.

The NEDs do not have service contracts, but instead have specific letters of appointment which are available upon request and which include amongst other matters, an indication of the time commitment expected from each NED. NEDs are appointed for an initial term of three years, terminable by either the Company or the NED at will. In normal circumstances, and subject to performance and re-election at the Annual General Meeting, the NEDs can be asked to serve additional three-year terms. Upon termination or resignation, NEDs are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment.

The following table shows the effective date of appointment for each NED:

| Non-Executive Director | Date of appointment |
|---|---|
| Jonathan Silver | 24 August 2007 |
| Colin Goodall | 14 September 2008 |
| Richard Raynaut | 7 July 2006[1] |
| Brian Fredrick | 1 January 2009[2] |
| Deena Mattar | 1 April 2012 |
| John Kennedy | 15 June 2012 |

1 Retired from the Board on 7 June 2012.
2 Resigned on 14 June 2012.

### Annual remuneration

The table below summarises the remuneration for 2012 and for the prior year for comparison in respect of the Executive Directors and the Interim CFO. Payments for loss of office made during the year to 31 December 2012 are included in the table and were strictly in accordance with the notice provisions in the Service Agreements for the Executive Directors.

| All figures in USD'000 unless stated | Base salary/fees | Allowances and other benefits | Annual bonus | Share-based payments value | Termination benefits | Total emoluments 2012 | Total emoluments 2011 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Nigel McCue[1] | 631 | 127 | Nil | 666 | 505 | 1,929 | 2,055 |
| Jonathan Cooper[1] | 315 | 127 | Nil | 131 | 590 | 1,163 | 145 |
| Christopher Hand[1] | 330 | 183 | Nil | 221 | 342 | 1,076 | 1,107 |
| Peter Whitbread[2] | 310 | 42 | Nil | Nil | Nil | 352 | n/a |
| **Interim Chief Financial Officer** | | | | | | | |
| Frank Nelson[3] | 86 | 74 | Nil | Nil | Nil | 160 | n/a |
| **Total** | 1,672 | 553 | Nil | 1,018 | 1,437 | 4,680 | 3,307 |

1 Terminated, with notice served on 3 October 2012. See page 43 for further details.
2 Appointed on 4 October 2012.
3 Appointed as Interim CFO on 12 November 2012.

| All figures in USD'000 unless stated | Base salary/fees | Allowances and other benefits | Annual bonus | Total emoluments 2012 | Total emoluments 2011 |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| Jonathan Silver | 264 | Nil | Nil | 264 | 215 |
| Colin Goodall | 137 | Nil | Nil | 137 | 128 |
| Richard Raynaut | 39 | Nil | Nil | 39 | 76 |
| Brian Fredrick | 34 | Nil | Nil | 34 | 76 |
| Deena Mattar | 58 | Nil | Nil | 58 | n/a |
| John Kennedy | 145 | Nil | Nil | 145 | n/a |
| **Total** | 677 | Nil | Nil | 677 | 495 |

### Pension equivalents

The table below summarises the Executive Directors' pension equivalent contributions for the current year, and the prior year for comparison.

| All figures in USD'000 unless stated | **Total 2012** | Total 2011 |
|---|---|---|
| **Non-Executive Directors** | | |
| Nigel McCue | **33** | 65 |
| Jonathan Cooper | **23** | 4 |
| Christopher Hand | **76** | 142 |
| Peter Whitbread | **Nil** | n/a |
| **Interim Chief Financial Officer** | | |
| Frank Nelson | **Nil** | n/a |
| **Total** | **132** | 211 |

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 2012 and 2011, 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 2.5% (2011: 5%). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3% (2011: 4.25%).

### Directors' interests

The following interests of the Directors of the Company during the year are shown in accordance with the Listing Rules.

| | At 21 March 2013 | **At 31 December 2012*** | At 1 January 2012 |
|---|---|---|---|
| **Executive Directors** | | | |
| Nigel McCue | 638,524 | **638,524** | 335,999 |
| Chris Hand | 378,061 | **378,061** | 378,061 |
| Jonathan Cooper | – | **–** | – |
| Peter Whitbread | 1,667,272 | **1,667,272** | n/a |
| **Non-Executive Directors** | | | |
| Jonathan Silver | 16,474 | **16,474** | 16,474 |
| Colin Goodall | 51,955 | **7,800** | 6,000 |
| Richard Raynaut | n/a | **n/a** | – |
| Brian Fredrick | n/a | **n/a** | – |
| Deena Mattar | – | **–** | n/a |
| John Kennedy | – | **–** | n/a |

* Or at date of appointment of Director, if earlier.

The table above does not include unvested interests held under the Company's equity-based incentive schemes. These interests are set out separately below.

### Share option awards

On 31 March 2009 Nigel McCue was granted options under the ESOP and Mr McCue exercised the options on 19 April 2012. The following table sets out the interests of Nigel McCue in relation to this award:

| Executive Director | At 1 January 2012 | Granted in year | Exercise price at grant | Date of vesting | Vested | Exercised in 2012 | At 31 December 2012 |
|---|---|---|---|---|---|---|---|
| Nigel McCue | 302,524 | Nil | £0.52 | 31.03.2012 | 302,524 | 302,524 | Nil |

### Performance share plan awards

The following table sets out the interests of Nigel McCue, Christopher Hand and Jonathan Cooper in relation to their awards under the Lamprell plc 2008 Performance Share Plan:

| Executive Director | At 1 January 2012 | Awarded for 2012 | Date of vesting | Vested | Lapsed in 2012 | At 31 December 2012 |
|---|---|---|---|---|---|---|
| Nigel McCue | 209,249 | – | 15.04.2013 | Nil | Nil | 209,249 |
| Nigel McCue | 159,299 | – | 02.09.2014 | Nil | Nil | 159,299 |
| Nigel McCue | – | 153,968 | 02.09.2014 | Nil | Nil | 153,968 |
| Christopher Hand | 62,548 | – | 15.04.2013 | Nil | Nil | 62,548 |
| Christopher Hand | 51,684 | – | 02.09.2014 | Nil | Nil | 51,684 |
| Christopher Hand | – | 68,435 | 02.09.2014 | Nil | Nil | 68,435 |
| Jonathan Cooper | 38,512 | – | 08.12.2014 | Nil | Nil | 38,512 |
| Jonathan Cooper | – | 65,324 | 08.12.2014 | Nil | Nil | 65,324 |

In the ordinary course, awards will normally vest on the third anniversary of the date of grant of the award, subject to any applicable performance conditions having been satisfied. If the Company achieves outstanding earnings per share performance over the performance period then the full award will vest. If threshold levels of performance are achieved then 25% of the award will vest.

All unvested share-based incentives held by Mr McCue, Mr Hand and Mr Cooper will lapse on termination of their employment. The awards granted to Mr McCue, Mr Hand and Mr Cooper under the Lamprell plc 2008 Performance Share Plan which were due to vest on 15 April 2013 will lapse in its entirety as the Company's EPS performance has not reached the target set when the award was granted.

**Share price information**
On 31 December 2012, the closing price of a Lamprell plc ordinary share was 0.94 pence. The highest and lowest price of an ordinary share during 2012 was 366.7 pence and 69.3 pence respectively, based on the London Stock Exchange Daily Official List.

**TSR performance graph**
The graph below sets out the performance of Lamprell's Total Shareholder Return ("TSR") comprising share price growth plus reinvested dividends relative to the Total Return of the FTSE 250 Index of which the Company was a constituent for much of 2012. The graph covers time from 31 December 2007 to 31 December 2012. The graphs are not an indication of the likely vesting of awards granted under any of the Company's incentive plans.

**Lamprell – TSR since 2007**


**Approval**
This report has been approved by the Committee, on behalf of the Board, on the date shown below and signed on the Board's behalf by:

**Colin Goodall**
Chairman of the Remuneration Committee
20 March 2013

# Corporate Governance
# Corporate Social Responsibility

Since its founding in 1977, Lamprell has embraced its commitment to be a responsible corporate citizen. This commitment, grounded in the belief that good corporate citizenship benefits all our stakeholders, was formalised when the Company became public with the establishment of systems and policies that state the principles by which we seek to conduct our business and manage our operations. As a publicly listed company our aim is to ensure that how we conduct our business, and the reporting thereof, meets all the requisite benchmarks and levels for a company 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.

As a UAE-based Company, Lamprell is well rooted in its local community and for over thirty years has both benefited from, and been a contributor to, that community's development. In 2012, one of the most challenging years in Lamprell's history, the Company continued to work closely with these local communities, business partners and regulatory authorities to make a positive difference within the localities it operates in.

## Social initiatives

Lamprell continued to support the "Don Bosco Snehalaya" project in India. Don Bosco Snehalaya is a project focused on the street children and youth in the city of Vadodara. The project's basic objective is to provide food, shelter, clothes, medicines, recreational facilities and general counselling to the young living on the railway platforms and in the streets. By training the children in trades according to their capacities while maintaining contact with their families, the project helps them to develop their self-confidence and the realisation that they too can contribute to their community. Ultimately, the project aims to integrate these street children into mainstream society.

## Charity and community service

Each year Lamprell makes a monetary contribution to a worthy establishment, such as Medecins Sans Frontieres ("MSF"), Rashid Paediatric Therapy Centre and others. These contributions are used for supporting the respective charities' core project budgets which include the provision of equipment, staff and other items as needed.

The Company also encourages its employees to partake in ad-hoc initiatives within the immediate community or in other regions representing the cross cultural mix of our employees. Such examples include Lamprell's support, through one of its employees, of the 3rd "Bedouin Builders" campaign for the Tabitha Foundation in the UK which helps to build houses for the underprivileged in Cambodia and the Company's support of Dubai College's initiative to raise funds to complete the building of an "Eco Farm" home for homeless children in Kathmandu, Nepal.

## The workplace and our people:

As a key player in the oil & gas and renewables engineering and contracting industry, our workforce is a fundamental base on which we have built our expertise and strength.

Attracting, developing and retaining talented staff is of paramount importance to the success of Lamprell's business. To achieve this, the Human Resources department has developed policies and best practices for effective employee engagement to capitalise on the strengths of the employees and their ability to contribute to the success of the business. Our policy is to ensure equal opportunity in career development, promotion, training and reward for our employees. With a diverse range of nationalities within the Group, we also respect and recognise the value of different cultures.

Staff retention is always a challenge in the oil & gas sector so, in order to maximise retention of our key employees, we strive to offer competitive rewards and benefits whilst maintaining a strong focus on the health, safety and well-being of our workforce.

The provision of purpose-built accommodation and transportation for the core labour force further enhances our ability to maintain good employee relations and improve the quality of life for our dedicated and loyal employees. The Company has acquired additional accommodation for the labour force which will enhance individual personal space and provide further amenities for health and recreation. In addition to in-house medics, Lamprell has recently introduced "on site" camp doctors at one of its main camps. Lamprell provides private medical cover for its workforce enabling them to take advantage of locally available medical facilities, whilst giving peace of mind to family dependents. We aim to provide a safe and supportive work environment to our employees and a competitive and cost-effective compensation programme. We believe that our overall benefits packages continues to be a market differentiator and will strengthen our goal of becoming an "employer of choice".

## Health, safety, environment and security summary ("HSES")

Given the nature and demands of our business, ensuring a high level of performance in health, safety, environment and security is absolutely essential, and Lamprell has a strong track record in these areas. With no room for complacency in HSES, we seek to continually improve our performance and ensure we maintain our focus on this area of our operations. In 2012, the Company continued to build on its "safety culture" throughout the organisation through its employee incentive linked in-house Safety Observation Audit Programme ("SOAP").

To monitor incidents and identify trends, the Company continued its use of the centralised reporting system for leading indicators under a Total Recordable Incident Ratio. This ratio facilitates the analysis of all cases as well as Lost Time Incidents ("LTI"). Lamprell has established a strong safety track record which is exceptional for the oil & gas construction industry; the Group achieved an overall performance LTI Frequency Rate of 0.22. Lamprell maintained the accreditation with the management system certificate ISO 14001: 2004 and the updated Occupational, Health and Safety Assessment Series, OHSAS 18001; 2007.

## Environment

Across all our activities we seek to minimise the mark we leave on the sites at which we work.

Our policy is to strive to achieve continual improvement in environmental performance and to maintain an internal management structure for the management with clearly defined responsibilities. At all times Lamprell aims to comply with, and where possible exceed, applicable legal and other requirements relating to the organisation.

# 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 ('the financial statements') of Lamprell plc and its subsidiaries (the 'Group') which comprise the consolidated and company balance sheets as at 31 December 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated and 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 as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and parent company financial statements that are free from material misstatement, whether due to fraud or error.

## 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 judgment, 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, 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;

> the parent company financial statements give a true and fair view of the financial position of the parent company as at 31 December 2012, and 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 Act 1982; and

> the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

## Emphasis of matter

We draw attention to Note 2.1 of the consolidated financial statements which states that the ability of the Group to continue as a going concern is reliant upon the continued availability of external debt financing and access to bank guarantees for its major projects. The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations. The Group expects to conclude discussions with lenders in a satisfactory manner and has continued to meet all interest and other payment obligations. After reviewing its cash flow forecasts for a period of not less than 12 months, from the date of signing of these financial statements, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Our opinion is not qualified with respect to this matter.

## Matters on which we are required to report by exception

**We have nothing to report on the following:**

The Isle of Man Companies Acts 1931-2004 require us to report to you if, in our opinion:

> proper books of account have not been kept by the parent company or, proper returns adequate for our audit have not been received from branches not visited by us; or

> the parent company's balance sheet is not in agreement with the books of account and returns; or

> we have not received all the information and explanations necessary for the purposes of our audit; and

> certain disclosures of directors' loans and remuneration specified by law have not been complied with.

Under the Listing Rules we are required to review:

> the directors' statement as set out on page 28 in relation to going concern;

> the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

> the Directors' Remuneration Report for the six disclosures specified for our review.

**Nicholas Mark Halsall, Responsible Individual**
**for and on behalf of PricewaterhouseCoopers LLC**
Chartered Accountants
Douglas, Isle of Man
20 March 2013

# Consolidated income statement

| | Note | Year ended 31 December 2012 Pre-exceptional items USD'000 | Exceptional items USD'000 | USD'000 | Year ended 31 December 2011 Pre-exceptional items USD'000 | Exceptional items USD'000 | USD'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 5 | **1,045,499** | **–** | **1,045,499** | 1,147,853 | – | 1,147,853 |
| Cost of sales | 6 | **(1,065,057)** | **–** | **(1,065,057)** | (1,014,913) | – | (1,014,913) |
| **Gross (loss)/profit** | | **(19,558)** | **–** | **(19,558)** | 132,940 | – | 132,940 |
| Selling and distribution expenses | 7 | **(1,527)** | **–** | **(1,527)** | (2,358) | – | (2,358) |
| General and administrative expenses | 9 | **(69,050)** | **(4,720)** | **(73,770)** | (52,319) | (10,544) | (62,863) |
| Other gains/(losses) – net | 12 | **5,652** | **–** | **5,652** | 11,928 | – | 11,928 |
| **Operating (loss)/profit** | | **(84,483)** | **(4,720)** | **(89,203)** | 90,191 | (10,544) | 79,647 |
| Finance costs | 11 | **(22,400)** | **–** | **(22,400)** | (17,965) | – | (17,965) |
| Finance income | 11 | **867** | **–** | **867** | 1,804 | – | 1,804 |
| Finance costs – net | | **(21,533)** | **–** | **(21,533)** | (16,161) | – | (16,161) |
| Share of profit/(loss) of joint ventures | 19 | **1,053** | **–** | **1,053** | (8) | – | (8) |
| **(Loss)/profit before income tax** | | **(104,963)** | **(4,720)** | **(109,683)** | 74,022 | (10,544) | 63,478 |
| Income tax expense | | **(791)** | **–** | **(791)** | (188) | – | (188) |
| **(Loss)/profit for the year attributable to the equity holders of the Company** | | **(105,754)** | **(4,720)** | **(110,474)** | 73,834 | (10,544) | 63,290 |
| **(Loss)/earnings per share attributable to the equity holders of the Company** | 13 | | | | | | |
| Basic | | | | **(42.45)c** | | | 26.56c |
| Diluted | | | | **(42.45)c** | | | 26.47c |

The notes on pages 59 to 98 form an integral part of these financial statements.

# Consolidated statement of comprehensive income

| | Note | Year ended 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| (Loss)/profit for the year | | **(110,474)** | 63,290 |
| **Other comprehensive income/(loss)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Currency translation differences | | **334** | (854) |
| Cash flow hedges: | | | |
| Profit arising on hedges recognised in other comprehensive income | 29 | **1,086** | 13,083 |
| Amount reclassified from other comprehensive income | 29 | **94** | (14,129) |
| **Other comprehensive income/(loss) for the year** | | **1,514** | (1,900) |
| **Total comprehensive (loss)/income for the year attributable to the equity holders of the Company** | | **(108,960)** | 61,390 |

The notes on pages 59 to 98 form an integral part of these financial statements.

# Consolidated balance sheet

| | Note | As at 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **165,849** | 175,356 |
| Intangible assets | 17 | **219,827** | 230,861 |
| Investment in joint ventures | 19 | **4,679** | 3,870 |
| Due from a related party | 24 | **–** | 7,025 |
| Total non-current assets | | **390,355** | 417,112 |
| **Current assets** | | | |
| Inventories | 21 | **13,225** | 12,056 |
| Trade and other receivables | 22 | **398,349** | 668,753 |
| Derivative financial instruments | 29 | **1,152** | 699 |
| Held-to-maturity investment | 20 | **–** | 6,879 |
| Financial asset at fair value through profit or loss | 23 | **–** | 8,172 |
| Cash and bank balances | 25 | **263,439** | 149,377 |
| Total current assets | | **676,165** | 845,936 |
| **Total assets** | | **1,066,520** | 1,263,048 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 31 | **(159,323)** | (251,089) |
| Derivative financial instruments | 29 | **–** | (1,449) |
| Trade and other payables | 30 | **(462,891)** | (436,911) |
| Current tax liability | | **(144)** | (68) |
| Total current liabilities | | **(622,358)** | (689,517) |
| Net current assets | | **53,807** | 156,419 |
| **Non-current liabilities** | | | |
| Borrowings | 31 | **–** | (36) |
| Provision for employees' end of service benefits | 28 | **(38,095)** | (39,597) |
| Total non-current liabilities | | **(38,095)** | (39,633) |
| **Total liabilities** | | **(660,453)** | (729,150) |
| **Net assets** | | **406,067** | 533,898 |
| **EQUITY** | | | |
| Share capital | 26 | **23,552** | 23,552 |
| Share premium | 26 | **211,776** | 211,776 |
| Other reserves | 27 | **(22,069)** | (23,644) |
| Retained earnings | | **192,808** | 322,214 |
| **Total equity attributable to the equity holders of the Company** | | **406,067** | 533,898 |

The financial statements on pages 51 to 98 were approved and authorised for issue by the Board of Directors on 20 March 2013 and signed on its behalf by:

**Peter Whitbread**
Executive Director

**John Kennedy**
Non-Executive Chairman

The notes on pages 59 to 98 form an integral part of these financial statements.

# Company balance sheet

| | Note | As at 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 18 | **591,732** | 970,282 |
| **Current assets** | | | |
| Other receivables | | **50** | 112 |
| Due from related parties | 24 | **5,138** | 8,074 |
| Cash at bank | 25 | **200** | 298 |
| Total current assets | | **5,388** | 8,484 |
| **Total assets** | | **597,120** | 978,766 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables and accruals | | **(628)** | (521) |
| Due to a related party | 24 | **(8,367)** | (17,500) |
| Total current liabilities | | **(8,995)** | (18,021) |
| Net current assets | | **(3,607)** | (9,537) |
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 28 | **(918)** | (821) |
| **Total liabilities** | | **(9,913)** | (18,842) |
| **Net assets** | | **587,207** | 959,924 |
| **EQUITY** | | | |
| Share capital | 26 | **23,552** | 23,552 |
| Share premium | 26 | **211,776** | 211,776 |
| Other reserve | 27 | **329,153** | 708,852 |
| Retained earnings | | **22,726** | 15,744 |
| **Total equity attributable to the equity holders of the Company** | | **587,207** | 959,924 |

The financial statements on pages 51 to 98 were approved and authorised for issue by the Board of Directors on 20 March 2013 and signed on its behalf by:

**Peter Whitbread**
Executive Director

**John Kennedy**
Non-Executive Chairman

The notes on pages 59 to 98 form an integral part of these financial statements.

# Financial Statements
# Consolidated statement of changes in equity

| | Note | Share capital USD'000 | Share premium USD'000 | Other reserves USD'000 | Retained earnings USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2011** | | 18,682 | – | (21,746) | 287,032 | 283,968 |
| Profit for the year | | – | – | – | 63,290 | 63,290 |
| **Other comprehensive income:** | | | | | | |
| Currency translation differences | | – | – | (854) | – | (854) |
| Cash flow hedges | | – | – | (1,046) | – | (1,046) |
| **Total comprehensive income for the year** | | – | – | (1,900) | 63,290 | 61,390 |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 1,439 | 1,439 |
| Treasury shares purchased | 26 | – | – | – | (455) | (455) |
| Proceeds received from exercise of share options | | – | – | – | 187 | 187 |
| Proceeds from shares issued (net) | 26 | 4,870 | 211,776 | – | – | 216,646 |
| Transfer to legal reserve | 27 | – | – | 2 | (2) | – |
| Dividends | 34 | – | – | – | (29,277) | (29,277) |
| **Total transactions with owners** | | 4,870 | 211,776 | 2 | (28,108) | 188,540 |
| **At 31 December 2011** | | 23,552 | 211,776 | (23,644) | 322,214 | 533,898 |
| Loss for the year | | – | – | – | (110,474) | (110,474) |
| **Other comprehensive income:** | | | | | | |
| Currency translation differences | | – | – | 334 | – | 334 |
| Cash flow hedges | | – | – | 1,180 | – | 1,180 |
| **Total comprehensive loss for the year** | | – | – | 1,514 | (110,474) | (108,960) |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 2,348 | 2,348 |
| Treasury shares purchased | 26 | – | – | – | (946) | (946) |
| Proceeds received from exercise of share options | | – | – | – | 556 | 556 |
| Transfer to legal reserve | 27 | – | – | 61 | (61) | – |
| Dividends | 34 | – | – | – | (20,829) | (20,829) |
| **Total transactions with owners** | | – | – | 61 | (18,932) | (18,871) |
| **At 31 December 2012** | | **23,552** | **211,776** | **(22,069)** | **192,808** | **406,067** |

The notes on pages 59 to 98 form an integral part of these financial statements.

# Company statement of changes in equity

| | Note | Share capital USD'000 | Share premium USD'000 | Other reserve USD'000 | Retained earnings USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2011** | | 18,682 | – | 708,852 | 43,050 | 770,584 |
| **Total comprehensive income for the year** | 33 | – | – | – | 2,993 | 2,993 |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 543 | 543 |
| – investment in subsidiaries | 18 | – | – | – | 899 | 899 |
| Treasury shares issued | 26 | – | – | – | (2,464) | (2,464) |
| Proceeds from shares issued (net) | 26 | 4,870 | 211,776 | – | – | 216,646 |
| Dividends | 34 | – | – | – | (29,277) | (29,277) |
| **Total transactions with owners** | | 4,870 | 211,776 | – | (30,299) | 186,347 |
| **At 31 December 2011** | | 23,552 | 211,776 | 708,852 | 15,744 | 959,924 |
| **Total comprehensive income for the year** | 33 | – | – | – | 26,995 | 26,995 |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 1,199 | 1,199 |
| – investment in subsidiaries | 18 | – | – | – | 1,149 | 1,149 |
| Treasury shares issued | 26 | – | – | – | (2,088) | (2,088) |
| Proceeds received from exercise of share options | | – | – | – | 556 | 556 |
| Dividends | 34 | – | – | – | (20,829) | (20,829) |
| Impairment during the year | 27 | – | – | (379,699) | – | (379,699) |
| **Total transactions with owners** | | – | – | (379,699) | (20,013) | (399,712) |
| **At 31 December 2012** | | **23,552** | **211,776** | **329,153** | **22,726** | **587,207** |

The notes on pages 59 to 98 form an integral part of these financial statements.

# Financial Statements
# Consolidated cash flow statement

| | Note | Year ended 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from/(used in) operating activities | 37 | **250,662** | (54,582) |
| Tax paid | | **(715)** | (120) |
| Net cash generated from/(used in) operating activities | | **249,947** | (54,702) |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 16 | **(16,743)** | (55,483) |
| Proceeds from sale of property, plant and equipment | | **111** | 439 |
| Additions to intangible assets | 17 | **(1,839)** | (1,800) |
| Held-to-maturity investment | 20 | **6,999** | (4) |
| Finance income | 11 | **867** | 1,531 |
| Dividend received from joint ventures | 19 | **244** | 760 |
| Acquisition of subsidiary – net of cash acquired | 32 | **–** | (322,217) |
| Proceeds from disposal of a subsidiary | | **1,628** | – |
| Movement in deposit with original maturity of more than three months | 25 | **45,035** | (19,907) |
| Movement in deposits under lien | 25 | **(51,336)** | – |
| Movement in margin deposits | 25 | **(3,473)** | (12,154) |
| Net cash used in investing activities | | **(18,507)** | (408,835) |
| **Financing activities** | | | |
| Net proceeds from issue of share capital | 26 | **–** | 216,646 |
| Proceeds from financial asset at fair value through profit or loss | 23 | **7,977** | 2,590 |
| Treasury shares purchased | | **(946)** | (455) |
| Proceeds from options exercised | | **556** | 187 |
| Dividends paid | 34 | **(20,823)** | (29,316) |
| Proceeds from borrowings | | **60,630** | 245,216 |
| Repayments of borrowings | | **(173,853)** | (45,811) |
| Finance costs | 11 | **(22,400)** | (17,965) |
| Net cash (used in)/generated from financing activities | | **(148,859)** | 371,092 |
| **Net increase/(decrease) in cash and cash equivalents** | | **82,581** | (92,445) |
| Cash and cash equivalents, beginning of the year | | **43,505** | 136,804 |
| Exchange rate translation | | **286** | (854) |
| Cash and cash equivalents, end of the year | 25 | **126,372** | 43,505 |

The notes on pages 59 to 98 form an integral part of these financial statements.

# Company cash flow statement

| | Note | Year ended 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | 33 | **26,995** | 2,993 |
| Adjustments for: | | | |
| Share-based payments – value of services provided | 8 | **1,199** | 543 |
| Provision for employees' end of service benefits | 28 | **97** | 259 |
| Dividends received from LEL | | **(20,826)** | (29,277) |
| Operating cash flows before payment of employees' end of service benefits and changes in working capital | | **7,465** | (25,482) |
| Payment of employees' end of service benefits | 28 | **–** | (246) |
| Changes in working capital: | | | |
| Other receivables | | **62** | (95) |
| Other payables and accruals | | **107** | (930) |
| Due from related parties | 24 | **2,936** | 14,545 |
| Due to a related party | 24 | **(9,133)** | 17,500 |
| Net cash generated from operating activities | | **1,437** | 5,292 |
| **Investing activities** | | | |
| Investment in a subsidiary | 18 | **–** | (219,365) |
| Dividends received from LEL | | **20,826** | 29,277 |
| Net cash generated from/(used in) investing activities | | **20,826** | (190,088) |
| **Financing activities** | | | |
| Net proceeds from issue of share capital | 26 | **–** | 216,646 |
| Proceeds from exercise of share options | 26 | **556** | – |
| Treasury shares issued | 26 | **(2,088)** | (2,464) |
| Dividends paid | 34 | **(20,829)** | (29,277) |
| Net cash (used in)/generated from financing activities | | **(22,361)** | 184,905 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(98)** | 109 |
| Cash and cash equivalents, beginning of the year | | **298** | 189 |
| Cash and cash equivalents, end of the year | 25 | **200** | 298 |

The notes on pages 59 to 98 form an integral part of these financial statements.

## 1 Legal status and activities

Lamprell plc ("the Company/the parent company") was incorporated and registered on 4 July 2006 in the Isle of Man as a public company limited by shares under the Isle of Man Companies Acts with the registered number 117101C. The Company acquired 100% of the legal and beneficial ownership in Lamprell Energy Limited ("LEL") from Lamprell Holdings Limited ("LHL"), 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 (Note 27). The Company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange with effect from 16 October 2006. From 6 November 2008, the Company moved from AIM and was admitted to trading on the London Stock Exchange ("LSE") plc's main market for listed securities. The address of the registered office of the Company is Fort Anne, Douglas, Isle of Man and the Company is managed from the United Arab Emirates ("UAE"). The address of the principal place of the business is PO Box 33455, Dubai, UAE.

The principal activities of the Company and its subsidiaries (together referred to as "the Group") are: the upgrade and refurbishment of offshore jackup rigs; fabrication; assembly and new build construction for the offshore oil and gas and renewable sector, including jackup rigs and liftboats; Floating Production, Storage and Offloading ("FPSO") and other offshore and onshore structures; and oilfield engineering services, including the upgrade and refurbishment of land rigs.

During 2011, the Group acquired 100% of the shares in Maritime Industrial Services Company Ltd Inc ("MIS") through its wholly owned subsidiary Lamprell Investments Holding Limited. MIS is registered in Panama and has operations in the Middle East and Kazakhstan. The principal activities of MIS are the upgrade and refurbishment of offshore jackup rigs; fabrication; assembly and new build construction for the offshore oil and gas sector; engineering and construction; safety and training services and other operating and maintenance services. At the time of acquisition, MIS was listed on the Norwegian Stock Exchange and was subsequently delisted in September 2011.

# Notes to the financial statements

For the year ended 31 December 2012

## 1 Legal status and activities (continued)

The Company has either directly or indirectly the following subsidiaries:

| Name of the subsidiary | Percentage of legal ownership % | Percentage of beneficial ownership % | Place of incorporation |
|---|---|---|---|
| Lamprell Energy Limited | 100 | 100 | Isle of Man |
| Lamprell Investment Holdings Limited | 100 | 100 | British Virgin Islands |
| 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 | 100 | 100 | British Virgin Islands |
| Lamprell Energy FZCO | 90+ | 100 | UAE |
| Maritime Industrial Services Co. Ltd Inc | 100 | 100 | Republic of Panama |
| Maurlis International Ltd. Inc | 100 | 100 | Republic of Panama |
| Global Management and Acquisition Co. Ltd Inc | 100 | 100 | Republic of Panama |
| Rig Metals LLC | 49* | 100 | UAE |
| Litwin PEL Co. LLC | 49* | 100 | UAE |
| Maritime Industrial Services Co. Ltd. & Partners | 49* | 100 | Sultanate of Oman |
| Global Investment Co. Ltd. Inc | 100 | 100 | Republic of Panama |
| Maritime International Agency Services Ltd | 100 | 100 | Republic of Panama |
| MIS International Ltd Inc | 100** | 100 | Republic of Panama |
| Lamprell Asia Limited | 100++ | 100 | Thailand |
| Marine Investment Holdings Co. Ltd. Inc. | 100 | 100 | Republic of Panama |
| MIS Control Trading Company Inc. | 100 | 100 | Republic of Panama |
| MIS Qatar LLC | 49* | 100 | Qatar |
| MIS Control Industrial Company Inc. | 100 | 100 | Republic of Panama |
| Lamprell Industrial Services Holdings Limited | 100 | 100 | British Virgin Islands |

* The remaining balance of 51% in each case is registered in the name of a Gulf Cooperation Council ("GCC") National/entities owned by a GCC National but has assigned all the economic benefits attached to their shareholdings to the Group entity. The Group 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. These shareholders receive sponsorship fees/commission from the Group (Note 24).

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

\+ A UAE free zone company ("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.

++ A Thailand registered company is required to have a minimum of three shareholders and consequently, of the total 867,000 shares, 2 shares are held by employees of the Group in trust for the beneficial interest of the Group and the balance of 866,998 shares is held by LE FZCO. This entity was liquidated in June 2012.

** This entity was disposed during the year (Note 12).

## 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 ("IFRS") and the Isle of Man Companies Acts 1931-2004. In accordance with the provisions of the Isle of Man Companies Act 1982, the Company has not presented its own statement of comprehensive income. The consolidated financial statements have been prepared on a going concern basis. The ability of the Group to continue as a going concern is reliant upon the continued availability of external debt financing and access to bank guarantees for its major projects. The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

The Group expects to conclude discussions with lenders in a satisfactory manner and has continued to meet all interest and other payment obligations. After reviewing its cash flow forecasts for a period of not less than 12 months, from the date of signing of these financial statements, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

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.

#### (a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

#### (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted

IAS 19, "Employee benefits" was amended in June 2011. The impact of this amendment will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income ("OCI") as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). This amendment has no impact on the Group's financial statements and the Group intends to adopt IAS 19 Amendments no later than the accounting period beginning on or after 1 January 2013.

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standards retain most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to reassess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015 (subject to EU endorsement).

IFRS 10, "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group will adopt IFRS 10 for the accounting period beginning on or after 1 January 2013.

IFRS 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group will adopt IFRS 12 for the accounting period beginning on or after 1 January 2013.

**2 Summary of significant accounting policies** (continued)
IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group will adopt IFRS 13 for the accounting period beginning on or after 1 January 2013.

### 2.2 Revenue recognition

**(a) Contract revenue**
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.

With respect to new build fixed price construction contracts with an expected contract duration of 18 months or greater, profit on such contracts will only be recognised when the contract has progressed to 20% based on the total estimated cost of the contract and the ultimate outcome can be reliably estimated.

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 including advances paid to suppliers and advance billings received from sub-contractors relating to future activity on a contract are excluded and are presented as contract work-in-progress.

**(b) Inspection services**
Revenue from inspection services is recognised when the services have been rendered; the customer has accepted the service and the collectability of the related receivables are reasonably assured.

**(c) Products and services**
Revenue from sale of products and services is recognised in the accounting period in which the product is sold or the service is rendered.

**(d) Interest income**
Interest income is recognised on a time proportion basis using the effective interest rate method.

### 2.3 Consolidation

**(a) Subsidiaries**
Subsidiaries are all entities (including special purpose 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 existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

**2 Summary of significant accounting policies** (continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

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 recorded 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.

**(b) Joint ventures**

A joint venture is an entity jointly controlled by two or more parties by means of contractual arrangement. The results of operations, assets and liabilities of the Group's joint ventures are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale. Under the equity method, investments in jointly controlled entities are carried at cost plus subsequent changes in the Group's share of net assets of the jointly controlled entity, net of any accumulated impairment losses.

The income statement reflects the Group's share of the results of operations of the jointly controlled entity (based on the equity method). Losses of a joint venture in excess of the Group's interest in that joint venture are not recognised unless the Group has a legal or constructive obligation to fund those losses.

**(c) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

## 2 Summary of significant accounting policies (continued)

### 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 primarily carried out from the UAE, whose currency, the AED, is pegged to the US Dollar and is the functional currency of all the entities in the Group (except MISCLP whose functional currency is Omani Riyal, MISQWLL whose functional currency is Qatari Riyal, MIS Kazakh Branch whose functional currency is Kazakh Tenge and EBT whose functional currency is the GBP). 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 consolidated income statement, except when deferred into other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or costs'. All other foreign exchange gain and losses are presented in the consolidated income statement within 'other gains/(losses) – net'.

#### (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 for the year; and
> all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

### 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 and infrastructure | 3–25 |
| Operating equipment | 3–15 |
| 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 consolidated 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 (note 2.21).

**2 Summary of significant accounting policies** (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) – net' in the income statement.

### 2.7 Intangible assets

**(a) Goodwill**

Goodwill arises on the acquisition of subsidiaries and joint ventures and represents the excess of the consideration transferred over Lamprell plc's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs") or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

**(b) Trade name**

A trade name acquired as part of a business combination is capitalised, separately from goodwill, at fair value at the date of acquisition if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably. Amortisation is calculated on a straight line method to allocate the fair value at acquisition over their estimated useful life of 10 years. The useful life of a trade name is reviewed on an annual basis.

**(c) Customer relationships**

Customer relationships acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably. Amortisation is calculated on a straight line method to allocate the fair value at acquisition over their estimated useful life of four years. The useful life of customer relationships is reviewed on an annual basis.

**(d) Operating lease rights**

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.

**(e) Computer software**

Work-in-progress in relation to computer software is stated at cost. Directly attributable costs that are capitalised as part of the software product include the software development employee costs. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. When commissioned, work-in-progress is transferred to software and amortised in accordance with Group policies.

### 2.8 Inventories

Inventories comprise raw materials and 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 purchase and other costs incurred in bringing the inventories to their present location and condition.

### 2.9 Trade receivables

Trade receivables are amounts receivable from customers for billing in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

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

## 2 Summary of significant accounting policies (continued)

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 consolidated income statement within 'general and administrative expenses'. 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' in the consolidated income statement.

### 2.10 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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.

### 2.12 Employee benefits

#### (a) Provision for staff benefits

A provision is made for the estimated liability for employees' entitlements to annual leave and related benefits 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 Labour Laws applicable in the countries in which the Group operates, 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.

Actuarial gains and losses arising from changes in assumptions are charged or credited in the consolidated income statement in the period in which they arise.

#### (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 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 is recognised as an expense with a corresponding credit to equity.

### 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 consolidated 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, other short-term highly liquid investments with original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## 2 Summary of significant accounting policies (continued)

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the repayment value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. The Group capitalises general and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and accessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.19 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and held-to-maturity. Currently, the Group does not have any 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. Assets in this category are classified as current assets.

**2 Summary of significant accounting policies** (continued)

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated 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 consolidated 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), other receivables (excluding prepayments), receivables from related parties and cash and cash equivalents (Note 2.14) in the Group balance sheet and amounts due from related parties (Note 24) and cash at bank (Note 25) in the Company balance sheet.

Loans and receivables are initially measured at fair value plus transaction costs and subsequently carried at amortised cost less provision for impairment. The amortised cost is computed using the effective interest method.

Loans and receivables are derecognised when the rights to receive cash flows from the counterparty have expired or have been transferred and the Group has transferred substantially all risks and rewards of the ownership.

**(c) Held-to-maturity**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets. The Group assesses at each balance sheet date whether there is objective evidence that a held-to-maturity financial asset or a group of held-to-maturity financial assets is impaired.

**(d) Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**2.20 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 29. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within 'other gains/(losses) – net'.

**2 Summary of significant accounting policies** (continued)
Amounts accumulated in equity are reclassified to profit or loss in the periods when the item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the ineffective portion is recognised in the consolidated income statement within 'other gains/(losses) – net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, contracts work-in-progress or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of contracts work in progress or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within 'other gains/(losses) – net'.

### 2.21 Impairment of non-financial assets
Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. 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 impairment are reviewed for possible reversal of the impairment at each reporting date. Any material impairment loss is recognised in the consolidated income statement and separately disclosed.

### 2.22 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds received net of any directly attributable transaction costs over the par value of the shares are credit to the share premium.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.23 Exceptional items
Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## 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 and cash flow interest rate risk), credit risk and liquidity risk. These risks are evaluated by 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 has foreign exchange risk primarily with respect to commitments in Euro with certain suppliers. To manage the foreign exchange risk exposure arising from future commercial transactions and recognised liabilities, the Group uses forward exchange contracts (Note 29).

#### (b) Market risk – cash flow interest rate risk
The Group holds its surplus funds in short-term bank deposits. During the year ended 31 December 2012, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 564,000 (2011: USD 483,000).

The Group's interest rate risk arises from long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2012, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by USD 1,110,000 (2011: USD 668,000).

## 3 Financial risk management (continued)

### (c) Credit risk

The Group's exposure to credit risk is detailed in Notes 15, 20, 22, 23, 25 and 29. 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, held-to-maturity investment, financial asset carried at fair value through profit or loss, trade and other receivables and derivative financial instruments. 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 'B' are accepted. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2012, the Group had a significant concentration of credit risk with nine of its largest customer balances accounting for 53% (2011: 58%) of trade receivables outstanding at that date. Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

The table below shows the rating and balance of the 13 major counterparties at the balance sheet date:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Counterparty | External rating+ | USD'000 | External rating+ | USD'000 |
| Bank A* | AA- | 104,373 | AA- | 76,060 |
| Bank B | A | 67,714 | AA- | 7,839 |
| Bank C | AA- | 37,492 | AA- | 1,065 |
| Bank D | AA- | 18,728 | AA- | 34 |
| | | 228,307 | | 84,998 |

* 2011 numbers include USD 6.9 million with respect to held-to-maturity investment (Note 20).
\+ Based on Fitch/Standard & Poor's long term ratings.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Internal rating++ | USD'000 | Internal rating++ | USD'000 |
| Customer 1 | Group A | 14,830 | Group C | 26,909 |
| Customer 2 | Group A | 14,060 | Group C | 12,381 |
| Customer 3 | Group B | 10,577 | Group A | 9,772 |
| Customer 4 | Group A | 7,455 | Group C | 5,665 |
| Customer 5 | Group B | 3,412 | Group C | 3,462 |
| Customer 6 | Group B | 3,412 | Group C | 3,271 |
| Customer 7 | Group C | 2,974 | Group A | 3,244 |
| Customer 8 | Group A | 2,487 | Group C | 3,203 |
| Customer 9 | Group C | 2,359 | Group B | 3,137 |
| | | 61,566 | | 71,044 |

++ Refer to Note 15 for the description of internal ratings.

The counterparties in 2012 are not necessarily the same counterparties in 2011.

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

### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group is currently financed from Shareholders' equity and borrowings. The borrowings are subject to meeting certain banking covenants. The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects the majority of which have now been completed caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long-term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

The Group's liquidity risk on derivative financial instruments is disclosed in Note 29.

## 3 Financial risk management (continued)

The table below analyses the Group's other financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Carrying amount USD'000 | Contractual cash flows USD'000 | Less than 1 year USD'000 | 1 to 2 years USD'000 |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| Trade and other payables (excluding due to customers on contracts, advances received for contract work and dividend payable) (Note 30) | 258,639 | 258,639 | 258,639 | – |
| Borrowings (Note 31) | 159,323 | 159,323 | 159,323 | – |
| | 417,962 | 417,962 | 417,962 | – |
| **31 December 2011** | | | | |
| Trade and other payables (excluding due to customers on contracts, advances received for contract work and dividend payable) (Note 30) | 318,198 | 318,198 | 318,198 | – |
| Borrowings (Note 31) | 251,125 | 254,635 | 254,599 | 36 |
| | 569,323 | 572,833 | 572,797 | 36 |

### 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 to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, or issue new shares to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and bank balances. Total capital is calculated as "equity" as shown in the balance sheet plus net debt. The net debt to total capital at the balance sheet date was as follows:

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Total borrowings | **159,323** | 251,125 |
| Less: cash and bank balances (Note 25) | **(263,439)** | (149,377) |
| Net debt | **n/a** | 101,748 |
| Total equity | **406,067** | 533,898 |
| Total capital | **n/a** | 635,646 |
| Gearing ratio | **n/a** | 16% |

At the balance sheet date, the Group has no net debt and was therefore un-geared.

The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long-term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

a. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and

c. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

## 3 Financial risk management (continued)

The following table presents the Group's assets that are measured at fair value at 31 December 2012:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative financial instruments (Note 29) | – | 1,152 | – | 1,152 |

There were no liabilities at 31 December 2012 measured at fair value.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss (Note 23) | – | – | 8,172 | 8,172 |
| Derivative financial instruments (Note 29) | – | 699 | – | 699 |
| | – | 699 | 8,172 | 8,871 |
| **Liability** | | | | |
| Derivative financial instruments (Note 29) | – | 1,449 | – | 1,449 |

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

a. Quoted market prices or dealer quotes for similar instruments; and

b. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

## 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. 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 24.4 million (2011: USD 32.9 million) if the total costs to complete are decreased by 10% and the revenue and profit decreasing by USD 45.2 million (2011: USD 24.3 million) if the total costs to complete are increased by 10%.

### Estimated impairment of goodwill

The Group tests goodwill (Note 17) for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill is monitored by management at the "cash generating unit relating to upgrade and refurbishment of offshore jackup rigs, fabrication, assembly and new build construction for the offshore oil and gas and renewables sectors, including FPSO and other offshore and onshore structures, oilfield engineering services, including the upgrade and refurbishment of land rigs" ($CGU_1$).

### 4 Critical accounting estimates and judgements (continued)

The recoverable amount of $CGU_1$ is determined based on value-in-use calculations. These calculations require the use of estimates. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated revenue growth rate of 5%. A discount rate of 12.96% is used to discount the pre-tax cash flow projections to the present value. A change in the assumptions selected by management used in the cash flow projections could significantly affect the impairment evaluation. If the revenue growth rate used was to differ by 0.5% from management's estimates, there would be a reduction of USD 1.6 million in the headroom if the revenue growth rate was lower by 0.5% and the headroom would be higher by USD 1.6 million if the revenue growth rate was higher by 0.5%. If the discount rate used was to differ by 0.5% from management's estimates, there would be a reduction in the headroom of USD 23.6 million if the discount rate was to increase by 0.5% or an increase in the headroom by USD 26.3 million if the discount rate was to decrease by 0.5%. If the net profit as a percentage of revenue used was to differ by 0.5% from management's estimates, there would be an increase of USD 61.9 million in the headroom if the net profit as a percentage of revenue was to increase by 0.5% and there would be a decrease of USD 61.9 million in the headroom if the net profit as a percentage of revenue were to decrease by 0.5%. If the terminal value growth rate used was to differ by 0.5% from management's estimates, there would be a reduction in the headroom of USD 16.7 million if the terminal value growth rate was lower by 0.5% or an increase in the headroom of USD 18.6 million if the terminal value growth rate was higher by 0.5%.

#### Estimated impairment of investment in subsidiaries

The Company tests investment in subsidiaries (Note 18) for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment.

The recoverable amount of the investment in subsidiaries is determined based on value-in-use calculations. These calculations require the use of estimates. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated revenue growth rate of 5%. A discount rate of 12.96% is used to discount the pre-tax cash flows projections to the present value. During the year, the Company recorded an impairment charge with respect to its investment in LEL of USD 397.7 million (Notes 18 and 27). A change in the assumptions selected by management used in the cash flow projections could significantly affect the impairment evaluation. If the revenue growth rate used was to differ by 0.5% from management's estimates, the impairment charge would be higher by USD 2.1 million if the revenue growth rate was decreased by 0.5% and the impairment charge would be lower by USD 2.1 million if the revenue growth rate was increased by 0.5%. If the discount rate used was to differ by 0.5% from management's estimates, the impairment charge would be higher by USD 25.5 million if the discount rate was increased by 0.5% and the impairment charge would be lower by USD 28.3 million if the discount rate was decreased by 0.5%. If the net profit as a percentage of revenue was to differ by 0.5% from management's estimates, the impairment charge would be higher by USD 67.1 million if the net profit as a percentage of revenue was lower by 0.5% and the impairment charge would be lower by USD 67.1 million if the net profit as a percentage of revenue was higher by 0.5%. If the terminal value growth rate was to differ by 0.5% from management's estimates, the impairment charge would be higher by USD 17.8 million if the terminal value growth rate was lower by 0.5% and the impairment charge would be lower by USD 19.8 million if the terminal value growth rate was increased by 0.5%.

If the investment in LEL was to be further impaired based on the above sensitivity analysis, the impairment loss on the investment in LEL will be adjusted from the other reserve (Note 27) in the separate financial statements of the Company and accordingly this will have no impact on the Group's consolidated statement of comprehensive income.

#### Employees' end of service benefits

The rate used for discounting the employees' post-employment defined benefit obligation should be based on market yields on high quality corporate bonds. In countries where there is no deep market for such bonds, the market yields on government bonds should be used. In the UAE, there is no deep market either for corporate or government bonds and, therefore, the discount rate has been estimated using the US AA-rated corporate bond market as a proxy. On this basis, the discount rate applied was 3.00% (2011: 4.25%). If the discount rate used was to differ by 0.5 points from management's estimates, the carrying amount of the employee's end of the service benefits provision at the balance sheet date would be an estimated USD 1.2 million (2011: USD 1.4 million) lower or USD 1.3 million (2011: USD 1.5 million) higher.

### 5 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Directors who make strategic decisions. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors consider the business mainly on the basis of the facilities from where the services are rendered. Management considers the performance of the business from Sharjah (SHJ), Hamriyah (HAM) and Jebel Ali (JBA) in addition to the performance of Land Rig Services (LRS) and International Inspection Services Limited (Inspec).

### 5 Segment information (continued)

SHJ, HAM, JBA and LRS meet all the aggregation criteria required by IFRS 8 and are reported as a single segment (Segment A). Services provided from Inspec do not meet the quantitative thresholds required by IFRS 8, and the results of these operations are included in the "all other segments" column.

The reportable operating segments derive their revenue from the upgrade and refurbishment of offshore jackup rigs, fabrication, assembly and new build construction for the offshore oil and gas and renewables sectors, including FPSO and other offshore and onshore structures, oilfield engineering services, including the upgrade and refurbishment of land rigs.

Inspec derives its revenue from various services such as non-destructive pipeline testing, ultrasonic testing and heat treatment.

During 2011, the Company through its wholly owned subsidiary, LIH, acquired MIS (Note 32). The revenue of MIS is mainly derived from the upgrade and refurbishment of offshore jackup rigs, fabrication, assembly and new build construction for the offshore oil and gas sector, engineering and construction. The Executive Directors consider these services to be similar to the services provided by Lamprell from SHJ, HAM, JBA and LRS and hence they have been considered under the reporting segment (Segment A). Additionally, MIS also provides safety and training services (Sunbelt) and other operating and maintenance services (O&M). As services provided by Sunbelt and O&M do not meet the quantitative thresholds required by IFRS 8, the results of these operations are included in the "all other segments" column.

| | Segment A USD'000 | All other segments USD'000 | Total USD'000 |
|---|---|---|---|
| **Year ended 31 December 2012** | | | |
| Total segment revenue | 950,176 | 106,595 | 1,056,771 |
| Inter-segment revenue | – | (11,272) | (11,272) |
| Revenue from external customers | 950,176 | 95,323 | 1,045,499 |
| Gross operating profit | 22,171 | 19,167 | 41,338 |
| **Year ended 31 December 2011** | | | |
| Total segment revenue | 1,101,741 | 53,357 | 1,155,098 |
| Inter-segment revenue | – | (7,245) | (7,245) |
| Revenue from external customers | 1,101,741 | 46,112 | 1,147,853 |
| Gross operating profit | 138,113 | 13,959 | 152,072 |

Sales between segments are carried out on agreed terms. The revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated income statement.

The Executive Directors assess the performance of the operating segments based on a measure of gross profit. The staff, equipment and certain subcontract costs are measured based on standard cost. The measurement basis excludes the effect of the common expenses for yard rent, repairs and maintenance and other miscellaneous expenses. The reconciliation of the gross operating (loss)/profit is provided as follows:

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Gross operating profit for the reportable segment as reported to the Executive Directors | **22,171** | 138,113 |
| Gross operating profit for all other segments as reported to the Executive Directors | **19,167** | 13,959 |
| Unallocated: | | |
| Finance costs absorbed in reportable segments | **–** | 5,968 |
| Under-absorbed employee and equipment costs | **(26,141)** | (9,157) |
| Repairs and maintenance | **(18,275)** | (12,524) |
| Yard rent and depreciation | **(10,891)** | (3,357) |
| Others | **(5,589)** | (62) |
| **Gross (loss)/profit** | **(19,558)** | 132,940 |
| Selling and distribution expenses (Note 7) | **(1,527)** | (2,358) |
| General and administrative expenses (Note 9) | **(73,770)** | (62,863) |
| Other gains/(losses) – net (Note 12) | **5,652** | 11,928 |
| Finance costs (Note 11) | **(22,400)** | (17,965) |
| Finance income (Note 11) | **867** | 1,804 |
| Others | **262** | (196) |
| **(Loss)/profit for the year** | **(110,474)** | 63,290 |

## 5 Segment information (continued)

Information about segment assets and liabilities is not reported to or used by the Executive Directors and, accordingly, no measures of segment assets and liabilities are reported.

The breakdown of revenue from all services is as follows:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| New build activities – oil and gas | **493,637** | 500,618 |
| New build activities – renewables | **66,365** | 289,105 |
| Upgrade and refurbishment activities | **176,896** | 191,009 |
| Offshore construction | **179,666** | 52,507 |
| Others | **128,935** | 114,614 |
| | **1,045,499** | 1,147,853 |

The Group's principal place of business is in the UAE. The revenue recognised in the UAE with respect to services performed to external customers is USD 1,030.9 million (2011: USD 1,139.3 million), and the revenue recognised from the operations in other countries is USD 14.6 million (2011: USD 8.6 million).

Certain customers individually accounted for greater than 10% of the Group's revenue, shown in the table below:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| External customer A | **188,993** | 193,972 |
| External customer B | **122,453** | 158,576 |
| External customer C | **109,518** | 137,374 |
| External customer D | **–** | 119,284 |
| | **420,964** | 609,206 |

The revenue from these customers is attributable to Segment A. The above customers in 2012 are not necessarily the same customers in 2011.

## 6 Cost of sales

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Materials and related costs | **410,387** | 482,726 |
| Sub-contract costs | **284,526** | 257,563 |
| Staff costs (Note 10) | **207,266** | 136,221 |
| Sub-contract labour | **67,992** | 63,509 |
| Repairs and maintenance | **15,866** | 17,566 |
| Equipment hire | **25,155** | 16,356 |
| Depreciation (Note 16) | **20,289** | 14,982 |
| Yard rent | **7,194** | 4,248 |
| Others | **26,382** | 21,742 |
| | **1,065,057** | 1,014,913 |

## 7 Selling and distribution expenses

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Advertising and marketing | **521** | 1,965 |
| Entertainment | **58** | 114 |
| Travel | **944** | 173 |
| Others | **4** | 106 |
| | **1,527** | 2,358 |

## 8 Share-based payments

### Group

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Proportionate amount of share-based charge (Note 10): | | |
| – relating to free share plan | **543** | 626 |
| – relating to executive share option plan | **17** | 62 |
| – relating to performance share plan | **1,788** | 751 |
| | **2,348** | 1,439 |

### Company

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Proportionate amount of share-based charge: | | |
| – relating to free share plan | **–** | 83 |
| – relating to executive share option plan | **17** | 62 |
| – relating to performance share plan | **1,182** | 398 |
| | **1,199** | 543 |

### Free share plan

The Company awarded shares to selected Directors, key management personnel and employees under the free share plan that provides an entitlement to receive these shares at no cost. These free shares are conditional on the Directors/key management personnel/employee completing a specified period of 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 is based on the share price at the date of the grant less the value of the dividends foregone during the vesting period. The details of the shares granted under this scheme are as follows:

| Grant date | Number of shares | Vesting period | Fair value per share | Expected withdrawal rate |
|---|---|---|---|---|
| **2008** | | | | |
| 20 May 2008 | 70,000 | 36 months | £5.08 | 5% |
| **2009** | | | | |
| 22 January 2009 | 600,000 | 24 months | £0.89 | 5% |
| **2010** | | | | |
| 21 March 2010 | 299,000 | 18 months | £2.49 | 5% |
| **2012** | | | | |
| 26 April 2012 | 287,500 | 24 months | £3.49 | – |

A charge of USD 543,000 (2011: USD 626,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD Nil (2011: USD 83,000).

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

**8 Share-based payments** (continued)

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

| | Number of Shares |
|---|---|
| **Shares expected to vest in future periods at 1 January 2011** | 942,000 |
| Shares adjustment for rights issue | 26,716 |
| Shares vested and issued out of treasury shares | (963,716) |
| Shares lapsed due to non-satisfaction of vesting conditions | (5,000) |
| **Shares expected to vest in future periods at 31 December 2011** | – |
| Shares granted under free share plan | 287,500 |
| Shares lapsed due to non-satisfaction of vesting conditions | (70,000) |
| **Shares expected to vest in future periods at 31 December 2012** | 217,500 |

### Executive share option plan

Share options are granted by the Company to certain employees under the executive share option plan. This option plan does not entitle the employees to dividends. These options are conditional on the employee completing three years of 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 options in cash.

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

| | Exercise price in £ per share | Options | Vesting date | Expiry date |
|---|---|---|---|---|
| **At 1 January 2009** | 3.22 | 105,369 | 16 May 2010 | 16 May 2017 |
| Granted in 2009 | 0.57 | 550,000 | 31 March 2012 | 31 March 2019 |
| Forfeited in 2009 | 3.22 | (19,585) | | |
| **At 31 December 2009 and 2010** | 0.93 | 635,784 | | |
| Vested and exercised | 3.22 | (35,253) | | |
| Vested but not exercised | 3.22 | (50,531) | | |
| **At 31 December 2011** | 0.57 | 550,000 | | |
| Adjustment for the rights issue | 0.57 | 55,048 | | |
| Vested and exercised | 0.57 | (605,048) | | |
| **At 31 December 2012** | – | – | | |

At 31 December 2012, 13,711 (2011: 50,531) options under this plan were not exercised or lapsed.

The weighted average fair value of options granted during 2009 determined using a binomial valuation model was £0.28 per option. The significant inputs into the model were an average share price for a period of one year immediately preceding the grant date of £2.91, an exercise price of £0.57, volatility of 50%, dividend yield of 3.31%, an expected option term of ten years, an annual risk-free interest rate of 3.28% and a withdrawal rate of 5% per annum. The risk-free rate is derived from the yield on United Kingdom (UK) Government Bonds as detailed by the Bank of England, using a 10-year maturity in line with the life of the option. The volatility assumption is based on an analysis of the historic daily share price volatility of the Company since its listing date, capped at 50%. A charge of USD 17,000 (2011: USD 62,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 17,000 (2011: USD 62,000).

## 8 Share-based payments (continued)

### Performance share plan

The Company granted share awards to directors, key management personnel and selected employees that give them an entitlement to receive a certain number of shares subject to the satisfaction of a performance target and continued employment. The performance target related to the growth in the Group's earnings per share. The fair value of the share awards made under this plan is based on the share price at the date of the grant less the value of the dividends foregone during the vesting period. The details of the shares granted under this scheme are as follows:

| Grant date | Number of shares | Vesting period | Fair value per share | Dividend entitlement | Expected withdrawal rate |
|---|---|---|---|---|---|
| **2010** | | | | | |
| 15 April 2010 | 502,572 | 36 months | £2.57 | No | 5% |
| **2011** | | | | | |
| 2 September 2011 | 339,448 | 36 months | £2.97 | Yes | – |
| 8 December 2011 | 38,512 | 36 months | £2.81 | Yes | – |
| | 377,960 | | | | |
| **2012** | | | | | |
| 16 April 2012 | 507,216 | 36 months | £3.19 | No | – |

Accordingly, a charge of USD 1,788,000 (2011: USD 751,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 1,182,000 (2011: USD 398,000).

The Group has no legal or constructive obligation to settle the free share awards 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 expected to vest in future periods at 1 January 2011** | 502,572 |
| Shares granted performance share plan | 377,960 |
| **Shares expected to vest in future periods at 31 December 2011** | 880,532 |
| Shares granted performance share plan | 507,216 |
| Shares lapsed due to non-satisfaction of vesting conditions | (1,116,360) |
| **Shares expected to vest in future periods at 31 December 2012** | 271,388 |

As part of the acquisition of MIS (Note 32), the Company extended a cash cancellation offer of NOK 38 per share to the option holders of MIS. The offer was accepted by all the option holders and was settled by the Company for a total value of USD 5.4 million. The fair value of the vested options as at the acquisition date amounting to USD 3.5 million was considered as part of the purchase consideration (Note 32) and the fair value of the unvested options as at the acquisition date amounting to USD 1.9 million was considered as an expense in the post combination financial statements during 2011.

## 9 General and administrative expenses

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Staff costs (Note 10) | **31,375** | 34,200 |
| Legal, professional and consultancy fees | **6,370** | 10,516 |
| Depreciation (Note 16) | **5,201** | 4,301 |
| Amortisation of intangible assets (Note 17) | **8,534** | 3,887 |
| Utilities and communication | **717** | 3,706 |
| Provision for impairment of trade receivables | **7,633** | 168 |
| Write-off of intangible assets | **4,339** | – |
| Regulatory fine | **3,720** | – |
| Others | **5,881** | 6,085 |
| | **73,770** | 62,863 |

**Exceptional items:**
Items that are material either because of their size or their nature or that are non-recurring are presented within their relevant consolidated income statement category, but highlighted separately in the consolidated income statement. The separate reporting of exceptional items helps provide a better picture of the Group's underlying performance.

Exceptional items in these financial statements relate to a regulatory fine recorded in the current year amounting to GBP 2.43 million (USD equivalent 3.72 million converted at an exchange rate of USD 1.53 per GBP) and related legal expenses of USD 1.0 million. In the prior year exceptional items relate to acquisition of MIS (Note 32). An analysis of the nature of expense is as follows:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Regulatory fine | **3,720** | – |
| Financial advisory fees | **–** | 5,024 |
| Legal fees | **1,000** | 1,781 |
| Professional fees | **–** | 1,220 |
| Post acquisition charge of cash cancellation of MIS share options (Note 8) | **–** | 1,919 |
| Other expenses | **–** | 600 |
| | **4,720** | 10,544 |

## 10 Staff costs

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Wages and salaries | **134,077** | 100,214 |
| Employees' end of service benefits (Note 28) | **6,263** | 8,508 |
| Share-based payments – value of services provided (Note 8) | **2,348** | 1,439 |
| Termination benefits | **1,718** | – |
| Other benefits | **94,235** | 60,260 |
| | **238,641** | 170,421 |
| Staff costs are included in: | | |
| Cost of sales (Note 6) | **207,266** | 136,221 |
| General and administrative expenses (Note 9) | **31,375** | 34,200 |
| | **238,641** | 170,421 |
| Number of employees at 31 December | **8,661** | 9,496 |

## 10 Staff costs (continued)

Directors' remuneration comprises:

| | Salary 2012 USD'000 | Fees 2012 USD'000 | Allowances & benefits 2012 USD'000 | Share-based payments value of services provided 2012 USD'000 | Post employment benefits 2012 USD'000 | Termination benefits 2012 USD'000 | Total 2012 USD'000 | Total 2011 USD'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Peter Whitbread+ | 310 | – | 42 | – | – | – | 352 | – |
| Nigel McCue++ | 631 | – | 127 | 666 | 33 | 505 | 1,962 | 2,055 |
| Chris Hand* | 330 | – | 183 | 221 | 76 | 342 | 1,152 | 1,107 |
| Scott Doak^ | – | – | – | – | – | – | – | 990 |
| Jonathan Cooper^^ | 315 | – | 127 | 131 | 23 | 590 | 1,186 | 145 |
| **Non-Executive Directors** | | | | | | | | |
| John Kennedy ** | – | 145 | – | – | – | – | 145 | – |
| Jonathan Silver*** | – | 264 | – | – | – | – | 264 | 215 |
| Deena Mattar@ | – | 58 | – | – | – | – | 58 | – |
| Colin Goodall | – | 137 | – | – | – | – | 137 | 128 |
| Richard Raynaut@@ | – | 39 | – | – | – | – | 39 | 76 |
| Brian Fredrick+++ | – | 34 | – | – | – | – | 34 | 76 |
| | 1,586 | 677 | 479 | 1,018 | 132 | 1,437 | 5,329 | 4,792 |

The emoluments of the highest paid Director were USD 2.0 million (2011: USD 2.1 million) and these principally comprised salary, benefits, bonus and share-based payments.

+ Appointed as Interim Chief Executive Officer and Director on 4 October 2012.
++ Stood down as Chief Executive Officer and Director with effect from 4 October 2012.
* Appointed as a Director on 26 January 2011 and stood down with effect from 4 October 2012.
^ Resigned as Chief Financial Officer and Director with effect from 30 October 2011.
^^ Appointed as Chief Financial Officer and Director on 30 October 2011 and stood down as Chief Financial Officer and Director with effect from 4 October 2012.
** Appointed as Non-Executive Chairman with effect from 15 June 2012.
*** Resigned as Non-Executive Chairman and appointed as Deputy Chairman with effect from 7 June 2012.
@ Appointed as Non-Executive Director with effect from 1 April 2012.
@@ Retired as Non-Executive Director with effect from 7 June 2012.
+++ Resigned as Non-Executive Director with effect from 14 June 2012.

## 11 Finance costs – net

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| **Finance costs** | | |
| Bank guarantee charges | 6,764 | 6,157 |
| Interest on bank borrowings | 9,574 | 5,392 |
| Facility fees | 4,429 | 4,441 |
| Commitment fees | 67 | 1,200 |
| Others | 1,566 | 775 |
| | 22,400 | 17,965 |

### Finance income

Finance income comprises of interest income on bank deposits of USD 0.9 million (2011: USD 1.5 million) and interest accretion on loan to KSAM2 of USD Nil (2011: USD 0.3 million).

## 12 Other gains/(losses) – net

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Gain on settlement of receivable from KSAM2 (Note 24) | **4,265** | – |
| Gain on disposal of a subsidiary | **853** | – |
| Fair value (loss)/gain on financial asset carried at fair value through profit or loss (Note 23) | **(195)** | 8,262 |
| Fair value gain on derivatives (Note 29) | **1,152** | – |
| Gain on settlement of held-to-maturity investment (Note 20) | **120** | – |
| Profit on disposal of property, plant and equipment | **54** | 281 |
| Exchange (loss)/gain – net | **(946)** | 3,102 |
| Others | **349** | 283 |
| | **5,652** | 11,928 |

## 13 (Loss)/earnings per share

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares (Note 26).

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the free share awards, options under executive share option plan and performance share plan, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share awards/options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share awards/options. Since the Company has incurred a loss from continuing operations during the year ended 31 December 2012, all the Company's existing potential ordinary shares are not dilutive as they decrease the loss from continuing operations.

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| The calculations of (loss)/earnings per share are based on the following (loss)/profit and numbers of shares: | | |
| (Loss)/profit for the year | **(110,474)** | 63,290 |
| Weighted average number of shares for basic (loss)/earnings per share | **260,219,631** | 238,329,508 |
| Adjustments for: | | |
| Assumed vesting of executive share options | **–** | 445,443 |
| Assumed vesting of performance share plan | **–** | 361,723 |
| Weighted average number of shares for diluted earnings per share | **260,219,631** | 239,136,674 |
| (Loss)/earnings per share: | | |
| Basic | **(42.45)c** | 26.56c |
| Diluted | **(42.45)c** | 26.47c |

On 19 May 2011, the Company announced a rights issue of three shares for every ten shares held at a discounted price of 232 pence per share resulting in the issue of 60,083,792 new ordinary shares. The calculation of the weighted average number of ordinary shares for the year 2011 was affected by the issue of the new ordinary shares. The Group has treated the discount element of the rights issue as if it was a bonus issue, using the theoretical ex-rights price of 324 pence per share.

## 14 Operating profit

Operating profit is stated after charging/recognising:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Depreciation (Note 16) | **25,466** | 19,283 |
| Auditor's remuneration – audit services | **530** | 620 |
| Auditor's remuneration – taxation and related services | **237** | 22 |
| Auditor's remuneration – other services* | **620** | 1,004 |
| Operating lease rentals – land and buildings | **19,228** | 15,197 |
| Provision for impairment of trade receivables (Note 22) | **7,668** | 484 |

* Other services in 2012 mainly relates to debt restructuring and capital project reviews and, in 2011, to the raising of equity capital.

## 15 Financial instruments by category

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

### Group

### Assets as per balance sheet

| | Loans and receivables USD'000 | Assets at fair value through profit or loss USD'000 | Held-to-maturity investment USD'000 | Derivatives used for hedging USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **31 December 2012** | | | | | |
| Derivative financial instruments (Note 29) | **–** | **1,152** | **–** | **–** | **1,152** |
| Trade receivables – net of provision (Note 22) | **107,225** | **–** | **–** | **–** | **107,225** |
| Other receivables excluding prepayments | **9,830** | **–** | **–** | **–** | **9,830** |
| Due from related parties (Note 24) | **356** | **–** | **–** | **–** | **356** |
| Cash and bank balances (Note 25) | **263,439** | **–** | **–** | **–** | **263,439** |
| Total | **380,850** | **1,152** | **–** | **–** | **382,002** |
| **31 December 2011** | | | | | |
| Derivative financial instruments (Note 29) | – | 272 | – | 427 | 699 |
| Held-to-maturity investment (Note 20) | – | – | 6,879 | – | 6,879 |
| Financial asset at fair value through profit or loss (Note 23) | – | 8,172 | – | – | 8,172 |
| Trade receivables – net of provision (Note 22) | 118,613 | – | – | – | 118,613 |
| Other receivables excluding prepayments | 9,915 | – | – | – | 9,915 |
| Due from related parties (Note 24) | 7,509 | – | – | – | 7,509 |
| Cash and bank balances (Note 25) | 149,377 | – | – | – | 149,377 |
| Total | 285,414 | 8,444 | 6,879 | 427 | 301,164 |

### Liabilities as per balance sheet

| | Derivatives used for hedging USD'000 | Liabilities at amortised cost USD'000 | Total USD'000 |
|---|---|---|---|
| **31 December 2012** | | | |
| Trade payables (Note 30) | **–** | **41,007** | **41,007** |
| Other payables and accruals (Note 30) | **–** | **217,632** | **217,632** |
| Borrowings (Note 31) | **–** | **159,323** | **159,323** |
| Total | **–** | **417,962** | **417,962** |
| **31 December 2011** | | | |
| Derivative financial instruments (Note 29) | 1,449 | – | 1,449 |
| Trade payables (Note 30) | – | 79,974 | 79,974 |
| Other payables and accruals (Note 30) | – | 238,151 | 238,151 |
| Payable to related parties (Note 30) | – | 73 | 73 |
| Borrowings (Note 31) | – | 251,125 | 251,125 |
| Total | 1,449 | 569,323 | 570,772 |

## 15 Financial instruments by category (continued)

### Company

| | Loans and receivables | |
|---|---|---|
| | **2012 USD'000** | 2011 USD'000 |
| Cash at bank | **200** | 298 |
| Due from related parties (Note 24) | **5,138** | 8,074 |
| Total | **5,338** | 8,372 |

| | Liabilities at amortised cost | |
|---|---|---|
| | **2012 USD'000** | 2011 USD'000 |
| Due to a related party (Note 24) | **8,367** | 17,500 |
| Other payables and accruals | **628** | 521 |
| Total | **8,995** | 18,021 |

### 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:

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| **Trade receivables** | | |
| Group A | **42,562** | 11,173 |
| Group B | **15,274** | 10,755 |
| Group C | **7,381** | 23,056 |
| | **65,217** | 44,984 |

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.

**Derivative financial instruments**

The credit quality of derivative financial instruments in disclosed in Note 29.

None of the financial assets that is fully performing has been renegotiated in the last year.

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| **Cash at bank and short-term bank deposits** | | |
| Fitch/Standard & Poor ratings | | |
| AA- | **128,489** | 78,122 |
| A+ | **58,096** | 55,131 |
| A | **75,994** | 13,114 |
| A- | **53** | 441 |
| BBB+ | **–** | 815 |
| BBB | **–** | 55 |
| BBB- | **–** | 2 |
| BB+ | **–** | 467 |
| BB | **–** | 50 |
| B | **–** | 38 |
| Not rated | **184** | 629 |
| | **262,816** | 148,864 |
| Cash in hand | **623** | 513 |
| Cash at bank and in hand (Note 25) | **263,439** | 149,377 |

## 15 Financial instruments by category (continued)

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Held-to-maturity investment | | |
| AA- | – | 6,879 |

### Company

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Due from related parties | **5,138** | 8,074 |

Due from related parties is neither past due nor impaired.

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| **Cash at bank** | | |
| Fitch ratings | | |
| A | **200** | 298 |

## 16 Property, plant and equipment

| | Buildings & infrastructure 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 2011 | 49,254 | 80,223 | 10,378 | 4,199 | 29,895 | 173,949 |
| Additions | 11,893 | 9,887 | 2,584 | 859 | 30,260 | 55,483 |
| Acquired through a business combination (Note 32) | 9,585 | 14,332 | 978 | 517 | 598 | 26,010 |
| Transfers | 24,309 | 1,351 | 131 | – | (25,791) | – |
| Disposals | (26) | (136) | (33) | (650) | – | (845) |
| At 31 December 2011 | 95,015 | 105,657 | 14,038 | 4,925 | 34,962 | 254,597 |
| Additions | 5,952 | 5,832 | 1,330 | 189 | 3,440 | 16,743 |
| Exchange differences | 8 | 28 | 3 | 16 | – | 55 |
| Transfers | 8,376 | 17,735 | 628 | (246) | (26,493) | – |
| Disposed as a part of disposal of a subsidiary | – | (1,055) | – | – | – | (1,055) |
| Other disposals | (47) | (63) | – | (213) | – | (323) |
| **At 31 December 2012** | **109,304** | **128,134** | **15,999** | **4,671** | **11,909** | **270,017** |
| **Depreciation** | | | | | | |
| At 1 January 2011 | 10,141 | 39,828 | 8,040 | 2,636 | – | 60,645 |
| Charge for the year | 5,297 | 11,329 | 1,846 | 811 | – | 19,283 |
| Disposals | (26) | (136) | (33) | (492) | – | (687) |
| At 31 December 2011 | 15,412 | 51,021 | 9,853 | 2,955 | – | 79,241 |
| Charge for the year | 6,186 | 16,420 | 2,350 | 510 | – | 25,466 |
| Exchange differences | (29) | 29 | 5 | 2 | – | 7 |
| Disposed as a part of disposal of a subsidiary | – | (280) | – | – | – | (280) |
| Other disposals | (18) | (54) | – | (194) | – | (266) |
| **At 31 December 2012** | **21,551** | **67,136** | **12,208** | **3,273** | **–** | **104,168** |
| **Net book amount** | | | | | | |
| **At 31 December 2012** | **87,753** | **60,998** | **3,791** | **1,398** | **11,909** | **165,849** |
| At 31 December 2011 | 79,603 | 54,636 | 4,185 | 1,970 | 34,962 | 175,356 |

Buildings have been constructed on land, leased on a renewable basis, from various Government Authorities. The remaining lives of the leases range between four to twenty one years. The Group has renewed these land leases, upon expiry, in the past and its present intention is to continue to use the land and renew these leases for the foreseeable future.

During the year, the Group has capitalised borrowing costs amounting to USD 0.7 million (2011: USD 0.3 million) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5% (2011: 5%).

## 16 Property, plant and equipment (continued)

A depreciation expense of USD 20.3 million (2011: USD 15.0 million) has been charged to cost of sales and USD 5.2 million (2011: USD 4.3 million) to general and administrative expenses (Notes 6 and 9).

## 17 Intangible assets

| | Goodwill USD'000 | Trade name USD'000 | Customer relationships USD'000 | Leasehold rights USD'000 | ERP software USD'000 | Work-in-progress USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2011 | – | – | – | 1,534 | – | 1,191 | 2,725 |
| Acquired through a business combination (Note 32) | 180,539 | 22,335 | 19,323 | 8,338 | – | – | 230,535 |
| Additions | – | – | – | – | – | 1,800 | 1,800 |
| At 31 December 2011 | 180,539 | 22,335 | 19,323 | 9,872 | – | 2,991 | 235,060 |
| Additions | – | – | – | – | – | 1,839 | 1,839 |
| Disposal/write-off | – | – | – | (1,534) | – | (3,294) | (4,828) |
| Transfers | – | – | – | – | 1,536 | (1,536) | – |
| **At 31 December 2012** | **180,539** | **22,335** | **19,323** | **8,338** | **1,536** | **–** | **232,071** |
| **Amortisation** | | | | | | | |
| At 1 January 2011 | – | – | – | 312 | – | – | 312 |
| Charge for the year | – | 1,303 | 2,214 | 370 | – | – | 3,887 |
| At 31 December 2011 | – | 1,303 | 2,214 | 682 | – | – | 4,199 |
| Charge for the year (Note 9) | – | 2,826 | 4,831 | 706 | 171 | – | 8,534 |
| Disposal/write-off | – | – | – | (489) | – | – | (489) |
| **At 31 December 2012** | **–** | **4,129** | **7,045** | **899** | **171** | **–** | **12,244** |
| **Net book value** | | | | | | | |
| **At 31 December 2012** | **180,539** | **18,206** | **12,278** | **7,439** | **1,365** | **–** | **219,827** |
| At 31 December 2011 | 180,539 | 21,032 | 17,109 | 9,190 | – | 2,991 | 230,861 |

Trade name represents the expected future economic benefit to be derived from the continued use of the MIS trade name acquired on acquisition of MIS.

Customer relationships represent the expected future economic benefits to be derived from the existing relationship with key MIS customers acquired on acquisition of MIS.

Leasehold rights represents a favourable operating right acquired upon the acquisition of JIL and LE FZCO in 2008. It was decided during the year to cancel this lease and write-off the net book value. The remaining portion includes the leasehold rights acquired on acquisition of MIS and existing lease hold rights in the books of MIS on acquisition of Rig Metals LLC in 2008. The value of the intangible assets has been determined by calculating the present value of the expected future economic benefits to arise from the favourable lease terms (12 to 20 years).

Work-in-progress represents the cost incurred towards the implementation of an Enterprise Resource Planning software ("ERP software"). During the year Management has discontinued the implementation of the ERP. Accordingly USD 1.5 million, the cost equivalent to the ERP software in use, was transferred to ERP software and will be amortised over its useful life of 27 months and the balance of USD 3.3 million was written off and included in general and administration expenses in the consolidated statement of comprehensive income.

Management reviews the business performance based on the type of business (Note 5). Goodwill is monitored by the management at the operating segment level. Goodwill of USD 180.5 million arising due to the acquisition of MIS (Note 32) has been allocated to the $CGU_1$ within Segment A.

The recoverable amount of $CGU_1$ has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rate of 5% (2011: 4.3%) for Segment A. A discount rate of 12.96% (2011: 9%) has been used to discount the pre-tax cash flows projection to the present value. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

## 18 Investment in subsidiaries

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Balance at 1 January | **970,282** | 750,018 |
| Investment in the share capital of LIH | **–** | 219,365 |
| Effect of share-based payments to employees of subsidiaries in accordance with IFRIC 11 | **1,149** | 899 |
| Impaired during the year | **(379,699)** | – |
| Balance at 31 December | **591,732** | 970,282 |

The Company granted free shares/share options to employees of its subsidiaries under various plans (Note 8). These shares and options have a vesting period of eighteen to thirty six months. Accordingly, the proportionate share-based charge for the year of USD 1.1 million (2011: USD 0.9 million) has been recorded as an increase in investment in subsidiaries with a corresponding credit to retained earnings.

The recoverable amount of the investment in subsidiaries is determined based on value in use calculations (Note 4). Based on these calculations an impairment charge of USD 379.7 million with respect to investment in LEL is recognised in the Other reserve (Note 27) in the separate balance sheet of Company. This relates to the impairment of investment in LEL which was accounted for using the uniting of interest method for business combinations.

## 19 Investment in joint ventures

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Balance at 1 January | **3,870** | – |
| Acquired through a business combination (Note 32) | **–** | 4,638 |
| Dividend received during the year | **(244)** | (760) |
| Share of profit for the year 2012/(loss) during the period from 14 July 2011 to 31 December 2011 | **1,053** | (8) |
| | **4,679** | 3,870 |

The Group through its acquisition of MIS in July 2011 has gained joint control over the existing joint ventures of MIS (Note 32).

During the year, the Group entered a joint venture agreement through its subsidiary Lamprell Sharjah WLL with Saudi Arabia based Shoaibi Group, Al Yusr Townsend and Bottum L.L.C., to form Lamprell Arabia Ltd ("LAR"). LAR will be based in Al Khobar, Saudi Arabia and will engage in the refurbishment of onshore and offshore rigs and building new land drilling rigs. Once in existence, Group will hold 65% interest in LAR. As at the balance sheet date, LAR's formation was in progress and there has been no outflow from the Group in the form of investment.

Details of the Group's joint ventures during the year and at the balance sheet date is as follows:

| Name of the joint venture | Place of incorporation and operation | Proportion of ownership | Status |
|---|---|---|---|
| MIS Arabia Co. Ltd. ("MISA")* | Jubail, Kingdom of Saudi Arabia | 30% | Operational |
| KSAM2 Petrodrill Offshore Islands Inc. ("KSAM2")** | British Virgin Islands | 10% | Liquidated |

* Production, manufacturing and erection of heat exchangers, pressure vessels, tanks, structural steel, piping and other related activities.
** Building and operation of an oil rig.

## 19 Investment in joint ventures (continued)

Summarised financial information in respect of the Group's joint ventures is set out below:

### MIS Arabia Co. Ltd.

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Total current assets | **24,988** | 19,298 |
| Total non-current assets | **8,241** | 9,764 |
| Total current liabilities | **(14,878)** | (12,809) |
| Total non-current liabilities | **(1,500)** | (3,354) |
| Net assets | **16,851** | 12,899 |
| Group's share of joint venture's net assets – net of Group's share of income tax | **4,679** | 3,870 |

| | 2012 USD'000 | 2011 (14 July to 31 December) USD'000 |
|---|---|---|
| Revenue | **40,117** | 12,409 |
| Expenses | **(35,510)** | (12,436) |
| Profit/(loss) | **4,607** | (27) |
| Group's share of joint venture's net profit/(loss) – net of Group's share of income tax | **1,053** | (8) |

### KSAM2

| | 2011 USD'000 |
|---|---|
| Total current assets | 10,071 |
| Total non-current assets | 161,895 |
| Total current liabilities | (14,575) |
| Total non-current liabilities | (174,326) |
| Net liabilities | (16,935) |
| Group's share of joint venture's net liabilities* | (1,694) |

| | 2011 (14 July to 31 December) USD'000 |
|---|---|
| Revenue for the period | 8,562 |
| Expenses for the period | (8,330) |
| Profit for the period | 232 |
| Group's share of joint venture's net profit* | 23 |

* As the Group's share of cumulative losses in the Joint Venture has exceeded its investment, the carrying value of the investment is Nil. No profit has been recognised during the period from 14 July 2011 to 31 December 2011.

During 2012, the rig operated by KSAM2 was destroyed in an accident on a drilling site. Following this event, the joint-venturers mutually agreed to liquidate the joint venture. The Group has received its share of proceeds from the liquidation process and relinquished its rights in favour of one of the joint-venturers. An amount of USD 4.3 million received in excess of the amortised cost of its receivable is recognised in the consolidated income statement as a part of 'other gains/(losses) – net' (Note 12 and 24).

## 20 Held-to-maturity investment

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Deposit with a fixed interest rate of 1.75% and a maturity date of 3 October 2012 | – | 6,879 |

The held-to-maturity investment represents a structured deposit with 100% capital protection, a guaranteed return of 1.75% and a variable return, which is linked to the performance of an underlying equity basket, which consists of ten equally weighted shares. The capital protected status of the investment is valid only if the investment is held to maturity. The variable component is considered as an embedded derivative, the fair value of which at the balance sheet date was Nil.

### 20 Held-to-maturity investment (continued)

During the year, the investment matured on its due date and the Group received USD 7.0 million on maturity. A gain of USD 0.1 million received in excess of the carrying value of the investment is recognised in the consolidated income statement as a part of 'other gains/(losses) – net' (Note 12).

At 31 December 2011, the fair value of the held-to-maturity investment was USD 6.75 million.

### 21 Inventories

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Raw materials and consumables | **15,621** | 14,313 |
| Less: Provision for slow moving and obsolete inventories | **(2,396)** | (2,257) |
| | **13,225** | 12,056 |

### 22 Trade and other receivables

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Trade receivables | **115,222** | 121,722 |
| Other receivables and prepayments | **17,952** | 18,577 |
| Advances to suppliers | **3,131** | 6,641 |
| Receivables from a related party (Note 24) | **356** | 484 |
| | **136,661** | 147,424 |
| Less: Provision for impairment of trade receivables | **(7,997)** | (3,109) |
| | **128,664** | 144,315 |
| Amounts due from customers on contracts | **141,165** | 386,171 |
| Contract work in progress (Note 2.2) | **128,520** | 138,267 |
| | **398,349** | 668,753 |

Amounts due from customers on contracts comprise:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Costs incurred to date | **866,605** | 1,088,265 |
| Attributable profits | **65,395** | 115,552 |
| | **932,000** | 1,203,817 |
| Less: Progress billings | **(790,835)** | (817,646) |
| | **141,165** | 386,171 |

An analysis of trade receivables is as follows:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Fully performing | **65,217** | 44,984 |
| Past due but not impaired | **42,008** | 73,629 |
| Impaired | **7,997** | 3,109 |
| | **115,222** | 121,722 |

Trade receivables that are less than three months past due are generally not considered impaired. As of 31 December 2012, trade receivables of USD 42.0 million (2011: USD 73.6 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:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Up to 3 months | **25,111** | 52,319 |
| 3 to 6 months | **10,041** | 9,154 |
| Over 6 months | **6,856** | 12,156 |
| | **42,008** | 73,629 |

At 31 December 2012, trade receivables of USD 8.0 million (2011: USD 3.1 million) were impaired and provided for. The individually impaired receivables are over six months (2011: over six months) old and mainly relate to customers who are in a difficult economic situation.

## 22 Trade and other receivables (continued)

The carrying amounts of the Group's trade and other receivables are primarily denominated in US Dollars or UAE Dirhams, which is pegged to the US Dollar.

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

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| At 1 January | **3,109** | 2,997 |
| Provision for receivables impairment (Note 14) | **7,668** | 484 |
| Receivables written off during the year as uncollectible | **(2,745)** | (56) |
| Amounts recovered | **(35)** | (316) |
| At 31 December | **7,997** | 3,109 |

The creation and release of the provision for impaired receivables have been included in general and administrative expenses in the consolidated income statement (Note 9). 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 receivables mentioned above.

The carrying value of trade receivables approximates to their fair value.

## 23 Financial asset at fair value through profit or loss

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Unlisted equity security | **–** | 8,172 |

The amount at 31 December 2011 represented the fair value of the Group's investment (held through MIS) in 8.7% of the equity in Middle East Jack-up Ltd (MEJU), which owned a jackup rig built by MIS. This rig was sold by MEJU in January 2012 following the successful delivery of the rig by the Group in the last quarter of 2011.

During 2011, a fair value gain of USD 8.2 million was recorded in 'other gains/(losses) – net' (Note 12) in the consolidated income statement based on management's estimate of the carrying value which represents the amounts expected to be received from MEJU upon winding of its operations.

During the year, the management of MEJU took a decision to liquidate MEJU. An amount of USD 8.0 million was received from MEJU as part of the liquidation proceeds and the balance of USD 0.2 million was recorded in 'other gains/(losses) – net' in the consolidated income statement as irrecoverable.

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the consolidated cash flow statement.

## 24 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, Directors and key management personnel of the Group and entities controlled by Directors and key management personnel. Key management includes the Directors (Executive and Non-Executive) and members of the executive committee. Related parties for the purpose of the parent company financial statements also include subsidiaries owned directly or indirectly and joint ventures. 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:

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Key management compensation | **8,482** | 7,465 |
| Legal and professional services | **609** | 804 |
| Sales to joint ventures | **443** | 224 |
| Purchases from joint ventures | **50** | 73 |
| Sponsorship fees and commissions paid to legal shareholders of subsidiaries (Note 1) | **356** | 205 |

**Key management compensation comprises:**

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Salaries and other short term employee benefits | **5,127** | 6,246 |
| Share-based payments – value of services provided | **1,513** | 829 |
| Post-employment benefits | **124** | 390 |
| Termination benefits | **1,718** | – |
| | **8,482** | 7,465 |

The terms of the employment contracts of the key management include reciprocal notice periods of between six to twelve months.

**Due from/due to related parties**
**Due from related parties**

**Group**

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| MIS Arabia Co. Ltd (current) (Note 22) | **356** | 484 |
| KSAM2 (non-current) | **–** | 7,025 |

At 31 December 2011, the balance receivable from KSAM2 represents an interest free loan amounting to USD 13.2 million with no fixed repayment terms. The amortised cost of this loan using an effective interest rate of 9% per annum on the date of business combination amounted to USD 6.7 million. During 2011, the Group recognised an interest accretion on this loan amounting to USD 0.3 million which is included as part of finance income (Note 11).

During 2012, the Group received USD 11.3 million from KSAM2, out of which an amount of USD 4.3 million was received in excess of the amortised cost and is recognised in the consolidated income statement as a part of "other gains/(losses) – net" (Note 12).

**Company**

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| LEL* | **–** | 6,442 |
| EBT** | **138** | 1,388 |
| Inspec* | **–** | 244 |
| MIS* | **5,000** | – |
| | **5,138** | 8,074 |

* Primarily comprises a receivable in respect of management fees charged by the Company.
** Includes USD 50,688 (2011: USD 1,193,319) due in respect of payments made for treasury shares acquired by EBT on behalf of the Group.

Further, 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.

## 24 Related party balances and transactions (continued)

Dividends paid by the Company include an amount of USD 6.9 million (2011: USD 9.7 million) in respect of shares held by LHL, a company controlled by Steven Lamprell who is a member of key management.

### Due to related parties

### Company

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| LIH* | – | 17,500 |
| LEL* | 8,367 | – |
| | 8,367 | 17,500 |

* Primarily comprises a receivable in respect of management fees charged by the Company.

## 25 Cash and bank balances

### Group

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Cash at bank and on hand | 148,185 | 43,897 |
| Term deposits and margin deposits | 115,254 | 105,480 |
| Cash and bank balances | 263,439 | 149,377 |
| Less: Margin deposits | (21,600) | (18,127) |
| Less: Deposits with an original maturity of more than three months | (42,318) | (87,353) |
| Less: Short term deposits under lien | (51,336) | – |
| Less: Bank overdraft | (21,813) | (392) |
| Cash and cash equivalents (for the purpose of the cash flow statement) | 126,372 | 43,505 |

At 31 December 2012, the cash at bank and term deposits were held with eighteen (2011: twelve) banks. The effective interest rate on short term deposits was 0.88% (2011: 1.04%) per annum. Margin deposits of USD 21.6 million (2011: USD 18.1 million), deposits with an original maturity of more than three months amounting to USD 42.3 million (2011: USD 76.8 million) and short term deposits of USD 51.3 million (2011: Nil) are held under lien against guarantees issued by the banks (Note 36).

### Company

Cash at bank comprises of cash held with one bank.

## 26 Share capital

### Issued and fully paid ordinary shares

### Company

| | Equity share capital | |
|---|---|---|
| | Number | USD'000 |
| At 1 January 2011 | 200,279,309 | 18,682 |
| Rights issue 29 June 2011 | 60,083,792 | 4,870 |
| At 31 December 2011 and 2012 | 260,363,101 | 23,552 |

The total authorised number of ordinary shares is 400 million shares (2011: 400 million shares) with a par value of 5 pence per share (2011: 5 pence per share).

During 2012, EBT acquired 170,000 shares (2011: 171,565 shares) of the Company. The total amount paid to acquire the shares was USD 0.95 million (2011: USD 0.46 million) and this amount has been deducted from the consolidated retained earnings. During the year, 605,048 shares (2011: 998,969 shares) amounting to USD 2.1 million (2011: USD 2.5 million) were issued to employees on vesting of the free shares and 14,686 shares (2011: 449,734 shares) are held as treasury shares at 31 December 2012. The Company has the right to reissue these shares at a later date. These shares will be issued on the vesting of the awards granted under free shares/share options/performance share plan to certain employees of the Group (Note 8).

During 2011, the Company issued new ordinary shares of 60,083,792 under a fully underwritten rights issue. The new ordinary shares were issued at a price of 232 pence per share which amounted to net proceeds of USD 216.6 million. The differential between the issue price of 232 pence per share and the par value of 5 pence per share amounting to USD 211.8 million was accounted for as share premium which is net of transaction costs amounting to USD 9.3 million.

## 27 Other reserves

### Group

| | Legal reserve USD'000 | Merger reserve USD'000 | Translation reserve USD'000 | Hedging reserve USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 33 | (22,422) | 777 | (134) | (21,746) |
| Currency translation differences | – | – | (854) | – | (854) |
| Cash flow hedges | – | – | – | (1,046) | (1,046) |
| Transfer from retained earnings | 2 | – | – | – | 2 |
| At 31 December 2011 | 35 | (22,422) | (77) | (1,180) | (23,644) |
| Currency translation differences | – | – | 334 | – | 334 |
| Cash flow hedges | – | – | – | 1,180 | 1,180 |
| Transfer from retained earnings | 61 | – | – | – | 61 |
| **At 31 December 2012** | **96** | **(22,422)** | **257** | **–** | **(22,069)** |

**Legal reserve**
The Legal reserve relates to subsidiaries (other than the subsidiaries incorporated in free zones) in the UAE and State of Qatar. In accordance with the laws of the respective countries, the Group has established a statutory reserve by appropriating 10% of the profit for the year of such companies. Such transfers are required to be made until the reserve is equal to, at least, 50% (UAE) and 33.3% (State of Qatar) of the issued share capital of such companies. The legal reserve is not available for distribution.

**Merger reserve**
On 11 September 2006, LEL acquired 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of USD 4.0 million. This acquisition has been accounted for using the uniting of interests method and the difference between the purchase consideration (USD 4.0 million) and the share capital of Inspec (USD 0.2 million) 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 18.7 million) and the nominal value of LEL shares acquired (USD 0.1 million) has been recorded in the Merger reserve.

### Company
**Other reserve**

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| At 1 January | **708,852** | 708,852 |
| Impairment during the year (Note 18) | **(379,699)** | – |
| At 31 December | **329,153** | 708,852 |

The Other reserve of USD 708.9 million represents the difference between the cost of the investment in LEL (USD 727.5 million) and the nominal value of Share capital issued by the Company to acquire LEL (USD 18.7 million). The Other reserve is not available for distribution however this reserve can be utilised to record impairment of investment in LEL. During the year the Company has recorded an impairment of USD 379.7 million with respect to investment in LEL (Note 18).

## 28 Provision for employees' end of service benefits

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 2012 and 2011, using the projected unit credit method, in respect of employees' end of service benefits payable under the Labour Laws of the countries in which the Group operates. 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. The obligation for end of service benefit is not funded.

The movement in the employees' end of service benefit liability over the year is as follows:

### Group

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| At 1 January | **39,597** | 18,524 |
| Acquired through a business combination (Note 32) | **–** | 16,400 |
| Current service cost | **5,384** | 4,298 |
| Interest cost | **1,582** | 1,039 |
| Actuarial (gains)/losses | **(703)** | 3,171 |
| Benefits paid | **(7,765)** | (3,835) |
| At 31 December | **38,095** | 39,597 |

### Company

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| At 1 January | **821** | 808 |
| Current service cost | **126** | 77 |
| Interest cost | **36** | 32 |
| Actuarial losses | **(65)** | 150 |
| Benefits paid | **–** | (246) |
| At 31 December | **918** | 821 |

The amounts recognised in the consolidated income statement are as follows:

### Group

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Current service cost | **5,384** | 4,298 |
| Interest cost | **1,582** | 1,039 |
| Actuarial (gains)/losses | **(703)** | 3,171 |
| Total (included in staff costs) (Note 10) | **6,263** | 8,508 |

Of the total charge, USD 5.4 million (2011: USD 6.6 million) and USD 0.9 million (2011: USD 1.9 million) are included in cost of sales and general and administrative expenses (Notes 6 and 9).

### Company

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Current service cost | **126** | 77 |
| Interest cost | **36** | 32 |
| Actuarial losses | **(65)** | 150 |
| Total (included in staff costs) | **97** | 259 |

The above charge of USD 0.1 million (2011: USD 0.3 million) is included in general and administrative expenses.

## 28 Provision for employees' end of service benefits (continued)

The principal actuarial assumptions used were as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | **3.00%** | 4.25% |
| Future salary increase: | | |
| Management and administrative employees | **2.50%** | 5.00% |
| Yard employees | **2.00%** | 3.50% |

Due to the nature of the benefit, which is a lump-sum payable on exit for any cause, a combined single decrement rate has been used as follows:

| | Percentage of employees at each age exiting the plan per year | |
|---|---|---|
| Age | 2012 | 2011 |
| Management, yard and administrative employees: | | |
| Below 20 years | **0%** | 0% |
| 20–29 years | **15%** | 15% |
| 30–44 years | **10%** | 10% |
| 45–54 years | **7%** | 7% |
| 55–59 years | **2%** | 2% |
| 60 years and above | **100%** | 100% |
| Executive directors: | | |
| 35–39 years | **10%** | 10% |
| 40–64 years | **7%** | 7% |
| 65 years and above | **100%** | 100% |

## 29 Derivative financial instruments

| | | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|---|
| | Credit rating | Notional contract amount USD'000 | Assets USD'000 | Liabilities USD'000 | Notional contract amount USD'000 | Assets USD'000 | Liabilities USD'000 |
| Derivatives designated as hedging instruments in cash flow hedges | | | | | | | |
| – Forward foreign exchange contracts | A+ | – | – | – | 8,457 | 427 | – |
| – Forward foreign exchange contracts | AA, A+ | – | – | – | 23,018 | – | 1,449 |
| Derivatives held at fair value through profit or loss | AA- | **19,203** | **1,152** | – | 2,862 | 272 | – |
| Total | | **19,203** | **1,152** | – | 34,337 | 699 | 1,449 |

During 2012, the Group entered into a forward contract to sell USD for Euros. This derivative did not qualify for hedge accounting and is carried at fair value through profit or loss. The notional principal amount at the date of inception of these contracts was Euro 20.8 million. This contract matures in various instalments within 22 months from the date of inception. The fair value at the 31 December 2012 of this derivative was USD 1.2 million. The fair value gain on derivative is recorded in 'other gains/(losses) – net' in the consolidated income statement.

During 2010, the Group entered into three forward contracts to hedge its foreign currency exposure with respect to certain supplier commitments in Euros. The notional principal amounts at the date of inception of these contracts were Euro 142 million. These contracts matured in April and May 2012.

During 2011, the Group entered into three forward contracts to hedge its foreign currency exposure on expected NOK payments with respect to the acquisition of MIS. The notional principal amounts at the date of inception of these contracts were NOK 1,864 million. These contracts matured in September 2011.

A profit of USD 1.1 million (2011: USD 13.1 million) was recorded in equity and a profit of USD 0.1 million (2011: USD 4.0 million) was recycled from equity to the consolidated income statement. A profit of USD Nil (2011: USD 10.2 million), representing the gain in relation to the three forward contracts to hedge its foreign currency exposure with respect to NOK payments made to the shareholders of MIS was recorded as a basis adjustment to the purchase consideration (Note 32). The net movement in the fair value reserve during the year was a profit of USD 1.2 million (2011: loss of USD 1.0 million).

## 29 Derivative financial instruments (continued)

During 2011, prior to being acquired by the Group (Note 32), MIS entered into a forward contract to sell Euros for AED. This derivative did not qualify for hedge accounting and was carried at fair value through profit or loss. The fair value at the 31 December 2011 was USD 272,000.

This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties, using the same techniques as for other counterparties.

The derivative financial instruments are gross settled and the maturity profile based on the year end rates of the expected undiscounted amounts payable and receivable at 31 December is as follows:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| **Receivable** | **19,203** | 34,337 |
| **Payable** | **17,487** | 35,154 |

## 30 Trade and other payables

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Trade payables | **41,007** | 79,974 |
| Other payables and accruals | **217,632** | 238,151 |
| Amounts due to customers on contracts | **204,234** | 118,701 |
| Dividend payable++ (Note 34) | **18** | 12 |
| Payable to related parties | **–** | 73 |
| | **462,891** | 436,911 |

Amounts due to customers on contracts comprise:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Progress billings | **573,997** | 427,359 |
| Less: Cost incurred to date | **(361,348)** | (271,926) |
| Less: Recognised profits | **(8,415)** | (36,732) |
| | **204,234** | 118,701 |

++ The dividend payable represents an amount held by the EBT in respect of treasury shares. This dividend will be paid by the EBT to the employees upon completion of the vesting period.

## 31 Borrowings

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Bank overdrafts (Note 25) | **21,813** | 392 |
| Bank term loans | **137,510** | 247,396 |
| Trust receipts | **–** | 3,337 |
| | **159,323** | 251,125 |

The bank borrowings are repayable as follows:

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| On demand or within one year (current) | **159,323** | 251,089 |
| In the second year (non-current) | **–** | 36 |
| | **159,323** | 251,125 |

As of 31 December 2012, the Group has banking facilities in the amount of approximately USD 1,022 million (2011: USD 1,372 million) with commercial banks. The banks' facilities include bank overdrafts, letters of guarantees, letters of credit and short-term loans.

## 31 Borrowings (continued)

Bank facilities are secured by lien over term deposits in the amount of USD 115.3 million (2011: USD 75 million) (Note 25), the Group's counter indemnities for guarantees issued on their behalf, the Group's corporate guarantees, letter of undertakings, letter of credit payment guarantees, cash margin held against letters of guarantees, assignment of insurance policies over property, plant and equipment and over inventories, leasehold rights for land and certain contract-related receivables.

The deterioration of the Group's performance in 2012 arising as a result of the underperformance of certain key projects, the majority of which have now been completed, caused the Group to seek waivers for certain of its banking covenants for the year ended 31 December 2012. These waivers were obtained prior to 31 December 2012. The Group is currently in discussions with its lenders to restructure its debt facilities and agree revised covenants on a long-term basis and has agreed further covenant waivers to facilitate the continuation of the negotiations.

The bank facilities relating to overdrafts and revolving facilities carry interest at 3–6 months LIBOR/EIBOR + 2.0% to 4.0% (2011: LIBOR/EIBOR + 2.5% to 4.0%).

The borrowings at 31 December 2012 are stated net of the unamortised arrangement fees and other transaction costs of USD Nil (2011: USD 3.5 million).

The carrying amounts of borrowings in the year approximated to their fair value and were denominated in US Dollars or UAE Dirhams, which is pegged to the US Dollar.

## 32 Business combinations

### Acquisition of MIS

During 2011, the Group acquired 100% of the shares in MIS. MIS is registered in the Republic of Panama and has operations in the Middle East and Kazakhstan. The principal activities of MIS are the upgrade and refurbishment of offshore jackup rigs, fabrication, assembly and new build construction for the offshore oil and gas sector, engineering and construction, safety and training services and other operating and maintenance services. MIS was listed on the Norwegian Stock Exchange. LIH made a voluntary offer to the shareholders of MIS on 19 May 2011 for a consideration of NOK 38 per share. LIH received acceptance from 99.76% of the shareholders of MIS before expiry of the offer on 29 June 2011 and announced that the offer was successful on 30 June 2011. Further, LIH also issued a cash cancellation offer to the option holders of MIS for cancellation of the options held by them and received acceptances from the majority of the option holders before expiry of the cash cancellation offer on 29 June 2011.

LIH settled in cash the consideration payable to the shareholders and option holders of MIS who accepted the voluntary offer and cash cancellation offer respectively on 13 July 2011. Further, LIH extended the mandatory offer in August 2011 to the remaining shareholders of MIS (0.24%) who did not accept the voluntary offer.

Control of MIS transferred to LIH on 13 July 2011. The consideration for transfer of shares of MIS and cancellation of options (Note 8) amounted to approximately USD 337.9 million. Management has completed the purchase price allocation in accordance with IFRS 3 (revised) "Business Combinations".

As a result of the acquisition, the Group is expected to reduce competition and increase its presence in new markets. It also expects to reduce costs through economies of scale and synergies. The goodwill of USD 180.5 million arising from the acquisition is attributable to the acquired customer base, workforce and economies of scale expected from combining the operations of the legacy Group and MIS.

The following table summarises the consideration paid for MIS and the fair value of the assets acquired and liabilities assumed at the acquisition date:

**Cash flow on business acquisition:**

| | USD'000 |
|---|---|
| Cash paid for the acquisition* | 337,864 |
| Cash acquired from MIS | (15,647) |
| Net cash out flow for the purpose of cash flows | 322,217 |

* Net of basis adjustment of USD 10.2 million with respect to three foreign currency forward contracts to hedge the NOK exposure (Note 29).

## 32 Business combinations (continued)

| | USD'000 |
|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed: | |
| Property, plant and equipment (Note 16) | 26,010 |
| Investment in joint ventures (Note 19) | 4,638 |
| Trade name (included in intangible assets) (Note 17) | 22,335 |
| Customer relationship (included in intangible assets) (Note 17) | 19,323 |
| Leasehold rights (included in intangible assets) (Note 17) | 8,338 |
| Inventories | 113,997 |
| Trade and other receivables (net of provision for impairment of USD 4,967,000) | 105,048 |
| Loan to a related party (Note 24) | 6,606 |
| Derivative financial instruments (Note 29) | 72 |
| Cash and cash equivalents | 15,647 |
| Borrowings | (51,328) |
| Trade and other payables | (96,961) |
| Provision for employees' end of service benefits (Note 28) | (16,400) |
| | 157,325 |
| Goodwill on acquisition | 180,539 |
| Total purchase consideration | 337,864 |

Acquisition-related costs of USD 10.5 million have been charged to general and administrative expenses (Note 9) in the consolidated income statement for the year ended 31 December 2011.

The acquired MIS businesses have been comprehensively integrated with the Group's existing businesses. It is, therefore, impracticable to determine the contribution that the MIS acquisition has made to revenue and profit since the date of acquisition. Similarly, it is impracticable to determine the contribution it could have made had it been consolidated with effect from 1 January 2011.

## 33 Profit of the Company

The profit of USD 27 million (2011: USD 3 million) in respect of the Company is included in these consolidated financial statements.

## 34 Dividends

During the year (on 23 March 2012), the Board of Directors of the Company approved a final dividend of USD 20.8 million (US cents 8 per share) relating to the year ended 31 December 2011 which was paid on 22 June 2012. At 31 December 2012, unpaid dividends amounted to USD 18,000 (Note 30) and were in relation to the shares held by EBT.

During 2011 (on 25 March 2011 and 26 August 2011), the Board of Directors of the Company approved dividends of USD 29.3 million comprising USD 19 million (post-rights issue US cents 8.7 per share; pre-rights issue US cents 9.5 per share) relating to 2010 and an interim dividend of USD 10.3 million (US cents 4 per share) relating to 2011. At 31 December 2011, unpaid dividends amounted to USD 12,000 (Note 30) and were in relation to the shares held by EBT.

## 35 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 four to twenty one years and are renewable at mutually agreed terms. The future minimum lease payments payable under operating leases are as follows:

| | **2012 USD'000** | 2011 USD'000 |
|---|---|---|
| Not later than one year | **8,791** | 10,239 |
| Later than one year but not later than five years | **13,136** | 13,986 |
| Later than five years | **43,907** | 46,580 |
| | **65,834** | 70,805 |

### (b) Other commitments

| | | |
|---|---|---|
| Letters of credit for purchase of materials and operating equipment | **20** | 11,902 |
| Capital commitments for construction of facilities | **5,295** | 18,730 |
| Capital commitments for purchase of operating equipment and computer software | **1,163** | 4,165 |

### 36 Bank guarantees

| | 2012 USD'000 | 2011 USD'000 |
|---|---|---|
| Performance/bid bonds | **159,007** | 206,964 |
| Advance payment, labour visa and payment guarantees | **446,235** | 542,071 |
| | **605,242** | 749,035 |

The various bank guarantees, as above, were issued by the Group's bankers in the ordinary course of business. Certain guarantees are secured by cash margins, assignments of receivables from some customers and, in respect of guarantees provided by banks to the Group companies, they have been secured by parent company and certain Group company guarantees. In the opinion of the Directors, the above bank guarantees are unlikely to result in any liability to the Group.

### 37 Cash generated from operating activities

| | Notes | Year ended 31 December 2012 USD'000 | 2011 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before income tax | | **(109,683)** | 63,478 |
| Adjustments for: | | | |
| Share-based payments – value of services provided | 8 | **2,348** | 1,439 |
| Depreciation | 16 | **25,466** | 19,283 |
| Amortisation of intangible assets | 17 | **8,534** | 3,887 |
| Share of (profit)/loss from investment in joint ventures | 19 | **(1,053)** | 8 |
| Profit on disposal of property, plant and equipment | 12 | **(54)** | (281) |
| Fair value loss/(gain) on financial asset at fair value through profit or loss | 23 | **195** | (8,262) |
| Provision for slow moving and obsolete inventories | 21 | **139** | 826 |
| Provision for impairment of trade receivables, net of amounts recovered | 22 | **4,888** | 168 |
| Provision for employees' end of service benefits | 28 | **6,263** | 8,508 |
| Gain on disposal of a subsidiary | 12 | **(853)** | – |
| Gain on settlement of receivable from a related party | 24 | **(4,265)** | – |
| Gain on derivative financial instruments | | **(722)** | – |
| Gain on settlement of held-to-maturity investment | 20 | **(120)** | – |
| Loss on write-off of intangible assets | 9 | **4,339** | – |
| Finance costs | 11 | **22,400** | 17,965 |
| Finance income | 11 | **(867)** | (1,804) |
| Operating cash flows before payment of employees' end of service benefits and changes in working capital | | **(43,045)** | 105,215 |
| Payment of employees' end of service benefits | 28 | **(7,765)** | (3,835) |
| Changes in working capital: | | | |
| Inventories before movement in provision | 21,32 | **(1,308)** | 110,573 |
| Proceeds from a related party | 24 | **11,290** | – |
| Due from a related party | 24,32 | **–** | (146) |
| Trade and other receivables before movement in provision for impairment of trade receivables | 22,32 | **265,516** | (312,749) |
| Trade and other payables, excluding movement in dividend payable | 30 | **25,974** | 46,718 |
| Derivative financial instruments | | **–** | (358) |
| Net cash generated from/(used in) operating activities | | **250,662** | (54,582) |

### 38 Corresponding figures

The following corresponding figures in respect of certain balances have been reclassified to confirm with the current year's presentation.

– "Due from related parties" amounting to USD 219.4 million has been reclassified to "Investment in subsidiaries" (Note 18) in the Company's separate balance sheet and related notes.

# Definitions

**"AED"** – Arab Emirates Dirham

**"AGM"** – Annual General Meeting

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

**"ASME"** – American Society of Mechanical Engineers

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

**"bn"** – Billion

**"CBL"** – Cleopatra Barges Limited

**"CEO"** – Chief Executive Officer

**"CFO"** – Chief Financial Officer

**"CGU"** – Cash Generating Unit

**"CSR"** – Corporate Social Responsibility

**"Company"** – Lamprell plc

**"COO"** – Chief Operating Officer

**"E&C"** – Engineering & Construction

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

**"EBT"** – Lamprell plc Employee Benefit Trust

**"EPC"** – Engineering, Procurement and Construction

**"EPS"** – Earnings Per Share

**"ERP"** – Enterprise Resource Planning

**"ESOP"** – Lamprell plc Executive Share Option Plan

**"FPSO"** – Floating, Production, Storage and Offloading

**"FSA"** – Financial Services Authority

**"FTSE"** – Financial Times Stock Exchange index

**"FZCo"** – Free Zone Company

**"GBP"** – Great Britain Pound

**"GIC"** – Global Investment Co. Ltd. Inc

**"GMAC"** – Global Management and Acquisition Co. Ltd Inc

**"Group"** – The Company and its subsidiaries

**"$H_2S$"** – Hydrogen Sulphide

**"HSES"** – Health, Safety, Environment and Security

**"IAS"** – International Accounting Standards

**"IFRIC"** – International Financial Reporting Interpretations Committee interpretation

**"IFRS"** – International Financial Reporting Standards

**"INSPEC"** – International Inspection Services Limited

**"ISO"** – International Organisation for Standards

**"JIL"** – Jebel Ali Investments Limited

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

**"LAL"** – Lamprell Asia Limited

**"Lamprell"** – the Company and its subsidiary undertakings

**"LD"** – Lamprell Dubai LLC

**"LE FZCO"** – Lamprell Energy FZCO

**"LEL"** – Lamprell Energy Limited

**"LHL"** – Lamprell Holdings Limited

**"LIH"** – Lamprell Investment Holdings Limited

**"LIT"** – Litwin PEL Co. LLC

**"LS"** – Lamprell Sharjah WLL

**"LSE"** – London Stock Exchange Limited

**"LTI"** – Lost Time Incident

**"m"** – Million

**"Mercer"** – Mercer Consulting Middle East Limited

**"MIAS"** – Maritime International Agency Services Ltd

**"MIL"** – Maurlis International Ltd. Inc

**"MIS"** – Maritime Industrial Services Co. Ltd. Inc.

**"MISA"** – Maritime Industrial Services Arabia Co. Ltd.

**"MISCLP"** – Maritime Industrial Services Co. Ltd. & Partners

**"MISQWLL"** – MIS Qatar LLC

**"MOL"** – Maritime Offshore Limited

**"MOCL"** – Maritime Offshore Construction Limited

**"NED"** – Non-Executive Director

**"NOK"** – Norwegian Krone

**"O&M"** – Operations & Maintenance

**"OHSAS"** – Occupational Health and Safety Assessment Series

**"PSP"** – Lamprell plc 2008 Performance Share Plan

**"QA/QC"** – Quality Assurance, Quality Control

**"RIM"** – Rig Metals LLC

**"TSR"** – Total Shareholder Return

**"UAE"** – the Federation of the United Arab Emirates

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

**"USD"** – US Dollar

**"US GAAP"** – Generally Accepted Accounting Principles

# Notes

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