Lamprell


**Lamprell plc** Annual Report and Accounts 2014

# LEANER FITTER STRONGER

PLAYING A KEY ROLE IN THE GLOBAL ENERGY INDUSTRY

Lamprell, based in the United Arab Emirates ("UAE") and with over 35 years' experience, is a leading provider of fabrication, engineering and contracting services to the offshore and onshore oil & gas and renewable energy industries. We have established leading market positions in the fabrication of shallow-water drilling jackup rigs, liftboats, land rigs, and rig refurbishment projects, and we have an international reputation for building complex offshore and onshore process modules and fixed platforms. Lamprell delivered robust operational and financial performance in 2014, which turned out to be our most profitable year yet as a result of strong project execution, with a record number of project deliveries.

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



For further reading on specific topics, please follow the symbol throughout the document.


**Cover story**
The combined Nexen Wellhead and Production, Utilities & Quarters ("PUQ") deck projects achieved an astounding 10 million manhours without a day away from work case and the PUQ deck entered the Guinness World Book of Records for being the heaviest load moved by trailers.

# STRONG RESULTS
# A RECORD YEAR

**Revenue**
(USD million)

**1,084.9**

2013: USD 1,072.8m
2012: USD 1,025.9m

**EBITDA[1]**
(USD million)

**137.0**

2013: USD 76.0m
2012: USD (74.5m)

**EBITDA before exceptional items[1]**
(USD million)

**137.0**

2013: USD 84.4m
2012: USD (69.8m)

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

**118.5**

2013: USD 45.9m
2012: USD (105.7m)

**Net profit[2]/(loss)**
(USD million)

**118.0**

2013: USD 36.4m
2012: USD (111.2m)

**Earnings per share – diluted**
(US cents)

**37.38**

2013: 12.67c
2012: (42.72c)

1. EBITDA shown above is from continued operations only.
2. Net profit/(loss) includes profit/loss from continued and discontinued operations.

**Operational highlights**

- Excellent safety performance with TRIR more than halved to 0.28
- Strong execution delivered exceptional financial performance
- Successful pipeline conversion with six new build jackup orders received
- Record-breaking offshore project, largest rig conversion ever
- Productivity improvement and cost efficiency measures under way

# LAMPRELL
# AT A GLANCE

Lamprell delivered exceptional financial performance in 2014 as a result of strong project execution. 2014 saw us deliver nine major projects, a record for the Company. The Group was successful in converting a significant proportion of its bid pipeline with six new build jackup rig orders won and a number of other smaller awards signed. The year also saw the Company achieve significant milestones by completing its largest rig conversion project ("MOS Frontier") and delivering the last of the problematic projects (the Caspian Sea jackup rig "Mercury"). Both the Land Rigs and Engineering & Construction business units, while still relatively small contributors, saw significant growth during 2014. The debt refinancing and the rights issue were completed in 2014 and have re-established the Group with a strong balance sheet.

## Our leading market positions

Lamprell is the regional market leader in the construction of new build jackup rigs for the global market

Lamprell fabricates complex modules, topsides and jackets for the offshore and onshore energy industry

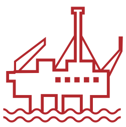
Lamprell is the leading regional rig refurbishment company with the largest market share in the Middle East

Lamprell can provide EPC, general fabrication and contracting services for land rigs, with its own land rig design developed

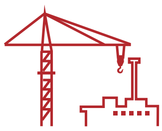
Lamprell offers turnkey solutions to deliver state-of-the-art self-elevating, self-propelled vessels for the renewable energy industry

## Our core markets

Lamprell is firmly established as one of the world's major fabricators offering highly sophisticated engineering capabilities to a global customer base. Our core markets include:



**New build jackup rigs**
Lamprell has one of the world's leading facilities for the construction of new build jackup drilling rigs. With a sophisticated engineering capability and state-of-the-art construction and load out facilities, Lamprell has rapidly gained a reputation as a leading and reliable builder of drilling rigs for the international market.



**Offshore/onshore construction**
We construct complex process modules, living quarters, wellhead decks, topsides, FPSO units and various other offshore fixed facilities. In addition, Lamprell fabricates onshore packaged, pre-assembled and modularised units and manufactures pressure vessels and columns that typically form an integral part of a module. This also includes our engineering and construction business unit.

**Order book (USD million)**
as at 31 December 2014

# 1,205.2

**Total land (m²)**

# 899,000

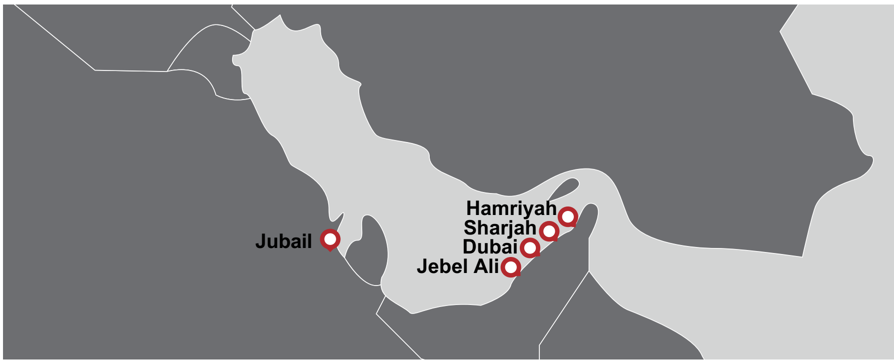
**Total quayside (m)**

# 2,200

**Our order book 2014 (USD million)**
as at 31 December 2014

| | |
|---|---|
| New build jackup rigs | 1,136.1 |
| Offshore/onshore construction | 44.8 |
| Land rig services | 9.3 |
| Rig refurbishment and conversion | 7.6 |
| Other | 7.4 |

**Why are state-of-the-art facilities important to us?**
Lamprell's primary facilities are located in the UAE, as well as in Saudi Arabia through a joint venture agreement. Lamprell offers custom-built construction and load out facilities easily accessible by land, air and sea, to and from key energy geographies such as the Middle East, the North Sea, Africa and Asia.



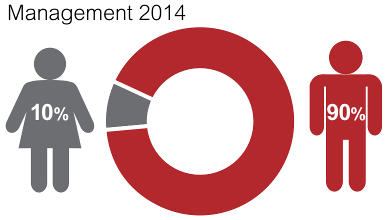

## Key stats

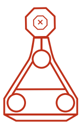
**Total employees**
as at 31 December 2014

# 8,367

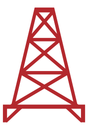
as at 31 December 2013: 10,684

**Employee gender split**
Management 2014

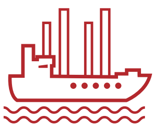


**Rig refurbishment and conversion**
Lamprell provides a full suite of refurbishment services for jackup rigs including re-certification, conversions and major upgrades. Lamprell was originally founded as a rig refurbishment company in the late 1970s and is a trusted leader in the region, delivering safe, high quality products.



**Land rig services**
Land rig services covers a wide variety of projects and services related to onshore drilling rigs, oilfield service companies and drilling equipment refurbishment. This business unit operates from facilities in Hamriyah, Jebel Ali and Dubai Investments Park, as well as providing field services as required.



**Renewable energy**
In 2007, Lamprell expanded its capabilities with awards for the construction of self-propelled liftboats for the renewable and oil & gas sectors. Lamprell's goal of becoming the fabricator of choice in this market is endorsed by expertise gained with the successful delivery of six such vessels.

# STRENGTHENING OUR BUSINESS

2014 was a successful year for Lamprell. I am pleased to report on the significant progress achieved operationally and financially.

Following its return to profitability in 2013, the Group completed its recovery process in delivering an exceptional financial performance and a number of major operational milestones. These results have been driven by strong project execution and major business improvements, allowing the Group to deliver improved returns.

### Delivering strong performance

This improved performance has been possible as a result of robust project execution and the implementation of important structural changes. A strong cost discipline has been established, with significant reductions achieved. This is being monitored closely by the Board. The safety and quality standards in our yards are paramount and in 2014 achieved world-class levels. The Company disposed of a non-core business to allow the management team to focus on core markets. Lamprell is now leaner, fitter and stronger, and aiming to accomplish more.

### Strategy

Beyond operational performance, Lamprell's overall success is highly geared to its ability to win new business. In the first half of 2014, we took steps to overhaul our strategy and the business development function to ensure that the Group remains competitive. The Board reviewed the strategy page 08 and concluded that there was a need to focus on our core markets in the short to medium term. Our long-term goal is to broaden our offering into related areas such as the modular plant and FPSO markets where we have already been successful and have a proven track record. In doing this we will leverage the Group's proven expertise in project execution to diversify our client base. Key strategic principles are: focus on high quality clients, on improved margin projects and on bids with a higher probability of winning.

### Financial platform and stakeholders

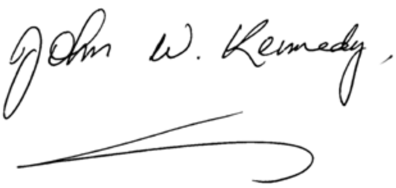
A strong financial platform was put in place in 2014 to enable the management team to implement our strategy. The rights issue and refinancing allowed us to ensure there is now a strong balance sheet and sufficient cash resources to support the strategy implementation.

In line with our commitment to best practice in corporate governance, we maintained clear controls and looked to enhance certain processes such as risk management page 14. Our primary focus was on greater communication and transparency with our investors when we explained the drivers behind the rights issue and refinancing; we appreciate the overwhelming support we received for these transactions.

### Markets

In the final quarter of 2014 we saw a significant deterioration in the oil & gas markets and reductions in industry capital expenditure programmes following a steep decline in oil prices. In a period of uncertain market environment, the Board has ensured that the management team's remuneration targets are stretching and closely linked to the Company's strategic objectives page 55. Our management team is measured against every pillar of our strategy for success, including Lamprell's safety record, cost management, delivery of operational efficiencies and financial performance.

**John Kennedy**
**Non-Executive Chairman**



# DEFINING OUR VALUES

Jim Moffat was appointed to the Board in March 2013 as Chief Executive Officer. With over 35 years in the industry, Jim has brought a wealth of experience which has seen the Group achieve a number of records in 2014 and deliver the most profitable year in its history.

**Q What were the major highlights and your main focus during 2014?**

We have seen improvements in virtually every aspect of our business. For me, 2014 was about strengthening the Company and building a solid platform for future growth. The previous year was focused on steadying the ship with our “back to basics” approach. Our successful turnaround in 2013 resulted in a better start to 2014 and a return to profitability. We were therefore able to build on this and focus instead on future growth by refining and implementing our strategy.

**Q Is the turnaround now complete and are the legacy issues in the past?**

Lamprell as a business has recovered from a loss of USD 110 million in 2012 to deliver a profit of nearly USD 120 million in 2014 which is an impressive achievement. We have retained Lamprell’s fundamental strengths and based on these we have built a business that is financially and structurally sound, with a new approach to business development, using the robust bid procedures now in place. The past issues have been addressed and legacy projects completed; we have enhanced certain systems, including the rollout of a new ERP system to assist with monitoring and accountability. We can now confidently say that the business has moved on from securing its recovery to building its future.

Our exceptional financial performance in 2014 page 18 is clear evidence of our recovery.

**Q What were your key business decisions in 2014?**

The return to profitability allowed us to review the debt and equity structure of the Company from a position of renewed strength. The terms of the previous financing package that had been secured in 2013 were onerous and only represented a short-term financing solution. We recognised the need for additional financial firepower to fund our near-term plans and longer-term ambitions.

With this in mind, we approached our banks and investors requesting a new financial structure page 19, consisting of an equity injection through a rights issue and a full debt refinancing. Our plans were met with overwhelming support and resulted in a fully underwritten rights issue of USD 120 million and new debt facilities of USD 350 million.

## Our results

**Total shareholder return**

**(14.2)%**

**Net profit increased by**

**223.9%**

**New awards increased by**

**88.0%**

**James Moffat**
**Chief Executive Officer**

This strengthened balance sheet allowed us to implement the key elements of our strategy: we commenced a major capital investment programme for our facilities which will improve our operational performance and strengthen our competitive position by reducing our costs.

**Q What have been your operational priorities?**

Based on an analysis of our operational performance for 2013, our core business was solid but there was room for significant improvements to make Lamprell more efficient and productive. On the one hand, we had a well-trained workforce; good facilities with substantial access to quayside; a proven track record and culture of delivery, and client-friendly service. On the other hand, some of the existing techniques required modernisation to enhance productivity. In other words, we were building high quality products, on time and on budget, but I felt that we could do it more efficiently and at lower cost.

In order to improve the way we operated, we outlined a series of productivity and efficiency measures under "Project Evolution". This formed a key component of our strategy and half of the funds raised in the rights issue were directed towards the funding of these measures. Project Evolution has been under way since mid-2014 and is expected to reach the full savings runrate in 2016.

**Q How is Project Evolution going to improve your operations?**

Project Evolution is intended to improve the processes and infrastructure on which our operations rely on a day-to-day basis. Every aspect of our operation is affected – projects, production, engineering, procurement, finance, HR, administration and IT. We are fortunate to have access to a dedicated, well-trained and cost-competitive workforce but we are working towards a better balance between modern techniques and the use of manual labour. For example, we are introducing a panel line and beam cutting machines in Hamriyah which are anticipated to reduce the total manhours per project significantly.

We anticipate that Project Evolution will also reduce costs associated with construction. For example, over the course of the last year we have replaced stick welding in our yards with flux cored arc welding, a more modern technique. This is expected to result in a saving of up to a third of welders' time, which will have considerable cost implications in a business like ours where welding accounts for about a third of the total manhours spent on building a jackup rig.

In total, there are over 20 initiatives under Project Evolution which will result in a better layout and a higher degree of automation in our yards, leading to more efficient and cost effective operations.

**Q What are the other key pillars of success in your strategy?**

A strong competitive position relies on robust project execution, the right approach to business development and a long-term vision for growth. Project Evolution will go a long way to raising the efficiency of our operations but, in order for Lamprell to improve, we have been working to embed a culture of continuous improvement into every aspect of our business, and then measure performance against key performance indicators.

With our operations improving, we also analysed our core markets page 13 to understand our position in the competitive landscape. Lamprell remained strong in winning orders based on our existing strengths of safety page 21, quality and reliability; however, we noted competitors' commercial advantage to offer back-ended payments, whereby clients would use the fabrication yard's balance sheet to facilitate project construction. The debt refinancing package we secured in the summer of 2014 enables us to offer this option which effectively levelled the playing field. This significantly broadened our addressable market and has already contributed to us securing additional contract wins, albeit without having to draw on the funding facility.

## OUR VALUES

**Safety** We deliver world class safety standards and leave nothing to chance so everyone goes home safely.

**Fiscal responsibility** Because every employee influences our costs, we are all accountable to ensure that we achieve the most cost effective solutions.

**Integrity** We conduct our business honestly, with professional integrity, fairly and transparently, and we are open and ethical in our day-to-day dealings with all stakeholders.

**Accountability** We deliver what we say we will.

**Teamwork** We strive to work together with our stakeholders and believe great teams can achieve incredible things.

Our approach to winning business has been restructured and improved further with the hire of a seasoned marketing and commercial team. A new Chief Commercial Officer and VP Business Development have worked on developing and implementing a new approach to the way that invitations to tender are assessed, ranked and submitted page 10. This ensures that our marketing efforts target those prospects which are expected to suit our yards and facilities best and thus yield better returns on investment based on the highest probability of a successful contract award. This new approach has already resulted in us winning a record number of awards and the management team is looking to use these systems to improve the quality of our backlog.

This, along with Project Evolution, helps Lamprell to become even more competitive, but there are other aspects of the business that are crucial to our success.

**Q What other aspects of the strategy are you particularly proud of?**

Safety is paramount in our operations page 21. I see this as a non-negotiable factor in our success – for our staff, our clients and ultimately all our stakeholders. Lamprell has always operated relatively safely but, much in the same way as with operations, I saw opportunities for substantial improvement. We hired a VP of HSESQ in 2013 who has overhauled Lamprell's approach and standards. The results speak for themselves: we have cut our Total Recordable Injury Rate ("TRIR") to less than half of 0.67 in 2013, which is good, to 0.28 in 2014, which is industry leading. This is a key consideration for high quality operators in making contract awards, but most importantly it creates the right environment for our operations.

Our operational performance in 2014 was strong. We delivered nine major projects, a record for the Group. We delivered all projects as planned and on budget, and as a result made a number of savings, benefiting from the release of contingencies as well as early results from Project Evolution. This had a positive impact on our financial performance, which was exceptionally strong in 2014.

This year has seen some major achievements in our yards. The Nexen PUQ deck made it into the Guinness World Book of Records page 23. We completed our largest rig conversion project to date, the "MOS Frontier". We also delivered the last of the problematic projects, the "Mercury" Caspian Sea rig, which was a challenging project with remote operations. Both were delivered without a single day away from work case. We secured three contracts to build six new jackup rigs, two for Ensco, two for Shelf Drilling and two for our largest client, National Drilling Company ("NDC").

We concluded the year with the delivery of "Shuwehat", the third rig delivered in 2014 to one client, NDC page 28, another record for Lamprell.

**Q Do you expect to be able to maintain this strong performance in the challenging market conditions?**

Our financial performance in 2014 was exceptional. We will maintain the high standards of operational performance which was a key factor to the results of 2014; however in 2015 our ongoing projects are at different stages in their construction cycles. In addition, the wider market environment is weak due to the current oil price. Lamprell entered 2015 in a position of relative strength – our balance sheet is robust, we have a strong cash position, we have a high proportion of this year's revenue secured and a good bid pipeline.

The sharp market deterioration at the end of the year has brought significant uncertainty around 2015. Our business has a certain degree of flexibility built in and my team will look to mitigate the impact on Lamprell. With the Board's support and direction, we expect to be able to weather the storm, but pressure on margins and the inevitable slowdown is likely to affect everyone in the industry. Our focus will be on maintaining the highest standards of project execution and using our competitive position to convert our pipeline into wins.

## Progress on organisational improvements

**Key initiatives**

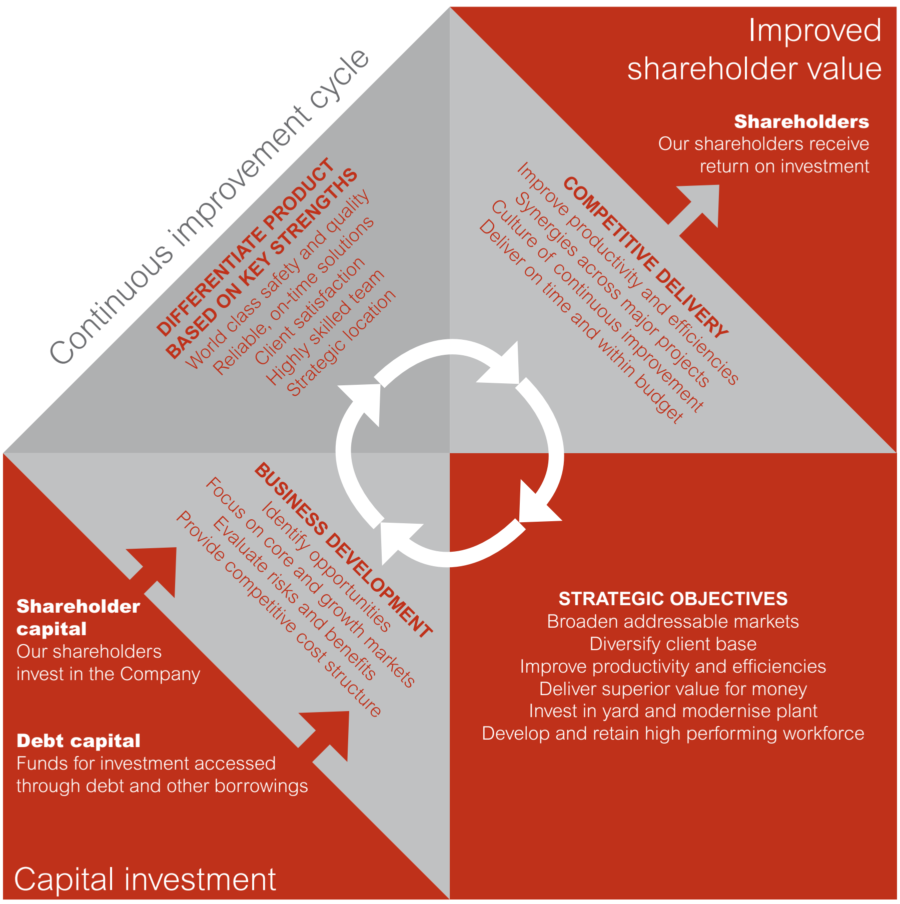
# A ROBUST STRATEGY FOR DELIVERING FUTURE GROWTH

## Our business model

We aim to deliver predictable, sustainable and profitable growth through a robust strategy, strong management and leading operational performance. Our business model is structured around a risk-based assessment of opportunities to meet the demand for fabrication, engineering and contracting services in the offshore and onshore oil & gas and renewable energy industries.

## Our goal is to create long-term shareholder value

Our strategy is to expand the breadth of our core business offerings in existing and into new growth markets by offering greater cost-efficiencies and extending our client base. We aspire to be a leading global fabrication and EPC service provider delivering complex fabrication projects to world class standards in multiple markets. This will be done by consistently delivering safe, high quality, competitive, on-time solutions to our customers.




## How our strengths add value

**First class safety and quality**
We have a long-standing reputation for delivering a strong safety track record and producing high build quality. page 21

**Reliability**
We have a reputation of delivery on time and within budget which builds trust and reliability. page 26

**Client satisfaction**
With the combination of our key strengths and competitive cost structure, we believe we present an attractive proposition to clients, delivering superior value for money. page 22

**Skilled workforce**
Employing the best people delivers a better service which adds value to our offerings and raises client satisfaction. page 25

**Strategic location**
Our locations enable us to work efficiently which allows us to offer a competitive cost structure to our clients. page 29

## Strategic objectives

To deliver our strategy we have set clear objectives that relate to specific financial and operational outcomes (see below):

- Maintain highest standards of safety and quality;
- Enhance competitiveness through improved productivity and efficiencies;
- Deliver superior value for money to our clients;
- Invest in our yard layouts and modernise plant;
- Broaden our addressable markets;
- Diversify our client base;
- Attract, develop, retain and motivate a high performing workforce; and
- Increase customer focus to ensure high levels of client satisfaction.

## How we deliver our strategy

### Focus on core and growth markets

We will continue to focus on our existing core markets, namely shallow water jackup rigs, modular construction, rig refurbishments and land rig services. Our long-term strategic goal is to broaden our service offerings into related markets including onshore modules for the refining and petrochemical, LNG/FLNG markets and re-entering the FPSO market. We intend to leverage our proven expertise in project execution and broaden our EPC service focus within these core markets.

### Offer a competitive cost structure

Enhanced competitiveness is a high priority for the management team and a key driver is the implementation of productivity and efficiency measures into our operations to drive down costs and allow us to capture synergies across multiple, major projects, thereby improving our market competitiveness. With the combination of our enhanced key strengths and competitive cost structure, we believe we present an attractive proposition to our clients, delivering superior value for money.

### Build on our key strengths

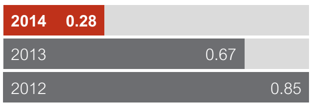
We intend to capitalise on our key strengths of delivering excellent safety and quality, our commitment to reliability, a highly experienced management team and skilled workforce, as well as the strategic location of our facilities in the Middle East. Our objective is to build on these key strengths to differentiate ourselves against our competitors. We are also creating a culture of continuous improvement, including the use of lessons learned and reporting against the key performance indicators below.

### Increased customer focus and satisfaction

We are committed to customer service by developing long-term client relationships and operating a client relationship model that will allow us to increase our prospect pipeline and pursue market opportunities at an early stage. We strive to be the long-term partner of choice and through this we have developed a strong reputation for working collaboratively with our clients, focused on finding solutions tailored to their needs.

## Performance measures ("KPI")[1]

**Safety: TRIR**
(rate per 200,000 manhours)

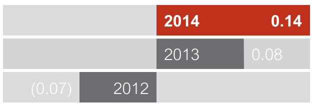



**Description**
Key lagging indicators showing the Group's safety performance.

**Revenue**[2] (USD billion)

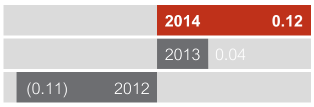

**Description**
Measures the level of operating activity and size of the business.

**EBITDA**[2] (USD billion)



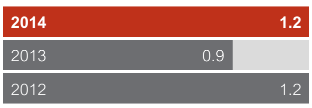

**Description**
EBITDA means earnings before interest, tax, depreciation and amortisation, and provides a measure of the operating cash flows for the business.

**Net profit/(loss)** (USD billion)



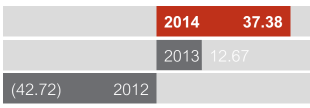

**Description**
Measures net profitability of the business.

**Order book as at 31 December**
(USD billion)



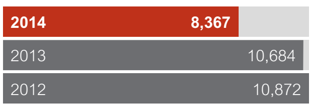

**Description**
The Group uses this KPI as a measure of the visibility of future revenues.

**EPS (diluted)** (US cents)




**Description**
Indicates net profitability on a per share basis, taking into account changes in the capital structure.

**Headcount**
(number of employees)




**Description**
Provides an indication of the Group's service capacity.

1. We manage our KPI risks page 14.
2. Revenue and EBITDA shown above are from continued operations only.

# OUR BUSINESS MODEL CONVERTS OPPORTUNITIES

We have a prospect pipeline management system which allows us to apply the various elements of our business model to convert the higher priority targets into bidding prospects. Over the last 12 months, we have refined the system to improve both the quality of the bid pipeline and also the probability of winning new work.

Conversion of the bid pipeline into contract awards is based around the strong relationships we have established with many leading industry clients and prime contractors. We had a record year for converting prospects into awards and successfully increased our pipeline by 10% to USD 5.2 billion.

## Strong pipeline and high bidding activity

Bid pipeline was USD 5.2 billion as of the end of 2014 (31 December 2013: USD 4.7 billion)

High bid conversion win rate for the period

New awards value of USD 1.4 billion in 2014 (2013: USD 0.8 billion)

Successfully diversified client base with major wins from new clients Ensco and Shelf Drilling

Offshore/onshore construction targeted to become a major contributor to our turnover in the long term

New build jackups represents 37% of the total prospects pipeline

Approximately 30% of the jackup fleet will be in excess of 35 years old by 2017 – ongoing positive demand for rig refurbishment and conversion projects

## Project Evolution

Project Evolution's vision is to construct best in class products at lower cost with improved facilities, efficient people and processes. With the safest and best resources, optimised processes, connected technology and a continuous improvement culture, Project Evolution aims to reduce costs and add value to the bottom line. In 2014, 20% of Evolution's key milestones were completed and the project is now allowing us to reduce costs to our bids and new projects alike.

New automated cutting machine purchased as part of the Project Evolution initiative.

### New build jackup rigs

We were highly successful in converting orders for new build, shallow water jackup rigs in 2014, with a record six orders for new rigs in a single year, plus options for an additional five rigs. All the orders were for high specification, LeTourneau-designed rigs of a Super 116E (Enhanced) Class; however, in line with our reputation for working with clients to meet their needs, we tailored the final rig designs to each client's particular requirements. We are able to structure our offering if a client requests a rig of different design, having delivered a total of 18 new build jackup drilling rigs since 2006.

### Offshore/onshore construction

Over the long-term, global demand for offshore and onshore modular construction in energy markets remains strong and this is reflected in our prospects pipeline with approximately 60% being associated with this sector. Our business model for these projects is structured around our ability to deliver a safe, high quality product at competitive prices. These prospects are typically based around a tendering process which can take up to 12 months to reach contract award. This provides greater visibility on future prospects for targeting purposes.

We have a strong track record in modular construction and we are well placed both geographically and technically to offer differentiated standalone fabrication or EPC services. In 2014 we successfully secured a contract for the fabrication of over 10,000 tonnes of piperack modules for the Petrofac/ZADCO project in Abu Dhabi, as well as several other smaller projects in this sector.

### Rig refurbishment/conversion

Typical rig refurbishment and conversion projects have a short bid-to-award profile and therefore the number of prospects in the pipeline can be limited due to the short-term time span. Rig refurbishment projects vary greatly in scope from project to project and can have a work schedule lasting a few weeks to potentially 12 months. With about 30% of the jackup fleet older than 35 years by 2017, this reflects positively on the demand for rig refurbishment projects.

Clients typically focus on the following key drivers: geographical proximity of the yard, reliability, ability to respond quickly and price. These drivers are aligned with our key strengths, which we use to differentiate our position as the leading regional rig refurbishment business. There was good activity with 14 rig upgrade projects undertaken in 2014, including the largest ever rig conversion in the history of the Group.

### Contract types

Our contracts fall primarily into three categories: lump sum, unit rate and cost reimbursable.

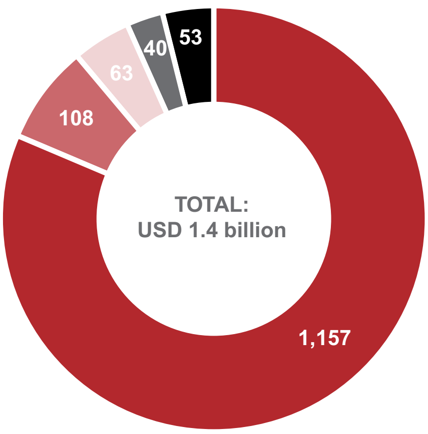
- Lump sum contracts (primarily the new build jackups and EPC projects) are for a total fixed price for a defined scope of work covering engineering, procurement, subcontracts, fabrication and pre-commissioning services. This is the highest risk category for us and to do this we have developed a robust risk review management and oversight process.
- Unit rate contracts (predominantly for offshore/onshore module fabrication) are based on agreed fixed rates for a specifically defined unit of work. The contracts are subject to final adjustment based on the actual material quantity take-offs.
- Cost reimbursable contracts usually comprise schedules of pre-agreed hourly or daily rates with materials and subcontracts reimbursed on a cost plus mark-up basis. This type of contract is most common in the upgrade and refurbishment of rigs.

## New awards and bid pipeline

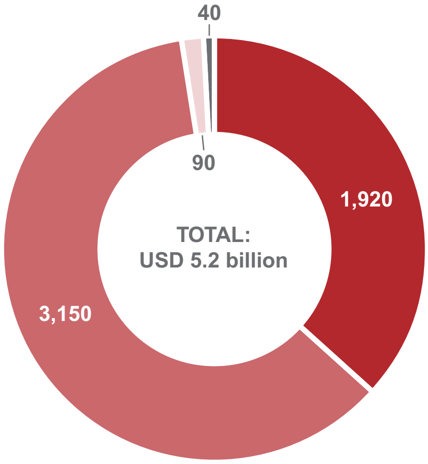
### Key

- New build jackup rigs
- Offshore/onshore construction
- Rig refurbishment and conversion
- Land rig services
- Others

**New awards during 2014 (USD million)**
as at 31 December 2014




**Bid pipeline 2014 (USD million)**
as at 31 December 2014



# KEY PLAYER
# IN THE GLOBAL ENERGY MARKET

After a positive start to 2014, the final quarter of the year saw a deterioration in the global energy market following a significant fall in oil prices. Many of the global drillers and IOC's have subsequently announced reductions in their 2015 capital expenditure programmes.

While business development and tendering continues apace, our ability to win new business is contingent on the state of the broader industry. The scale of the downturn will remain unclear until the market and commodity prices stabilise. The outlook for the oilfield services sector looks challenging in the near term; however the energy industry is based on strong long-term fundamentals.

## Macroeconomic factors and strategy

The oil price volatility in late 2014 is expected to create near-term uncertainty, with many leading oil companies reducing their capital expenditure, particularly on projects in the deepwater and Arctic environment segments. However we do not participate in these segments, our expertise being primarily focused around shallow water activities.

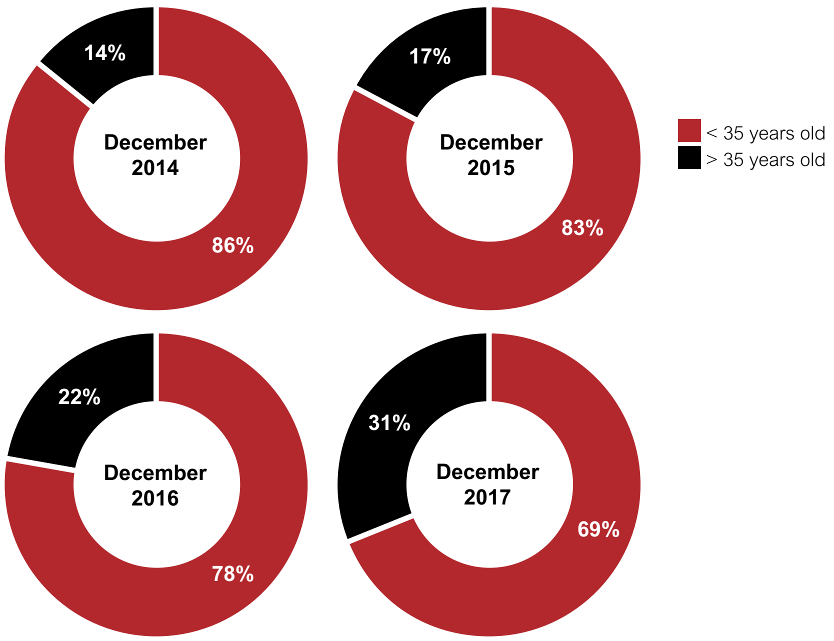
The current low oil prices are creating challenges to our clients, however the long-term market fundamentals remain strong as outlined in a recent report from BP (Energy Outlook 2035 Report) with primary energy consumption anticipated to increase by 1.4% per annum, equating to 37% in the next 20 years, with oil & gas remaining a major contributor.[1]

We expect 2015 to be a challenging year. However we have a strong pipeline of prospects by geography and by product type including major projects in the North Sea and Middle East.

The areas of growth in the longer term are expected to be in offshore/onshore modular construction including FPSO facilities and LNG plants. Based on our strategic objectives, we are well-positioned to take advantage, both competitively and geographically, of the opportunities in these markets.

## Ageing current global jackup fleet[2]

Approximately 30% of the global jackup fleet will be over 35 years old by 2017. This reflects positively on the demand for new build jackup rigs and rig refurbishment projects.




1. Source: BP Energy Outlook 2035 Report: February 2015.
2. Source: Ensco – IHS Petrodata Goldman Sachs Global Energy Conference: January 2015.

## Market sectors

### New build jackup rigs

After the historic highs of 79 rig orders in 2013, the market returned to more typical levels with 38 new rig orders in 2014. It is expected to see lower order levels in 2015. There is increased competition from Asia with many of the planned 126 new rigs being built there to be delivered between 2015 and 2017. Lamprell remains competitive in this market as evidenced with six rigs won in 2014 and options for five more with leading clients.

**87.4%**
**December 2014 jackup utilisation is down by 2% from 89.7% in 2013[3]**

### Offshore/onshore construction

As a result of the capex budgetary pressures, there will be intense competition in the short term as a larger number of players chase fewer energy industry, fabrication and EPC projects. However, the Middle East is expected to provide good opportunities in light of the lower oil production costs. There are also prospects in other markets which suffer from high costs and/ or lower infrastructure capabilities.

**619.4**
**E&P predicted spend in USD billion in 2015[4]**

### Rig refurbishment/ conversions

The drive to extend rig life cycles is expected to continue as 30% of the global jackup fleet will be over 35 years old by 2017, although it is expected that some rigs will be stacked or scrapped against the backdrop of low oil prices. Older assets may be maintained or converted for alternative use such as accommodation units. Lamprell is the regional market leader in this market, particularly on medium or large-scale rig refurbishments and conversions.

**14**
**Total rig refurbishment projects awarded to Lamprell in 2014**

### Land rig services

The number of land rigs in MENA is forecast to grow by 20% over the next five years with Saudi Arabia growing by 46%[5]. Some Middle East onshore drilling programmes may be impacted by volatility in oil prices although lower regional oil production costs mitigate the risk of a substantial impact. We anticipate long-term sustainable regional demand for our land rig services, and specifically our new Lamprell-designed land rig “LAM 2K”.

**20%**
**Increase in operational MENA land rigs over the next five years[5]**

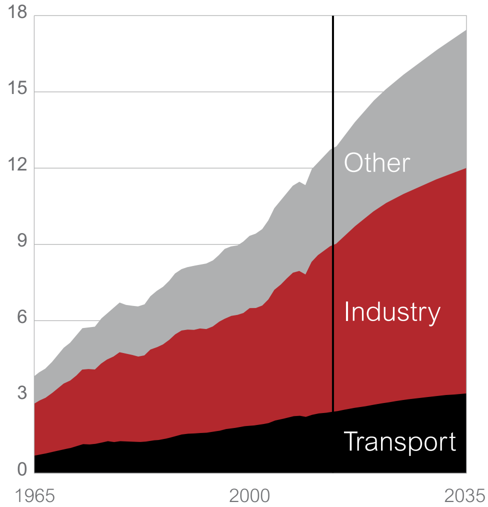
### Renewable energy

Globally around 5GW of offshore wind capacity has been installed to date with the market expected to grow over the next 10 years[6] although this is under considerable pressure in the current economic climate. We are monitoring developments in this sector closely. We have a proven track record for delivering multi-purpose liftboats to the highest specifications.

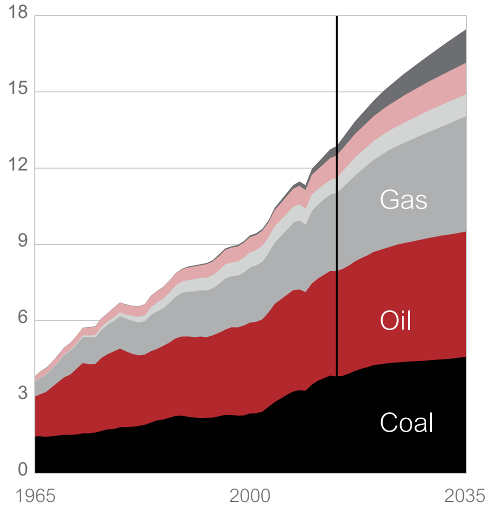
**3.2GW**
**Projected average growth per year[6]**

## Growing energy demand[1] (billion toe)

### Consumption by final sector




### Consumption by fuel




3. Source: IHS Petrodata World Rig Forecast: January 2015.
4. Source: Barclays 2014 Equities Research Report.
5. Source: World Land Drilling Rig Market Forecast 2015-2019: Douglas Westwood.
6. Source: World Offshore Wind Market Forecast 2013-2022: Douglas Westwood.

# WE ACTIVELY MANAGE OUR RISKS

At Lamprell, we are committed to actively managing our risks. There has been additional focus during 2014 to ensure that the processes for identifying, managing, reporting on and mitigating the Group's risks are embedded within the Group's various business units. This has been facilitated with the appointment of a Group Risk Manager, who meets regularly with all risk owners and management, allowing us to manage our day-to-day business more effectively and evaluate potential risks when bidding for new work.

### Risk ranking, monitoring and profiling

The principles of risk and opportunity are becoming part of everyday work processes through continuous reviews, workshops, knowledge sharing, monitoring, reporting and trending. Lamprell believes that robust risk and opportunity processes provide advantages with regard to:

» early anticipation of risks within areas of the business;

» better audit reviews;

» more robust risk management strategies; and

» Improved contingency management including costs.

Following the meetings with risk owners, all project risks are ranked using a "probability vs. impact" measurement on a high/medium/low basis. The risks are also ranked on a gross (pre mitigation) and net (post mitigation) basis. Where possible, a cost, quality or schedule contingency assessment is also undertaken and completed. These "bottom-up" risks are then logged into a centralised, secure, risk and opportunity database and each is assigned to the risk owner who owns the actions arising out of the risk management plan. In addition, the management team undertakes a separate, "top-down" assessment to identify the key major risks and opportunities faced by the Group.

### Risk review panel and corporate risk reporting

A risk review panel, comprising members of the senior management team, meets on a monthly basis to review Lamprell's risk and opportunities management process and to challenge the effectiveness of selected risk management plans. In this way, there is greater cohesion between the assessment of and alignment between the "bottom-up" and "top-down" risks.

In addition, we have taken steps to trend and profile our risks on an enterprise basis. By reviewing and using this data, we are aiming to identify potential major risks at an early stage, thereby allowing us to take mitigating actions. The risk management process and all major risks are reviewed with the Board and the Audit & Risk Committee at least twice a year.

### Principal risks and uncertainties for Lamprell

While the Group undertakes detailed project risk evaluations, the overall Group faces a wide variety of risks in connection with its business and the operations. We believe that the principal risks and uncertainties faced by the Group are as follows:

## Analysis of risks

Our profiling of project risks confirms that while most risk areas remain in the operation category, the largest percentage of "high" risks on a pro rata basis are in strategic and financial categories for this reporting period. Lamprell uses this data to prioritise those enterprise and project risks, and implements appropriate risk mitigation strategies and activities.


% of risk-based on enterprise category (rounded)

## Strategic risks

| Risk description | Business implication | Mitigation | Read more |
|---|---|---|---|
| **Securing new contracts**<br>**Risk to strategy**<br>high<br>**Risk change**<br>increased | As a result of the changes in the oil & gas sector during 2014, Lamprell identified that demand for its range of services may be adversely impacted by a fall in the levels of expenditure by oil & gas and renewable energy companies | » Backlog at 31 December 2014 of USD 1.2 billion with contract options for up to additional USD 0.9 billion<br>» Lamprell has a strong bid pipeline of USD 5.2 billion<br>» Business development to identify key clients, maintain client relations and develop win strategies with competitive tendering<br>» Focusing on delivery of high quality products which provide a robust platform for repeat business | page 12 |
| **Over-reliance on a single product**<br>**Risk to strategy**<br>medium<br>**Risk change**<br>none | A significant proportion of the Group's revenue continues to be generated from new build jackup drilling rigs. This has led to over-reliance on limited rig designs and on key suppliers. There is a risk that Lamprell's revenues will be impacted if this rig design becomes obsolete or if the key suppliers fail to deliver the products forming part of this rig design in a timely manner | » LeTourneau Super 116E remains a popular robust design. Demand for it is being monitored<br>» Lamprell is looking at alternative rig designs<br>» 60% of prospects pipeline associated with non-rig products and services<br>» Lamprell has the capabilities to design and build new build rigs and vessels within the UAE and on a global basis | page 08 |
| **Fluctuations in order book**<br>**Over-reliance on limited number of customers**<br>**Risk to strategy**<br>medium<br>**Risk change**<br>none | The Group's visible order book can fluctuate significantly because the majority of the projects are fixed duration lump sum contracts or short-term rig refurbishment contracts<br>If the Group is unable to maintain strong relationships with a core group of customers or fails to continue to offer them high levels of service, the business, financial condition and prospects of the Company may be adversely affected | » Strategy in place to diversify our addressable markets and broaden our client base<br>» Lamprell has a range of contract types from lump sum through to unit rate remeasureable<br>» Lamprell is also reviewing the use of framework and call off agreements with customers which will provide additional revenue<br>» Rig refurbishment work remains as a reliable source of revenue<br>» Lamprell has relationships with customers based in the UAE and in the North Sea regions | page 11 |

## Strategic risks

| Risk description | Business implication | Mitigation | Read more |
|---|---|---|---|
| **Mergers and acquisitions/joint ventures**<br>**Risk to strategy**<br>medium<br>**Risk change**<br>none | There may be a significant level of financial/legal obligations assumed as part of any acquisition or divestment, or as a result of participation in a Joint Venture ("JV"). This may have a material negative impact on the Group. In addition, the integration of an acquisition or misalignment with a JV partner may have a negative impact on the combined Group and significantly impair the assessment of economic value attributed to the Group | » Lamprell will employ robust financial, legal, commercial and HR due diligence processes for all corporate transactions<br>» The project lead and senior team members will have the prerequisite expertise and experience in complex transactions<br>» JV funding obligations to be regularly and rigorously reviewed and capped | page 45 |

## Financial risks

| Risk description | Business implication | Mitigation | Read more |
|---|---|---|---|
| **Counterparty credit risk**<br>**Risk to finance**<br>medium<br>**Risk change**<br>increased | The Group provides its products and services to a variety of contractual counterparties and is therefore subject to the risk of non-payment for products provided and services rendered or non-reimbursement of costs incurred | » Lamprell conducts regular credit checks on clients for major new contracts<br>» Lamprell negotiates effective contractual measures to mitigate payment exposure<br>» The Group requests advance payment and neutral payment terms wherever possible<br>» Project debt facility only available for use with top tier clients, per lender requirements | page 18 |
| **Failure to deliver projected savings**<br>**Risk to finance**<br>high<br>**Risk change**<br>none | In order for the business units to remain competitive and for the business to grow, it is essential for Lamprell to manage its overhead cost base and to implement the targeted productivity improvements and cost efficiency initiatives. Further, in highly challenging market conditions, Lamprell may need to reduce or restructure its overheads to remain competitive | » Dedicated steering committee and project team in place, sponsored by senior management, to drive efficiency measures at required pace throughout business<br>» Lamprell has a certain level of flexibility built into its workforce, by the use of core labour, short-term labour and contractors<br>» Overheads being driven down through phased implementation plan to mitigate operational impact<br>» Next phase of ERP application to be implemented by Q2 2015<br>» Transparent key performance indicators being used for reporting to track progress | page 06 |

## Compliance and legal risks

| Risk description | Business implication | Mitigation | Read more |
|---|---|---|---|
| **Liabilities under contract**<br>**Risk to compliance and legal**<br>medium<br>**Risk change**<br>increased | As part of its contractual arrangements, Lamprell may be subject to some onerous contractual terms which could impact its liabilities and revenue as a result of a breach or non-performance. This may apply either to contracts with clients or key suppliers | » Early risk assessment for all liabilities by management<br>» Strong contract management is exercised across all of the business units<br>» Recognised liabilities are managed or, where possible, either mitigated by contingency funding or are passed on to suppliers | page 14 |

## Operational risks

| Risk description | Business implication | Mitigation | Read more |
|---|---|---|---|
| **Project execution**<br>**Risk to operations**<br>medium<br>**Risk change**<br>increased | Ineffective project execution plans and/or poor management of subcontractor/vendor performance can result in additional costs and productivity inefficiencies such as manhour overruns or additional material expenditures. There could also be a consequential delay in project delivery which could reduce margins because of liquidated damages | » Detailed project planning both pre-bid and throughout project execution<br>» Embed culture of continuous improvement through facility operations<br>» Increased focus on transparent cost and schedule reporting<br>» Effective subcontractor and vendor evaluations, management and reporting<br>» Implement lessons learned from previous projects | page 23 |
| **Network infrastructure security (cyber risks)**<br>**Risk to operations**<br>medium<br>**Risk change**<br>increased | A recent external audit recommended a series of network infrastructure upgrades to overcome security, latency and growth issues<br>If Lamprell's IT network is compromised, its business tools, communications and execution systems will be severely impacted | » Dedicated IT department implements security updates on regular basis<br>» IT system and security infrastructure upgrade to be implemented in 2015<br>» Existing disaster recovery procedures are being updated | page 20 |

# RESPONSIBLE MANAGEMENT

2014 was a year of exceptional financial performance. It was driven by strong project execution, as well as some cost savings and exceptional gains. We finished the year with a solid balance sheet and a strong net cash position.

### Results from operations

The Group continued on its path to financial recovery started in 2013. Lamprell's strong operational performance was the main driver behind our exceptional financial results in 2014.

The Group's total revenue for the year was USD 1,084.9 million, in line with earlier guidance. The revenue was mainly driven by the new build segment with a contribution from rig refurbishment, partially offset by weaker revenues in the offshore and onshore construction market page 20. The good performance in the refurbishment business was supported by the large-scale rig conversion project for MOS which was delivered in 2014. We delivered nine further refurbishment projects by the end of the year, albeit of significantly smaller scale.

In 2014, the Group completed a record number of major projects with some projects being delivered ahead of time and also ahead of budget. As a result of this improved performance, the project contingencies were not utilised, delivering enhanced margins. This was also supported by some early savings from "Project Evolution" being implemented across the Group, and by our efforts to reduce overheads page 10.

As a result the Group's gross margin significantly increased over the previous year to USD 182.1 million from USD 120.0 million. Lower offshore/onshore construction revenues had a negative mix impact on margins but this was more than offset by a material improvement in margins in our new build jackup rig business. This was partially driven by a more favourable phasing of the construction cycle, but mainly resulted from the Group's continuing improvement in project execution page 08. As referred to earlier, initial procurement savings and productivity gains also contributed to our strong profitability. Our Land Rig Services and our Engineering & Construction business units have also contributed to the improvement in margins.

EBITDA excluding discontinued operations and exceptional items for the period was USD 137.0 million (2013: USD 84.4 million). The Group's EBITDA margin increased from 7.9% in 2013 to 12.6% in 2014, reflecting the improved operating performance of the business.

### Finance costs and financing activities

Net finance costs in the period decreased to USD 18.3 million (2013: USD 22.0 million). Interest costs were USD 1.7 million lower due to the lower cost of debt following the refinancing in the summer.

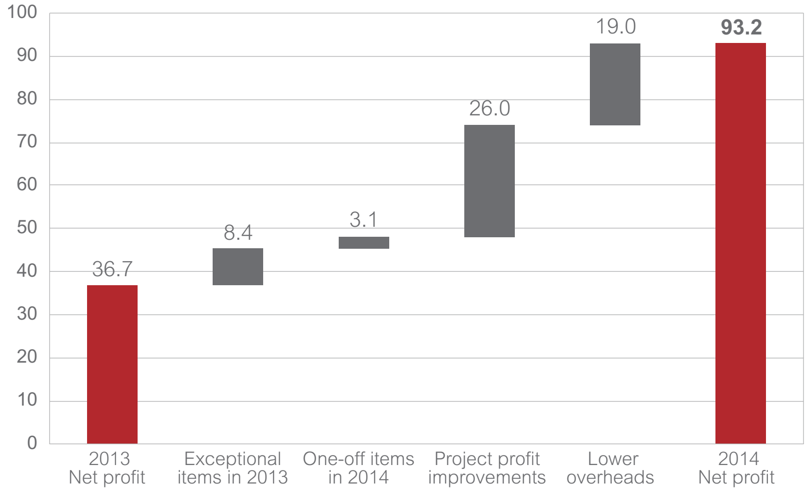
### Net profit after exceptional items and earnings per share

The Group recorded a profit for 2014 attributable to the equity holders of USD 118.1 million (2013: USD 36.4 million), including a USD 31.3 million gain from the disposal of Inspec. The fully diluted earnings per share for the year were 37.38 cents (2013: 12.67 cents).

### Capital expenditure

The Group's capital expenditure in 2014 increased to USD 22.5 million (2013: USD 14.6 million). The main area of investment consisted of additions to operating equipment with the major items being new cranes, a new panel line, welding facilities and equipment as part of Project Evolution

**Improvement driven by outstanding performance in project gross profit and cost efficiencies[1]**




1. Net profit is from continued operations including exceptional items.
2. EBITDA excludes discontinued operations and exceptional items.

## Key figures

### Gross margin

**16.8%**

2013: 11.2%

### EBITDA[2] (million)

**USD 137.0**

2013: USD 84.4

### Net cash (million)

**USD 272.6**

2013: USD 183.8

and to a lesser extent infrastructure. We also continue to invest in our new ERP system, Oracle, a proven top tier solution that has helped us realign our processes with best practices and ensure accurate assessment of our financial performance. The major capital investment programme enabled by the rights issue has reduced costs in 2014, and will continue to reduce these costs with the major part of the investment being committed over the course of 2015.

### Cash flow and liquidity

The Group's net cash flow from operating activities for 2014 reflected a net outflow of USD 39.8 million (2013: net inflow of USD 117.7 million) primarily driven by increased working capital due to the natural cycle of major projects.

Cash and bank balances increased by USD 27.1 million during the year, resulting from the net proceeds from the rights issue and the disposal of Inspec, less a net repayment of debt and net cash outflow from operations.

### Borrowing and debt refinancing

In 2013, the Group concluded a refinancing through a syndicate of banks for an aggregate amount of USD 181.0 million.

In May 2014, the Group agreed with a range of banks a new set of funded facilities on substantially more favourable terms amounting to USD 350 million replacing the previous facilities. It comprised (a) a USD 100 million term loan; (b) USD 50 million for general working capital purposes; and (c) USD 200 million of working capital for project financing. In addition, the lending banks committed a USD 250 million bonding facility that may be used by the Group for project bonding requirements in connection with new contract awards funded by the working capital project financing facility. Along with greater financial flexibility, the new facilities have generated initial savings at the end of 2014 and are expected to deliver lower bonding costs on future projects.

Our borrowings were USD 99.0 million at 31 December 2014 (31 December 2013: USD 160.8 million).

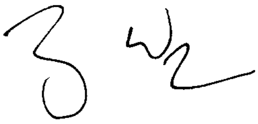
### Going concern

After reviewing its cash flow forecasts for a period of not less than 12 months from the date of signing 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

The repayment of the balance of term loan facility B under the 2013 debt facility agreement removed the restriction on the payment of dividends. Given the ambitious investment programme to be funded by the proceeds of the rights issue in 2014, as well as the uncertain market environment, the Directors do not currently recommend the payment of a final dividend for 2014. However, the Directors recognise the importance of dividends and remain optimistic about the future of the Group and will seek to review and restore the payment of a dividend at the most appropriate time.

**Tony Wright**
**Deputy Chief Financial Officer**



# BACK ON TRACK

Safety, quality and reliability are at the heart of what we do. These and our other key strengths set us apart from our competitors. They underpin our strategy and the way we service our clients.

**National Drilling Company, "Qarnin" Rig – delivered February 2014**

The contract for this rig was signed in October 2011. This was the 15th jackup drilling rig constructed and delivered by Lamprell since 2006.

## Operational and efficiency improvements

Lamprell has a proven track record for reliable project execution in its core markets and this has been enhanced further with the delivery of all of its nine major projects as planned, within budget and to the highest standards of safety. As well as making a record number of major deliveries in 2014, the Group identified a number of key focus areas where operational efficiencies could be targeted with significant cost savings. A project team was appointed with the overall aim of driving cost savings through more efficient use of resources, enhancements in operational processes as well as driving productivity improvements through the upgrade of facilities at our yards, collectively known as "Project Evolution".

Project Evolution is primarily focussed upon improvements in four specific areas:

» production processes;

» site layout/workflow;

» project management/scheduling; and

» procurement.

These were further subdivided into more than 20 activities. Improvement implementation commenced in mid-2014 and is expected to run throughout 2015, into 2016, before realising the full savings. The major equipment contracts relating to these initiatives have all now been awarded and the Group has started to recognise savings achieved during 2014. Major activities include the planned introduction of an automated panel line in Hamriyah, the purchase of new beam cutting machines, improvements in yard layout at the Hamriyah and Sharjah fabrication yards as well as centralised procurement function.

The Group has also implemented a number of fabrication measures such as changes in the welding techniques, aimed at increasing the efficiency of the Group's production processes.

The mission of Project Evolution is to drive a culture of continuous improvement ensuring that Lamprell continues to employ the safest and best resources, utilising state-of-the-art processes, enabling us to continue to deliver products of the highest quality to our customers and best value for money for the benefit of both clients and the Lamprell Group.

The Group has also made positive progress in upgrading its supporting IT infrastructure with the implementation of the next phase of its ERP. Having successfully delivered phase one in late 2013 (ahead of schedule and under budget), the Group scoped the phase two requirements in H1 2014 and then kicked off implementation in Q3 2014, supported by an extensive training programe for all personnel on the new system to ensure effective knowledge transfer. Phase one focussed on the back-office modules of HR, payroll and finance whereas phase two is targeting the core technical functions of engineering, procurement and construction. To date, this project has been a resounding success for the business and is a testament to one of our core values – teamwork. Implementation of phase two is progressing well and on budget, with completion expected in Q3 2015.

**9**

**major projects delivered**

**as planned and on budget**

continued

# OUR VALUES

**SAFETY**
FISCAL RESPONSIBILITY
INTEGRITY
ACCOUNTABILITY
TEAMWORK

## We leave nothing to chance

Lamprell's TRIR has improved significantly year on year, in December 2012 our TRIR was 0.85, in December 2013 it decreased to 0.67 and in December 2014 we brought it down to 0.28 which is an outstanding accomplishment. 2014 also saw Lamprell hit its highest safety record ever after delivering the Nexen Wellhead and PUQ topsides where the project team achieved over 10 million manhours without a day away from work case. At Lamprell we believe that better safety equals better productivity which in turn leads to better financial results.

better safety ➔ better productivity ➔ better financial results

**TRIR of 0.28**

## OUR VALUES

SAFETY
**FISCAL RESPONSIBILITY**
INTEGRITY
ACCOUNTABILITY
TEAMWORK

# We spend money as if it were our own

Fiscal responsibility is a fundamental value at Lamprell. In 2014 the Company secured a new banking arrangement with lenders which replaced the Group's funded facilities and allowed for greater financial flexibility. Part of the funds were used to finance Project Evolution, a programme developed to deliver material productivity improvements and cost efficiencies, and which is progressing well and generating some early returns. Evolution aims to improve the organisation's current processes, procedures and facilities, which in turn will generate greater project cost savings.

**USD 60 million capital investment**

**in our operations with early signs of payback from welding techniques, better use of assets and procurement synergies**

## New build jackup rigs

### Highlights

- Four drilling rigs successfully delivered during the year
- All projects completed on time and within budget
- Significant new contract wins with Ensco, Shelf and NDC

### Trading review

Our new build jackup drilling business had a record year with the delivery of four rigs during 2014, the highest annual number of jackup deliveries since 2006. This included three rigs to one client in a single year, another record for Lamprell. In total, as at 31 December 2014, we have delivered 18 new build jackup drilling rigs since our listing in 2006, including 11 of the LeTourneau Super 116E design.

**3 rigs**

**delivered to one client in 2014**

Following the successful delivery of three rigs to our largest client NDC (namely the "Qarnin", the "Marawwah" and the "Shuwehat"), the Group's relationship with NDC continues to be strong as evidenced by the award of another contract in November 2014 for an additional two jackup rigs plus three optional rigs. In early 2015, the Group will deliver the sixth in a series of eight rigs to NDC; the construction of the two new rigs starts in H1 2015.

The year also saw the successful delivery of the "Mercury" rig for operations in the Caspian Sea. This project had been identified as critical with significant potential risk around completion, due to the losses suffered on the first Caspian Sea rig project. Notwithstanding the complexities of delivering a challenging execution model in a remote location, the Group delivered the rig several weeks ahead of the contracted schedule expending nearly four million manhours without a day away from work case which is a notable safety record. Completion of this project represented a significant milestone for the Group.

Since the start of 2015, we have handed over a second rig, the "Jindal Pioneer", to the Jindal group and delivered the "Greatdrill Chaaru" rig to the Greatship group. The Group's strong operational performance has continued into the New Year as all three rigs are expected to be delivered as planned and on budget.

In line with our strategy, the Group was successful in winning additional jackup rig contracts with new clients during 2014. In April 2014 the Group secured a contract for the construction of two jackup rigs from Ensco. We have refurbished rigs for Ensco in the past; however this is the first new build project we have won for this client.

Shortly thereafter, in May 2014, the Group also signed a contract with first-time client Shelf Drilling for the construction of two jackup rigs. These projects are in early stages of construction and are progressing well and as planned. We have established regular reporting processes with these new clients in order to ensure that we satisfy the needs of both.

### Nexen, PUQ Topside – delivered April 2014

This project entered the Guinness World Records as the heaviest load moved by self-propelled modular trailers. It was delivered to world class safety standards.

### National Drilling Company, "Marawwah" Rig – delivered May 2014

"Marawwah" was the fourth rig Lamprell successfully delivered to its longest standing and largest client NDC in 2014, on budget and on schedule.

continued

### Seajacks, "Hydra" Vessel – delivered June 2014

"Hydra" is the fourth self-propelled jackup vessel delivered to Seajacks, three of which were of the GustoMSC NG2500X design and the fourth based on the larger GustoMSC NG5500C design.

### Millennium Offshore Services, "Frontier" Rig – delivered July 2014

This was the first ever jackup drilling rig refurbishment project the Company has brought onto land and was the largest rig conversion and refurbishment project in Lamprell's history.

## Offshore/onshore construction

**Highlights**

- Delivery of "Nexen PUQ" deck to the client for use in the North Sea
- All projects completed to client satisfaction and with a first class safety record
- New contract win with Petrofac

### Trading review

There were positive developments in our offshore/onshore construction core market which comprises of the construction of fixed structures and process modules, as well as minor fabrication and site works.

In April 2014, the Group delivered the 13,000 plus tonne PUQ deck to Nexen as part of the Golden Eagle Area Development in the North Sea. Our safety performance on the entire Nexen project (we delivered the Wellhead deck in June 2013) was excellent, reaching the milestone of over 10 million manhours without a day away from work case, a record achievement for Lamprell. Both decks are now fully operational in the North Sea. In delivering this project, Lamprell also achieved a world record for the heaviest load moved by self-propelled modular trailers, which was officially recognised by Guinness World Records.

**10**

**million manhours without a DAFWC**

The Group was awarded a small but important project in late December 2013 for the fabrication of a fast track schedule jacket and topside, which was then delivered in September 2014 for installation offshore Dubai for our client, Technip. With a perfect safety record of over 600,000 manhours without any recordable incidents, we once again demonstrated our deep commitment towards maintaining a safe working environment for our clients and employees.

In October 2014 the Group also successfully completed the topside and jackets on the Leighton project. While this project has been completed, our client has commissioned us to preserve and store the decks in our Sharjah yard on a temporary basis pending an instruction from their client that the end destination offshore Iraq is ready to receive them. This is anticipated to be in mid-2015.

The Group also undertakes general fabrication works for offshore and onshore projects as well as site services under the Engineering & Construction business unit. This unit saw considerable growth in its activities driven by a number of remote site projects. By way of example, the team successfully delivered its services, including engineering, procurement, piping, mechanical and commissioning, for a compression project to its client Petrofac, and completed 328,000 manhours without a single day away from work case. It further successfully dismantled a process plant, completed engineering works for re-installation and erected five process columns for the KAR group. This project, which commenced in 2013, is marked as the first of its size to be completed in Dubai's Jebel Ali Free Zone, another notable achievement.

While 2014 was a relatively slow year in terms of awards in this core market, the Group did win a significant new contract for the fabrication and delivery of 29 modules to Petrofac. The modules are being constructed for use in connection with the landmark Upper Zakum, UZ750 (EPC-2) field development in Abu Dhabi. The estimated total weight for these modules is approximately 10,000 tonnes. This contract win yet again underlines Lamprell's trusted reputation for delivering quality projects to some of the largest oil & gas projects worldwide. The project is progressing well in our Jebel Ali facility and we are scheduled to deliver the first shipment of modules in Q3 2015, with the final piperack expected to be delivered in Q1 2016.

continued

# OUR VALUES

SAFETY
FISCAL RESPONSIBILITY
**INTEGRITY**
ACCOUNTABILITY
TEAMWORK

## We conduct our business honestly, with integrity, fairness and transparency

At Lamprell we believe our employees are what makes this Company achieve great things. We encourage our employees to conduct their business honestly with professional integrity, fairness and transparency, and in turn we look after our workforce.

## 540 employees recognised for long service

**in excess of 15 years, of whom 33 have been with Lamprell for over 25 years**

**OUR VALUES**

SAFETY
FISCAL RESPONSIBILITY
INTEGRITY
**ACCOUNTABILITY**
TEAMWORK

## We deliver what we say we will

Lamprell signed its first multi-rig contract with its largest client NDC back in 2010 and has since won further contracts to build a total of eight rigs for this client. Lamprell takes accountability seriously and we deliver what we say we will. To date five rigs have been successfully delivered on schedule and within budget, the remaining three are all on schedule and NDC has options for a further three rigs.

**Five rigs delivered to NDC already**

**within budget and on schedule; a further three progressing as planned**

## Rig refurbishment/conversions

| Highlights |
|---|
| Delivery of "MOS Frontier" major rig conversion project |
| 10 rig refurbishment projects delivered in 2014 |
| All projects successfully delivered as planned with impressive safety records |

### Trading review

Whilst headline revenues for our rig refurbishment business were down on the prior year, the Group continues to demonstrate its unique ability to deliver some of the most large-scale and complex rig refurbishment projects for our clients. During 2014, the Group successfully delivered a large-scale rig conversion project for our client Millennium Offshore Services. Over a 10-month period, significant quantities of steel and leg braces were changed out as we successfully converted the drilling jackup rig into a 290-bed jackup accommodation support vessel complete with gyms, an entertainment room and a high quality living accommodation area. The upgrade of the "MOS Frontier" rig was a highly complex job which showcased the Group's ability to innovate by bringing the rig onshore at its Sharjah facility, effectively dry-docking the vessel and allowing the Group to perform the refurbishment and conversion works from all sides concurrently.

Whilst 2014 presented a noticeable increase in the level of competition in this market, we were able to differentiate ourselves from our competitors on the basis of quality and reliability for delivery on schedule. This was proven in our completion and delivery of 10 rig upgrade and refurbishment projects throughout the year. We have a high level of repeat business with regular returning customers. By way of example, out of the 14 rig refurbishment contracts we won in 2014, 12 were for repeat customers.

**10 rig upgrades completed in 2014**

It is common to have limited visibility on upcoming projects in this core market. However, we experienced a busy period towards the end of 2014.

**Technip, "Jalilah B" – delivered September 2014**

Lamprell delivered the Jalilah B fast track jacket and topside after successful load out in Lamprell's Sharjah facility to the satisfaction of our client.

**Leighton, "V1 & V2 Topsides & Jacket" – delivered October 2014**

Lamprell completed two topsides, a jacket, an interconnecting bridge with metering skid and associated piping, for ultimate use in connection with the Iraq crude oil export facility.

continued

### Caspian Sea client, “Mercury” – delivered November 2014

The “Mercury” drilling rig was delivered several weeks ahead of schedule with an excellent safety record. It was the second Caspian Sea rig Lamprell has completed for this client.

### National Drilling Company, “Shuwehat” – delivered December 2014

The “Shuwehat” was the third rig we successfully delivered to a single client in the same year, a record for the Group.

## Land rig services

**Highlights**

- Record year of trading for the land rig division with revenues of USD 53 million (excluding Kuwait)
- In total, more than 50 land rig projects worked on during year
- Strong demand experienced from the Middle East market

### Trading review

Our Land Rig Services business unit enjoyed a record-breaking year in 2014 in this core market for the Group, with revenues increasing by 60% on the previous year driven by continued high regional activity, both for existing and new clients.

During the year, the Group completed a major land rig upgrade project on the “ND11 rig” for NDC. The scope of the project involved converting the rig and its equipment from a conventional design to a mobile, fast moving one on wheels. The project was delivered to the satisfaction of the client and with an exemplary safety record. Another notable achievement was the design and fabrication of Lamprell’s first training rig for Franks International.

**26**

**major and minor rig refurb projects delivered**

Land Rig Services was highly successful in bringing in new clients to the Group. This included their first ever project for Abraj in relation to the design, fabrication and commissioning of a 100ft high coiled tubing tower. In addition, a major new client in the region initially awarded us a conventional mud system which was designed and delivered on time. This was followed by another order for a fast moving mud system for delivery in 2015.

## Renewable energy

**Highlights**

- Delivery of Seajacks Hydra lift boat
- Successfully built upon track record for renewable project delivery
- 2014 saw Lamprell deliver its sixth liftboat to date

**6th**

**liftboat delivered**

### Trading review

We have experienced significantly fewer opportunities in the renewable energy sector and this is likely to continue during this period of lower oil prices, which has a direct impact on the viability of renewable energy projects.

During the year we successfully delivered the jackup vessel “Hydra” to our client, Seajacks. The “Hydra” is the fourth self-propelled, multi-purpose liftboat vessel that Lamprell has built for Seajacks and the sixth such vessel in total. The vessel is a modified version of GustoMSC’s NG 2500 X design, fully adaptable for work in both the oil & gas and the offshore wind industries. The Group’s strong performance throughout the project resulted in early completion of the construction phase, ensuring a timely delivery and another satisfied client.

We remain in dialogue with clients that are participating in this core market and are committed to meeting clients’ needs for additional vessels as further opportunities emerge.


## OUR VALUES

SAFETY
FISCAL RESPONSIBILITY
INTEGRITY
ACCOUNTABILITY
**TEAMWORK**

## We believe great teams can achieve incredible things

In 2011 Nexen contracted Lamprell to build two decks for the Golden Eagle Area Development project located in the North Sea. The first deck was delivered in June 2013, followed by the second in April 2014, to the highest standards of safety and quality which was proven by the teamwork excelled on this project. The Nexen and Lamprell teams achieved more than 10 million manhours without a day away from work case, which is an excellent statistic and could have only been achieved with a joint commitment from both sides.

**Over 10 million manhours**

**recorded on this project with zero day away from work cases**

# CONTROLLED, SUSTAINABLE AND PROFITABLE

We aim to deliver controlled, sustainable and profitable growth through strong management and good operational performance based around our key organisational strengths. During 2014, there were numerous employee activities and significant developments in quality and safety as we embedded our core values into the business.

## Employee welfare

Our core values include integrity and teamwork and 2014 was a landmark year for employee welfare which is founded on these values. In November 2014 Lamprell received a major regional award, for the "Most Improved Corporate Health and Wellness Performance" at the Daman Corporate Health Awards in Abu Dhabi. The Group was recognised for executing new initiatives such as health awareness campaigns on diabetes, breast cancer, heat stress, cholesterol management and dental and oral hygiene. In addition almost 2,000 employees have undergone basic health screening and have been provided with a follow up health report.

We also recognise the importance of a good work-life balance and encourage employees to participate in a variety of internal sports tournaments and leisure activities that we organised during 2014. This included basketball, cricket, football, badminton and bowling tournaments as well as an inaugural talent show – "Lamprell's Got Talent". With the high employee participation, the Group is continuing with similar activities during 2015, some of which are already under way.

In terms of staff training and development, the Company had a strong year supporting both professional and trades development. The Lamprell Assessment and Training Centre opened its doors in October 2013 and currently has 70 individual courses available covering topics as diverse as leadership, English language, welding, fabrication, electrical and mechanical. Some of the courses have mandatory third party involvement which includes offshore survival, rigging and crane operations. Figures for the 2014 period include circa 58,000 training and assessment mandays with more than 250,000 manhours in total.

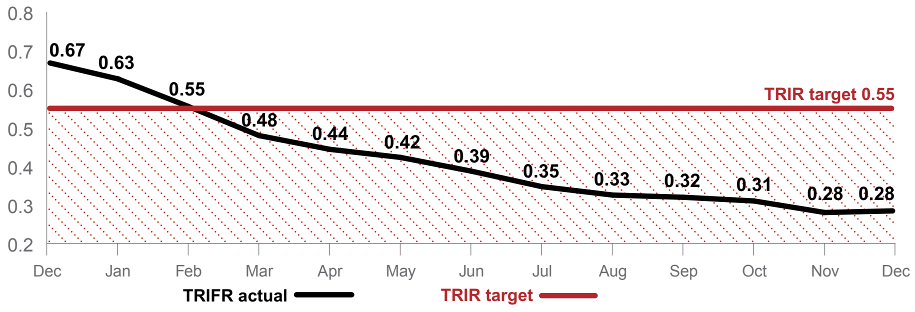
## Health and safety

Throughout 2014 we continued to implement a best-in-class organisational health and safety management system with campaigns designed to ensure the safety and wellbeing of all employees including:

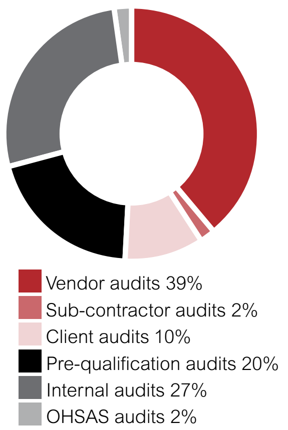
- Major road safety awareness campaign;
- A series of fatal risk awareness campaigns; and
- Comprehensive heat stress prevention initiative.

The heat stress prevention initiative highlighted the dangers of heat exposure to personnel and resulted in a 97.6% drop in heat stress related cases with comparison to the previous year. One of the key components of the health and safety management system within Lamprell is the focus on creating an incident and injury free culture for all employees, as well as improving the health, safety and wellbeing of all stakeholders. The senior management

**Rolling monthly total recordable injury rate (TRIR)**
December 2013 to December 2014




**HSES Audit Programme**
2014




**KPI targets and results**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Metric | Target KPI | Actual | Target KPI | Actual |
| Total manhours | – | 26,741,858 | – | 33,831,170 |
| TRIR | 0.55 | 0.28 | 0.65 | 0.67 |
| Fatalities | 0 | 0 | 0 | 0 |

is actively engaged in the living standards of our yard workforce with physical site inspections of their living quarters on a quarterly basis at least.

We track a number of key leading and lagging HSESQ statistics such as those relating to days away from work, audit and incident items and close-outs, absenteeism, environmental and security issues. However, the key benchmark is the evaluation of total incidents recorded. Through effective implementation of this system, we have seen a steady and significant reduction in the total number of incidents for the Group over the course of the last few years. This will remain a high priority for the Group and is directly linked to management's remuneration structure.

### Emissions and the environment

We recognise that our business activities have an impact on the environment through our day-to-day operations and the use of products and services that we deliver to our clients. Throughout the year we actively sought to improve our environmental performance through:

» acquisition of resources to control potential environmental incidents;

» more effective emissions reduction devices; and

» participation in the internationally-recognised Carbon Disclosure Project, which entails the public reporting of greenhouse gas emissions.

Due to the nature of the work which Lamprell undertakes, certain emissions to the environment are unavoidable. However, we aim to reduce these emissions through regular maintenance of all combustible engines, the establishment of physical barriers to protect the land, air and marine environment and the utilisation of low sulphur diesel fuel.

Lamprell works in close consultation with all applicable regulatory bodies, such as Dubai Municipality and the Hamriyah Free Zone Authority, to monitor the quantity of emissions produced from our activities and to ensure compliance with local legal limitations. In 2014, we implemented a range of control measures to monitor and reduce the quantity of environmental emissions from our operations. These controls incorporated daily, weekly and monthly facility inspections. Our new monthly reporting processes will enable us to collect summary data for 2015 which we then plan to make available in next year's Annual Report. We are also planning to participate in the Carbon Disclosure Project this year.

By conducting regular reviews of the environmental impact of our projects, we strive to identify ways in which operational processes can be made more efficient, therefore reducing our carbon footprint. These efforts include optimising the yard layouts and more efficient welding practices.

### Quality

We have a dedicated Quality Department and, as a key strength, we structure our Quality Policy Statement around the following key objectives:

» Setting and achieving well-defined "Quality Objectives" for each function;

» Understanding customer requirements and working together to meet those requirements; and

» Incremental improvements to our internal knowledge-management database.

During 2014 we introduced several new measures to improve the quality assurance and control functions including enhanced surveillance, planning, root cause analysis and performance measurement. Some examples include enhanced Quality Toolbox Talks to discuss ongoing issues, the introduction of process improvement audits in addition to regular quality audits, rigourous vendor audits as per API Q1 9th edition requirements and new training programmes.

Significant improvements were made to the Lamprell Group Management System in line with API Q1, 9th Edition and ASME standards. All of our facilities are subject to scheduled internal audits and third party reviews. Our Sharjah facility was successfully recertified to ASME U, U2, PP, S, NB & R certifications and our Land Rig Services division successfully renewed their API Q1, ISO 9001:2008, 4F & 16C certifications.

### Corporate social responsibility ("CSR")

We have a commitment to corporate social responsibility which is focused on a controlled number of CSR projects that are aligned with our business.

For the past five years we have donated to the Don Bosco Snehalaya shelter which provides care and protection to street children, orphans and other vulnerable children, some of whom are as young as seven years old. Some of our managers visited the shelter in Baroda, India in 2014 to make the annual donation and to see how our donations are spent. Lamprell has also played an active part in supporting some of the apprenticeship schemes that Don Bosco runs with a view to encourage some of these apprentices to work for Lamprell in the UAE. This gives them a long-term opportunity for a career. We are proud to report that there are orphans who were helped by Don Bosco that are now working for us.

In addition, as we have a major presence within the UAE and we aim to contribute to the local community, we made a donation to UAE-based charity Al Noor Training Centre, which provides services for children with special needs. Finally, in 2015 we will be continuing our ongoing support of the Rashid Centre for the Disabled.

# EXPERIENCED AND KNOWLEDGEABLE

Our Board of Directors is responsible for the leadership, oversight, control, development and long-term success of Lamprell. Each of the Directors contributes fully to the discussions and decisions at Board level, drawing on their respective skills and experience in doing so.

**John Kennedy** Nom
**Non-Executive Chairman**
Aged 65

Appointed: June 2012

Key strengths: public company boards, international oil & gas

Experience: John Kennedy is a highly experienced engineer who spent most of his executive career in the oilfield services sector. He started at Schlumberger and then moved to Halliburton where he ultimately held the role of Executive Vice-President. Mr Kennedy held the position of Executive Chairman of Wellstream Holdings Plc from 2003 until its successful acquisition by GE. Currently he serves as an adviser to several oilfield service companies. In 1993, Mr Kennedy received the Sloan Fellowship from the London Business School. He is a Chartered Engineer and Fellow of the Institution of Electrical Engineers.

External appointments: Non-Executive Director of CRH plc (retiring), Non-Executive Chairman of Maxwell Drummond International Limited and BiFold Group Limited.

**James Moffat**
**Chief Executive Officer**
Aged 61

Appointed: March 2013

Key strengths: fabrication yard operations, international oil & gas

Experience: James Moffat has over 35 years' experience in the offshore engineering, construction and project management sectors. From 1996 and until joining the Lamprell Group, Mr Moffat was employed with the KBR group of companies, working in various roles including heading up the Kellogg Joint Venture on the Gorgon Project, Australia. Mr Moffat worked for the McDermott group from 1977 to 1996 where he latterly managed the Batam facility in Indonesia. He is a Chartered Engineer, has a BSc (Hons) in Civil Engineering from Edinburgh University and is a member of the Institution of Civil Engineers.

External appointments: None

Rem Member of the Remuneration Committee

Nom Member of the Nomination & Governance Committee

Aud Member of the Audit & Risk Committee

Indicates Committee Chairman


**Michael Press** Rem Aud
**Senior Independent Director**
Aged 68

Appointed: May 2013

Key strengths: public company boards, oil & gas advisory

Experience: Michael Press acts as a director to a number of companies in the energy sector, notably in the role of Lead Independent Director for Chart Industries, Inc. and as a Non-Executive Director for Thermon Group Holdings, Inc. Previously, Mr Press served as Senior Independent Director at Petrofac Limited for nine years until 2010. Prior to that he spent 27 years in the energy sector in senior management positions. Mr Press has a BSc in Mathematics from Colorado College and Master of Science in Operations Research from Columbia University School of Engineering, NY.

External appointments: Non-Executive Director of Chart Industries Inc., Non-Executive Director of Thermon Group Holdings, Inc., Non-Executive Chairman of TWMA Ltd.

**Ellis Armstrong** Nom Aud
**Non-Executive Director**
Aged 57

Appointed: May 2013

Key strengths: financial & accounting, international oil & gas

Experience: Ellis Armstrong is a senior executive within the energy industry with wide international experience. Mr Armstrong worked for more than 30 years with BP, where he held a variety of operational and leadership roles including line operating roles in the North Sea and Alaska, VP for Latin America and Caribbean, Head of Technology and, most recently, CFO (Exploration & Production). Mr Armstrong is a Chartered Engineer with a BSc and a PhD, both in Civil Engineering, from Imperial College, and a Master's in Business Administration from Stanford.

External appointments: Non-Executive Director of Lloyds Register Group, Non-Executive Director of InterOil.

**John Malcolm** Rem Nom
**Non-Executive Director**
Aged 64

Appointed: May 2013

Key strengths: international oil & gas, Middle East operations

Experience: After 25 years with Shell International Exploration and Production, John Malcolm retired from Shell at the end of 2010 to become an independent consultant to the energy industry. During his tenure at Shell, he held various senior management positions including most recently as Managing Director for Petroleum Development Oman from 2002-2010. Mr Malcolm has been a Chartered Engineer with the UK Engineering Council since 1979 and has a PhD in Process Control Systems, from Heriot Watt University which he obtained in 1975.

External appointments: Non-Executive Director of Partex Oil & Gas (Holdings) Corp., Executive Director of Aquamarine Power Ltd., Non-Executive Director of Oman Oil Co. Exploration & Production LLC, Director of Bellwood Enterprises Ltd.

**Peter Whitbread**
**Non-Executive Director**
Aged 70

Appointed: October 2012

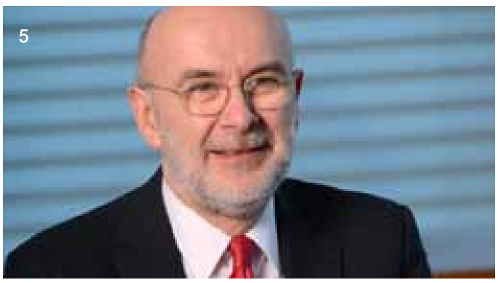
Key strengths: public company boards, international oil & gas, fabrication yard operations

Experience: A Chartered Quantity Surveyor with over 35 years of experience in the oil & gas services sector, with extensive experience in marine construction and project management, heavy marine equipment and vessels companies, Peter joined Lamprell in 1992 and was appointed CEO in 2006. He held this position until May 2009 and was also the Chairman of the Group until 5 February 2008. He was also Group CEO between October 2012 and March 2013. During his career he has held a number of other senior management positions and directorships with marine construction companies in the Middle East region.

External appointments: None


3


4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6

1. **John Kennedy,**
   Non-Executive Chairman
2. **James Moffat,**
   Chief Executive Officer
3. **Michael Press,**
   Senior Independent Director
4. **Ellis Armstrong,**
   Non-Executive Director
5. **John Malcolm,**
   Non-Executive Director
6. **Peter Whitbread,**
   Non-Executive Director

# MAINTAINING OUR VIGILANCE

Dear Shareholders,

I am pleased to report that, consistent with our broader culture of continuous improvement, the Board and I have been active in working to make further improvements to governance within Lamprell. The Company has benefited from a period of relative stability compared to recent years and so your Board has been able to give greater focus on the future of the Company and specifically its strategy. That strategy was the foundation for the rights issue and refinancing processes which were completed in mid-2014.

The Company is incorporated in the Isle of Man and has a Premium Listing on the Official List of the London Stock Exchange. The Board makes considerable efforts to ensure that during the relevant period the Company applies and complies with Sections A to E of the UK Corporate Governance Code 2012 as the pre-eminent set of global standards for corporate governance (the "Code", available at www.frc.org.uk). To the extent that the Company does not comply, this is set out in this Annual Report and Accounts and specifically in this Corporate Governance Report.

### Priorities for 2014

In my Statement last year, I set out the priority areas for the Board in 2014 and your Board has agreed new priorities for 2015 page 39. The priorities in 2014 reflected our need to create stability and leadership as the Company transitioned from its recovery phase in 2013 to the more normalised business requirements that will allow the Company to develop and grow, and ultimately create value to the shareholders. Taking each priority in turn, I am pleased to highlight some of the Board's activities in 2014 demonstrating our successes in moving towards the Company's strategic objectives.

### Priority 1: leadership

In order to give long-term stability to the governance of the Company, we recognised the need for greater clarity and visibility of succession planning at the Board and at the management levels. With this in mind, we have instigated an in-depth and methodical review of succession planning for all key roles with the assistance of external consultants and ongoing oversight by the Nomination & Governance Committee. A key focus for such review will be the appointment of a CFO following the departure of Joanne Curin in Q4 2014.

In line with the changes to the Code in late 2013, the Board (through the Audit & Risk Committee) has overseen the requirement to ensure that the Company's Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Priority 2: shareholders agreement

With the change in the Listing Rules in June 2014, we worked with the Company's major shareholder to put in place a "controlling shareholder's agreement", compliant with the new regulations page 40. This was completed by the deadline of 16 November 2014 and now represents a key component of the Company's corporate governance

## Guided by our values

The Board is guided by our values and while not exhaustive, we describe some of our key highlights and how they demonstrate what has been achieved by our Board in 2014 by embracing our values.

### Safety

In determining the key performance indicators for the executive management, the Board set a safety target which ultimately delivered a significant improvement in safety results in the business page 09. Top tier clients typically demand that safety is paramount to a contractor's business when assessing whether or not to appoint the contractor. Accordingly, this feeds directly into our ability to win work and hence our strategic objectives.

### Fiscal responsibility

As a contractor in the oil & gas industry, the Group structures its business model on a competitive cost base and high productivity. As a cornerstone in the 2014 rights issue, the Board approved the capital investment programme of USD 60.0 million to enhance the yard productivity and efficiency and support operational systems, with an expected payback period of three to four years page 22.

structure. The agreement is designed to regulate the relationship between the Company and its major shareholder, enabling the Group to operate in an environment free from external influences.

**Priority 3: effectiveness**

In order to assess our performance during 2014, we have used an online evaluation system which has proven to be more efficient and effective. The results of the evaluation process have demonstrated that the Board, Board Committees and individual Directors are all performing effectively page 38. Specific feedback was given to enhance performance and, based on the results, the Board has set new priorities notably around the area of succession planning for the Board and management.

**Priority 4: strategy**

As I mentioned above, our highest priority during 2014 was the development of the strategy for the business page 08. In January 2014, we held a two-day workshop working closely with management to review opportunities to maintain and grow the business, in the short and longer term. The workshop included presentations on diverse opportunities including additional product lines and alternative geographies, as well as possible productivity improvements and cost efficiencies which the team is now implementing.

**Priority 5: risk**

There have been enhancements in the Company's risk management processes which had been an acknowledged weakness within the business. An executive risk review panel was established and, following the appointment of a Group Risk Manager, the Group developed an online, fully-interactive risk management database. The database is updated on a daily basis and ensures that all project teams are fully engaged in the process for identifying, managing, mitigating and monitoring on risks within the business prior to reporting up to the Board page 14.

The Board considers that high standards of corporate governance are a pre-requisite for any listed company. I am satisfied that the current structure is appropriate for the Company, taking into consideration the size and complexity of our business.

**John Kennedy**
**Chairman**

## Integrity

At the 2014 Annual General Meeting, a resolution relating to the executive remuneration incentives was approved by the shareholders but, in light of a sizeable vote against the resolution, the Board directed the Remuneration Committee to re-engage with the Company's shareholders in connection with its remuneration policy and specifically seek feedback on the executive remuneration incentives page 46.

## Accountability

Last March, the Board laid out the following key business activities, all of which have been achieved or are being implemented:

- Dispose of non-core service businesses
- Implement strategy
- Diversify client base
- Drive productivity improvements/cost efficiencies
- Strengthen business development function

## Teamwork

The Board has encouraged participation from a wide range of management team members who have presented on a variety of key topics at Board meetings including by way of example:

- Personnel and human resources
- Business development function and processes
- The process for the rights issue and refinancing
- The next phase for the business of the Group

The Directors present their report on the affairs of the Company and the Group together with the financial statements and the auditor's report for the year ended 31 December 2014.

**Results and dividends**

The financial statements of the Group for the year ended 31 December 2014 are set out on pages 63 to 107. The Group's profit from continuing and discontinued operations after income tax and exceptional items for the year amounted to USD 118.1 million (2013: USD 36.4 million). The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2014.

**Other information**

The following sections of the Annual Report contain all other information relating to and forming part of the Directors' Report:

# A SUPPORTIVE SOUNDING BOARD

Our Board aims to lead the Company and the Group as a whole in such a way as to ensure that the Company delivers sustainable growth over the longer term to its shareholders and other stakeholders.

## Who is on our Board?

All current Board members page 32 have served as Directors throughout the course of 2014, with the only change being the departure of Joanne Curin as a Director announced on 17 November 2014. Accordingly, as at the date of this report, the Board consists of the Chairman, four Non-Executive Directors ("NEDs") and one Executive Director.

The Board of Directors represents a good combination of industry, regional and operational experience, supported by the diverse professional skills of the NEDs. However, with the departure of Joanne Curin as Chief Financial Officer, the Board recognised that there was insufficient representation of executive directors at the Board level and thus promptly commenced a search to identify a successor; this will be a key priority for the Board in 2015.

In addition, the Board is considering appointments of at least one additional independent NED in order to bring further experience and independence to the Board, as well as facilitating greater rotation of membership among the principal Board Committees.

| Name | Position | Nationality |
|---|---|---|
| John Kennedy | Chairman | |
| James Moffat | Executive Director & CEO | |
| Michael Press | Senior Independent Director | |
| Ellis Armstrong | Independent Non-Executive Director | |
| John Malcolm | Independent Non-Executive Director | |
| Peter Whitbread | Non-Executive Director | |

## How is our Board structured?

The duties of the Chairman and the CEO have been segregated, in line with the best practices set out in the Code, and this has been agreed by the Board. The Chairman is responsible for providing effective leadership for the Board and the Group as a whole including strategy and direction and chairs all Board and general meetings within a solid and effective corporate governance framework. The CEO is responsible for the day-to-day running of the Group's business, including execution of the Group's business plans and objectives and communicating its decisions from/recommendations to the Board.

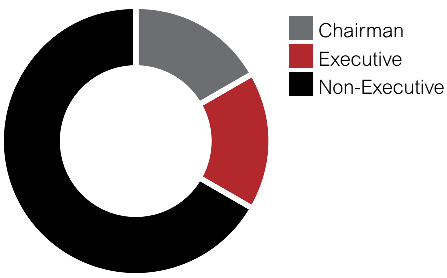
Aside from the Chairman and the CEO, there are four NEDs, whose role is critical to ensure an effective counter-balance on the Board. The NEDs are primarily responsible for challenging constructively all recommendations presented to the Board, based on their broad experience and individual expertise.

The biographical information and commitments of each of the Directors, as well as the memberships for each of the principal Board Committees, are detailed on pages 32 to 33.

## How is our Board organised?

The Board oversees the activities of the executive management team and delegates certain matters for resolution through the principal Board Committees. Given the time and resources invested in the appointment of the Directors, it is important for the Directors to operate in an environment of mutual trust and respect in order to be effective. Accordingly, while there is a formal schedule of matters reserved to the Board (pursuant to which the Board retains sole discretion to approve or reject decisions on key subject matters including inter alia strategy, the annual budget, full year and interim financial statements), the Board will often review other matters which are of relevance beyond the schedule.

**Board composition**
2014




**Tenure on the Board**

| 1.5 years | 2 years | 2.5 years |
|---|---|---|
| Michael Press | James Moffat | John Kennedy |
| Ellis Armstrong | | Peter Whitbread |
| John Malcolm | | |

**Table for Board agenda items:**

| Standing | Periodic |
|---|---|
| Review of actions from previous meetings | Full-year/interim financial statements |
| Safety update on enterprise-wide statistics | Group budget, strategy and progress updates |
| Reports from the CEO and the CFO, including investor feedback | Corporate transactions |
| Reports from each of the principal Board Committees | Risk management |
| Report on legal and corporate governance matters | Funding proposals |
| | Business development and prospects |

A similarly open and forthright environment is also encouraged in meetings of the three principal Board Committees. Each of the Committees has written terms of reference, which are reviewed annually and are available on the Company's website.

The Board has access to the Company Secretary, who is responsible to the Board and provides the Board and the individual Directors with advice and assistance on governance matters. He ensures that all Board materials and other information are delivered in a timely fashion, normally seven days before scheduled Board meetings through a secure, online application system.

### Who attends Board meetings?

As well as the Directors and the Company Secretary, it is common for members of the executive committee and the wider management team to attend parts of the Board meetings and to deliver presentations on operational or business topics in greater detail. In this way, the Board gains an in-depth understanding of business-critical functions and the presenting managers are able to interact with the Directors and gain experience for their own personal development. From time to time, the Board may also invite guest external presenters on key subject matters.

| Name | Number of Board meetings | | | Strategy days |
|---|---|---|---|---|
| John Kennedy | x19 | 100% | 100% | x2 |
| James Moffat | x18 | 100% | 92% | x2 |
| Michael Press | x19 | 100% | 100% | x2 |
| Ellis Armstrong | x18 | 100% | 92% | x2 |
| John Malcolm | x19 | 100% | 100% | x2 |
| Peter Whitbread | x15 | 100% | 69% | x2 |
| Joanne Curin* | x14 | 83% | 69% | x2 |

* Joanne Curin left the Board on 17 November 2014.

**Key:** In person By phone

### How often does our Board meet?

Our Board aims to meet in person enough times in order to address matters requiring Board involvement and in 2014 did so on six occasions (four in Dubai and two in Paris). However, where required and in order to receive an interim update on ongoing matters, the Directors will convene ad hoc at short notice by way of conference call with attendance outside of the UK, where required. Meetings in person will generally take place over the course of two days and will include meetings of both the Board and the principal Board Committees.

### What matters does the Board consider and discuss?

The Board discusses a wide variety of matters although there are a number of standing agenda items page 36. The Chairman sets the agenda for each meeting in consultation with the CEO and the Company Secretary.

### Corporate structure and framework

**Management level committees**
Responsible for the communication and implementation of decisions, administrative matters and matters for recommendation to the Board and its Committees

- Executive Committee
- Bid Approval Committees
- Risk Review Panel
- HSES Management Review
- Monthly Management meeting

**The Board**
Ongoing dialogue/ engagement

**Shareholders**
Approve appointments to Board and the external auditors

**Nomination & Governance Committee**
Takes primary responsibility for succession planning, Board/Director selection and Board composition

**Remuneration Committee**
Agrees remuneration policy and sets individual compensation levels for members of senior management

**Ad hoc Board committees:**
Set up for defined, time-specific tasks

**Audit & Risk Committee**
Monitors the integrity of the Company's financial statements and reviews financial and regulatory compliance and controls

At the meeting, the Executive Directors give an update on business, operational and financial matters, thereby enabling the Board to understand progress but also anticipate likely risks in the coming period. Last year, there were also detailed presentations from responsible managers on key subject matters including personnel & HR, business development function and the next phase of the Group's business.

The guest external presenters in 2014 included the Company brokers (JPMorgan Cazenove) and lawyers (Ashursts) who presented on a variety of topics, including the regulatory and procedural aspects of the rights issue and the refinancing projects which were completed in 2014. This was important not only to ensure that the Company follows due process but also allowed the individual Directors to remain current with the latest regulatory obligations.

The Directors believe that an effective working relationship between each of the Directors provides a robust framework for achieving the Company's strategic objectives. Accordingly, there are regular discussions outside of scheduled meetings, particularly between the Chairman and the other Directors, with a view to reaching a mutual understanding of views prior to wider discussions at meetings.

At physical Board meetings, the NEDs have a private session without executives present in order to share insights on matters of governance and sensitivity for management.

In addition to Board meetings, the executive management distributes a monthly report to the Board providing a summary of the financial performance of the Group, highlighting developments and key risks.

### Are our Board members independent?

The Board takes steps to ensure that at all times at least half of the Board (excluding the Chairman) is comprised of independent NEDs who are free from any business or other relationships that could materially interfere in the exercise of their independent judgement. Michael Press, John Malcolm and Ellis Armstrong are all considered by the Board to be independent NEDs as defined by Section B.1.1 of the Code. While Peter Whitbread acted in the capacity of a Non-Executive Director during 2014, he is not considered to be independent because he was the Group CEO until James Moffat took over the role in March 2013.

The Company asks each of the independent NEDs to re-consider and re-confirm their independence at the start of each year. The Chairman of the Board was considered to be independent on his original appointment in June 2012.

### What is the process for appointing, inducting and training Directors?

The Nomination & Governance Committee leads the process for new appointments to the Board and makes any such recommendations to the full Board for approval. The Committee will assess the high level criteria for any candidates, taking into account the Board composition and requirements, and typically appoint external search consultants to prepare candidate lists and assist with the recruitment/evaluation process. While there were no new appointments during 2014, the process is considered by the Board to be formal, rigorous and transparent.

Once appointed, a new Director is given training and induction on a variety of subject matters including the Listing Rule obligations for the Company, company law duties and responsibilities for directors, share dealing restrictions in accordance with the Disclosure and Transparency Rules and the Model Code on Directors' dealings as well as Board and business related matters.

On an ongoing basis, there is training and development for the Directors as a whole by way of the regular presentations to the Board and the principal Board Committees from guest presenters.

The Audit & Risk Committee also benefits from regular briefings from the external auditors on any new accounting requirements as well as developments in the area of corporate governance.

All Directors are encouraged to attend relevant external seminars. Similarly, any Director is entitled to take independent professional or legal advice on Company matters, if needed.

### Board appointment and induction process

### What were the results from the Board evaluation?

| Matter(s) considered | Observation(s) | Board priority |
|---|---|---|
| Structure of Board and principal Board Committees | Limited rotation of independent NEDs | Appoint at least one additional independent NED |
| Composition of Board | Insufficient gender diversity at Board level | New gender policy: minimum of one new female director by end of 2016 |
| Communication to/from management | Need for greater visibility of Directors with wider workforce | Board to hold at least one Board meeting at a Group site/facility per annum |
| Succession planning requirements | Clarity of Board/senior management required for implementation of strategy | Finalise long-term succession plan for Board and management during 2015, and implement |

### Which of our Board members are standing for re-election in 2015?

Under the Company's Articles of Association, the Directors are required to submit themselves for re-election at least every three years. However, in line with the Code, the Board has decided that all Directors will retire and stand for re-election at the 2015 AGM. As also required, the Company makes the terms and conditions of Directors' engagement available for inspection at the registered office of the Company during normal business hours and also at the Company's AGM 15 minutes prior to the meeting and during the meeting.

### How does the Board measure its performance?

Each year the Board evaluates its performance according to a formal process led by the Nomination & Governance Committee with the assistance of the Company Secretary. In order to enhance the security and simplify the procedural aspects, the evaluation for 2014 was based around an online questionnaire which included both questions asking for quantitative ranking and for qualitative feedback to the Board, principal Board Committees and the Directors. The Board sought feedback both from the Directors themselves and also from specific, invited key executives that have regular interaction with either the Board or the Board Committees.

The results from the online evaluation questionnaires were collated independently by the Company Secretary and summarised on an aggregated and confidential basis. The Board discussed the results and has structured its next priorities around them. The NEDs, led by the Senior Independent Director, evaluated the Chairman's performance and confirmed that he is performing effectively.

In line with best practice (although not required for a 'smaller company' under the Code), the Board is planning to appoint an external facilitator to assist with the 2015 performance evaluation process.

### How are conflicts of interest dealt with?

Based on our core value of "integrity" page 25, each of the Directors recognises the importance of transparency in trying to avoid any actual or potential conflict of interest but will promptly declare such conflict, if one arises. This enables the Board to assess the possible impact of any conflict and take appropriate and timely action. With this in mind, there are the following procedures in place for dealing with conflicts:

- Any new Director is required to provide information on any conflicts of interest by means of a questionnaire prior to appointment;
- Conflicts are declared and addressed during Board meetings and noted in the minutes; and
- For conflicts arising between Board meetings, these are submitted to the Chairman and/or the Chairman of the Nomination & Governance Committee for consideration, prior to deliberation at the next available Committee meeting.

During 2014, no new, additional conflicts of interest were noted from the Directors, save as disclosed previously. John Kennedy remains as the Non-Executive Chairman of Maxwell Drummond (which has provided recruitment services to the Company) but the Board has determined that this potential conflict has been effectively managed. All conflict management procedures were adhered to and operated effectively.

### How does the Company communicate with its stakeholders?

As at 17 March 2015, 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 based on the last request for confirmation as to the beneficial ownership of voting rights in the Company (at or above 5% beneficial ownership) were as follows:

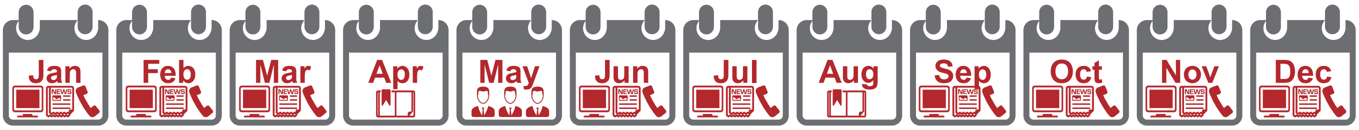
| | Voting rights attaching to issued total of ordinary shares | % of total voting rights |
|---|---|---|
| Lamprell Holdings Limited | 113,182,291 | 33.12 |
| Schroder plc | 53,504,893 | 15.66 |
| M&G Investment Management Ltd. | 42,655,086 | 12.48 |
| MFS Investment Management | 26,576,573 | 7.78 |

2014 was a busy year for communication with our shareholders. Our investor relations activities are led by our CEO and Deputy CFO with the support of a dedicated investor relations team. The Chairman and Senior Independent Director are available to speak with shareholders and did communicate from time to time with shareholders on specific issues during 2014.

Not only did Company representatives meet with major institutional shareholders and market analysts following the announcement for our full-year and half-year financial results but there were meetings in Q2 2014 relating to the launch of the Company's rights issue. These meetings were of added importance because they presented an opportunity for the Company to explain in detail how the new strategy would be implemented in practice page 08. The high participation by existing shareholders in the rights issue and positive market reaction clearly demonstrates the effective and transparent communication between the Company and its shareholders.

The Board also strives to identity and address specific feedback or concerns

### Consistent communication with our shareholders




| Mar | Apr | May | Jul | Aug | Sep | Oct |
|---|---|---|---|---|---|---|
| Preliminary Results | Annual Report published | Q1 Interim Management Statement | Shareholder consultation process | Interim Report published | Sell-side and buy-side roadshow | Major shareholder meeting |
| Sell-side and buy-side roadshow | | AGM attended by all Directors | | | | |

Regular press releases regarding Company’s business

Regular, ongoing dialogue and phone calls with major shareholders and analysts

Corporate presentations, market announcements including trading updates and contract wins, and other Company information on our website at www.lamprell.com

from shareholders. Late in 2013, the Remuneration Committee consulted key shareholders in relation to remuneration proposals prior to implementation. However, at the 2014 AGM, one of the remuneration proposals (Resolution 14) received a large vote against the resolution and, even though it was approved, the Company (through the Remuneration Committee) decided to re-engage with its shareholders to understand better their views on the policy. page 46

The Company’s core lending group is another key stakeholder group for the business and the debt facility terms represent a fundamental part of the Group’s governance structure as it includes certain banking covenants and restrictions. The management team provides regular updates on key aspects of the business to the lending group and the Deputy CFO communicates frequently with each of the lending banks to address any queries.

Finally, the Board places considerable importance on positive and effective interaction with the Group’s workforce and the Group’s internal Corporate Communications team coordinates campaigns for the management team to communicate key messages throughout the Group. During 2014, there were campaigns relating to safety, financial and IT matters.

In June 2014 and in January 2015, the CEO presented a series of “townhall meetings” at each of the three main facilities in the UAE, which were focussed on the Company’s performance and on implementation of the new strategy. The CEO also presented awards for long service and safety achievements and records to employees regularly during the year.

### How is the Company’s relationship with its major shareholder regulated?

By virtue of the size of its shareholding in the Company page 39, Lamprell Holdings Limited and its ultimate owner, Steven Lamprell, are “controlling shareholders” for the purposes of the Listing Rules. Accordingly, they were required to enter into an agreement with the Company to ensure compliance with the independence provisions set out in the Listing Rules (“Controlling Shareholder Agreement”).

The Controlling Shareholder Agreement regulates the ongoing relationship between the Company and these controlling shareholders. The Company has complied with the independence provisions in the Controlling Shareholder Agreement. So far as the Company is aware, the controlling shareholders have also complied with the independence provisions.

The Controlling Shareholder Agreement represents a key component of the Company’s corporate governance structure. The earlier so-called “President’s Agreement” with Steven Lamprell and Lamprell Holdings Limited, which was similar to the new controlling shareholder’s agreement and created at the time of the Company’s original listing, ceased to be effective on 24 December 2014.

### What use does the Company make of its Annual General Meeting?

The Company held its 2014 AGM in Dubai, United Arab Emirates and all Directors were present. We encourage our shareholders to attend the AGM as an opportunity to engage in a constructive dialogue with the Board members attending in person. Typically resolutions are passed on a show of hands but, as a matter of good governance, the Chairman submitted resolution 14 to a poll because of the large dissenting vote. The resolution still passed but the Board noted the voting results and responded in a proactive manner by re-engaging with its shareholders to better understand their views. page 46

The 2015 AGM is scheduled to take place on 12 May 2015 in Dubai and full details are set out in the Notice of Meeting which accompanies this report (and is also available our website). All Directors are planning to attend and will be available to answer questions from shareholders. Each item will be presented as a separate resolution and the Chairmen of the principal Board Committees will be available to answer questions from shareholders.

Any shareholder unable to attend in person but wishing to submit a question for consideration by the Directors, is invited to submit questions to investorrelations@lamprell.com

### How is the Directors’ remuneration determined?

The Remuneration Committee is primarily responsible for determining the principles and details of Company’s remuneration policy, taking into account the best practices as well as the advice from external consultants on peer companies. Details of the Company’s policy on remuneration, the Directors’ remuneration for the year ended 31 December 2014 and their interests in the ordinary shares of the Company can be found in the Directors’ Annual Report on Remuneration. pages 53 to 59.

### What insurance coverage do the Directors have?

Each year, the Board reviews and approves the level of the Directors’ and Officers’ liability insurance cover to ensure that it is appropriate in light of the circumstances, size and risks within the business. This is subject to the usual exclusions such as fraud or dishonesty by a Director.

# NOMINATION & GOVERNANCE COMMITTEE REPORT

"Based on the investors' feedback at the start of last year, the Committee has looked to improve disclosures around the evaluation process. Looking forward, the Committee is planning to focus on the succession plan for the Group and in particular the appointment of the new CFO and an additional Non-Executive Director."

**John Malcolm, Committee Chairman**

| Committee member | Attended in person | Attended by phone |
|---|---|---|
| **Total no. meetings 4** | | |
| John Malcolm (Chairman) | | |
| John Kennedy | | |
| Ellis Armstrong | | |

### Who attends the Committee's meetings?

The Committee is comprised of members that are considered to be wholly independent or were considered independent on appointment, in the case of the Chairman of the Board. Aside from the members, the Company Secretary and the Group's Vice-President of Human Resources are typically invited to attend the Committee meetings.

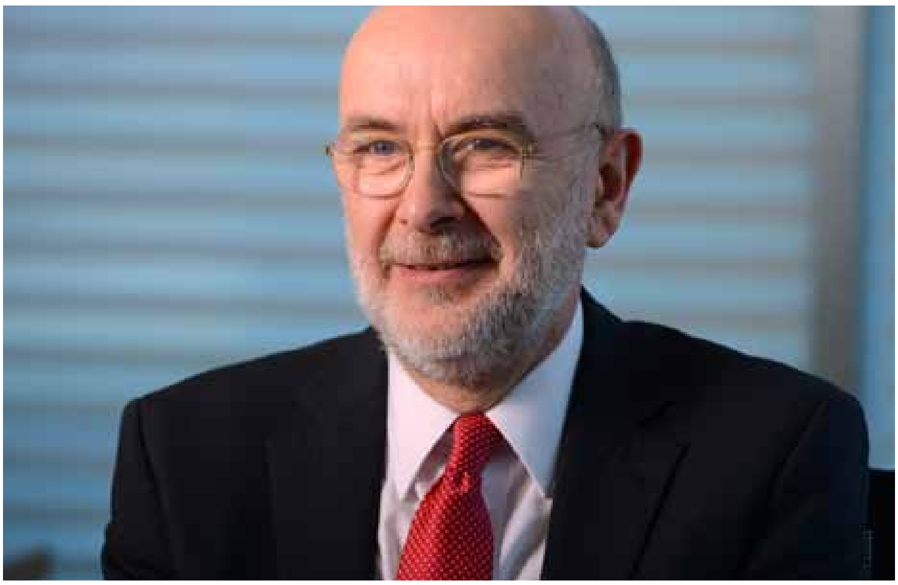
### What are the Committee's responsibilities?

The Committee has primary responsibility for the composition, structure, balance, diversity and experience of the Board and the principal Board Committees, and for leading the evaluation of the Board's performance and effectiveness. It also assesses the succession planning needs both at the Board and at the senior management level and, following the major overhaul of the Committee's responsibilities in 2013, the Committee considers the implications of changes in the governance and regulatory framework in which the Company operates.

### What did the Committee focus on during 2014?

With the renewed stability on the Board during the first half of the year, the Committee dedicated a considerable amount of time to the consideration of potential candidates to act as an additional independent NED. However, the process was unsuccessful due to the lack of available, high quality candidates. This search process will continue into 2015 although it has been superseded as a priority by the need to replace Joanne Curin as CFO following her departure in Q3 2014. Tony Wright, formerly Vice-President (Finance), was promoted to the position of Deputy CFO pending a decision on a permanent appointment. Tony Wright is not a Director.

During Q4 2014, the Committee completed an evaluation process for appointing a firm of executive recruitment consultants to assist with this search process and ultimately the Committee decided to appoint Korn Ferry because of its strong profile in the industry and proven assessment processes. The Committee also made use of the services of other executive recruitment consultants during the relevant period, namely Maxwell Drummond. Save as disclosed page 39, these companies had no other connection with the Company.



## Committee members

John Malcolm (Committee Chairman and Independent Non-Executive Director)

John Kennedy (Non-Executive Chairman of the Board)

Ellis Armstrong (Independent Non-Executive Director)

### How does the Board manage the talent and plan for leadership moves?

The Board recognises that succession planning and talent management is of crucial importance in order to deliver the business strategy in the coming years. The preference is also to develop talent from within the existing workforce and so, at the Board's direction, the Committee initiated a succession planning and risk assessment exercise in order to evaluate the key executive positions within the Group. This exercise looks at the leadership team's critical competencies and, in this way, the Committee will able to assess the criticality of each role and the retention risk around the incumbent. This also allows the Committee to identify high potential employees that might then fill any vacancy in due course, as well as their training and development needs to achieve that goal.

This process of implementing the results of the succession planning exercise will be one of the top priorities for both the Committee and the Board during 2015.

In the meantime however, the Company has appointed Korn Ferry as expert executive search and recruitment consultants to support the Company in its process to fill the vacant role of CFO. This process will be formal, rigorous and transparent, and the Committee will assess all candidates according to a defined set of criteria. The process will therefore only be completed later in 2015 although the Board is pleased to note that the Deputy CFO has indicated a strong interest in taking up such role.

### What is the Board's policy with regard to diversity?

The departure of Joanne Curin from the Company in November 2014 has unfortunately created a gender imbalance on the Board. The Company is acutely aware of its responsibilities to pay due regard to the benefits of diversity at the Board level and, in assessing any candidate to fill a vacancy on the Board, the Committee will consider a number of key factors of which this responsibility is one. However, in further recognition of this need to diversify the composition of the Board, the Board has a adopted policy of recruiting a minimum of one female Director by the end of 2016. page 39

Within the wider management level, there is greater diversity although the Company does not currently have any female representatives among the senior management team.

### How long are Directors appointed for?

Executive Directors are employed under Directors' Service Contracts with termination notice periods of not more than 12 months.

Non-Executive Directors are engaged pursuant to letters of appointment which do not have specific or fixed terms but they are subject to re-election by the Company's shareholders at intervals of not more than three years. All directors have been elected or re-elected by the shareholders within the last two years.

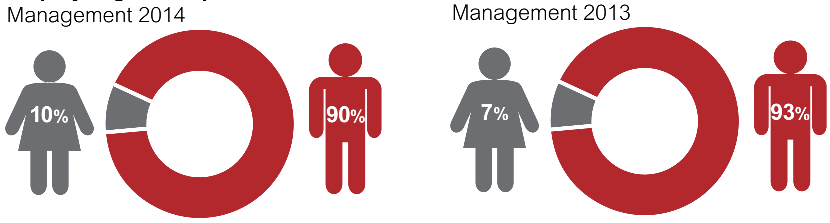
**Board expertise**

| | |
|---|---|
| Oil & Gas markets | **100%** |
| Financial | **16%** |
| Middle East | **33%** |
| Fabrication operations | **33%** |
| Public company boards | **50%** |

**Employee gender split**

Management 2014

Management 2013



# AUDIT & RISK COMMITTEE REPORT

"We have had a busy year, particularly in the areas of risk management and the review of the Group's financial progress, which has been very strong. These have been crucial developments for establishing a solid financial platform, putting the Company in a relatively strong position to face the new reality of a highly competitive market."

**Ellis Armstrong, Committee Chairman**

| Committee member | Attended in person | Attended by phone |
|---|---|---|
| **Total no. meetings 7** | | |
| Ellis Armstrong (Chairman) | | |
| Michael Press | | |

### Who attends the Committee's meetings?

Membership of the Committee is comprised solely of independent Non-Executive Directors and the Board confirms that Ellis Armstrong has relevant financial experience for the purposes of the Code, thereby ensuring the appropriate balance of financial and industry experience to assess the matters presented to the Committee. As a "smaller company" under the Code, the Committee needs only have two members.

Aside from the members, the Company Secretary and the Group's Deputy CFO are typically invited to attend the Committee meetings. In addition, the external and internal auditors are invited to meetings at key times during the year. On occasion, other Board members and managers have attended by invitation.

### What are the Committee's responsibilities?

The Committee has primary responsibility for overseeing the integrity of all of the Company's announcements relating to its financial performance, including its financial results, and for considering all matters relating to the appointment, performance and independence of the Company's external auditors. In addition, following the major overhaul of the Committee's responsibilities in 2013, the Committee oversees the Company's risk management system as well as its internal control systems, and monitors the effectiveness of such systems particularly against potential ethical or fraudulent activities.

| **1st line of defence** | | |
|---|---|---|
| Executive Committee | Internal controls and annual self assessments | Internal policies and training |
| **2nd line of defence** | | |
| Financial control | Health and safety | Technology |
| Risk management | Environment | Legal |
| **3rd line of defence** | | |
| **Audit & Risk Committee** Monitors the integrity of the Company's financial statements and reviews financial and regulatory compliance and controls | | |

## Committee members

Ellis Armstrong (Committee Chairman and Independent Non-Executive Director)

Michael Press (Independent Non-Executive Director)

### What did the Committee focus on during 2014?

The Committee's main activities during 2014 were as follows:

- the year-end/interim financial statements for the Group;
- oversight and assessment of the Group's risk management database and how enterprise risks are evaluated and mitigated;
- review of the internal audit reports, outstanding action points and the 2015 plan;
- external auditor's independence, objectivity and the effectiveness, as well as the auditor's forthcoming activities;
- ongoing assessment of the control environment and systems;
- analysis by PricewaterhouseCoopers ("PwC") of the Group's IT systems and controls; and
- reporting on the whistleblowing statistics and cases raised during the year.

### What significant judgements did the Committee have to consider during 2014?

The Committee considered the significant judgements below during 2014. The Committee was satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts.

### What interaction does the Committee have with its external auditors?

The external auditor for the year ended 31 December 2014 was PwC and they presented on various matters (including their audit report on the financial results for the previous year) to the Committee on three occasions during the year. PwC also provided the Committee with updates on changes to accounting, regulatory and corporate governance laws and regulations that impact the Company.

PwC has been acting in the role as the Company's auditors for nearly nine years including the successful renewal of their appointment following a tender process in 2010. PwC has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming AGM for their services in respect of the 2015 financial year. However, the Committee has decided that it is appropriate and timely to re-tender for the external audit services during H2 2015, which appointment will be effective for the 2016 financial year onwards.

| Significant judgements considered by the Committee during 2014 | Views/actions of the Committee with respect to significant judgements |
|---|---|
| Impact of the disposal of the non-core service businesses on the financial statements | The Group disposed of two non-core service businesses (although one is due to complete in H1 2015) in the year. The Committee received summaries of the accounting areas such as the valuation of intangible assets, any gains or losses on disposal and any subsequent fair value adjustments made. |
| Accounting treatment of rights issue of new ordinary shares | The Group completed a rights issue during the year. The Committee reviewed the accounts and disclosures proposed by management, in particular the treatment of the costs that arose from the transaction. |
| Review of subjective provisions | At each meeting, the Committee receives and evaluates a management report which includes details of material subjective provisions made in respect of matters including doubtful debts, contract accruals, project risks and warranty issues. The adequacy and appropriateness of these provisions and disclosures required are discussed and challenged. |
| Revenue recognition and estimated cost to complete on major projects | The Committee considered the appropriateness of revenue recognition and estimated cost to complete on major projects ongoing at the balance sheet date. The Committee satisfied itself that the Company's financial statements had been prepared on the basis of the accounting policy and noted that the external auditors had audited the methodology on that basis. |
| Refinancing | The Group completed a refinancing project in 2014 and the accounts and disclosures proposed by management were reviewed by the Committee. Significant fees arose from the refinancing and the treatment of these was reviewed in detail by the Committee. |

### How does the Committee ensure the independence and performance & effectiveness of its external auditors?

Pursuant to the Company's Policy on Auditor Independence (which is available on the Group's website), the Committee re-assesses the auditor's independence at least on an annual basis, by reference to the activities of PwC and specifically the levels and types of non-audit services.

In 2014, PwC provided non-audit services with a total value of USD 872,000 (2013: USD 1,621,000) against an annual audit fee including Group audit fees with a total value of USD 663,000 (2013: USD 530,000). The Committee acknowledges the apparent imbalance between the two figures but notes that the high value of non-audit services originates primarily from the corporate transactions, notably the work undertaken by PwC in connection with the rights issue and the refinancing. PwC's role in the rights issue was effectively an audit role, namely as reporting accountant and PwC was able to provide useful insights in light of PwC's deep understanding of the workings of the Group. Given these incremental benefits of PwC's involvement and the oversight by the Board, the Committee considers that the objectivity and independence of the external auditor were safe-guarded throughout the financial year.

The Committee also assesses the auditor's effectiveness by way of feedback from several sources: the Committee relies on self-assessment by PwC of its performance, on feedback from certain senior managers that work closely alongside the auditors including the Deputy CFO and the Company Secretary, and on its own evaluation of PwC's services based on the results of its audit work and the challenges presented to the views and positions of the Group's management.

In light of the accumulated feedback, the Committee remains satisfied of PwC's independence and effectiveness and the Board concurs with the assessment by the Committee.

### How does the Committee interact with its internal auditors?

The Group's internal audit function makes a presentation to the Committee at least on a bi-annual basis, providing updates and analysis for the internal audits and the control self-assessment exercises that were completed during the year, as well as making key recommendations and observations to the Committee and submitting a proposal for the internal audits proposed for the subsequent year. The Committee will assess, by reference to the highlighted risk trends within the business and best practices, the key recommendations and observations and approve actions and the forward-looking internal audit plan.

With the increased focus on risk management during 2014 page 14, there has also been closer interaction between the internal audit and Group risk functions, and the 2015 planned internal audits take into account identified areas of higher risk, at the Committee's request.

From time to time, the internal audit function will also undertake ad hoc reviews and assist management with specific tasks, including by way of example, for the year under review the internal audit of advances to subcontractors. At the management's request, the team performed a detailed review of such amounts and, as a result, a number of internal control weaknesses were identified and resolved to prevent recurrence.

As a matter of best practice, the Committee meets with the internal auditor without executives present, to discuss any sensitive matters or concerns.

### How does the Board manage risk?

The Board has delegated its responsibility for the monitoring of the effectiveness of the Group's internal control and risk management systems to the Audit & Risk Committee. However, the day-to-day responsibility for developing and implementing the internal control and risk management procedures resides with the executive management team which then reports on risk to the Audit & Risk Committee. This represents a two-way disclosure and monitoring system for such systems and procedures which provides the Directors with reasonable (but not absolute) assurance against material misstatements and losses. The results of this system can be seen in the information relating to the principal risks and uncertainties faced by the Group, together with the mitigating factors. page 14

### How does the Company's system of internal controls work?

In the first instance, the Company has a system of internal controls based around certain key policies and procedures which define the Group's standards of business and include a schedule of matters reserved for the Board, a defined organisation structure, a delegation of authority matrix and safety and quality policies, all of which are framed within the Company's core values.

There are also policies and procedures which embed regulatory requirements into the daily operations of the Group such as the anti-bribery and corruption policy, the share dealing code, the insider dealing and market abuse policy and the whistleblowing policy. They are all available on the Company's website (www.lamprell.com). In addition, there is a multi-lingual, secure whistleblowing hotline which was set up to allow staff members to report ethical breaches, irregularities or simply concerns on a confidential basis without any fear of recrimination. They are all key elements of an internal control system which is designed to assist in the achievement of the Group's business objectives.

The Audit & Risk Committee undertakes an annual review of the effectiveness of the systems of internal control including financial, operational and compliance controls and risk management systems. This is performed in collaboration with both the internal and external auditors and, where weaknesses have been identified; the management team was tasked with implementing further safeguards which will then be re-tested by the audit teams. The Committee reports on its monitoring and observations to the Board at least annually.

The Directors are satisfied that, as a result of the systems and the oversight functions, the internal control environment is operating effectively.

### What activities has the Group undertaken during 2014 to manage risk appropriately?

| At the Board level: | At the executive management level: | At the project/operational level: |
|---|---|---|
| Audit & Risk Committee conducts an annual review of the effectiveness of the systems of financial, operational and compliance controls and risk management systems | Monthly meetings of the Risk Review Panel – forum for management oversight of project and department risks | Project managers are directly responsible for identification and ensuring that risks are captured in the risk database |
| The Board regularly receives comprehensive written reports from the CEO and the CFO on the strategic and financial risks within the business respectively | Business unit/department heads are responsible for the identification, evaluation and mitigation of risks within their businesses/departments | As project risk owners, project managers implement the risk mitigation plans within their respective projects |
| Presentation by Group Risk Manager to the Audit & Risk Committee on the development of the Group's risk management systems | Appointment of a full-time Group Risk Manager | Project managers report on project risks a monthly basis to the Group Risk Manager |
| Bi-annual report identifying the major, current risks and opportunities within the business is submitted by senior management to the Audit & Risk Committee | Creation of an online, interactive risk database which is used to capture all project and department risks and provide reports on risk trends and severity/likelihood of risk | Internal Audit ensures application and consistency of Group's risk policies and procedures by undertaking internal audits |
| | Extension of the Group's ERP system into other functions improves governance processes, data integrity and security at corporate and project levels | |

# DIRECTORS' REMUNERATION REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2014.

### Performance and reward in 2014

The Company's exceptional performance in 2014, particularly in terms of net profit, sales and safety, building on the improvements achieved in the previous year, resulted in a strong bonus pay out of 90.7% to the CEO. The breakdown of the CEO's performance against targets is detailed elsewhere in this report.

As announced to the market on 17 October, Joanne Curin stood down as a Director and CFO. The position has not yet been filled and Tony Wright, formerly Vice-President (Finance), was promoted to the position of Deputy CFO pending a decision on a permanent appointment. Tony Wright is not a Director.

Although shareholders approved both the Remuneration Policy and Annual Report on Remuneration during the 2014 AGM, shareholders expressed concern about the Company's proposal to issue two sets of long-term incentive plan ("LTIP") awards in 2014 in order to make up for the Company's inability to issue an LTIP award during 2013 due to a prolonged closed period. As a result, the Remuneration Committee engaged with shareholders to address a number of concerns that had emerged at the 2014 AGM. The outcome of this consultation is referenced further below and in the Remuneration Policy Statement.

After a prolonged restricted period from October 2012 to June 2014, followed by the period of shareholder consultation, in November the Company was finally able to make the delayed awards to the CEO in respect of the 2013 and 2014 LTIP and his contractual entitlement to a recruitment award of stock options.

### Remuneration Policy for 2015

As reported last year, the Remuneration Policy was extensively reviewed by the incoming Committee during 2013 and was approved at the AGM in June 2014. However the resolutions on executive remuneration were passed but with a narrower margin than we had sought and without sufficient support to give the Committee comfort that it had a clear mandate to proceed. Following this vote, the Committee took the view that further consultation with investors was appropriate and the Company made a statement to that effect. Hence revised proposals were put forward to address the shareholders' key concerns and based on positive feedback from the shareholders, we were able to implement the revised proposals.

The Committee is satisfied that the Remuneration Policy will ensure that we can recruit and retain the right calibre of senior management to maximise shareholder value and deliver sustainable growth over the longer term whilst addressing the concerns expressed by shareholders during 2014.

We will be seeking your support for this report at the forthcoming AGM on 12 May 2015. On behalf of the Committee I recommend this Directors' Remuneration Report to you and I hope that you will find it clear, concise and understandable.

**Michael Press**
**Chairman of the Remuneration Committee**

18 March 2015

## Committee members

Michael Press
(Committee Chairman and Senior Independent Non-Executive Director)

John Malcolm
(Independent Non-Executive Director)

## Remuneration Policy

The Policy Statement was put to a binding shareholder vote at the 2014 AGM and the policy took formal effect from 10 June 2014. No changes are proposed to the Remuneration Policy for 2015 and therefore the policy is approved by shareholders at the 2014 AGM and is reproduced below solely for information.

As a result of shareholder concerns at the AGM, the Company undertook a process of consultation and in response to the concerns of some investors, agreed that in several respects, it would apply the remuneration policy on a more restrictive basis than the approved policy would otherwise allow. Although these do not formally constitute a change to policy, for ease of readership we have noted these amendments in the text of the policy report which is reproduced below:

1. a reduction in the CEO's maximum LTIP opportunity from 120% to 100% of base salary;
2. an agreement not to use the exceptional LTIP limit of 150% of base salary;
3. a freeze on Executive Directors' base salaries and fees for Non-Executive Directors until January 2016;
4. the introduction of more challenging targets for the 2014 long-term incentive plan; and
5. remuneration payments under all future Service Agreements are enforceable only insofar as they fall within a shareholder-approved Remuneration Policy.

### Policy overview

The Committee is responsible, on behalf of the Board, for establishing appropriate remuneration arrangements for the Executive Directors and other senior management in the Group.

Our Remuneration Policy aims to drive continuous improvements in business performance and maximise shareholder value by offering remuneration packages that are appropriately balanced and are designed to enable the recruitment, retention and motivation of talented Executive Directors and senior management.

In setting the remuneration policy for the Executive Directors, the Committee considers the remuneration policy and levels of remuneration for the wider employee population, the policy and practice in the UAE and the wider market. The Committee will ensure that the arrangements are in the best interests of both the Group and its shareholders, by taking into account the following general principles:

» To attract, retain and motivate the best talent without paying more than is necessary.

» To ensure total remuneration packages are simple and fair in design and valued by participants.

» To ensure that the fixed element of remuneration is determined in line with market rates, taking account of individual performance, responsibilities and experience; and that a significant proportion of the total remuneration package is linked to performance-related incentives.

» To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance; creating a clear line of sight between performance and reward and providing a focus on sustained improvements in profitability and returns.

» To calibrate carefully all performance metrics and associated sliding scale ranges to ensure that performance is incrementally rewarded through stretching targets and that executives are not inadvertently incentivised to take inappropriate business risks.

» To maintain the highest possible health and safety standards where any fatality that takes place in a facility operated by the Company or any of its subsidiaries may result in discretionary withdrawal of incentive eligibility.

» To provide a significant proportion of performance linked pay in shares allowing senior management to build significant shareholding in the business and therefore aligning management with shareholders' interests and the Group's performance.

» To maintain appropriate governance and risk management through the application of holding periods and clawback provisions on incentive plan awards.

### Consideration of shareholder views

The Company is committed to maintaining good communications with investors, as evidenced by the process of consultation that took place following the 2014 AGM. The Committee considers the AGM to be an opportunity to meet and communicate with investors and consider shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. This feedback, together with any additional feedback received on a regular basis, is then considered as part of the Company's annual review of remuneration policy. The Committee will also seek to engage directly with major shareholders and their representative bodies should any material changes be made to the Directors' Remuneration Policy. Details of the votes cast for and against the resolution to approve last year's Directors' Remuneration Report are set out in the Annual Report on Remuneration. page 53

## Summary of the Directors' remuneration policy

The following table sets out the key aspects of the Directors' remuneration policy.[1]

| Element of pay | Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|---|
| Base salary | To attract, retain and motivate talented individuals who are critical to the Group's success. | Reviewed annually by the Committee or, if appropriate, in the event of a change in an individual's position or responsibilities.<br><br>Base salary levels set by reference to competitive market rates, taking into account level of responsibility, individual performance, skills and experience, Group performance and the pay and conditions in the workforce. | There is no prescribed minimum or maximum annual increase. The Committee is guided by market position and the average increase for the workforce generally but on occasions may recognise an increase in certain circumstances, such as assumed additional responsibility, or an increase in the scale or scope of the role. | Company performance appraisal process. |
| Annual bonus | To reward the achievement of the Group's annual financial and non-financial objectives linked to the delivery of the Group's strategic plan. | Normally payable in cash.<br><br>Performance targets are approved annually by the Committee.<br><br>The Committee has discretion to override the formulaic outturn of the bonus and determine the appropriate level of bonus payable if it believes exceptional circumstances warrant it or, if it is deemed necessary, based on safety, environmental, social and governance issues.<br><br>Clawback provisions apply to any overpayments due to misstatement or error and other circumstances. | Maximum opportunity of 100% for all Executive Directors. | At least two thirds of the annual bonus will be based on the Group's financial performance or other key business metrics, with the remainder dependent on the achievement of individual performance objectives to provide a rounded assessment of the Group's and management's performance.<br><br>The financial metrics incorporate an appropriate sliding scale around a challenging target. |

| Element of pay | Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|---|
| Long-Term Incentive Plan (LTIP) | To balance performance pay between the achievement of strong financial performance and delivering sustainable stock market out-performance.<br><br>To encourage share ownership and alignment with shareholder interests. | Annual awards of conditional shares or nil (or nominal cost) options (or possibly cash) with vesting dependent on the achievement of performance conditions over a three year period.<br><br>An additional mandatory holding period of two years will be phased in during 2014 and 2015 for vested awards (net of tax).<br><br>Performance targets and metrics are approved annually by the Committee.<br><br>The Committee has discretion to scale back (potentially to zero) the vesting of any awards if it believes the results are not an accurate reflection of the Company's underlying performance.<br><br>Clawback provisions apply for overpayments due to misstatement or error and other circumstances.<br><br>Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting, to the extent that shares vest. | Normal maximum opportunity of 120% of base salary for the CEO and 100% of base salary for other Executive Directors.[1]<br><br>1. following the subsequent consultation with shareholders, it was agreed that the normal maximum opportunity would remain at 100%.<br><br>Exceptional maximum opportunity of 150% of base salary.[2]<br><br>2. following the subsequent consultation with shareholders, it was agreed that the exceptional maximum opportunity would be reduced to 100%. | Performance is assessed against a challenging set of independent financial metrics that may include relative total shareholder return ("TSR"), cumulative EBITDA, end of period backlog and other equally challenging metrics.<br><br>On each element, starting with the 2014 plan, between 0% and 20% of an award will vest for achieving threshold performance, increasing and vesting pro-rata at a further target with full vesting for achievement of maximum stretch performance targets. |
| End of service gratuity | To offer executives a retirement benefit as required under the UAE Labour Law. | The Company has no Group-wide pension scheme.<br><br>A lump sum cash payment is awarded following end of service, based on the length of service and final base salary in accordance with UAE Labour Law. | Company contributions are limited to two years' base salary by UAE Labour Law. | None |
| Benefits and allowances | To offer a market-competitive level of benefits to ensure the Executive Directors' wellbeing and provide additional allowances in line with local market practice. | Current benefits include a housing allowance, private medical/life insurance, use of a company car and driver, fuel card, annual leave air fares and utility expenses. | Actual value of benefits provided. | None |

| Element of pay | Purpose and link to strategy | Operation | Maximum opportunity | Performance framework |
|---|---|---|---|---|
| Share ownership guidelines | To further strengthen the long-term alignment between executives and shareholders. | Executive Directors are required to retain the net proceeds of vested share awards which vest under the Group's discretionary share plans. | Expected to achieve 150% of base salary for the CEO and 125% of base salary for the other Executive Directors within five years. | None |
| Non-Executive Directors' ("NEDs") fees | Set to attract, retain and motivate talented individuals through the provision of market competitive fees. | Reviewed periodically by the Executive Directors and Chairman (except for his own fee) or, if appropriate, in the event of a change in an individual's position or responsibilities.<br><br>Fee levels set by reference to market rates, taking into account the individual's experience, responsibility, time and travel commitments. | As for the Executive Directors, there is no prescribed minimum or maximum annual increase. The Executive Directors and Chairman are guided by market position but on occasions may recognise an increase in certain circumstances such as, assumed additional responsibility or an increase in the scale or scope of the role. | None |

1. A description of how the Company intends to implement the above policy is set out in the Annual Report on Remuneration.

## Performance metric selection

The annual bonus is predominantly based on key financial performance indicators, to reflect how successful the Group has been in managing its operations. The balance is determined on performance against individually determined strategic objectives and annual operational targets, including HSE.

The LTIP performance measures reward significant long-term returns to shareholders and long-term financial growth. Targets take account of internal strategic planning and external market expectations for the Company and are set appropriately to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial out-performance of challenging strategic plans approved at the start of each year.

## Discretion

The Committee will operate the incentive plans in accordance with their respective rules, the UK Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:

» who participates;

» the timing of the grant of award and/or payment;

» the size of an award (up to plan/policy limits) and/or a payment;

» the result indicated by the relative TSR performance condition may be scaled back (potentially to zero) in the event that the Committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal;

» discretion relating to the measurement of performance in the event of a change of control or reconstruction;

» determination of a good leaver (in addition to any specified categories) for incentive plan purposes and the treatment of leavers;

» adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and

» the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors (such as, the vesting or exercise of past share awards).

## Relative to pay and employment conditions in the Group

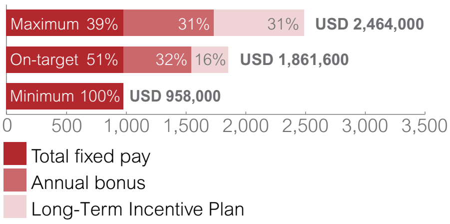
The Committee takes account of remuneration levels offered to the senior management team in the Group as well as the awards affecting the wider employee population. When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salary and incentive arrangements for the management team, to ensure that there is a coherent approach across the Group. Employees may be eligible to participate in an annual bonus arrangement and receive awards under the LTIP, Executive Share Option Plan ("ESOP"), Retention Share Plan ("RSP") or Free Share Plan ("FSP"). Opportunities and performance metrics may vary by workforce level with specific business metrics incorporated where possible.

While the Company sees communication among its employees as a key priority, it does not formally consult with employees in respect of the design of the Executive Director remuneration policy, although the Committee will keep this under review.

## Remuneration scenarios for the Executive Directors

The charts below show an estimate of the potential range of remuneration payable for the Executive Director(s) in 2015 at different levels of performance. The charts highlight that the performance-related elements of the package comprise a significant portion of the Executive Director's total remuneration at maximum performance.

**Chief Executive Officer**
Total remuneration USD'000




Assumptions:

1. Base salary levels applying on 1 January 2015.
2. Benefits are estimated, based on the annualised value for the year ended 31 December 2014.
3. The end of service gratuity is estimated, based on the accrual for the year ended 31 December 2014.
4. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the LTIP; at on-target, typically 80% of the maximum is earned under annual bonus plan and typically 40% vesting is achieved under the LTIP; and at maximum full vesting under both plans.
5. As per the legislation, share price movement and dividend accrual have been excluded from the above analysis.

## Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate Executive Directors and senior managers of the highest calibre, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new Executive Director was to be appointed, the Committee would seek to align the remuneration package with the remuneration policy approved by shareholders, including discretion to award an annual bonus up to 100% of base salary and, in exceptional circumstances, an LTIP award up to 150% of base salary.[1] Flexibility would be retained to set base salaries at the level necessary to facilitate the hiring of candidates of appropriate calibre in external markets and to make awards or payments in respect of deferred remuneration forfeited on leaving a previous employer. In terms of remuneration to compensate forfeited awards, the Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration, performance conditions and the time over which they would have vested or been paid.

1. In subsequent consultation with shareholders, it was agreed that the normal maximum LTIP opportunity and exceptional maximum LTIP opportunity would remain at 100%.

In exceptional circumstances and only on recruitment (e.g. to buyout the value of awards forfeited) the Committee may also award share options of up to 150% of base salary under the ESOP. Options will vest dependent on the achievement of agreed performance and/or retention conditions over a three year period and will be exercisable up to the 10th anniversary of the date of grant. Dividends that accrue during the vesting period may be paid in cash or shares at the time of vesting, to the extent that the options become exercisable.

For an internal appointment, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations existing prior to appointment may continue.

The Committee may also agree that the Company will meet certain relocation and incidental expenses as appropriate.

For the appointment of a new Chairman or NED, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

## Directors' service agreements and payments for loss of office

The Committee reviews the contractual terms of the service agreements to ensure these reflect best practice.

The Group's policy is that Executive Directors should be employed on a rolling term, with a notice period not exceeding 12 months and in the event of early termination, the Company will not make any payments beyond its contractual obligations.

The Executive Directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period. In case of payment in lieu or garden leave, base salary, benefits and end of service gratuity will be paid for the period of notice served on garden leave or paid in lieu. If the Committee believes it would be in shareholders' interests the Company may elect to make payments 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.

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus will be scaled back pro-rata for the period of the incentive year worked by the Director and will still be payable at the normal payment date.

Long-term incentives granted under the LTIP will be determined by the plan rules which contain discretionary good leaver provisions for designated reasons (e.g. participants who leave early on account of injury, disability or ill health, or any other reason at the discretion of the Committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the Committee may decide that the participant's award will vest early on the termination date. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro-rata reduction of the awards will be applied by reference to the time of cessation (although the Committee has discretion to disapply performance conditions and time pro-rating if the circumstances warrant it). In the case of death of the participant, the award will vest at that time, irrespective of whether or not any performance conditions have been satisfied, and the award will not be time pro-rated.

In respect of legacy options outstanding under the ESOP, the options will be determined by the plan rules which contain discretionary good leaver provisions for designated reasons (i.e. participants who leave early on account of injury, disability or ill-health, a sale of their employer or business in which they were employed or any other reason at the discretion of the Board). In these circumstances a participant's options will not be forfeited on cessation of employment but will vest on the termination date instead. The extent to which the options become exercisable depends, unless the Board determines otherwise, on the extent to which the performance conditions have been satisfied up until the termination date or such longer period as the Board may decide within six weeks of the grant date. The performance period will end on the termination date unless the Board determines otherwise. In the case of death of a participant, the option will become exercisable at that time, irrespective of whether or not any performance conditions have been satisfied, and the option will not be time pro-rated.

In the event of a change of control all unvested awards under the long-term incentive arrangements would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. The awards will, other than in exceptional circumstances, be scaled back pro-rata for the period of the incentive year worked by the director (although the Committee has discretion to disapply performance conditions and time pro-rating if the circumstances warrant it).

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

| Director | Date of contract |
|---|---|
| James Moffat | 25 November 2012 |

The service contracts are available for inspection during normal business hours at the Company's registered office, and available for inspection before and at the AGM.

After consultation with shareholders following the 2014 AGM, it was agreed that remuneration payments under all future Service Agreements are enforceable only insofar as they fall within a shareholder-approved Remuneration Policy.

### NEDs terms of engagement

The NEDs do not have service contracts and instead are appointed by letters of appointment for an initial term of three years, which are terminable by three months' notice on either side. At the end of the initial period the appointment may be renewed by mutual consent for an additional three-year term, subject to re-election at the AGM.

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.

Currently, three NEDs (excluding the Chairman who was independent on appointment) are considered to be independent of the Company.

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

| Non-Executive Director | Date of appointment |
|---|---|
| John Kennedy | 15 June 2012 |
| Peter Whitbread | 1 July 2013 |
| Michael Press[1] | 27 May 2013 |
| John Malcolm[1] | 27 May 2013 |
| Ellis Armstrong[1] | 27 May 2013 |

1. Michael Press, John Malcolm and Ellis Armstrong are considered to be independent NEDs of the Company.

# DIRECTORS' ANNUAL REPORT ON REMUNERATION

## Annual Report on Remuneration

This report has been prepared in accordance with Part 4 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and 9.8.6R of the UK's Listing Rules. The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2015 AGM. The information pages 55 to 59 has been audited.

## Responsibilities of the Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally. The Committee also ensures full compliance with the Code in relation to remuneration. The Committee's terms of reference are available for review on the Company's website.

## Members and activities of the Committee

The members of the Committee throughout the relevant period were Michael Press (Chair) and John Malcolm. Membership is comprised solely of independent NEDs. None of the current Committee members have day-to-day involvement with the business nor do they have any personal financial interest in the matters to be recommended. The Company Secretary acts as Secretary to the Committee and the Vice-President, Human Resources and Administration attends meetings on a regular basis to present and provide related support. The number of formal meetings held and the attendance by each member is shown in the table below. The Committee also held informal discussions as required.

| Committee member | Attended in person | Attended by phone |
|---|---|---|
| Total no. meetings 7 | 4 | 3 |
| Michael Press (Chairman) | 4 | 3 |
| John Malcolm | 4 | 3 |

## External advice received

During the year, the Committee received independent advice on remuneration matters from New Bridge Street ("NBS"), a trading name of Aon plc. NBS did not provide other services to the Group during the year under review and there is no other connection between NBS and the Company or the Directors. The Committee also consulted with the CEO and Chairman but not in relation to their own remuneration.

NBS is a signatory to the Remuneration Consultants' Code of Conduct and adhere to the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice it receives is objective and independent.

The fees paid to NBS during the year were £106,280.

## Shareholder voting at AGM

At last year's AGM held on 10 June 2014, the shareholders cast their votes in connection with the resolutions relating to the parts of the Directors' Remuneration Report (see table below).

During 2014, the Committee engaged in a process of consultation with key shareholder groups aimed at addressing a number of concerns that emerged at and following the AGM on 10 June. As a result of this consultation, the Committee made a number of proposals to address these concerns, which are within the approved policy but constrain the manner in which we shall implement it; these are noted in the Remuneration Policy which is set out on pages 47 to 52.

## Implementation of the remuneration policy for 2015

### Base salary

In setting the base salaries for 2015, the Committee considered external market data, the increase in base salary for the senior management team and the workforce generally, where the average increases across the Group are expected to be up to 4%. However, in view of the agreement reached with shareholders to freeze Executive Directors' base salaries until January 2016, this increase will not apply to the CEO and accordingly his base salary for 2015 will remain the same as 2014 as follows:

| | Base salary USD from 1 January | | |
|---|---|---|---|
| | 2015 | 2014 | % increase |
| James Moffat | 753,000 | 753,000 | 0% |

### Annual bonus for 2015

For 2015 the annual bonus opportunity will be 100% of base salary for the CEO and up to 100% of base salary for the CFO, once appointed. 50% of the bonus will be based on net profit, 25% will be based on sales set in relation to the Group's budget and the remaining 25% will be based on non-financial, strategic and/or personal targets, including safety performance. This structure is intended to provide a rounded assessment of the Group and management's performance.

The sales targets will be within a range from USD 900 million to USD 1.4 billion with associated pay-outs within the range of 20-100% of target. The Committee considers any disclosure of future net profits to be commercially sensitive, however, full retrospective disclosure of targets and performance against them will be disclosed in next year's Annual Report on Remuneration.

Clawback provisions will apply.

| Resolution | Total shares voted | For | Against | Withheld[1] |
|---|---|---|---|---|
| To approve the Directors' remuneration policy included in the Annual Report and Accounts for 2013 | 215,372,691 | 126,520,155 | 88,852,536 | 98,681 |
| To approve the Directors' annual report on remuneration for the year ended 31 December 2013 included in the Annual Report and Accounts for 2013 | 208,453,911 | 118,906,818 | 89,547,093 | 7,017,461 |

1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "For" and "Against"' a resolution.

### Long-term incentives to be granted in 2015

Subject to compliance with the Listing Rules, awards will be made in 2015 and the maximum LTIP potential will be 100% of base salary for the CEO and for the CFO, once appointed. 50% of the award will be based on relative TSR (relative to the FTSE World Oil Equipment and Services Index), 25% on cumulative EBITDA and 25% on end of period backlog.

Relative TSR, cumulative EBITDA and end of period backlog are considered to be the most appropriate measures of long-term performance for the Group, in that they ensure the Executive Directors are incentivised and rewarded for the financial performance of the Group as well as returning value to shareholders.

### LTIP 2015

| | Threshold | | Maximum | | |
|---|---|---|---|---|---|
| Performance condition | % vesting | Performance | % vesting | Performance | End measurement point |
| TSR vs. FTSE World Oil Equipment & Services Index | 20 | Median | 100 | Upper quintile | 31 December 2017 |
| Cumulative EBITDA | 20 | USD 300m | 100 | USD 420m | 31 December 2017 |
| End of period backlog | 20 | USD 1.00bn | 100 | USD 1.40bn | 31 December 2017 |

The awards will be subject to clawback provisions.

A mandatory holding restriction of 18 months beyond vesting will apply to the 2015 awards.

### End of service gratuity

As required under the UAE Labour Law, the Company contributes to the End of Service Gratuity Fund on behalf of the Executive Directors, whereby the gratuity will be 21 days' base salary for each year of the first five years of employment and 30 days' base salary for each additional year of employment thereafter, on the condition that the total gratuity does not exceed two years' base salary, payable upon termination of employment.

### Outside appointments

The Board allows Executive Directors to accept appropriate external, commercial Non-Executive Director appointments provided the aggregate commitment is compatible with their duties and does not cause a conflict of interest with the role of an Executive Director. Such Executive Directors may retain fees paid for these services, which will be subject to approval by the Board. During the year Joanne Curin served as a Non-Executive Director on the Board of WS Atkins plc and Deep Ocean Group Holding BV.

### Fees for the Chairman and Non-Executive Directors

The Chairman's remuneration is determined by the Committee and the Non-Executive Directors' remuneration is determined by the Executive Directors and the Chairman, all of which is based on the responsibility and time committed to the Group's affairs and appropriate market comparisons. Individual Non-Executive Directors do not take part in discussions regarding their own fees. The Chairman and Non-Executive Directors receive no other benefits. A summary of the current fees are as follows:

| | Fee at 1 January 2015 £000 | Fee at 1 January 2014 £000 | % increase |
|---|---|---|---|
| Non-Executive Chairman | £180 | £180 | 0% |
| Deputy Chairman | £88 | £88 | 0% |
| Senior Independent Director | £80 | £80 | 0% |
| Base fee | £65 | £65 | 0% |
| Committee Chair fee | £8 | £8 | 0% |

## Directors' remuneration earned in 2014

The table below summarises Directors' remuneration received in 2014 with comparisons, where appropriate, to 2013.[1]

| | | Base salary and fees USD'000 | Benefits and allowances[2] USD'000 | End of service gratuity[3] USD'000 | Annual bonus[4] | Long-term incentives USD'000 | Other USD'000 | Total remuneration USD'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| James Moffat | **2014** | **753** | **205** | **76** | **682** | **–** | **–** | **1,716** |
| | 2013 | 628 | 156 | 40 | 620 | – | 208 | 1,652 |
| Joanne Curin[5] | **2014** | **431** | **129** | **–** | **–** | **–** | **1,610** | **2,170** |
| | 2013 | 136 | 43 | 28 | 105 | – | – | 312 |
| Peter Whitbread[6] | **2014** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2013 | 655 | 125 | – | – | – | 724 | 1,504 |
| **Non-Executive Directors** | | | | | | | | |
| John Kennedy | **2014** | **307** | | | | | | **309** |
| | 2013 | 290 | | | | | | 290 |
| Michael Press | **2014** | **146** | | | | | | **146** |
| | 2013 | 82 | | | | | | 82 |
| John Malcolm | **2014** | **125** | | | | | | **125** |
| | 2013 | 70 | | | | | | 70 |
| Ellis Armstrong | **2014** | **121** | | | | | | **121** |
| | 2013 | 68 | | | | | | 68 |
| Peter Whitbread[6] | **2014** | **96** | | | | | | **96** |
| | 2013 | 52 | | | | | | 52 |

1. All Directors' pay is reported above in USD. James Moffat's remuneration is determined and paid in USD. Joanne Curin was remunerated in AED; Michael Press and Ellis Armstrong's remuneration is determined in GBP and paid in USD and the remuneration of John Kennedy, Peter Whitbread and John Malcolm is determined and paid in GBP.
2. Benefits and allowances include housing, private medical insurance, life insurance, club membership, the use of a company car and driver, private fuel card, airfare tickets and utility expenses.
3. End of service gratuity is the provision accrued during the year. In accordance with the provisions of IAS 19, the present value of Directors' end of service gratuity obligations under UAE Labour Law have been valued using the projected unit credit method, as at 31 December 2014 and 2013. Under this method an assessment has been made of a Director's expected service with the Group and the expected base salary on the date of termination. As part of the valuation we have assumed an average base salary increment of 3% p.a. (2013: 3%). The expected liability on the date of termination has been discounted to its net present value using a discount rate of 3.5% p.a. (2013: 4.25% p.a).
4. The annual bonus for 2014 was based on performance against financial and non-financial performance targets. Performance against these targets is set out in the table below.
5. Joanne Curin's service agreement was terminated on 17 October 2014. Details of the payments made in respect of the termination are provided on page 57.
6. Peter Whitbread became a Non-Executive Director on 1 July 2014.

## Chief Executive Officer

| Metric | Weighting as % of maximum annual opportunity | Actual performance | Pay-out outcome as % of maximum annual opportunity |
|---|---|---|---|
| Net profit | 53.75% | 100% | 53.75% |
| Sales | 28.50% | 100% | 28.50% |
| Safety | 3.75% | 100% | 3.75% |
| Employee retention | 3.50% | 0% | 0% |
| Overhead cost reduction | 3.50% | 100% | 3.50% |
| Operating efficiencies | 3.50% | 0% | 0% |
| Receivables | 3.50% | 32.80% | 1.15% |
| **Total** | **100%** | | **90.65%** |

### Long-term incentive awards granted during the year

Due to the prolonged close period and subsequent period of shareholder consultation, the Company had been unable to make any LTIP awards since 2012. Accordingly, awards were made on 18 November to the CEO in respect of the 2013 and 2014 LTIPs. The awards were based on a value equivalent to 100% of Mr Moffat's base salary and, in each case, amounted to 321,691 shares at nil cost.

The 2013 LTIP award vests in full on the date of the publication of the 2015 results subject to achievement of a performance condition relating to three-year cumulative EBITDA to 31 December 2015. The 2014 LTIP award vests in full three years from the date of grant subject to the achievement of conditions established around three-year EBITDA to 31 December 2016, end of period backlog and relative TSR. The 2014 incentives, once vested, will be subject to a holding period of 12 months from the date of publication of the 2016 results.

In addition, as reported last year, the Committee agreed that the CEO's contractual recruitment award should remain in place despite the prolonged close period and the earlier proposal to adopt a long stop date. Accordingly, on 18 November, Mr Moffat was awarded an option over 340,855 shares, equivalent in value to 100% of his annual base salary, at an exercise price of £1.4125 per share being the closing mid-market price on the day immediately preceding the date of grant. The options will vest three years from the date of grant in accordance with plan rules and conditional upon achievement against a relative TSR performance metric tested at 1 March 2016.

In view of this delayed contractual award, it was agreed that a cash compensatory award of up to £79,293 would be made to Mr Moffat on 1 March 2016 in respect of the lost opportunity from 1 March 2013 to the date the options were granted (18 November 2014). The compensatory award was calculated by reference to the number of shares that Mr Moffat expected to be awarded on 1 March 2013, the share price on 1 March 2013, adjusted for the rights issue (£1.2057), and the share price on the date of grant (£1.4125). The award will be conditional upon the achievement of a relative TSR condition and a minimum share price on 1 March 2016 equal to the grant price of £1.4125. In the event that the share price on 1 March 2016 is between £1.2057 and £1.4125, vesting of the cash award will be scaled back to 0% on a straight-line basis.

As reported last year, in recognition of the exceptional circumstances whereby the composition of the Board completely changed except for the Chairman and the Company was restructuring its financing and recovering from poor trading results in 2012, the Remuneration Committee agreed that some form of additional compensation was appropriate to recognise the significantly increased commitments required by the Chairman throughout H2 2012 and 2013 and in recognition of the need to re-establish longer-term stability on the Board and the senior management team.

Accordingly on 18 November, an award of 122,499 shares at nil cost was made to John Kennedy, equivalent in value to his annual fee of £180,000. The shares will vest in full three years from the date of grant under the terms of the Company's Retention Share Plan 2009.

### Directors' interests in share plan awards

The Directors hold interests in long-term incentive awards under the Company's incentive plans as at 31 December 2014 as set out below.

### Employee share option plan ("ESOP")

The following table sets out the interests of the Executive Directors in relation to ESOP awards:

| Executive Director | At 1 January 2014 | Granted in year | Exercise price at grant | Date of vesting | Vested | Exercised in 2014 | At 31 December 2014 |
|---|---|---|---|---|---|---|---|
| James Moffat | 0 | 340,855 | £1.4125 | 18.11.2017 | N/A | Nil | 340,855 |

### LTIP awards

The following table sets out the interests of the Executive Directors in relation to LTIP award(s):

| Executive Director | At 1 January 2014 | Awarded in 2014 | Date of vesting | Vested | Lapsed in 2014 | At 31 December 2014 |
|---|---|---|---|---|---|---|
| James Moffat | Nil | 321,691 | 2016[1] | nil | nil | 321,691 |
| James Moffat | Nil | 321,691 | 18.11.2017 | nil | nil | 321,691 |

1. The 2013 LTIP award is expected to vest immediately following announcement by the Company of the results for financial period ending 31 December 2015.

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. Further details are set out above.

### Retention share plan ("RSP") awards

The following table sets out the interests of the Chairman in relation to RSP award(s):

| Director | At 1 January 2014 | Granted in year | Exercise price at grant | Date of vesting | Vested | Exercised in 2014 | At 31 December 2014 |
|---|---|---|---|---|---|---|---|
| John Kennedy | 0 | 122,499 | Nil | 18.11.2017 | N/A | Nil | 122,499 |

## Directors' interests in ordinary shares

The Committee has adopted a formal policy requiring the Executive Directors to build and maintain, through the award of shares by the Company, a shareholding in the Company equivalent to 150% of base salary for the CEO and 125% of base salary for the CFO, when appointed. Until such time as this threshold is achieved there is a requirement for executives to retain the net proceeds of all vested share awards. Mr Moffat has not currently achieved these guidelines.

In accordance with the Listing Rules, the Company discloses the beneficial interests of the Directors in the share capital of the Company as at 31 December 2014 as follows:

| | Beneficially owned at 31 Dec 2014 | Beneficially owned at 31 Dec 2013 | Outstanding share awards | Shareholding as a % of base salary | Shareholding requirement met? |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| James Moffat | 643,382[1] | Nil | 984,237 | Nil | No |
| **Non-Executive Directors** | | | | | |
| John Kennedy[2] | 122,499[3] | – | – | – | – |
| Michael Press | – | – | – | – | – |
| John Malcolm | – | – | – | – | – |
| Peter Whitbread | 2,188,294 | 1,667,272 | – | – | – |
| Ellis Armstrong | – | – | – | – | – |

1. This comprises the two LTIP awards in 2014, both of which are subject to vesting and performance conditions.
2. Save in relation to John Kennedy, there were no changes to the interests of the Directors in the ordinary shares of the Company in the period from 1 January 2014 to 16 March 2015, being the last practicable date that the Company is able to report on Directors' interests. As between the start of the year and 17 March 2015, John Kennedy or his connected persons had acquired an additional 1,601,939 interests in the share capital of the Company, pursuant to a trading plan which was entered into on 15 January 2015 in accordance with the requirements of the Listing Rules and the Model Code. Further purchases may have been made under such trading plan after the date of this annual report on remuneration.
3. This comprises the RSP award in 2014, which is subject to a vesting period.

Note: Full details of the Directors' shareholdings and share allocations are given in the Company's Register of Directors' Interests, which is open to inspection at the Company's registered office during business hours.

## Payments to former directors

There were no payments to former directors during the year.

## Payments to departing directors

Joanne Curin stood down as a Director and CFO on 17 October 2014 and her last day at work was 17 November 2014. Under her Service Agreement she was entitled to full salary and benefits for a notice period of 12 months amounting to USD 862,784. In addition, under the terms of a Compromise Agreement, a payment of USD 463,215, representing 85% of Ms Curin's annual base salary, was made in lieu of her eligibility for a short-term incentive award for 2014. A further payment of USD 284,500 was made in lieu of her eligibility for a long-term incentive award in accordance with the rules of the plan.

Both the payments in lieu of incentive awards took into consideration the performance of the Company and Ms Curin up to 17 November 2014. The payments in lieu of incentive awards are subject to a clawback provision in the event that the Company's auditors determine any material issue in relation to the reported accounts up to 30 June 2014.

The total value of contractual compensation, payments in lieu of incentive awards and the continuation of benefits in lieu of notice amounted to USD 1,610,499 including an amount of USD 63,487 in respect of Ms Curin's entitlement to UAE gratuity which, under the requirements of UAE labour law, will become payable in 2015 upon Ms Curin's final departure from the UAE.

### Percentage change in remuneration levels

The table below shows the movement in base salary, benefits and annual bonus for the CEO between the 2014 and 2013 financial years, compared to that for the average employee of the Group:

| | % change |
|---|---|
| **Chief Executive Officer** | |
| Base salary | 0% |
| Benefits[1] | +10% |
| Bonus | -8.3% |

| | % change |
|---|---|
| **All employees** | |
| Base salary | +3.9% |
| Benefits | +5% |
| Bonus[2] | +35% |

1. Inflationary increase only in the cost of certain benefits provided. 0% increase in allowances.
2. Represented by average 25% movement in bonus for Administrative & Professional staff and average 40% movement for Yard workforce.

### Relative importance of the spend on pay

The table below shows the spend on staff costs in the financial year, compared to dividends:

| | 2014 £000 | 2013 £000 | % change |
|---|---|---|---|
| Staff costs | 116,490 | 130,476 | –10.7% |
| Dividends | – | – | 0.00% |

### Performance graph and CEO pay

The graph below shows the growth in value of a notional £100 invested in the Company over the last five financial years compared to the FTSE 250 and Small Cap Indices. The graph covers the time period from 31 December 2008 to 31 December 2014.

**TSR Performance to FTSE 250/FTSE Small Cap**

The total remuneration figures for the CEO during the last five financial years are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the long-term incentive award based on the three year performance period ending in the relevant year. The annual bonus pay-out and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each year.

| | Year ending 31 December (USD'000) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2013 | 2012 | 2012 | 2011 | 2010 | 2009 | 2009 |
| **CEO** | **Moffat** | **Moffat[1]** | **Whitbread** | **Whitbread[2]** | **McCue[3]** | **McCue** | **McCue** | **McCue[4]** | **Whitbread[5]** |
| Total remuneration | 1,716 | 1,652 | 1,504 | 352 | 2,739 | 2,094 | 1,824 | 514 | 1,211 |
| Annual bonus % | 91% | 99% | 0% | 0% | 0% | 72.3% | 100% | 0% | 0% |
| LTIP vesting % | 0% | 0% | 0% | 0% | 100% | 100% | 0% | 0% | 0% |

1. James Moffat was appointed CEO on 1 March 2013.
2. Peter Whitbread was appointed interim CEO on 4 October 2012 and his employment ceased on 30 June 2013.
3. Nigel McCue's employment ceased on 3 October 2012.
4. Nigel McCue was appointed to the position of the CEO on 27 March 2009 with effect from 1 May 2009.
5. Peter Whitbread resigned as the CEO on 27 March 2009 and was appointed to the position of the Director of International Development with effect from 1 May 2009.

## Approval of the Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board on 18 March 2015.

**Michael Press**
**Chair of the Remuneration Committee**

18 March 2015

# STATUTORY INFORMATION AND DIRECTORS' STATEMENTS

### Memorandum and Articles of Association

The Company's Memorandum of Association sets out the objectives and powers of the Company. The Articles of Association detail 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 or and voting at general meetings. The Articles also set out the rules relating to Directors (including by way of example, their appointment, election and re-election, retirement, duties and powers).

### 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 25 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. There are no restrictions on the transfer of shares.

Details of the Company's employee share schemes are disclosed in the Directors' Remuneration Report page 56 and in Note 8 to the financial statements.

| | Granted | | Outstanding | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Lamprell plc Free Share Award Plan | Nil | Nil | Nil | Nil |
| Lamprell plc Retention Share Plan | 632,499 | Nil | 600,499 | Nil |
| Lamprell plc Executive Share Option Plan | 340,855 | Nil | 340,855 | Nil |
| Lamprell plc Long-Term Incentive Plan | 1,723,524 | Nil | 1,723,524 | 93,058 |

The awards under the Lamprell plc FSP, RSP and LTIP 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 16,217 (2013: 14,686) ordinary shares of 5p, representing less than 0.01% (2013: 0.01%) 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 2014 AGM to make market purchases of up to 26,000,000 ordinary shares of 5p, which represented approximately 10% of the Company's then issued ordinary share capital. This authority will expire at the 2015 AGM, where approval from shareholders will be sought to renew the authority for approximately 10% of the Company's current issued ordinary share capital.

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 £4,900,000, representing approximately 30% of the Company's current issued ordinary share capital (excluding treasury shares) to existing shareholders 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 £825,000 representing approximately 5% of the current issued ordinary share capital of the Company. Authorities were given by the shareholders at the AGM in 2014 to issue a similar percentage of the Company's then issued ordinary share capital. The authorities now sought, if granted, will expire on the

**Alex Ridout**
**Company Secretary**

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.

### What are the Directors' responsibilities?

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

» select suitable accounting policies and then apply them consistently;

» make judgements and accounting estimates that are reasonable and prudent;

» state that the financial statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and

» prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate 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 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 Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed pages 32 to 33 confirm that, to the best of their knowledge:

» the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

» the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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.

### What is the Directors' approach to preparing this report?

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy. The Audit & Risk Committee oversees the implementation of this approach.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report pages 01 to 31. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review pages 18 to 19. The Company's consolidated financial statements have been prepared on a going concern basis. After reviewing its cash flow forecasts for a period of not less than 12 months from the date of signing 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.

**Alex Ridout**
**Company Secretary**

By Order of the Board

18 March 2015

# 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 2014 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion:

» the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014 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 2014 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.

### 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 in relation to going concern; and

» 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.

**Nicholas Mark Halsall, Responsible Individual**
**for and on behalf of PricewaterhouseCoopers LLC**
Chartered Accountants
Douglas, Isle of Man
18 March 2015

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2014 Pre-exceptional items USD'000 | Year ended 31 December 2014 Exceptional items USD'000 | Year ended 31 December 2014 USD'000 | Year ended 31 December 2013 Pre-exceptional items USD'000 | Year ended 31 December 2013 Exceptional items USD'000 | Year ended 31 December 2013 USD'000 |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 5 | **1,084,890** | **–** | **1,084,890** | 1,072,811 | – | 1,072,811 |
| Cost of sales | 6 | **(902,810)** | **–** | **(902,810)** | (952,817) | – | (952,817) |
| **Gross profit** | | **182,080** | | **182,080** | 119,994 | – | 119,994 |
| Selling and distribution expenses | 7 | **(1,773)** | **–** | **(1,773)** | (1,591) | – | (1,591) |
| General and administrative expenses | 9 | **(72,700)** | **–** | **(72,700)** | (61,278) | – | (61,278) |
| Other gains/(losses) – net | 12 | **1,456** | **–** | **1,456** | 1,535 | – | 1,535 |
| **Operating profit** | | **109,063** | **–** | **109,063** | 58,660 | – | 58,660 |
| Finance costs | 11 | **(20,516)** | **–** | **(20,516)** | (14,545) | (8,414) | (22,959) |
| Finance income | 11 | **2,166** | **–** | **2,166** | 975 | – | 975 |
| Finance costs – net | | **(18,350)** | **–** | **(18,350)** | (13,570) | (8,414) | (21,984) |
| Share of profit of investments accounted for using the equity method | 19 | **2,991** | **–** | **2,991** | 1,110 | – | 1,110 |
| **Profit before income tax** | | **93,704** | **–** | **93,704** | 46,200 | (8,414) | 37,786 |
| Income tax expense | | **(484)** | **–** | **(484)** | (1,091) | – | (1,091) |
| **Profit for the year from continuing operations** | | **93,220** | **–** | **93,220** | 45,109 | (8,414) | 36,695 |
| **Discontinued operations** | | | | | | | |
| Loss for the year from discontinued operations | 23 | **(6,433)** | **–** | **(6,433)** | (252) | – | (252) |
| Gain on disposal of subsidiary | | **31,270** | | **31,270** | – | – | – |
| **Profit for the year attributable to the equity holders of the Company** | | **118,057** | **–** | **118,057** | 44,857 | (8,414) | 36,443 |
| **Earnings per share attributable to the equity holders of the Company** | 13 | | | | | | |
| Basic | | | | **37.41c** | | | 12.67c |
| Diluted | | | | **37.38c** | | | 12.67c |

The notes on pages 71 to 107 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| Profit for the year | | **118,057** | 36,443 |
| **Other comprehensive loss** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurement of post-employment benefit obligations | 27 | **(3,742)** | (737) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Currency translation differences | | **(372)** | (66) |
| **Other comprehensive loss for the year** | | **(4,114)** | (803) |
| **Total comprehensive income for the year** | | **113,943** | 35,640 |
| **Total comprehensive income/(loss) for the year attributable to the equity holders of the Company arises from:** | | | |
| Continuing operations | | **120,363** | 35,536 |
| Discontinued operations | 23 | **(6,420)** | 104 |

The notes on pages 71 to 107 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **139,343** | 148,323 |
| Intangible assets | 17 | **204,726** | 213,026 |
| Investment accounted for using the equity method | 19 | **5,118** | 5,615 |
| Trade and other receivables | 21 | **4,932** | – |
| Derivative financial instruments | 28 | **55** | – |
| Cash and bank balances | 22 | **12,517** | – |
| Total non-current assets | | **366,691** | 366,964 |
| **Current assets** | | | |
| Inventories | 20 | **14,560** | 11,685 |
| Trade and other receivables | 21 | **398,687** | 327,318 |
| Derivative financial instruments | 28 | **14** | 161 |
| Cash and bank balances | 22 | **359,108** | 344,573 |
| | | **772,369** | 683,737 |
| Assets of disposal group classified as held for sale | 23 | **15,228** | 23,843 |
| Total current assets | | **787,597** | 707,580 |
| **Total assets** | | **1,154,288** | 1,074,544 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 31 | **(20,136)** | (56,493) |
| Trade and other payables | 29 | **(317,603)** | (424,702) |
| Derivative financial instruments | 28 | **(269)** | – |
| Provision for warranty costs and other liabilities | 30 | **(15,812)** | (5,400) |
| Current tax liability | | **(167)** | (57) |
| | | **(353,987)** | (486,652) |
| Liabilities of disposal group classified as held for sale | 23 | **(10,546)** | (4,832) |
| Total current liabilities | | **(364,533)** | (491,484) |
| Net current assets | | **423,064** | 216,096 |
| **Non-current liabilities** | | | |
| Borrowings | 31 | **(78,843)** | (104,258) |
| Provision for employees' end of service benefits | 27 | **(38,752)** | (36,046) |
| Total non-current liabilities | | **(117,595)** | (140,304) |
| **Total liabilities** | | **(482,128)** | (631,788) |
| **Net assets** | | **672,160** | 442,756 |
| **EQUITY** | | | |
| Share capital | 25 | **30,346** | 23,552 |
| Share premium | 25 | **315,995** | 211,776 |
| Other reserves | 26 | **(18,655)** | (22,133) |
| Retained earnings | | **344,474** | 229,561 |
| **Total equity attributable to the equity holders of the Company** | | **672,160** | 442,756 |

The financial statements on pages 63 to 107 were approved and authorised for issue by the Board of Directors on 18 March 2015 and signed on its behalf by:

**James Moffat**
**Chief Executive Officer and Director**

**Ellis Armstrong**
**Director**

**Antony Wright**
**Deputy Chief Financial Officer**

The notes on pages 71 to 107 form an integral part of these financial statements.

# COMPANY BALANCE SHEET

| | Note | As at 31 December 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 18 | **593,747** | 592,781 |
| Current assets | | | |
| Other receivables | | **507** | 369 |
| Due from related parties | 24 | **110,191** | 7,631 |
| Cash at bank | 22 | **286** | 103 |
| Total current assets | | **110,984** | 8,103 |
| **Total assets** | | **704,731** | 600,884 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accruals | | **(2,487)** | (29) |
| Due to related parties | 24 | **–** | (12,334) |
| Total current liabilities | | **(2,487)** | (12,363) |
| Net current assets/(liabilities) | | **108,497** | (4,260) |
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 27 | **(75)** | (75) |
| **Total liabilities** | | **(2,562)** | (12,438) |
| **Net assets** | | **702,169** | 588,446 |
| **EQUITY** | | | |
| Share capital | 25 | **30,346** | 23,552 |
| Share premium | 25 | **315,995** | 211,776 |
| Other reserve | 26 | **329,153** | 329,153 |
| Retained earnings | | **26,675** | 23,965 |
| **Total equity attributable to the equity holders of the Company** | | **702,169** | 588,446 |

The financial statements on pages 63 to 107 were approved and authorised for issue by the Board of Directors on 18 March 2015 and signed on its behalf by:

**James Moffat**
**Chief Executive Officer and Director**

**Ellis Armstrong**
**Director**

**Antony Wright**
**Deputy Chief Financial Officer**

The notes on pages 71 to 107 form an integral part of these 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 2013** | | 23,552 | 211,776 | (22,069) | 192,808 | 406,067 |
| Profit for the year | | – | – | – | 36,443 | 36,443 |
| **Other comprehensive income:** | | | | | | |
| Re-measurement of post-employment benefit obligations | | – | – | – | (737) | (737) |
| Currency translation differences | 26 | – | – | (66) | – | (66) |
| **Total comprehensive income for the year** | | – | – | (66) | 35,706 | 35,640 |
| Transactions with owners: | | | | | | |
| Share based payments: | | | | | | |
| – value of services provided | | – | – | – | 1,049 | 1,049 |
| Transfer to legal reserve | 26 | – | – | 2 | (2) | – |
| **Total transactions with owners** | | – | – | 2 | 1,047 | 1,049 |
| **At 31 December 2013** | | 23,552 | 211,776 | (22,133) | 229,561 | 442,756 |
| Profit for the year | | – | – | – | 118,057 | 118,057 |
| **Other comprehensive income:** | | | | | | |
| Re-measurement of post-employment benefit obligations | | – | – | – | (3,742) | (3,742) |
| Currency translation differences | 26 | – | – | (372) | – | (372) |
| **Total comprehensive income for the year** | | – | – | (372) | 114,315 | 113,943 |
| **Transactions with owners:** | | | | | | |
| Share based payments: | | | | | | |
| – value of services provided | | – | – | – | 1,084 | 1,084 |
| Treasury shares purchased | 25 | – | – | – | (486) | (486) |
| Proceeds from shares issued (net) | 25 | 6,794 | 104,219 | – | – | 111,013 |
| Disposal of a subsidiary | 23 | – | – | 3,850 | – | 3,850 |
| **Total transactions with owners** | | 6,794 | 104,219 | 3,850 | 598 | 115,461 |
| **At 31 December 2014** | | **30,346** | **315,995** | **(18,655)** | **344,474** | **672,160** |

The notes on pages 71 to 107 form an integral part of these financial statements.

# COMPANY 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 2013** | | 23,552 | 211,776 | 329,153 | 22,726 | 587,207 |
| **Total comprehensive income for the year** | | – | – | – | 190 | 190 |
| **Transactions with owners:** | | | | | | |
| Share based payments: | | | | | | |
| – investment in subsidiaries | 18 | – | – | – | 1,049 | 1,049 |
| **Total transactions with owners** | | – | – | – | 1,049 | 1,049 |
| **At 31 December 2013** | | 23,552 | 211,776 | 329,153 | 23,965 | 588,446 |
| Profit for the year | | – | – | – | 2,079 | 2,079 |
| **Other comprehensive income:** | | | | | | |
| Re-measurement of post-employment benefit obligations | | – | – | – | 45 | 45 |
| **Total comprehensive income for the year** | | – | – | – | 2,124 | 2,124 |
| **Transactions with owners:** | | | | | | |
| Share based payments: | | | | | | |
| – value of services provided | | – | – | – | 118 | 118 |
| – investment in subsidiaries | 18 | – | – | – | 966 | 966 |
| Treasury shares issued | 25 | – | – | – | (498) | (498) |
| Proceeds from shares issued (net) | 25 | 6,794 | 104,219 | – | – | 111,013 |
| **Total transactions with owners** | | 6,794 | 104,219 | – | 586 | 111,599 |
| **At 31 December 2014** | | **30,346** | **315,995** | **329,153** | **26,675** | **702,169** |

The notes on pages 71 to 107 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| | Note | Year ended 31 December 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash (used in)/generated from operating activities | 37 | **(39,433)** | 118,869 |
| Tax paid | | **(374)** | (1,178) |
| Net cash (used in)/generated from operating activities | | **(39,807)** | 117,691 |
| **Investing activities** | | | |
| Additions to property, plant and equipment | | **(18,947)** | (12,007) |
| Proceeds from sale of property, plant and equipment | | **317** | 367 |
| Additions to intangible assets | 17 | **(3,595)** | (2,615) |
| Finance income | 11 | **2,166** | 975 |
| Dividend received from joint ventures | 19 | **3,488** | 174 |
| Proceeds from disposal of a subsidiary – net | 23 | **59,312** | – |
| Movement in deposit with original maturity of more than three months | 22 | **5,633** | (10,276) |
| Movement in margin/short-term deposits under lien | | **3,249** | 56,381 |
| Net cash provided by investing activities | | **51,623** | 32,999 |
| **Financing activities** | | | |
| Proceeds from shares issued (net of expenses) | 25 | **111,013** | – |
| Treasury shares purchased | 25 | **(486)** | – |
| Proceeds from borrowings | | **100,000** | 160,000 |
| Repayments of borrowings | | **(160,000)** | (137,510) |
| Finance costs | | **(21,014)** | (22,421) |
| Dividends paid | | **(18)** | – |
| Net cash generated from financing activities | | **29,495** | 69 |
| **Net increase in cash and cash equivalents** | | **41,311** | 150,759 |
| Cash and cash equivalents, beginning of the year from continued operations | | **275,479** | 126,372 |
| Cash and cash equivalents, beginning of the year from discontinued operations | | **1,586** | |
| Exchange rate translation | | **(372)** | (66) |
| Cash and cash equivalents, end of the year | | **318,004** | 277,065 |
| Cash and cash equivalents from continuing operations | 22 | **312,352** | 275,479 |
| Cash and cash equivalents from discontinued operations | | **5,652** | 1,586 |
| Total | | **318,004** | 277,065 |

The notes on pages 71 to 107 form an integral part of these financial statements.

# COMPANY CASH FLOW STATEMENT

| | Note | Year ended 31 December 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | 32 | **2,079** | 209 |
| Adjustments for: | | | |
| Share based payment – value of services provided | | **118** | |
| Provision for employees' end of service benefits | 27 | **68** | 121 |
| Operating cash flows before payment of employees' end of service benefits and changes in working capital | | **2,265** | 330 |
| Payment of employees' end of service benefits | 27 | **(23)** | (983) |
| Changes in working capital: | | | |
| Other receivables | | **(138)** | (319) |
| Accruals | | **2,458** | (599) |
| Due from related parties | 24 | **(102,560)** | (2,493) |
| Due to related parties | 24 | **(12,334)** | 3,967 |
| Net cash used in operating activities | | **(110,332)** | (97) |
| **Financing activities** | | | |
| Proceeds from shares issued (net of expenses) | 25 | **111,013** | – |
| Treasury shares issued | 25 | **(498)** | – |
| Net cash generated from financing activities | | **110,515** | – |
| **Net decrease in cash and cash equivalents** | | **183** | (97) |
| Cash and cash equivalents, beginning of the year | | **103** | 200 |
| Cash and cash equivalents, end of the year | 22 | **286** | 103 |

The notes on pages 71 to 107 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

### 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 26). 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.

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 ("LIH") | 100 | 100 | British Virgin Islands |
| Lamprell Dubai LLC ("LD") | 49[1] | 100 | UAE |
| Lamprell Sharjah WLL ("LS") | 49[1] | 100 | UAE |
| Maritime Offshore Limited ("MOL") | 100 | 100 | Isle of Man |
| Maritime Offshore Construction Limited ("MOCL") | 100 | 100 | Isle of Man |
| International Inspection Services Limited ("Inspec") | 100[2] | 100 | Isle of Man |
| Cleopatra Barges Limited ("CBL") | 100 | 100 | British Virgin Islands |
| Lamprell plc employee benefit trust ("EBT") | 100 | [3] | Unincorporated |
| Jebel Ali Investments Limited ("JIL") | 100 | 100 | British Virgin Islands |
| Lamprell Energy FZCO ("LE FZCO") | 90[4] | 100 | UAE |
| Maritime Industrial Services Co. Ltd Inc ("MIS") | 100 | 100 | Republic of Panama |
| Maurlis International Ltd. Inc ("MIL") | 100 | 100 | Republic of Panama |
| Rig Metals LLC ("RIM") | 49[1] | 100 | UAE |
| Litwin PEL Co. LLC ("LIT") | 49[1] | 100 | UAE |
| Maritime Industrial Services Co. Ltd. & Partners ("MISCLP") | 49[1] | 100 | Sultanate of Oman |
| Global Investment Co. Ltd. Inc ("GIC") | 100 | 100 | Republic of Panama |
| Sunbelt Safety Services Co. Ltd. Inc. ("SSS") | 100[5] | 100 | Republic of Panama |
| MIS Qatar LLC ("MISQWLL") | 49[1] | 100 | Qatar |
| Lamprell Industrial Services Holdings Limited | 100 | 100 | British Virgin Islands |
| International Inspection Services Limited LLC ("IOM") | 49[2] | 100 | Sultanate of Oman |
| Lamprell Kazakhstan LLP ("LAK") | 100 | 100 | Kazakhstan |

1. 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 is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity via management agreements and, accordingly, these entities are consolidated as wholly owned subsidiaries in these consolidated financial statements. These shareholders receive sponsorship fees from the Group (Note 24).
2. During 2013, the Group decided to dispose Inspec & IOM. This transaction was completed on 3 March 2014.
3. The beneficiaries of the EBT are the employees of the Group.
4. 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 resolution to liquidate this entity was passed on 30 December 2013.
5. Sunbelt Safety Services Co. Ltd. Inc. was previously known as Maritime International Agency Services Ltd ("MIAS"). It was renamed on 5 January 2014.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

### 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.

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. Therefore, the Group 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

IAS 32 (amendments), 'Financial instruments: Presentation', on asset and liability offsetting, are guidance to the application and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group has adopted this amendment and it has no material impact on Group.

IAS 36 (amendment), 'Impairment of assets' on recoverable amount disclosures, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group has adopted this amendment and it has no material impact on Group.

##### (b) New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2014 but not currently relevant to the Group

IFRIC 21, 'Levies'. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group is currently not subjected to significant levies so the impact on the Group is not material.

Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. This amendment is currently not applicable to the Group, as the Group has no investment entities.

IAS 39 (amendment), 'Novation of derivatives and continuation of hedge accounting' on financial instruments recognition and measurement, provides relief from discontinuing hedge accounting when novation to a hedging instrument to a central counterparty meets specified criteria. This amendment is currently not applicable to the Group.

##### (c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation, clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2016.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

## 2 Summary of significant accounting policies continued

### 2.1 Basis of preparation continued

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contract with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans, applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The Group intends to adopt these amendments from the accounting period beginning on 1 January 2015.

Amendment to IAS 27, 'Separate financial statements' regarding the equity method, allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2016.

Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture, addresses an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2016.

Amendment to IFRS 11, 'Joint arrangements' regarding acquisition of an interest in a joint operation, provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'. The Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2016.

### 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 subcontractors relating to future activity on a contract, are excluded and are presented as contract work-in-progress.

#### (b) Products and services

Revenue from sale of products and services is recognised in the accounting period in which the risks and rewards are transferred or the service is rendered.

#### (c) Interest income

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

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

**2 Summary of significant accounting policies** continued

**2.3 Consolidation**

**(a) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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 value of the assets transferred, the liabilities incurred to the former owner of the acquiree 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. 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 recognised amount of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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 to account 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) Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of related asset or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**(c) Joint arrangements**

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interest in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post- acquisition profits or losses and movements in the consolidated income statement. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint ventures (which includes any long-term interest that, in substance, forms part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

**(d) 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 consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of 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 consolidated 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 UAE Dirham, is pegged to the United States Dollar ("USD") and is the functional currency of all the entities in the Group (except MISCLP and MIO whose functional currency is the Omani Riyal, MISQWLL whose functional currency is the Qatari Riyal, MIS Kazakh Branch and LKZ whose functional currency is the Kazakh Tenge and EBT whose functional currency is the Great Britain Pound). 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 gains 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 in other comprehensive income.

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 2.22).

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 consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of significant accounting policies continued

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries 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. 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. 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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

#### (f) Work-in-progress

Work-in-progress is in relation to computer software and stated at cost. 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.

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 Summary of significant accounting policies continued

### 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. The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables.

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 end of service benefits is disclosed as a non-current liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The current service cost and interest cost is recognised in the income statement in 'Employees' end of service benefits'.

#### (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 consolidated 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.

### 2.15 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

## 2 Summary of significant accounting policies continued

### 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 the 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 and loans and receivables. Currently, the Group does not have any available-for-sale and held-to-maturity 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.

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 a related party and cash and cash equivalents (Note 2.14) in the consolidated balance sheet and amounts due from related parties (Note 24) and cash at bank (Note 22) 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) 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 Summary of significant accounting policies continued

### 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.

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'.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 28. 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'.

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.

### 2.21 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

### 2.22 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.

### 2.23 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 credited 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.

### 2.24 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.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 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 28).

(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 2014, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 1,358,744 (2013: USD 899,000).

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 covered by the Group by taking fixed interest rate swap against the variable rates. During the year ended 31 December 2014, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by USD 543,411 (2013: USD 730,000).

(c) Credit risk

The Group's exposure to credit risk is detailed in Notes 15, 21, 22 and 28. 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, 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 2014, the Group had a significant concentration of credit risk with nine of its largest customer balances accounting for 57% (2013: 81%) 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 following table shows the rating and balance of the 13 major counterparties at the balance sheet date:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Counterparty | External rating[1] | USD'000 | External rating[1] | USD'000 |
| Bank A | **AA-** | **195,700** | AA- | 173,407 |
| Bank B | **A+** | **115,362** | A+ | 89,785 |
| Bank C | **AA-** | **35,654** | AA- | 37,992 |
| Bank D | **AA-** | **11,511** | AA- | 22,884 |
| | | **358,227** | | 324,068 |

1. Based on Fitch's long-term ratings.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Internal rating[2] | USD'000 | Internal rating[2] | USD'000 |
| Customer 1 | **Group A** | **4,888** | Group B | 94,138 |
| Customer 2 | **Group C** | **3,928** | Group B | 8,358 |
| Customer 3 | **Group B** | **3,892** | Group A | 5,314 |
| Customer 4 | **Group B** | **3,359** | Group B | 4,968 |
| Customer 5 | **Group A** | **3,091** | Group C | 3,928 |
| Customer 6 | **Group C** | **2,753** | Group B | 3,304 |
| Customer 7 | **Group B** | **2,081** | Group C | 2,746 |
| Customer 8 | **Group A** | **1,935** | Group B | 2,618 |
| Customer 9 | **Group C** | **1,851** | Group A | 2,517 |
| | | **27,778** | | 127,891 |

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

The above represents 57% (2013: 81%) of trade receivables of USD 48.6 million (2013: USD 158.2 million) (Note 21).

The counterparties in 2014 are not necessarily the same counterparties in 2013.

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

## 3 Financial risk management continued

### 3.1 Financial risk factors continued

#### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group is currently financed from shareholders' equity and borrowings.

The Group's liquidity risk on derivative financial instruments is disclosed in Note 28.

The following table 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 | Between 2 to 5 years USD'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Trade and other payables (excluding due to customers on contracts) (Note 29) | **168,923** | **–** | **–** | **–** |
| Derivative financial instruments (Note 28) | **269** | **–** | **–** | **–** |
| Borrowings (Note 31) | **98,979** | **100,456** | **20,456** | **80,000** |
| | **268,171** | **100,456** | **20,456** | **80,000** |
| **31 December 2013** | | | | |
| Trade and other payables (excluding due to customers on contracts and dividend payable) (Note 29) | 234,744 | 234,744 | 234,744 | – |
| Borrowings (Note 31) | 160,751 | 161,987 | 56,987 | 105,000 |
| | 395,495 | 396,731 | 291,731 | 105,000 |

### 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.

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

### 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).

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

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Derivative financial instruments (Note 28) | **–** | **69** | **–** | **69** |
| **31 December 2013** | | | | |
| Derivative financial instruments (Note 28) | – | 161 | – | 161 |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 3 Financial risk management continued

#### 3.3 Fair value estimation continued

The following table presents the Group's liabilities that are measured at fair value at 31 December 2014:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Derivative financial instruments (Note 28) | – | **269** | – | **269** |

There were no liabilities at 31 December 2013 measured at fair value.

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 4.4 million (2013: USD 28.3 million) if the total costs to complete are decreased by 10% and the revenue and profit decreasing by USD 4.4 million (2013: USD 29.7 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' ("$CGU_1$").

The recoverable amount of $CGU_1$ is determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

The amount of headroom is USD 290.6 million (2013: USD 187.1 million).

If the revenue growth rate used was to differ by 0.5% from management's estimates, in isolation, there would be a reduction of USD 5.7 million (2013: USD 3 million) in the headroom if the revenue growth rate was lower or the headroom would be higher by USD 5.7 million (2013: USD 3 million) if the revenue growth rate was higher.

If the discount rate used was to differ by 0.5% from management's estimates, in isolation, there would be a reduction in the headroom of USD 55.2 million (2013: USD 27.6 million) if the discount rate was to increase or an increase in the headroom by USD 63.5 million (2013: USD 31.2 million) if the discount rate was to decrease.

If the net profit as a percentage of revenue used was to differ by 0.5% from management's estimates, in isolation, there would be an increase of USD 62.1 million (2013: USD 56.1 million) in the headroom if the net profit was to increase or there would be an reduction in the headroom of USD 62.1 million (2013: USD 56.1 million) in the headroom if the net profit was to decrease.

If the terminal value growth rate used was to differ by 0.5% from management's estimates, in isolation, there would be a reduction in the headroom of USD 43.4 million (2013: USD 19.9 million) if the terminal value growth rate was lower or an increase in the headroom of USD 49.8 million (2013: USD 22.5 million) if the terminal value growth rate was higher.

## 4 Critical accounting estimates and judgements continued

### 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% (2013: 5%). A discount rate of 10.46% (2013: 11.48%) is used to discount the pre-tax cash flows projections to the present value. In determining the appropriate discount rate, the Group considers the weighted average cost of capital employed, which takes into consideration the risk free rate of US treasury bonds with the long-term maturity period, UAE inflation rate, equity risk premium on the entities operating from UAE, Group's beta and cost of Group's debt.

The amount of headroom is USD 381.7 million (2013: USD 45 million).

If the revenue growth rate used was to differ by 0.5% from management's estimates, in isolation, the headroom would be lower by USD 5.8 million (2013: USD 3.1 million) if the revenue growth rate was decreased or the headroom would be higher by USD 5.8 million (2013: USD 3.1 million) if the revenue growth rate was increased.

If the discount rate used was to differ by 0.5% from management's estimates, in isolation, the headroom would be lower by USD 56.7 million (2013: USD 27.5 million) if the discount rate was increased or the headroom would be higher by USD 65.4 million (2013: USD 31.1 million) if the discount rate was decreased.

If the net profit as a percentage of revenue was to differ by 0.5% from management's estimates, in isolation, the headroom would be lower by USD 63.2 million (2013: impairment charge of USD 56.4 million) if the net profit as a percentage of revenue was lower or the headroom would be higher by USD 63.2 million (2013: USD 56.4 million) if the net profit as a percentage of revenue was higher.

If the terminal value growth rate was to differ by 0.5% from management's estimates, in isolation, the headroom would be lower by USD 44.7 million (2013: USD 19.8 million) if the terminal value growth rate was lower or the headroom would be higher by USD 51.4 million (2013: USD 22.4 million) if the terminal value growth rate was increased.

### 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 for corporate bonds and no market for 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 3.5% (2013: 4.25%). If the discount rate used was to differ by 0.5 points from management's estimates, the carrying amount of the employee end of the service benefits provision at the balance sheet date would be an estimated USD 1.5 million (2013: USD 1.3 million) lower or USD 1.6 million (2013: USD 1.4 million) higher. If the salary growth 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 1.5 million (2013: USD 1.5 million) higher or USD 1.6 million (2013: USD 1.4 million) lower.

## 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"), Sunbelt, Engineering and Construction ("E&C") and Operations and Management ("O&M").

SHJ, HAM, JBA and LRS are reported as a single segment (Segment A). Services provided from Sunbelt, E&C and O&M 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.

# NOTES TO THE FINANCIAL STATEMENTS
## CONTINUED

### 5 Segment information continued

Sunbelt derives its revenue from safety and training services, E&C derives its revenue from site works, compression and chemicals and O&M derives its revenue from the labour supply and other operations and maintenance services.

| | Segment A USD'000 | All other segments USD'000 | Total USD'000 |
|---|---|---|---|
| **Year ended 31 December 2014** | | | |
| Total segment revenue | **1,009,582** | **87,898** | **1,097,480** |
| Inter-segment revenue | **–** | **(12,590)** | **(12,590)** |
| Revenue from external customers | **1,009,582** | **75,308** | **1,084,890** |
| Gross operating profit | **199,000** | **36,803** | **235,803** |
| **Year ended 31 December 2013** | | | |
| Total segment revenue | 1,009,818 | 71,082 | 1,080,900 |
| Inter-segment revenue | (525) | (7,564) | (8,089) |
| Revenue from external customers | 1,009,293 | 63,518 | 1,072,811 |
| Gross operating profit | 127,881 | 31,665 | 159,546 |

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 profit is provided as follows:

| | **2014 USD'000** | 2013 USD'000 |
|---|---|---|
| Gross operating profit for the reportable segment as reported to the Executive Directors | **199,000** | 127,881 |
| Gross operating profit for all other segments as reported to the Executive Directors | **36,803** | 31,665 |
| Unallocated: | | |
| Under-absorbed employee and equipment costs | **(11,841)** | (9,819) |
| Repairs and maintenance | **(21,776)** | (13,168) |
| Yard rent and depreciation | **(15,249)** | (9,600) |
| Others | **(4,857)** | (6,965) |
| **Gross profit** | **182,080** | 119,994 |
| Selling and distribution expenses (Note 7) | **(1,773)** | (1,591) |
| General and administrative expenses (Note 9) | **(72,700)** | (61,278) |
| Other gains/(losses) – net (Note 12) | **1,456** | 1,535 |
| Finance costs (Note 11) | **(20,516)** | (22,959) |
| Finance income (Note 11) | **2,166** | 975 |
| Others | **2,507** | 19 |
| **Profit for the year from continuing operations** | **93,220** | 36,695 |

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.

## 5 Segment information continued

The breakdown of revenue from all services is as follows:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| New build activities – oil and gas | **715,946** | 580,200 |
| New build activities – renewables | **32,445** | 95,070 |
| Upgrade and refurbishment activities | **172,016** | 122,529 |
| Offshore construction | **81,902** | 195,619 |
| Others | **82,581** | 79,393 |
| | **1,084,890** | 1,072,811 |

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 1,075.2 million (2013: USD 1,057.3 million), and the revenue recognised from the operations in other countries is USD 9.7 million (2013: USD 15.5 million).

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

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| External customer A | **275,026** | 332,792 |
| External customer B | **155,768** | 147,830 |
| External customer C | **144,952** | 112,967 |
| | **575,746** | 593,589 |

The revenue from these customers is attributable to Segment A. The above customers in 2014 are not necessarily the same customers in 2013.

## 6 Cost of sales

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Materials and related costs | **420,939** | 410,149 |
| Subcontract costs | **187,357** | 223,406 |
| Staff costs (Note 10) | **163,614** | 186,638 |
| Subcontract labour | **38,394** | 54,887 |
| Equipment hire | **19,252** | 17,849 |
| Depreciation (Note 16) | **23,979** | 16,991 |
| Repairs and maintenance | **21,776** | 13,167 |
| Yard rent | **6,707** | 5,966 |
| Warranty costs – net (Note 30) | **6,989** | 5,400 |
| Others | **13,803** | 18,364 |
| | **902,810** | 952,817 |

## 7 Selling and distribution expenses

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Travel | **1,055** | 945 |
| Advertising and marketing | **480** | 498 |
| Entertainment | **144** | 96 |
| Others | **94** | 52 |
| | **1,773** | 1,591 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 8 Share based payments

**Group**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Amount of share based charge (Note 10): | | |
| – relating to free share plan | **143** | 610 |
| – relating to executive share option plan | **15** | – |
| – relating to performance share plan | **926** | 391 |
| | **1,084** | 1,001 |

**Company**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Amount of share based charge: | | |
| – relating to free share plan | **11** | – |
| – relating to executive share option plan | **15** | – |
| – relating to performance share plan | **92** | – |
| | **118** | – |

**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 |
|---|---|---|---|---|
| **2012** | | | | |
| 26 April 2012 | 287,500 | 24 months | £3.49 | – |
| **2014** | | | | |
| 30 June 2014 | 40,000 | 36 months | £1.55 | – |
| 18 November 2014 | 122,499 | 36 months | £1.41 | – |
| | **162,499** | | | |

A charge of USD 143,000 (2013: USD 610,000) 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 11,000 (2013: Nil).

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

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 2013** | 217,500 |
| Shares lapsed due to non-satisfaction of vesting conditions | (90,000) |
| **Shares expected to vest in future periods at 31 December 2013** | 127,500 |
| Shares granted under the free share awards | 162,499 |
| Shares vested under the free share awards | (127,500) |
| **Shares expected to vest in future periods at 31 December 2014** | **162,499** |

## 8 Share based payments continued

### 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 10 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 and 2013** | | – | | |
| Granted during the year | 1.41 | 340,855 | 17 November 2017 | 27 November 2027 |
| **At 31 December 2014** | | **340,855** | | |

5,876 options under this plan were vested on the due date but not exercised or lapsed at 31 December 2014 (2013: 5,876).

A charge of USD 15,000 (2013: Nil) 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 15,000 (2013: Nil).

### 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 | – |
| **2014** | | | | | |
| 30 June 2014 | 1,080,142 | 36 months | £1.35 | No | – |
| 30 June 2014 | 470,000 | 36 months | £1.55 | No | – |
| 18 November 2014 | 321,691 | 24 months | £1.41 | No | – |
| 18 November 2014 | 321,691 | 36 months | £1.23 | No | – |
| | **2,193,524** | | | | |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 8 Share based payments continued
**Performance share plan** continued

Accordingly, a charge of USD 926,000 (2013: USD 439,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. During 2014, this includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 92,000 (2013: Nil).

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 2013** | 271,388 |
| Shares lapsed due to non-satisfaction of vesting conditions | (113,917) |
| **Shares expected to vest in future periods at 31 December 2013** | 157,471 |
| Shares granted under performance share plan | 2,193,524 |
| Shares vested under performance share plan | (60,080) |
| Shares lapsed due to non-satisfaction of vesting conditions | (34,333) |
| **Shares expected to vest in future periods at 31 December 2014** | **2,256,582** |

### 9 General and administrative expenses

| | **2014 USD'000** | 2013 USD'000 |
|---|---|---|
| Staff costs (Note 10) | **38,519** | 31,934 |
| Legal, professional and consultancy fees | **5,067** | 5,306 |
| Depreciation (Note 16) | **3,627** | 5,068 |
| Amortisation of intangible assets (Note 17) | **11,895** | 9,416 |
| Utilities and communication | **718** | 634 |
| Provision for impairment of trade receivables, net of amounts recovered | **6,871** | 1,804 |
| Bank charges | **286** | 252 |
| Others | **5,717** | 6,864 |
| | **72,700** | 61,278 |

### 10 Staff costs

| | **2014 USD'000** | 2013 USD'000 |
|---|---|---|
| Wages and salaries | **116,490** | 127,572 |
| Employees' end of service benefits (Note 27) | **6,229** | 5,872 |
| Share based payments – value of services provided (Note 8) | **1,084** | 1,001 |
| Other benefits | **78,330** | 84,127 |
| | **202,133** | 218,572 |
| Staff costs are included in: | | |
| Cost of sales (Note 6) | **163,614** | 186,638 |
| General and administrative expenses (Note 9) | **38,519** | 31,934 |
| | **202,133** | 218,572 |
| Number of employees at 31 December | **6,912** | 7,482 |

## 10 Staff costs continued

Directors' remuneration comprises:

| | Salary 2014 USD'000 | Fees 2014 USD'000 | Allowances & benefits 2014 USD'000 | Share based payments value of services provided 2014 USD'000 | Post employment benefits 2014 USD'000 | Total 2014 USD'000 | Total 2013 USD'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Jim Moffat[1] | **753** | **–** | **887** | **107** | **76** | **1,823** | 1,652 |
| Joanne Curin[2] | **431** | **–** | **129** | **–** | **1,610** | **2,170** | 312 |
| Frank Nelson[3] | **–** | **–** | **–** | **–** | **–** | **–** | 1,261 |
| **Non-Executive Directors** | | | | | | | |
| John Kennedy | **–** | **307** | **–** | **11** | **–** | **318** | 290 |
| Peter Whitbread[4] | **-** | **96** | **–** | **–** | **–** | **96** | 1,556 |
| Michael Press[5] | **–** | **146** | **–** | **–** | **–** | **146** | 82 |
| John Malcolm[6] | **–** | **125** | **–** | **–** | **–** | **125** | 70 |
| Ellis Armstrong[7] | **–** | **121** | **–** | **–** | **–** | **121** | 68 |
| Jonathan Silver[8] | **–** | **–** | **–** | **–** | **–** | **–** | 58 |
| Deena Mattar[9] | **–** | **–** | **–** | **–** | **–** | **–** | 88 |
| Colin Goodall[10] | **–** | **–** | **–** | **–** | **–** | **–** | 58 |
| | **1,184** | **795** | **1,016** | **118** | **1,686** | **4,799** | 5,495 |

The emoluments of the highest paid Director were USD 2.2 million (2013: USD 1.6 million) and these principally comprised salary, bonus, benefits and one-off payment amounting to USD 1.6 million paid with respect to loss of office and is disclosed as a part of post-employment benefits.

1. Appointed as Chief Executive Officer and Director on 1 March 2013.
2. Appointed as Chief Financial Officer and Director on 1 October 2013 and resigned with effect from 17 November 2014.
3. Appointed as Interim Chief Financial Officer on 4 October 2012; appointed Chief Financial Officer and Director on 21 March 2013 and resigned as Chief Financial Officer and Director with effect from 31 October 2013.
4. Appointed as Interim Chief Executive Officer and Director on 4 October 2012; retired as Interim Chief Executive Officer with effect from 1 March 2013; retired as Director with effect from 30 June 2013 and appointed as Non-Executive Director on 1 July 2013.
5. Appointed as Non-Executive Director on 27 May 2013.
6. Appointed as Non-Executive Director on 27 May 2013.
7. Appointed as Non-Executive Director on 27 May 2013.
8. Appointed as Deputy Chairman with effect from 7 June 2012 and retired with effect from 27 May 2013.
9. Appointed as Non-Executive Director on 1 April 2012 and retired with effect from 27 May 2013.
10. Retired as Non-Executive Director with effect from 27 May 2013.

## 11 Finance costs – net

### Finance costs

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Bank guarantee charges | **11,232** | 5,906 |
| Interest on bank borrowings | **6,006** | 7,693 |
| Facility fees | **–** | 36 |
| Commitment fees | **1,728** | 431 |
| Others | **1,550** | 8,893 |
| | **20,516** | 22,959 |

The comparative number of 'Others' includes USD 8.4 million relating to expenses incurred during the process of covenant waivers and refinancing negotiations with lenders (Note 34).

### Finance income

Finance income comprises interest income on bank deposits of USD 2.17 million (2013: USD 0.98 million).

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 12 Other gains/(losses) – net

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Exchange gain/(loss) – net | **1,164** | 468 |
| Profit/(loss) on disposal of property, plant and equipment | **162** | (385) |
| Fair value gain on derivatives | **(156)** | 501 |
| Others | **286** | 951 |
| | **1,456** | 1,535 |

## 13 Earnings per share

### (a) Basic
Basic earnings per share is calculated by dividing the 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 25).

### (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 the executive share option plan and the 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.

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| The calculations of earnings per share are based on the following profit and numbers of shares: | | |
| Profit for the year | **118,057** | 36,443 |
| Weighted average number of shares for basic earnings per share | **315,591,024** | 287,546,196 |
| Adjustments for: | | |
| Assumed exercise of the free share awards | **3,640** | 65,725 |
| Assumed vesting of the performance share plan | **242,361** | 38,419 |
| Weighted average number of shares for diluted earnings per share | **315,837,025** | 287,650,340 |
| Weighted average number of shares for basic earnings per share (previously stated) | | 260,348,415 |
| Impact of bonus element of the rights issue | | 27,546,196 |
| Weighted average number of shares for basic earnings per share (revised) | | 287,546,196 |
| Earnings per share: | | |
| Basic | **37.41c** | 12.67c |
| Diluted | **37.38c** | 12.67c |
| | | |
| Earnings per share from continued operations: | | |
| Basic | **29.54c** | 12.76c |
| Diluted | **29.52c** | 12.76c |
| Earnings/(loss) per share from discontinued operations: | | |
| Basic | **7.87c** | (0.09)c |
| Diluted | **7.86c** | (0.09)c |

On 26 June 2014, the Company announced a rights issue of five shares for every 16 shares held at a discounted price of 88 pence per share resulting in the issue of 81,363,469 new ordinary shares (Note 25). The calculation of the weighted average number of ordinary shares for the current period was affected by the issue of the new ordinary shares. The Group has treated the discount element of the rights issue as if it were a bonus issue, using the theoretical ex-rights price of 132 pence per share. The effect of this is to increase the weighted average number of shares reported in the prior period, with a resulting reduction in the reported basic and diluted earnings per share for the previous period. The adjustment factor, to effect the increase in the weighted average number of shares, has been calculated by dividing the share price immediately before the shares were quoted ex-rights (146p) with the theoretical ex-rights price (132p), giving an adjustment factor of 1.104. These adjustments to the comparative EPS calculations do not impact the consolidated income statement and consolidated balance sheet previously reported.

## 14 Operating profit

### (a) Operating profit

Operating profit (from continuing operations) is stated after charging/recognising:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Depreciation (Note 16) | **27,606** | 22,091 |
| Operating lease rentals – land and buildings | **16,609** | 16,891 |
| Provision for impairment of trade receivables | **7,798** | 2,841 |

### (b) Auditor's remuneration

Services provided by the Group's auditors and its associates comprised:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Auditor's remuneration – audit and related services | **663** | 530 |
| Auditor's remuneration – taxation and other services | **229** | 354 |
| Auditor's remuneration – other services[1] | **643** | 1,267 |

1. Other services in 2014 mainly comprise capital markets support for the rights issue and are included as a part of transaction costs in Note 25. Comparative numbers mainly relate to the rights issue, debt restructuring fees and project reviews.

## 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

| | Classification | 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| Derivative financial instruments (Note 28) | Fair value through profit or loss | **69** | 161 |
| Trade receivables – net of provision (Note 21) | Loans and receivables | **37,000** | 150,446 |
| Other receivables excluding prepayments | Loans and receivables | **8,315** | 8,095 |
| Due from related parties (Note 24) | Loans and receivables | **68** | 197 |
| Cash and bank balances (Note 22) | Loans and receivables | **371,625** | 344,573 |
| | | **417,077** | 503,472 |

#### Liabilities as per balance sheet

| | Classification | 2014 USD'000 | 2013 USD'000 |
|---|---|---|---|
| Derivative financial instruments (Note 28) | Fair value through profit or loss | **269** | – |
| Trade payables (Note 29) | Loans and borrowings | **30,754** | 31,247 |
| Accruals (Note 29) | Loans and borrowings | **138,169** | 203,497 |
| Provision for warranty costs and other liabilities (Note 30) | Loans and borrowings | **15,812** | 5,400 |
| Borrowings (Note 31) | Loans and borrowings | **98,979** | 160,751 |
| | | **283,983** | 400,895 |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 15 Financial instruments by category continued

**Company**

Assets as per balance sheet

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Cash at bank | 286 | 103 |
| Due from related parties (Note 24) | 110,191 | 7,631 |
| Other receivables | 507 | 369 |
| | 110,984 | 8,103 |

Liabilities as per balance sheet

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Due to related parties (Note 24) | – | 12,334 |
| Accruals | 2,487 | 29 |
| | 2,487 | 12,363 |

**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:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| **Trade receivables** | | |
| Group A | 17,127 | 10,425 |
| Group B | 976 | 96,257 |
| Group C | 2,088 | 2,941 |
| | 20,191 | 109,623 |

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.

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| **Derivative financial instruments** | | |
| Fitch's ratings | | |
| A+ | 23 | – |
| AA- | 46 | 161 |
| | 69 | 161 |

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

### 15 Financial instruments by category continued

**Credit quality of financial assets** continued

**Group** continued

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| **Cash at bank and short-term bank deposits** | | |
| Fitch's ratings | | |
| AA- | **242,865** | 234,283 |
| A+ | **124,745** | 100,245 |
| A | **1,564** | 8,977 |
| A- | **395** | – |
| B | **917** | – |
| B+ | **–** | 280 |
| BBB+ | **–** | 117 |
| BBB- | **104** | 14 |
| Not rated | **202** | 188 |
| | **370,792** | 344,104 |
| Cash in hand | **833** | 469 |
| Cash at bank and in hand (Note 22) | **371,625** | 344,573 |

**Company**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Due from related parties (Note 24) | **110,191** | 7,631 |

Due from related parties is neither past due nor impaired.

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| **Cash at bank** | | |
| Fitch's ratings | | |
| AA- | **286** | – |
| A | **–** | 103 |
| | **286** | 103 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 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 2013 | 109,304 | 128,134 | 15,999 | 4,671 | 11,909 | 270,017 |
| Additions | 5,547 | 2,054 | 792 | 300 | 3,314 | 12,007 |
| Transfers | 10,359 | 416 | 314 | 13 | (11,102) | – |
| Assets of disposal group classified as held for sale (Note 23) | (1,303) | (10,030) | (871) | (1,577) | (432) | (14,213) |
| Other disposals | (675) | (3,721) | (27) | (885) | – | (5,308) |
| At 31 December 2013 | 123,232 | 116,853 | 16,207 | 2,522 | 3,689 | 262,503 |
| Additions | 1,991 | 8,842 | 1,978 | 1,113 | 4,944 | 18,868 |
| Transfers | 1,445 | 1,332 | 154 | 315 | (3,246) | – |
| Assets of disposal group classified as held for sale (Note 23) | – | – | (820) | (95) | – | (915) |
| Other disposals | (48) | (643) | (109) | (766) | – | (1,566) |
| **At 31 December 2014** | **126,620** | **126,384** | **17,410** | **3,089** | **5,387** | **278,890** |
| **Depreciation** | | | | | | |
| At 1 January 2013 | 21,551 | 67,136 | 12,208 | 3,273 | – | 104,168 |
| Charge for the year | 6,542 | 14,413 | 2,502 | 527 | – | 23,984 |
| Accumulated depreciation of disposal group classified as held for sale (Note 23) | (465) | (7,191) | (716) | (1,021) | – | (9,393) |
| Other disposals | (356) | (3,544) | (24) | (655) | – | (4,579) |
| At 31 December 2013 | 27,272 | 70,814 | 13,970 | 2,124 | – | 114,180 |
| Charge for the year | 9,042 | 14,052 | 3,485 | 1,075 | – | 27,654 |
| Accumulated depreciation of disposal group classified as held for sale (Note 23) | – | – | (781) | (95) | – | (876) |
| Other disposals | (41) | (588) | (88) | (694) | – | (1,411) |
| **At 31 December 2014** | **36,273** | **84,278** | **16,586** | **2,410** | **–** | **139,547** |
| **Net book value** | | | | | | |
| **At 31 December 2014** | **90,347** | **42,106** | **824** | **679** | **5,387** | **139,343** |
| At 31 December 2013 | 95,960 | 46,039 | 2,237 | 398 | 3,689 | 148,323 |

Buildings have been constructed on land, leased on a renewable basis from various Government Authorities. The remaining lives of the leases range between two to nineteen 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.

Property, plant and equipment amounting to USD 124.8 million are under lien against the bank facilities (Note 31).

A depreciation expense of USD 24 million (2013: USD 17 million) has been charged to cost of sales; USD 3.6 million (2013: USD 5.1 million) to general and administrative expenses (Notes 6 and 9) and USD 0.05 million (2013: USD 1.9 million) is presented within profit for the year from discontinued operations (Note 23).

## 17 Intangible assets

| | Goodwill USD'000 | Trade name USD'000 | Customer relationships USD'000 | Leasehold rights USD'000 | Software USD'000 | Work-in-progress USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2013 | 180,539 | 22,335 | 19,323 | 8,338 | 1,536 | – | 232,071 |
| Additions | – | – | – | – | – | 2,615 | 2,615 |
| At 31 December 2013 | 180,539 | 22,335 | 19,323 | 8,338 | 1,536 | 2,615 | 234,686 |
| Additions | – | – | – | – | 56 | 3,539 | 3,595 |
| Transfers | – | – | – | – | 2,777 | (2,777) | – |
| **At 31 December 2014** | **180,539** | **22,335** | **19,323** | **8,338** | **4,369** | **3,377** | **238,281** |
| **Amortisation** | | | | | | | |
| At 1 January 2013 | – | 4,129 | 7,045 | 899 | 171 | – | 12,244 |
| Charge for the year (Note 9) | – | 2,641 | 4,831 | 579 | 1,365 | – | 9,416 |
| At 31 December 2013 | – | 6,770 | 11,876 | 1,478 | 1,536 | – | 21,660 |
| Charge for the year (Note 9) | – | 3,765 | 7,447 | 488 | 195 | – | 11,895 |
| **At 31 December 2014** | **–** | **10,535** | **19,323** | **1,966** | **1,731** | **–** | **33,555** |
| **Net book value** | | | | | | | |
| **At 31 December 2014** | **180,539** | **11,800** | **–** | **6,372** | **2,638** | **3,377** | **204,726** |
| At 31 December 2013 | 180,539 | 15,565 | 7,447 | 6,860 | – | 2,615 | 213,026 |

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

Leasehold rights represent a favourable operating right acquired upon the acquisition of MIS and existing leasehold 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 of 11 to 19 years.

Work-in-progress represents the cost incurred towards the implementation of new Enterprise Resource Planning software ("ERP software"). During 2012, the implementation of the old ERP software was discontinued and the usable portion of USD 1.5 million was transferred to software, and amortised until 31 December 2013.

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 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 require the use of estimates. These calculations use pre-tax cash flow projections based on Group budget covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax and reflect specific risks to the relevant cash generating unit.

The key assumptions, revenue growth rate, discount rate, net profit rate and terminal value growth rate used in the value-in-use calculations are as follows:

| | **2014** | 2013 |
|---|---|---|
| Revenue growth rate[1] | **5%** | 5% |
| Discount rate[2] | **10.55%** | 11.48% |
| Net profit rate[3] | **5%** | 3% |
| Terminal value growth rate[4] | **3.25%** | 3.25% |

1. Revenue growth rate for the first three-year period is based on the Group budget. Beyond this period the growth rate is determined based upon past performance and management expectations of future market development.
2. In determining the appropriate discount rate, the Group considers the weighted average cost of capital employed, which takes into consideration the risk free rate of US treasury bonds with the long-term maturity period, UAE inflation rate, Equity risk premium on the entities operating from UAE, Group's beta and cost of Group's debt.
3. Net profit rate for the first three-year period is based on the Group budget. Beyond this period net profit rate is determined based upon management expectations of future market development taking into consideration Group's financial recovery when compared to previous year, its lower cost of debt from refinancing and implementation of strong cost discipline improved productivity initiatives.
4. Terminal value growth rate is based upon management expectations of future market development.

# NOTES TO THE FINANCIAL STATEMENTS
## CONTINUED

### 18 Investment in subsidiaries

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Balance at 1 January | **592,781** | 591,732 |
| Share based payments to employees of subsidiaries in accordance with IFRS 2 | **966** | 1,049 |
| Balance at 31 December | **593,747** | 592,781 |

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 18 to 36 months. Accordingly, the proportionate share based charge for the year of USD 0.2 million (2013: USD 1 million) has been recorded as an increase in investment in subsidiaries with a corresponding credit to retained earnings.

### 19 Investment accounted for using the equity method

**Investment in a joint venture**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Balance at 1 January | **5,615** | 4,679 |
| Dividend received during the year | **(3,488)** | (174) |
| Share of profit for the year | **2,991** | 1,110 |
| | **5,118** | 5,615 |

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

During 2012, 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"). The joint venture did not form in the stipulated time and this agreement was allowed to lapse on 6 February 2014. There was no outflow from the Group in the form of investment. The Group is still actively engaged in the set-up of these operations outside the JV structure.

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 |
|---|---|---|---|
| Maritime Industrial Services Arabia Co. Ltd. ("MISA")[1] | Jubail, Kingdom of Saudi Arabia | 30% | Operational |

1. Production, manufacturing and erection of heat exchangers, pressure vessels, tanks, structural steel, piping and other related activities.

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

MISA

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Total non-current assets | **5,450** | 6,701 |
| Total current assets | **24,684** | 25,172 |
| Total non-current liabilities | **(2,152)** | (1,836) |
| Total current liabilities (excluding income tax payable) | **(8,117)** | (9,555) |
| Net assets (excluding income tax payable) | **19,865** | 20,482 |
| Income tax payable | **(1,232)** | (781) |
| Net assets | **18,633** | 19,701 |
| Group's share of joint venture's net assets (excluding income tax payable) – 30% | **5,960** | 6,145 |
| Group's share of joint venture's income tax payable | **(842)** | (530) |
| Group's share of joint venture's net assets – net of Group's share of income tax | **5,118** | 5,615 |
| Revenue | **39,824** | 40,328 |
| Expenses | **(27,037)** | (35,537) |
| Profit before tax | **12,787** | 4,791 |
| Group's share of joint venture's net profit – net of Group's share of income tax | **2,991** | 1,110 |

MISA is a private company and there is no quoted market price available for its shares.

## 19 Investment accounted for using the equity method continued

### Investment in a joint venture continued

This Group has the following contingencies and commitments relating to Group's interest in the joint venture.

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Letters of credit | – | 52 |
| Letters of guarantee | 1,695 | 2,296 |
| Operating lease commitments | 187 | 210 |

## 20 Inventories

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Raw materials and consumables | 16,301 | 13,403 |
| Less: Provision for slow moving and obsolete inventories | (1,741) | (1,718) |
| | 14,560 | 11,685 |

The cost of inventories recognised as an expense and included in cost of sales amounted to USD 23.9 million (2013: USD 43.6 million).

## 21 Trade and other receivables

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Trade receivables | 48,622 | 158,161 |
| Other receivables and prepayments | 21,620 | 16,068 |
| Advance to suppliers | 6,533 | 811 |
| Receivables from a related party (Note 24) | 68 | 197 |
| | 76,843 | 175,237 |
| Less: Provision for impairment of trade receivables | (11,622) | (7,715) |
| | 65,221 | 167,522 |
| Amounts due from customers on contracts | 185,476 | 57,557 |
| Contract work in progress (Note 2.2) | 152,922 | 102,239 |
| | 403,619 | 327,318 |

| | | |
|---|---|---|
| Non-current portion: | | |
| Advance to suppliers | 4,932 | – |
| Current portion | 398,687 | 327,318 |

| | | |
|---|---|---|
| Amounts due from customers on contracts comprise: | | |
| Costs incurred to date | 1,042,589 | 618,302 |
| Attributable profits | 190,090 | 113,562 |
| | 1,232,679 | 731,864 |
| Less: Progress billings | (1,047,203) | (674,307) |
| | 185,476 | 57,557 |

An analysis of trade receivables is as follows:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Fully performing | 20,191 | 109,623 |
| Past due but not impaired | 16,809 | 40,823 |
| Impaired | 11,622 | 7,715 |
| | 48,622 | 158,161 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

### 21 Trade and other receivables continued

At 31 December 2014, trade receivables of USD 16.8 million (2013: USD 40.8 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:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Up to three months | **11,524** | 18,456 |
| Three to six months | **3,173** | 10,311 |
| Over six months | **2,112** | 12,056 |
| | **16,809** | 40,823 |

At 31 December 2014, trade receivables of USD 11.6 million (2013: USD 7.7 million) were impaired and provided for. The individually impaired receivables mainly relate to customers who are in a difficult economic situation. The ageing analysis of these trade receivables is as follows:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Not yet overdue | **3,090** | – |
| Over six months | **8,532** | 7,715 |
| | **11,622** | 7,715 |

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

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

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| At 1 January | **7,715** | 7,997 |
| Provision for impairment of receivables | **8,328** | 3,030 |
| Receivables written off during the year as uncollectable | **(2,774)** | (632) |
| Amounts recovered during the year | **(1,116)** | (1,226) |
| Reclassified as asset held for sale | **(531)** | (1,454) |
| At 31 December | **11,622** | 7,715 |

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.

### 22 Cash and bank balances

**Group**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Cash at bank and on hand | **82,945** | 48,738 |
| Term deposits and margin deposits – current | **276,163** | 295,835 |
| Cash and bank balances | **359,108** | 344,573 |
| Term deposits and margin deposits – non-current | **12,517** | – |
| Less: Margin/short-term deposits under lien | **(12,312)** | (16,500) |
| Less: Deposits with original maturity of more than three months | **(46,961)** | (52,594) |
| Cash and cash equivalents (for the purpose of the cash flow statement) | **312,352** | 275,479 |

At 31 December 2014, the cash at bank and term deposits were held with 15 (2013: 15) banks. The effective interest rate on short-term deposits was 0.51% (2013: 0.54%) per annum. Margin and short-term deposits of USD 12.3 million (2013: USD 16.5 million) and deposits with an original maturity of more than three months amounting to USD 37.3 million (2013: USD 50.6 million) are held under lien against guarantees issued by the banks (Note 36).

**Company**

Cash at bank comprises of cash held with one bank.

## 23 Non-current assets held for sale and discontinued operations

### Discontinued operations

Profit/(loss) from discontinued operations comprises:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Inspec USD'000 | Litwin USD'000 | Total USD'000 | Inspec USD'000 | Litwin USD'000 | Total USD'000 |
| Revenue | 3,008 | 16,385 | 19,393 | 20,842 | 18,960 | 39,802 |
| Cost of sales | (2,080) | (21,082) | (23,162) | (13,821) | (23,701) | (37,522) |
| General and administrative expenses | (193) | (2,550) | (2,743) | (1,421) | (1,009) | (2,430) |
| Other gains/losses – net | 2 | 280 | 282 | 110 | 1 | 111 |
| Finance costs – net | – | (203) | (203) | (3) | (210) | (213) |
| Profit from discontinued operations | 737 | (7,170) | (6,433) | 5,707 | (5,959) | (252) |
| Re-measurement of post-employment benefit obligations | – | 13 | 13 | (260) | 616 | 356 |
| Total comprehensive income arising from discontinued operations | 737 | (7,157) | (6,420) | 5,447 | (5,343) | 104 |

The main elements of the cash flows are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Inspec USD'000 | Litwin USD'000 | Total USD'000 | Inspec USD'000 | Litwin USD'000 | Total USD'000 |
| Operating cash flows | 2,954 | 5,315 | 8,269 | 6,336 | 1,287 | 7,623 |
| Investing cash flows | (74) | 30 | (44) | (1,645) | (840) | (2,485) |
| Financing cash flows | – | (203) | (203) | (4,753) | (210) | (4,963) |
| Total cash flows | 2,880 | 5,142 | 8,022 | (62) | 237 | 175 |

### Inspec

During 2013, the Group decided to dispose of one of its subsidiaries (Inspec). This transaction was completed on 3 March 2014.

### Litwin

During the year, the Group decided to dispose of one of its subsidiaries (Litwin), which at the balance sheet date, meets the criteria for assets held for sale and discontinued operations as per IFRS 5. On 1 December 2014 the Group entered into a share purchase agreement with the potential buyer to sell this entity. This transaction is not complete as at the date of signing of these financial statements.

### Disposal group

The major classes of assets and liabilities of disposal group are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Inspec USD'000 | Litwin USD'000 | Total USD'000 | Inspec USD'000 | Litwin USD'000 | Total USD'000 |
| **Assets classified as held for sale** | | | | | | |
| Property, plant and equipment (Note 16) | – | 39 | 39 | 4,820 | – | 4,820 |
| Inventories | – | – | – | 460 | – | 460 |
| Trade and other receivables (net of provision for impairment of trade receivables) | – | 8,543 | 8,543 | 16,922 | – | 16,922 |
| Cash and bank balances | – | 6,646 | 6,646 | 1,641 | – | 1,641 |
| | – | 15,228 | 15,228 | 23,843 | – | 23,843 |
| **Liabilities classified as held for sale** | | | | | | |
| Provision for employees' end of service benefits (Note 27) | – | 333 | 333 | 1,487 | – | 1,487 |
| Trade and other payables | – | 10,213 | 10,213 | 3,345 | – | 3,345 |
| | – | 10,546 | 10,546 | 4,832 | – | 4,832 |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 23 Non-current assets held for sale and discontinued operations continued

**Disposal group** continued

The commitments of the disposal group are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Inspec USD'000 | Litwin USD'000 | Total USD'000 | Inspec USD'000 | Litwin USD'000 | Total USD'000 |
| Operating lease commitments | – | – | – | 107 | – | 107 |
| Capital commitments for purchase of operating equipment | – | – | – | 127 | – | 127 |
| Bank guarantees | – | **9,395** | **9,395** | 23 | – | 23 |

Net cash inflow on the subsidiary disposed during the year is as follows:

Inspec

| | USD'000 |
|---|---|
| Property, plant and equipment | 4,618 |
| Inventories | 459 |
| Trade and other receivables | 18,246 |
| Cash and cash equivalents | 4,522 |
| Provision for employees' end of service benefits | (1,568) |
| Trade and other payables | (3,920) |
| Net assets | 22,357 |
| Merger reserve (Note 26) | 3,850 |
| Provision for minimum purchase obligations (Note 30) | 3,423 |
| Expenses on disposal | 2,411 |
| Provision for impairment of trade receivables | 1,934 |
| Provision for warranty | 1,000 |
| Gain on disposal | 31,270 |
| Cash consideration on disposal | 66,245 |
| Less: Expenses on disposal | (2,411) |
| Less: Cash and cash equivalents transferred as a part of disposal | (4,522) |
| Net cash inflow for the purpose of consolidated cash flow statement | 59,312 |

### 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 those 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:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Key management compensation | **8,746** | 7,074 |
| Legal and professional services | **730** | 1,221 |
| Sales to joint ventures | **267** | 416 |
| Purchases from joint ventures | **350** | 249 |
| Sponsorship fees and commissions paid to legal shareholders of subsidiaries (Note 1) | **866** | 382 |

## 24 Related party balances and transactions continued

**Key management compensation comprises:**

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Salaries and other employee benefits | **6,537** | 6,875 |
| Share based payments – value of services provided | **435** | – |
| Post-employment benefits | **1,774** | 199 |
| | **8,746** | 7,074 |

The terms of the employment contracts of the key management include reciprocal notice periods of between six to 12 months.

**Due from/due to related parties**

**Due from related parties**

Group

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| MISA (current) (Note 21) | **68** | 197 |

Company

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| MIS[1] | **10,972** | 7,500 |
| EBT[2] | **43** | 131 |
| LEL[3] | **99,176** | – |
| | **110,191** | 7,631 |

1. Primarily comprises a receivable in respect of management fees charged by the Company.
2. Primarily comprises of payments made for treasury shares acquired by EBT on behalf of the Group.
3. Primarily comprises a receivable in respect of amount advanced to LEL from the proceeds of the rights issue.

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.

**Due to related parties**

Company

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| LEL[1] | **–** | 12,331 |
| Inspec[1] | **–** | 3 |
| | **–** | 12,334 |

1. Comparative figures primarily comprises payables in respect of payments made on behalf of the Company.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## 25 Share capital and share premium
**Issued and fully paid ordinary shares**
Company

| | Equity share capital Number | Equity share capital USD'000 | Share premium USD'000 |
|---|---|---|---|
| At 1 January 2013 and 31 December 2013 | 260,363,101 | 23,552 | 211,776 |
| Add: New shares issued during the period | 81,363,469 | 6,794 | 112,785 |
| Less: Transaction costs relating to the rights issue | – | – | (8,566) |
| **At 31 December 2014** | **341,726,570** | **30,346** | **315,995** |

The total authorised number of ordinary shares is 400 million shares (2013: 400 million shares) with a par value of 5 pence per share (2013: 5 pence per share).

During the year, the Company successfully carried out a fully underwritten rights issue. The rights issue offered five new ordinary shares for every 16 ordinary shares held by each shareholder at an issue price of 88 pence per new ordinary share. The rights issue was fully subscribed and paid up as at 30 June 2014. The Company issued 81,363,469 new ordinary shares through the rights issue and received proceeds amounting to USD 119.6 million.

The paid-in capital from the rights issue is split between the par value of the shares issued (USD 6.8 million) and the share premium at the date of issue (USD 112.8 million) less any directly attributable transaction costs (USD 8.6 million). These new ordinary shares will rank pari passu in all respects with the existing ordinary shares, including the right to all future dividends and other distributions declared, made or paid.

During 2014, Lamprell plc employee benefit trust ("EBT") acquired 189,111 shares (2013: Nil) of the Company. The total amount paid to acquire the shares was USD 0.49 million (2013: Nil) and has been deducted from the consolidated retained earnings. During 2014, 187,580 shares (2013: Nil) amounting to USD 0.50 million (2013: Nil) were issued to employees on vesting of the free shares and 16,217 shares (31 December 2013: 14,686 shares) were held as treasury shares at 31 December 2014. The Company has the right to reissue these shares at a later date. These shares will be issued on the vesting of the free shares/performance shares/share options granted to certain employees of the Group.

## 26 Other reserves
Group

| | Legal reserve USD'000 | Merger reserve USD'000 | Translation reserve USD'000 | Total USD'000 |
|---|---|---|---|---|
| At 1 January 2013 | 96 | (22,422) | 257 | (22,069) |
| Currency translation differences | – | – | (66) | (66) |
| Transfer from retained earnings | 2 | – | – | 2 |
| At 31 December 2013 | 98 | (22,422) | 191 | (22,133) |
| Currency translation differences | – | – | (372) | (372) |
| Disposal of a subsidiary (Note 23) | – | 3,850 | – | 3,850 |
| **At 31 December 2014** | **98** | **(18,572)** | **(181)** | **(18,655)** |

### Legal reserve
The Legal reserve relates to subsidiaries (other than the subsidiaries incorporated in free zones) in the UAE and the 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, the Group acquired 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of USD 4 million. This acquisition was accounted for using the uniting of interests method and the difference between the purchase consideration (USD 4 million) and the share capital of Inspec (USD 0.2 million) was recorded in the Merger reserve. On the disposal of Inspec during the period, this reserve has been recycled to the consolidated income statement and presented as part of the gain on disposal of a subsidiary (Note 23).

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.

## 26 Other reserves continued

### Company

#### Other reserve

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| At 1 January and 31 December | **329,153** | 329,153 |

The other reserve of USD 329.2 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), reduced by the impairment charge of USD 379.7 million recorded in 2012. The other reserve is not available for distribution.

## 27 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 2014 and 2013 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

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| At 1 January | **36,046** | 38,095 |
| Current service cost | **4,739** | 5,287 |
| Interest cost | **1,701** | 1,198 |
| Actuarial losses | **3,742** | 737 |
| Benefits paid | **(7,143)** | (7,784) |
| Liabilities of disposal group classified as held for sale (Note 23) | **(333)** | (1,487) |
| At 31 December | **38,752** | 36,046 |

### Company

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| At 1 January | **75** | 918 |
| Current service cost | **64** | 106 |
| Interest cost | **4** | 15 |
| Actuarial (gains)/losses | **(45)** | 19 |
| Benefits paid | **(23)** | (983) |
| At 31 December | **75** | 75 |

### Group

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

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Current service cost | **4,626** | 4,757 |
| Interest cost | **1,603** | 1,115 |
| Total (included in staff costs) (Note 10) | **6,229** | 5,872 |

Of the total charge, USD 5.1 million (2013: USD 5.4 million) and USD 1.1 million (2013: USD 0.8 million) are included in cost of sales and general and administrative expenses (Note 6 and 9 respectively).

### Company

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Current service cost | **64** | 106 |
| Interest cost | **4** | 15 |
| Total (included in staff costs) | **68** | 121 |

The above charge of USD 0.07 million (2013: USD 0.1 million) is included in general and administrative expenses.

# NOTES TO THE FINANCIAL STATEMENTS
## CONTINUED

### 27 Provision for employees' end of service benefits continued

The principal actuarial assumptions used were as follows:

| | 2014 | 2013 |
|---|---|---|
| Discount rate | **3.50%** | 4.25% |
| Future salary increase: | | |
| Management and administrative employees | **3.00%** | 3.00% |
| Yard employees | **2.50%** | 2.50% |

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 for corporate bonds and no market for 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 3.5% (2013: 4.25%).

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 | |
|---|---|---|
| | 2014 | 2013 |
| **Yard employees:** | | |
| 20-29 years | **16%** | 16% |
| 30-44 years | **10%** | 10% |
| 45-59 years | **6%** | 6% |
| 60 years and above | **100%** | 100% |
| **Management and administrative employees:** | | |
| 20-29 years | **8%** | 8% |
| 30-44 years | **6%** | 6% |
| 45-54 years | **4%** | 4% |
| 55-59 years | **1%** | 1% |
| 60 years and above | **100%** | 100% |
| **Executive Directors:** | | |
| 35-39 years | **10%** | 10% |
| 40-64 years | **7%** | 7% |
| 65 years and above | **100%** | 100% |

### 28 Derivative financial instruments

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Notional contract amount USD'000 | Assets USD'000 | Liabilities USD'000 | Notional contract amount USD'000 | Assets USD'000 | Liabilities USD'000 |
| Derivatives held at fair value through profit or loss | **2,899** | **–** | **269** | 1,654 | 161 | – |
| Interest rate swaps | **100,000** | **69** | **–** | – | – | – |
| Total | **102,899** | **69** | **269** | 1,654 | 161 | – |
| Non-current portion: | | | | | | |
| Interest rate swaps | **80,000** | **55** | **–** | – | – | – |
| Current portion | **22,899** | **14** | **269** | 1,654 | 161 | – |

During 2014, the Group entered into an interest rate swap to switch floating interest rate to fixed interest rate on the Group's borrowings. 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 USD 100 million. This contract matures in various instalments within 57 months from the date of inception. The fair value at the 31 December 2014 of this derivative was USD 0.07 million.

### 28 Derivative financial instruments continued

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 EUR 20.8 million. This contract matured in various instalments within 22 months from the date of inception. The fair value at the 31 December 2013 of this derivative was USD 0.2 million. The fair value gain on derivative is recorded in 'other gains/(losses) – net' in the consolidated income statement.

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.

### 29 Trade and other payables

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Trade payables | **30,754** | 31,247 |
| Accruals | **138,169** | 203,497 |
| Amounts due to customers on contracts | **148,680** | 189,940 |
| Dividend payable | **–** | 18 |
| | **317,603** | 424,702 |
| Amounts due to customers on contracts comprise: | | |
| Progress billings | **477,583** | 1,116,466 |
| Less: Cost incurred to date | **(299,010)** | (883,808) |
| Less: Recognised profits | **(29,893)** | (42,718) |
| | **148,680** | 189,940 |

### 30 Provision for warranty costs and other liabilities

| | Warranty costs USD'000 | Minimum purchase obligations USD'000 | Total USD'000 |
|---|---|---|---|
| **At 1 January 2013** | – | – | – |
| Charge during the year | 5,400 | – | 5,400 |
| **At 31 December 2013** | 5,400 | – | 5,400 |
| Charge during the year | 9,000 | 3,423 | 12,423 |
| Released/utilised during the year | (2,011) | – | (2,011) |
| **At 31 December 2014** | **12,389** | **3,423** | **15,812** |

Warranty costs charged during the year relates to management's assessment of potential claims under contractual warranty provisions.

### 31 Borrowings

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Bank term loans | **98,979** | 160,751 |
| The bank borrowings are repayable as follows: | | |
| Current (less than 1 year) | **20,136** | 56,493 |
| Non-current (2 to 5 years) | **78,843** | 104,258 |
| | **98,979** | 160,751 |

At 31 December 2014, the Group has banking facilities of USD 939 million (2013: USD 781 million) with commercial banks. The facilities include bank overdrafts, letters of guarantees, letters of credit and short-term loans.

Bank facilities are secured by liens over term deposits of USD 49.6 million (2013: USD 67.1 million) (Note 22), 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, shares of certain subsidiaries, certain property, plant and equipment, movable assets, insurance policy, leasehold rights for land and certain contract related receivables.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 31 Borrowings continued

The borrowings are stated net of the unamortised arrangement fees and other transaction costs of USD 1.46 million (2013: USD 1.2 million) and accrued interest of USD 0.46 million (2013: USD 1.9 million).

The banking facilities relating to overdrafts and revolving facilities carry interest at LIBOR + 3%. However, the Group has entered into interest rate swaps against the variable interest rate into fixed interest rate of 1.2375% (2013: LIBOR + 6% to 8%).

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

On 11 August 2014, the Group signed an agreement with the lenders for a syndicated facility. This new facility will replace the Group's existing funded facility with a USD 350 million facility, comprising a USD 100 million term loan, USD 50 million for general working capital purposes and USD 200 million of working capital for project financing. In addition, the lending banks have agreed to arrange a committed USD 250 million bonding facility which may be used by the Group for project bonding requirements in connection with new contract awards. This new agreement will provide the Group with greater flexibility within its financial covenants than is currently available under its existing facilities and material savings from reduced interest margins and from lower bonding costs to Group's projects.

### 32 Profit of the Company

The profit of USD 2.1 million (2013: USD 0.2 million) in respect of the Company is included in these consolidated financial statements.

### 33 Dividends

There were no dividends declared or paid during the year 2014. At 31 December 2013 unpaid dividends amounted to USD 18,000 were in relation to the shares held by EBT, which were paid during the year.

### 34 Exceptional items

Items that are material either because of their size or their nature 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.

An analysis of the nature of expense is as follows:

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Refinancing expenses | – | 8,414 |

### 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 years and are renewable at mutually agreed terms.

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

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Not later than one year | 7,570 | 7,528 |
| Later than one year but not later than five years | 10,912 | 11,625 |
| Later than five years | 39,236 | 42,002 |
| | 57,718 | 61,155 |

#### (b) Other commitments

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Letters of credit for purchase of materials and operating equipment | – | 1,062 |
| Capital commitments for construction of facilities | 4,219 | 2,241 |
| Capital commitments for purchase of operating equipment and computer software | 14,966 | 1,954 |

## 36 Bank guarantees

| | 2014 USD'000 | 2013 USD'000 |
|---|---|---|
| Performance/bid bonds | **90,063** | 115,140 |
| Advance payment, labour visa and payment guarantees | **276,757** | 321,052 |
| | **366,820** | 436,192 |

The various bank guarantees, as above, were issued by the Group's bankers in the ordinary course of business. Certain guarantees are secured by 100% 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 guarantees. In the opinion of the management, the above bank guarantees are unlikely to result in any liability to the Group.

## 37 Cash generated from operating activities

| | | Year ended 31 December | |
|---|---|---|---|
| | Note | 2014 USD'000 | 2013 USD'000 |
| **Operating activities** | | | |
| Profit before income tax including discontinued operations | | **118,541** | 37,534 |
| Adjustments for: | | | |
| Share based payments – value of services provided | 8 | **1,084** | 1,049 |
| Depreciation | | **27,935** | 23,984 |
| Amortisation of intangible assets | 17 | **11,895** | 9,416 |
| Share of profit from investment in joint ventures | 19 | **(2,991)** | (1,110) |
| Provision for warranty costs | | **5,989** | 5,400 |
| (Profit)/loss on disposal of property, plant and equipment | | **(162)** | 362 |
| Provision for slow moving and obsolete inventories | 20 | **24** | (678) |
| Provision for impairment of trade receivables, net of amounts recovered | | **5,278** | 1,172 |
| Provision for employees' end of service benefits | 27 | **6,560** | 6,485 |
| Gain on disposal of a subsidiary | 23 | **(31,270)** | – |
| Loss/(gain) on derivative financial instruments | 12 | **156** | (501) |
| Finance costs | | **20,719** | 23,172 |
| Finance income | 11 | **(2,166)** | (975) |
| Operating cash flows before payment of employees end of service benefits and changes in working capital | | **161,592** | 105,310 |
| Payment of employees' end of service benefits | | **(7,182)** | (7,784) |
| Changes in working capital: | | | |
| Inventories before movement in provision | | **(2,898)** | 1,758 |
| Derivative financial instruments | 28 | **205** | 1,492 |
| Trade and other receivables before movement in provision for impairment of trade receivables | | **(94,857)** | 52,937 |
| Trade and other payables, excluding movement in dividend payable | | **(96,293)** | (34,844) |
| Cash (used in)/generated from operating activities | | **(39,433)** | 118,869 |

# DEFINITIONS

| | |
|---|---|
| **"AED"** | Arab Emirates Dirham |
| **"AGM"** | Annual General Meeting |
| **"AIM"** | Alternative Investment Market – a market operated by the London Stock Exchange Plc |
| **"API"** | American Petroleum Institute |
| **"ASME"** | American Society of Mechanical Engineers |
| **"Board" or "Directors"** | the Board of Directors of the Company |
| **"BP"** | British Petroleum |
| **"bn"** | Billion |
| **"CBL"** | Cleopatra Barges Limited |
| **"CEO"** | Chief Executive Officer |
| **"CFO"** | Chief Financial Officer |
| **"CGU"** | Cash Generating Unit |
| **"CSR"** | Corporate Social Responsibility |
| **"Code"** | UK Corporate Governance Code 2012 |
| **"Company"** | Lamprell plc |
| **"DAFWC"** | Day Away From Work Case |
| **"E&C"** | Engineering & Construction |
| **"EBITDA"** | Earnings before Interest, Taxes, Depreciation and Amortisation |
| **"EBT"** | Lamprell plc Employee Benefit Trust |
| **"E&P"** | Exploration and Production |
| **"EPC"** | Engineering, Procurement and Construction |
| **"EPS"** | Earnings Per Share |
| **"ERP"** | Enterprise Resource Planning |
| **"ESOP"** | Lamprell plc Executive Share Option Plan |
| **"EU"** | European Union |
| **"FPSO"** | Floating, Production, Storage and Offloading |
| **"FCA"** | Financial Conduct Authority |
| **"FLNG"** | Floating Liquefied Natural Gas |
| **"FSP"** | Free Share Plan |
| **"FTSE"** | Financial Times Stock Exchange index |
| **"FZCo"** | Free Zone Company |
| **"GBP"** | Great Britain Pound |
| **"GE"** | General Electric |
| **"GIC"** | Global Investment Co. Ltd. Inc |
| **"GMAC"** | Global Management and Acquisition Co. Ltd Inc |
| **"Group"** | The Company and its subsidiaries |
| **"GW"** | Gigawatt |
| **"HMRC"** | HM Revenue & Customs |
| **"HR"** | Human Resources |
| **"HSE"** | Health, Safety and Environment |
| **"HSESQ"** | Health, Safety, Environment, Security and Quality |
| **"IAS"** | International Accounting Standards |
| **"IFRIC"** | International Financial Reporting Interpretations Committee interpretation |
| **"IFRS"** | International Financial Reporting Standards |
| **"IHS"** | Information Handling Services |
| **"INSPEC"** | International Inspection Services Limited |
| **"IOC"** | International Oil Company |
| **"ISO"** | International Organization for Standardization |
| **"IT"** | Information Technology |
| **"JIL"** | Jebel Ali Investments Limited |
| **"JV"** | Joint Venture |
| **"KPI"** | Key Performance Indicators |
| **"Labour Law"** | UAE Labour Law (Federal Law No.8 of 1980 (as amended)) |
| **"LAM 2K"** | Lamprell 2000hp fast moving land rig |
| **"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 |
| **"LNG"** | Liquid Natural Gas |
| **"LS"** | Lamprell Sharjah WLL |
| **"LSE"** | London Stock Exchange Limited |
| **"LTIP"** | Long-Term Incentive Plan |
| **"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 |
| **"MOS"** | Millennium Offshore Services |
| **"NBS"** | New Bridge Street |
| **"NDC"** | National Drilling Company |
| **"NED"** | Non-Executive Director |
| **"NY"** | New York |
| **"O&M"** | Operations & Maintenance |
| **"OHSAS"** | Occupational Health and Safety Assessment Series |
| **"PSP"** | Lamprell plc 2008 Performance Share Plan |
| **"PUQ"** | Production, Utilities and Quarters |
| **"PwC"** | PricewaterhouseCoopers |
| **"QA/QC"** | Quality Assurance, Quality Control |
| **"RIM"** | Rig Metals LLC |
| **"RSP"** | Retention Share Plan |
| **"TRIR"** | Total Recordable Injury Rate |
| **"TSR"** | Total Shareholder Return |
| **"UAE"** | the Federation of the United Arab Emirates |
| **"UK"** | United Kingdom |
| **"United States" or "US"** | the United States of America |
| **"USD"** | US Dollar |
| **"US GAAP"** | US Generally Accepted Accounting Principles |
| **"VP"** | Vice-President |
| **"ZADCO"** | Zakum Development Company |

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