Lamprell

**Lamprell plc** Annual Report and Accounts 2017

# A STRONG TEAM BUILDS STRONG FOUNDATIONS

## Contents

### Strategic report



### Corporate governance

Including information on our Board, Committees, leadership team and remuneration.



### Financial statements

Our primary financial statements and supporting notes.



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

#### Online shareholder information

To keep shareholders fully up to date, we have comprehensive financial and Company information on our website. Our shareholders can access all the information they require, 24 hours a day. www.lamprell.com

Cover image: Lamprell's employees consist of a diverse team of highly skilled people from over 40 countries who are committed to working closely with key stakeholders and delivering our projects safely, on time and to the highest standards of quality.


# REALISING OUR STRATEGIC OBJECTIVES



2017 has marked a pivotal milestone in Lamprell's journey of transformation.

**We are strengthening Lamprell's position in our core rig market and working to enter the EPC(I) sector.**

**We are expanding into new geographic markets through strategic partnerships.**

**We are investing in our workforce to ensure that we have the right people with the right skillset and experience to match our strategy. They are fundamental to everything we do.**

Christopher McDonald
Chief Executive Officer

# RESILIENT BUSINESS TO WEATHER THE DOWNTURN

Strong balance sheet with net cash of USD 257 million at 31 December 2017 available for strategic investment

Maintained high standards of safety with TRIR of 0.30

Significant losses on renewables project severely impacted overall 2017 profitability

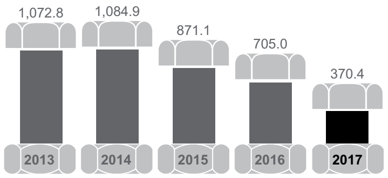
Progressed strategy implementation with signature of transformational JV agreement with Saudi partners

Bid pipeline increased to USD 3.6 billion by year-end

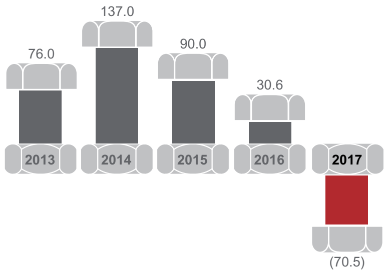
Appointed new Non-Executive Chairman



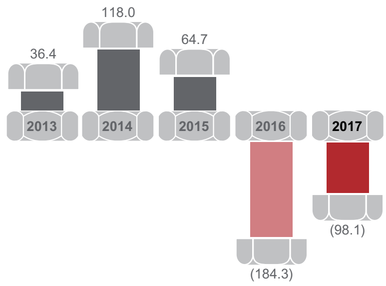
**Revenue**
(USD million)



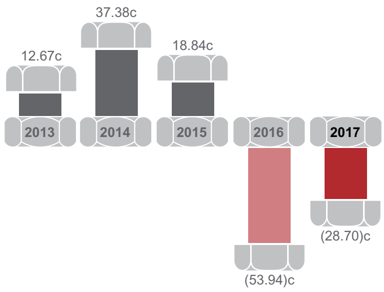

**EBITDA**
(USD million)



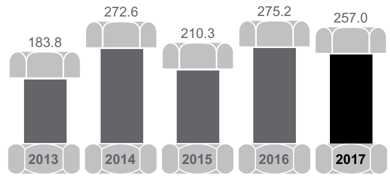

**Net (loss)/profit**
(USD million)




**(Loss)/earnings per share – diluted** (cents)




**Net cash**
(USD million)




Note: See 22 for further details and definitions.

## Who we are

Lamprell is a key player in the offshore and onshore oil & gas and renewable energy markets with over 40 years' experience delivering world class projects. We design and provide assets and services that help our clients to produce energy safely, efficiently and cost-effectively.

## What we do

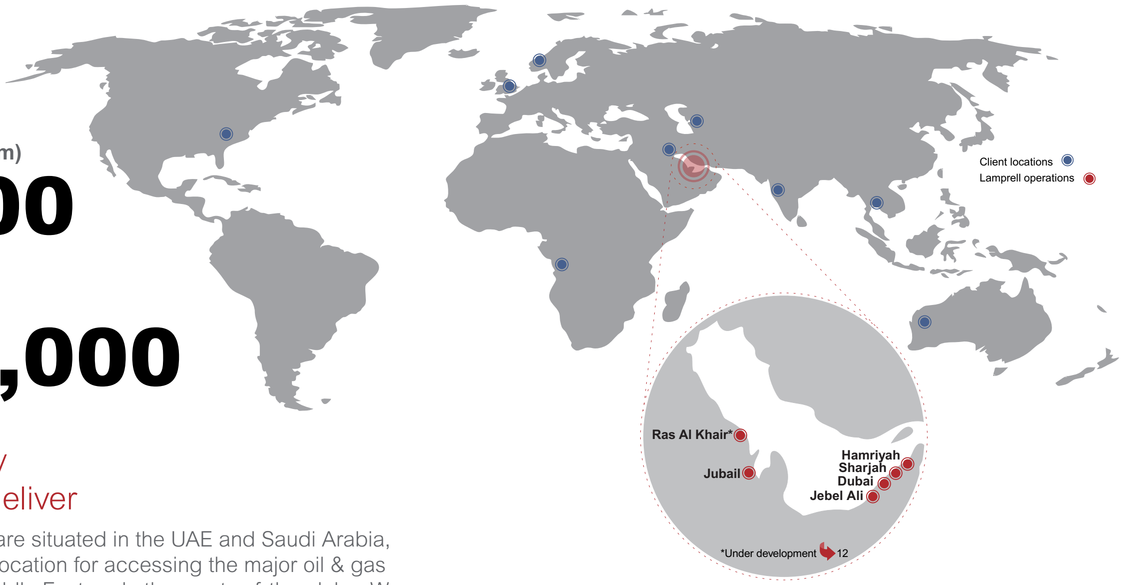
We build high-quality complex onshore and offshore process modules, platforms and wind farm foundations for our clients, and hold leading market positions in jackup rig and liftboat projects. We also deliver land rigs and rig refurbishment projects, and provide related oil & gas services.

**Total quayside (m)**

# 1,600

**Total land (m²)**

# 810,000



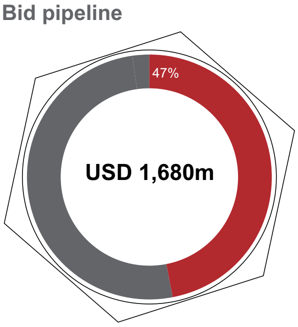

## Strategically located to deliver

Lamprell's yards are situated in the UAE and Saudi Arabia, which is a prime location for accessing the major oil & gas markets in the Middle East and other parts of the globe. We have modern quayside facilities ensuring safe and efficient load out of our projects onto vessels for onward transportation to our international client base.

## Our core services

### Rigs

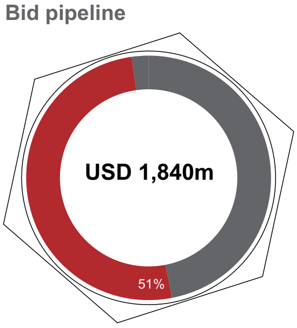
**Bid pipeline**




We have a reputation as a leading and reliable builder of jackup drilling rigs, multi-purpose jackup liftboats and land rigs for the international market. We also have a long history of completing rig refurbishment projects safely, within budget and on schedule.

### EPC(I) projects

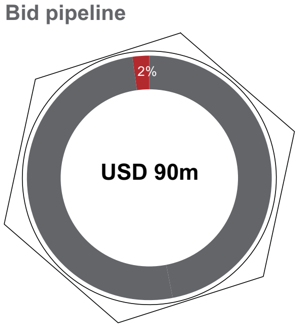
**Bid pipeline**




We provide engineering, procurement and construction services to the oil & gas and renewable energy industries and have successfully delivered multiple high-quality process modules, platforms and foundations. We partner with leading transportation and installation companies to provide a full suite of services to our clients.

### Contracting services

**Bid pipeline**




Our smaller business units, O&M and Sunbelt Safety Services, provide technically advanced services within our sectors including specialist welding and fabrication as well as gas detection monitoring and equipment. Both bring Lamprell's strong safety and quality culture wherever they operate.

Note: The way we view the business going forward has changed in line with our strategic objectives; see 8 and Note 36 for further details on this.

## Order book

# 138

(USD million)
as at 31 December 2017

## Total bid pipeline

# 3.6

(USD billion)
as at 31 December 2017

## Total employees

# 7,153

as at 31 December 2017

## Employee nationalities

# 42

as at 31 December 2017

# ALIGNING OUR STRATEGIC OBJECTIVES WITH MARKET DYNAMICS

The medium-term forecast for the global energy industry is predicting modest growth. Bidding in our traditional oil & gas market remains key to our business but is highly competitive due to limited project flows. Conversely, the renewables sector is developing rapidly and offers us an opportunity to diversify.



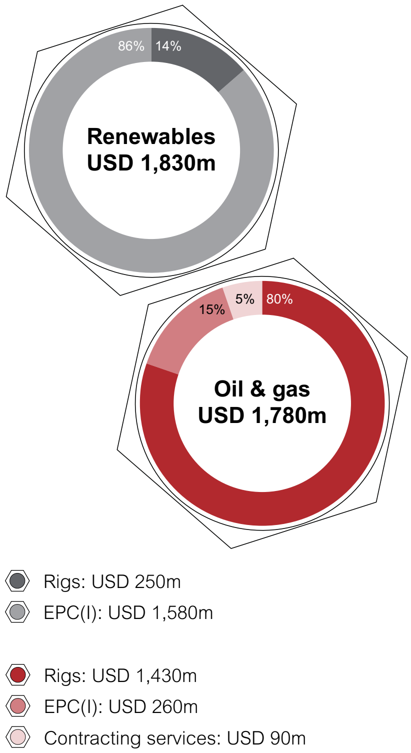
## Macro-economic factors and strategy

In 2017 energy prices were significantly less volatile than in 2016, when they hit ten-year lows, with Brent crude oil rising through a range of USD 47-67/bbl[1]. The recovery in oil prices has been driven by OPEC and non-OPEC countries, mainly Russia, first agreeing to and then extending their production cuts at the end of 2017[1], which also supported a strong year-end finish in the oil price. In addition to production cuts, IOCs continue to invest selectively with typical projects being sanctioned on the basis of an oil price of USD 60/bbl[2] or less which further supports energy prices. However, North American shale capacity and the ability to ramp up production quickly acts as a natural brake to significant price increases and this dynamic between shale and OPEC's self-imposed cuts is expected to continue throughout 2018. Within the Middle East, NOC investment is driven more by considerations related to market share and funding government budgets, and investment in the region is expected to continue or even grow from recent years[3,4].

While the traditional oil industry faces some uncertainty, the renewables industry continues to develop rapidly and attract investment, especially in the offshore wind environment which is Lamprell's area of focus in this growing market. The known global portfolio of offshore wind has the potential to deliver 92GW, with circa 75GW still to be awarded and built. Europe leads the way globally, with the UK and Germany by far the largest participants to date in this market[5].

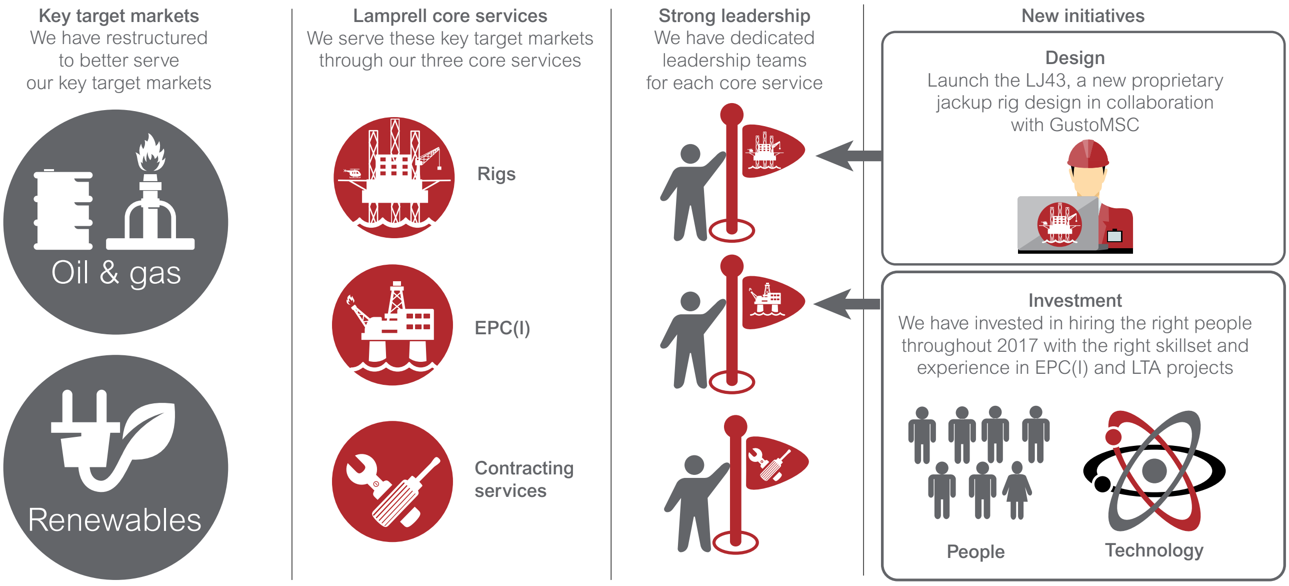
The offshore wind industry is undergoing a fundamental shift from an industry that needs subsidies to attract investment, to one that is commercial and attracts investment in its own right. The 2017 UK Contract for Difference (CfD) Round 2 auction delivered a strike price of £57.50/MWh for two wind farms, some 50% below that achieved two years earlier[6], and these cost reductions are expected to continue through technology innovation, economies of scale and higher project volumes[7]. As offshore wind power reaches parity with traditional power generation, and with some national governments setting policy to eliminate petrol and diesel cars from the roads in the next decades[8], the future of offshore wind as a source of abundant green energy appears assured and is a long-term market opportunity for Lamprell.

**Bid pipeline** (USD million)
as at 31 December 2017




**References**
1. Goldman Sachs Research, Bloomberg
2. BP Strategy Update 2017
3. ADNOC Strategic Investments November 2017
4. Reuters November 2017
5. Renewables UK March 2017
6. KPMG CfD allocation Round 2
7. IRENA Renewables Cost Database
8. The Guardian July 2017

## What we are doing differently




## Market sectors and our opportunities



### Oil & gas

The discipline shown by IOCs over the last few years has meant a significant drop in annual spend on capital projects, with some IOCs reporting reductions of 35% from 2013[1], and this continues to translate into reduced project flow into the supply chain for contractors such as Lamprell. With oil prices expected to be relatively flat over the near future within our oil & gas market, activity is mainly focused on the shallow water and shelf projects in the Middle East, UK and Norwegian sea sectors where projects are proceeding.

In 2017 Saudi Aramco awarded nearly USD 3 billion worth of shallow water EPC(I) projects[2] to support offshore oil production. They have also committed to continue additional investment in the Arabian Gulf to increase their offshore production and in the Red Sea to progress offshore development in 2018 and beyond. Lamprell is well positioned in Saudi Arabia to take advantage of this through our investment with our newly inaugurated International Maritime Industries ("IMI") marine yard joint venture with Saudi Aramco, Bahri and Hyundai Heavy Industries. We also see opportunities in the UAE where ADNOC has recently committed significant capital spending in its onshore and offshore oil & gas programmes[3]. Being a UAE-based company with a long history of working and delivering to ADNOC, Lamprell is well placed to participate in this next wave of investment in the UAE.

In the Norwegian and Barents Sea, Statoil is progressing with its major field developments at Castberg and Johan Sverdrup Phase 2, recently awarding several EPC(I) packages[3]. In addition, other field developers such as AkerBP, OMV and Lundin are moving towards final investment decisions in 2018 and 2019 on various Barents Sea projects. With Lamprell's history of delivering projects in the North Sea, we are making use of our cost-effective, safe and high-quality offering as the basis for selectively bidding work in the region.

### Renewables

The renewables offshore wind market has gathered pace over the past 12 months with a large number of new enquiries received as a result of Lamprell's proactive marketing efforts in this area, in line with our strategic objectives. The main driver is the improving economics of wind farms due to the economies of scale and technological advancements across the supply chain. Up until recently, government subsidies were a political barrier to projects reaching sanction, and while they are still in place in the latest round of UK awards, they represent a fraction of those seen in earlier projects. As subsidies are expected to decrease or be eliminated in the medium term, we anticipate a continued high volume of enquiries and a more traditional bid cycle where timelines are less drawn-out. We also expect less governmental involvement, consistent with its role in the oil & gas industry.

Within the offshore wind market, Lamprell is pursuing options across three areas of supply: (i) providing foundations for the wind farm turbines similar to those on our current East Anglia One project for Scottish Power Renewables; (ii) delivering HVAC and HVDC substations leveraging our offshore experience in the North Sea; and (iii) constructing Wind Turbine Installation Vessels ("WTIV") consistent with our significant experience building such vessels for the likes of Seajacks and Fred Olsen. For foundations, we are only pursuing jacket-based projects where our fabrication expertise is a differentiator. As wind turbines are expected to get larger, and wind farms expected to migrate into deeper water offshore, jacket-based projects will predominate over monopiles. We have a number of enquiries in hand for jacket foundations and substations, predominantly focused in the European market. For WTIVs, vessel owners are positioning for the next generation of turbine installation, with turbines evolving from 8 MW to larger 10, 12 or even 15 MW turbines[4] although capital investment in larger and more costly vessels (which would be required for larger turbines) is unlikely to proceed without commitments from offshore developers. Lamprell's approach is, therefore, to focus on foundations and substations and to take a more selective view of projects to construct WTIVs.

**References**

1. BP Annual Report 2016
2. MEED 2017
3. Upstream 2017
4. Wind Europe 2017

# COMMITMENT TO SAFETY, QUALITY AND LONG-TERM COLLABORATION

Lamprell relies on its marketing expertise to identify and convert prospects into awards. We are committed to working collaboratively and transparently, with a view to ensuring project success and long-term growth, and value for our shareholders.




## Commitment to safety, employee well-being and quality

Lamprell will continue to put the safety of our employees at the forefront of our thinking, targeting year-on-year improvements in our TRIR performance 30. We aim to be a regional employer of choice, our commitment to safety is a key factor to enable us to achieve this and we are proud of our staff retention record 31, which demonstrates this. Similarly, we train our people and measure their performance which translates into the high quality of the products and services we provide.

## Competitive offering

Lamprell operates in markets which have suffered from the depressed energy prices since mid-2014, and so we recognise the importance of maintaining a competitive offering to our clients. We are strategically located in the Middle East which will continue to be the world's largest producer of oil with a 37% market share by 2035[1]. This allows us to recruit highly skilled people from across the globe at attractive remuneration levels but also to flex our workforce to reflect changing workloads. We recognise that the energy market supply chain is currently under a great deal of pressure to reduce costs and so we strive to manage our supply chain on a global basis to support our products and services in ways which are consistent with our key strengths.

## Working closely with clients and partners

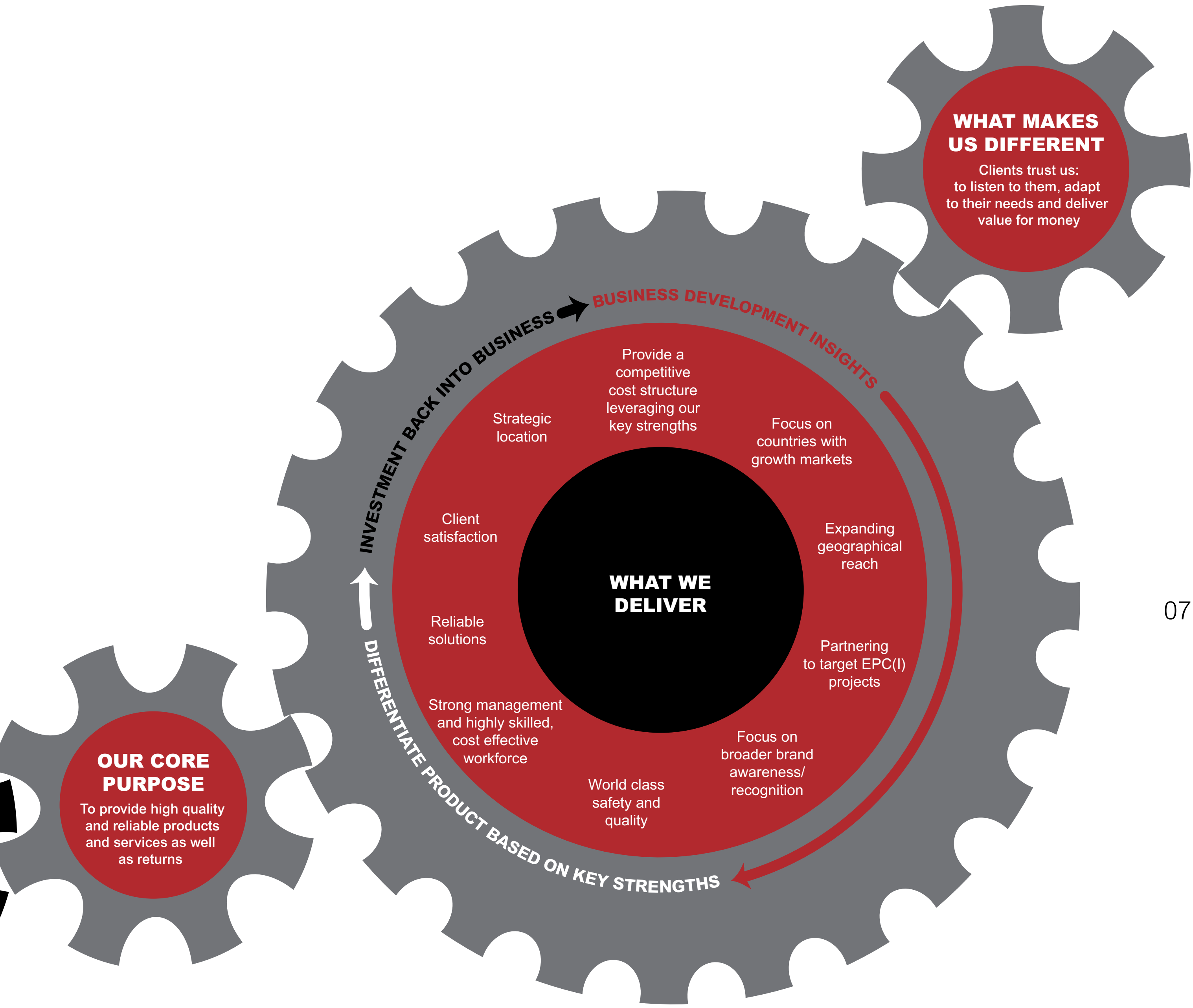
We seek to establish long-term business relationships with our clients and partners, as evidenced by the repeat business from existing clients. We are proud of our relationship with ADNOC Drilling, for whom we have delivered nine new build jackup drilling rigs between 2007-2017, and with Saudi Aramco who is our lead partner at the IMI yard in Saudi Arabia 12. We aim to build our relationships on a collaborative and transparent basis as this allows us to resolve issues with our business partners more effectively and to deliver what the clients want. This is reflected in the quality of our workforce where Lamprell is selectively building internal capability to support our strategic goal of moving up the value chain to directly access EPC(I) opportunities. We are in discussions with strategic partners who will help us build more rapidly and allow us to offer a single one-stop delivery model for our clients 08.

## Potential risks to the business model

The prolonged downturn in the oil & gas market for more than three years threatens Lamprell's business model as we are dependent on clients' decisions to sanction major capital programmes. There are various potential risks to Lamprell's business 34, and we look to mitigate or control them through our risk management processes.

**References**

1. BP Energy Outlook 2017






## How our strengths add value

### First class safety and quality

Lamprell has a strong commitment to health, safety and quality. We are committed to continuously improving the performance of both our employees and contractors.

### Reliability

Lamprell has a proven reputation for quality standards and the delivery of competitive products. We have a strong track record in our core markets for completing projects on time, to specification and on budget.

### Client satisfaction

Lamprell is committed to customer service and close client relationships throughout the project lifecycle. This has resulted in substantial support from our major clients and a record of repeat business.

### Skilled workforce

Lamprell has a strong leadership team focused on delivering the Company's strategy. We value our highly qualified, dedicated and flexible workforce and invest in their continued development to ensure project delivery. Our access to an international workforce supports a competitive cost structure.

### Strategic location

Lamprell is advantageously located in the Middle East and has excellent facilities including 1,600m of deep water quayside access. Our geographic proximity to Saudi Arabia, a strategic future market for Lamprell, is crucial.

# REPOSITIONING IN A HIGHLY COMPETITIVE MARKET

Lamprell aims to be a leading EPC(I) provider to the energy industry, delivering safe, high-quality, competitive, on time solutions to our customers while providing steady growth and predictable returns for our shareholders.



In light of the continuing delays to project awards in the oil & gas market, recovery will be slow for the foreseeable future. We are confident that we can convert bids into profitable awards in markets where we have a differentiated offering and strong track record.

Our business is structured to approach opportunities by way of our strategic objectives in rigs, selected EPC(I) projects and in Saudi Arabia 11, and we will maintain our bidding discipline to ensure we target projects that fit this profile. While oil & gas has traditionally underpinned our business, it is crucial we continue to diversify into the renewables market and other geographies, notably Saudi Arabia.

We have repositioned the way that we approach the markets 05, by simplifying our business units around Rigs, EPC(I) and Contracting Services and by populating those business units with specialist and experienced personnel. This has included the investment into additional resources in order to strengthen our competencies as required.

### Rigs

Through our 20% investment in the IMI yard, the joint venture has signed an offtake agreement with Saudi Aramco to build 20 jackup drilling rigs over the coming ten years. Lamprell will support this by constructing significant parts of the first two rigs using Lamprell's new proprietary rig design. The LJ43, developed in collaboration with GustoMSC, has been selected as the base design for the 20 rigs to be constructed at the IMI yard in Saudi Arabia 12. Our other traditional areas of strength in the rig refurbishment and land rig businesses remain important revenue streams for Lamprell. We are proactively seeking to agree long-term cooperation agreements in the drilling community.

### EPC(I)

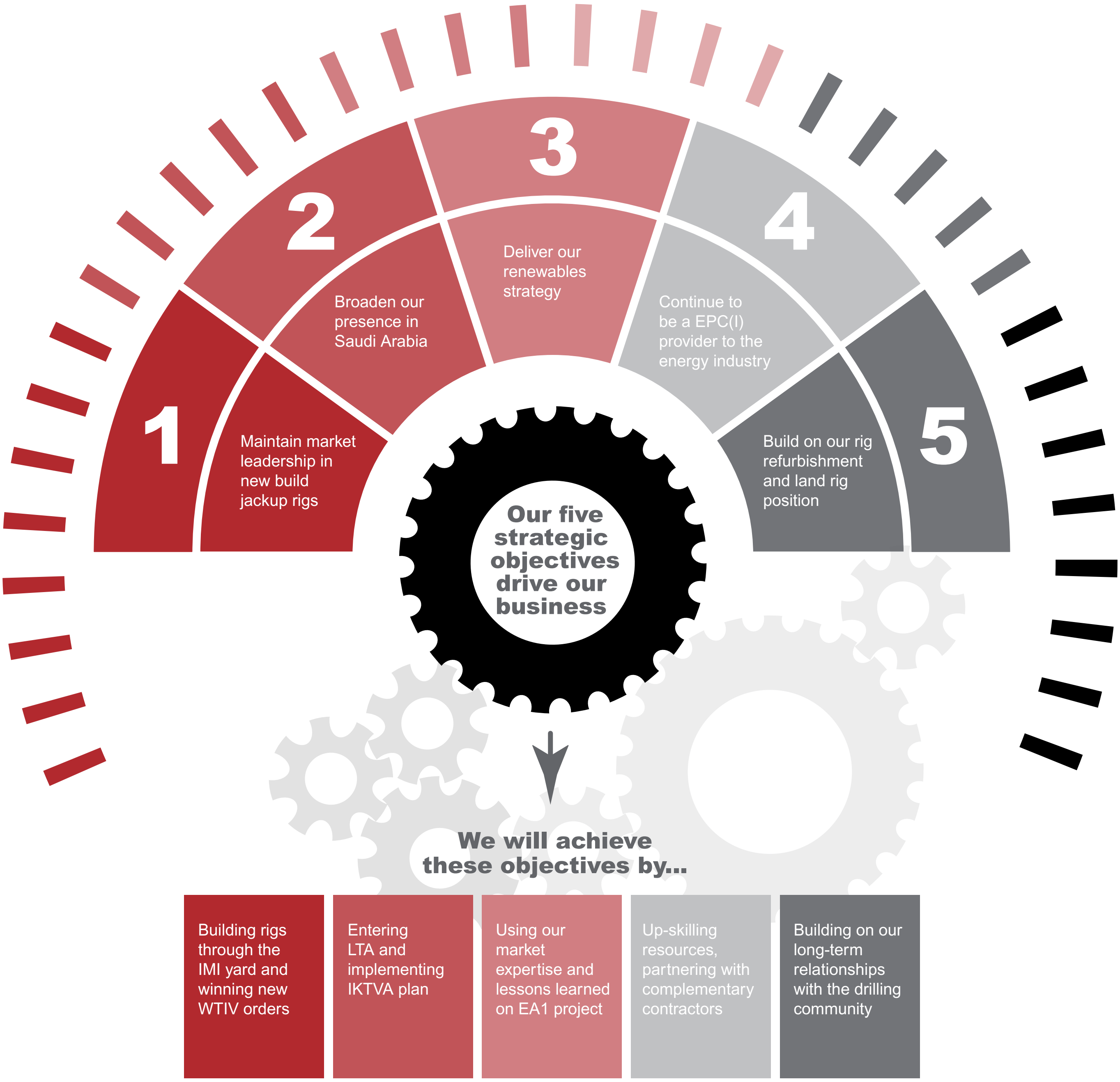
Lamprell is well placed to support the offshore investment programmes by ADNOC, Saudi Aramco and other leading clients, and we aim to move up the value chain to be a prime EPC(I) contractor.

We will leverage our track record and relationships in the region, and selectively invest in key resources and our people to bolster our EPC(I) capability. Lamprell was proud to secure our first renewables contract, East Anglia One, with Scottish Power Renewables late in 2016. While this project has been challenging with the Company incurring significant losses, this market segment is attractive going forward. As a result of the experience gained on this project, we have moved far up the learning curve as we strengthened our capabilities and made changes to personnel to improve our competencies.

### Contracting services

Our smaller business streams comprising of O&M and Sunbelt Safety Services continue to support both Lamprell and our clients by providing highly skilled specialists for various projects.

| Strategic objective | | Why this is important to us |
|---|---|---|
| 1 | Maintain market leadership in new build jackup rigs | We have successfully delivered 28 new build jackup rigs and six WTIVs and have a track record of constructing profitable, high-quality units |
| 2 | Broaden our presence in Saudi Arabia | We aim to participate and invest in the world's largest oil & gas market where there is a stated multi-billion dollar investment programme |
| 3 | Deliver our renewables strategy | Diversification into strategic market with significant fabrication requirements and multi-decade investment future |
| 4 | Continue to be a EPC(I) provider to the energy industry | Move up the value chain, work directly for IOC and NOC clients, access more substantial contract values, be in better control of our bid pipeline |
| 5 | Build on our rig refurbishment and land rig position | Maintain base-load of contracts in rig refurbishment and land rigs as the market recovers |






| How we achieve it | Our measure of success | Achieved? |
|---|---|---|
| Leverage and support our investment in the IMI yard; progress proprietary LJ43 rig design[1]; IMI delivers 20+ new build jackup rigs over next ten years | New rig/WTIV orders | In progress |
| Become a LTA contractor for Saudi Aramco; expand bid pipeline with LTA work; implement a plan for investing in Saudi Arabia and partnering with local Saudi companies | Enter the LTA | In progress |
| Actively market our East Anglia One project experience; utilise our core fabrication capability and competitive cost base to differentiate our offering | New renewables contract at acceptable profitability | In progress |
| Bid on EPC(I) projects for Saudi Aramco; selectively work with leading partners to market capability into other EPC(I) projects | Increase EPC(I) bids | In progress |
| Leverage key strengths to service the rig refurbishment sector; build on our long-term relationship with drilling community | Repeat customer contracts | ✓ |

**References**

1. The LJ43 is an advanced and reliable jackup design for safe and efficient drilling co-developed and licensed by partners Lamprell and GustoMSC

# NEW MANAGEMENT TEAM IN PLACE

"Lamprell has been working collaboratively with its partners on the establishment of the IMI business since 2015, and we are pleased to see such tangible progress towards the operational phase. This is a transformational project in many aspects and we are proud to be part of it as IMI is capable of becoming a leading regional and global service provider to the rig and vessel markets."

**Peter Ireton**
VP Business Development

Standing: General Counsel & Company Secretary Alex Ridout, Chief Executive Officer Christopher McDonald, Chief Financial Officer Tony Wright, Vice President Human Resources John Macdonald and Vice President Human Resources Kaye Krause Whiteing (taking over from John Macdonald who will retire in 2018).

Sitting: Vice President Commercial & Risk Management Ian Wilkinson, Vice President Business Development Peter Ireton, Vice President IST & Business Optimisation Shumon Zaman, Vice President Supply Chain Management Lawrence Himsworth, Vice President Engineering Sabih Lahman, Vice President Operations Hani El Kurd and Vice President HSESQ Iain Walker.

"Our partnership joint venture with Saudi Aramco, HHI and Bahri for the creation of the IMI yard creates significant opportunities to continue our proven track record in our core markets of new build jackup rigs and rig refurbishment projects both in Saudi Arabia and the UAE, which will ultimately lead to increased revenue and profitability for the Group."

**Hani Elkurd**
VP Operations



On 31 May 2017 Lamprell signed a joint venture agreement with Saudi Aramco, Bahri and HHI which will establish and operate a maritime yard in the Kingdom of Saudi Arabia. Our new management team is in place to help deliver the joint venture established as "International Maritime Industries" or "IMI". This is a cornerstone project in the Saudi Vision 2030 and will help us to establish Lamprell's business in Saudi Arabia.

## Progressing towards operational phase

Once fully operational, IMI will provide a broad range of services to the oil & gas and maritime industries with the primary focus being the construction and maintenance, repair and overhaul ("MRO") of offshore rigs, commercial vessels and offshore service vessels. The yard is part of a development known as "The King Salman International Complex for Maritime Industries & Services". The yard will comprise of four main production zones – A, B, C and D. Lamprell has been chosen to be a technical partner for zones A and D and so our team will have a key ongoing role in developing the yard's capabilities. Zone A will be used to provide MRO services for jackup drilling rigs and vessels whereas zone D will be used for the construction of new build jackup drilling rigs.

# LAMPRELL SIGNS TRANSFORMATIONAL JOINT VENTURE AGREEMENT

IMI will provide a full suite of services for offshore rigs, commercial vessels and offshore service vessels including engineering, manufacturing, construction and MRO activities. Located at Ras Al-Khair, the yard is expected to be partially operational in 2019 and fully functional by 2022.



## The partners

### Lamprell

Share of JVCo

**20.0%**

Participation in this joint venture will enable growth in scale beyond Lamprell's capability as a stand-alone entity and will allow the Group to strengthen its competitive position through efficiencies, diversification and new markets.

### Saudi Aramco

Share of JVCo

**50.1%**

Saudi Aramco is the state-owned oil company of the Kingdom of Saudi Arabia and a fully integrated, global petroleum and chemicals enterprise. Over the past 80 years, it has become a world leader in hydrocarbons exploration, production, refining, distribution and marketing.

### Bahri

Share of JVCo

**19.9%**

Bahri is one of the world's leading transportation and logistics companies. Established as the national shipping carrier of Saudi Arabia, Bahri has played a leading role in the transformation and growth of the global shipping industry.

### HHI

Share of JVCo

**10.0%**

Since its establishment in 1972, Hyundai Heavy Industries has grown into the world's leading heavy industries company by successfully diversifying from shipbuilding into offshore and engineering, industrial plant and engineering, and engine and machinery.

## Infrastructure and facilities at IMI yard

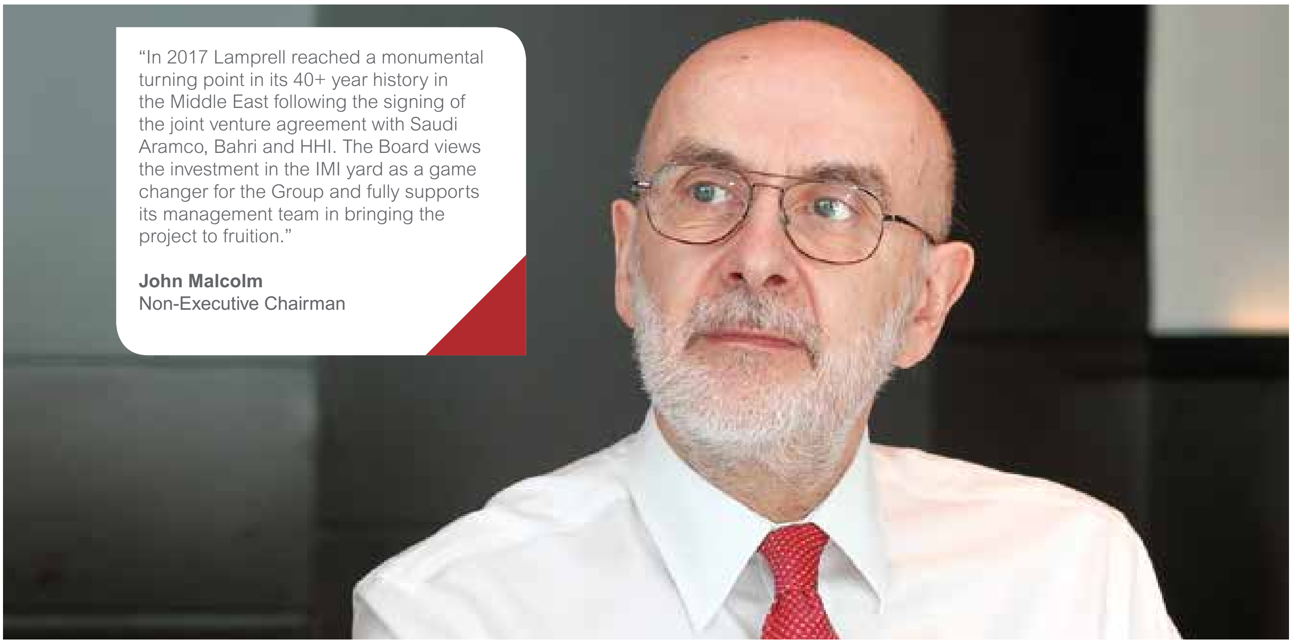
- Approximate area of IMI yard: 10,500,000m²
- Approximate area of basin: 4,200,000m²
- Approximate workshop and warehouse area: 630,000m²
- Total quayside walls and wharfs: 19
- Approximate length of quayside: 8,600m
- Total dry docks: 4

Yard total area (million m²)

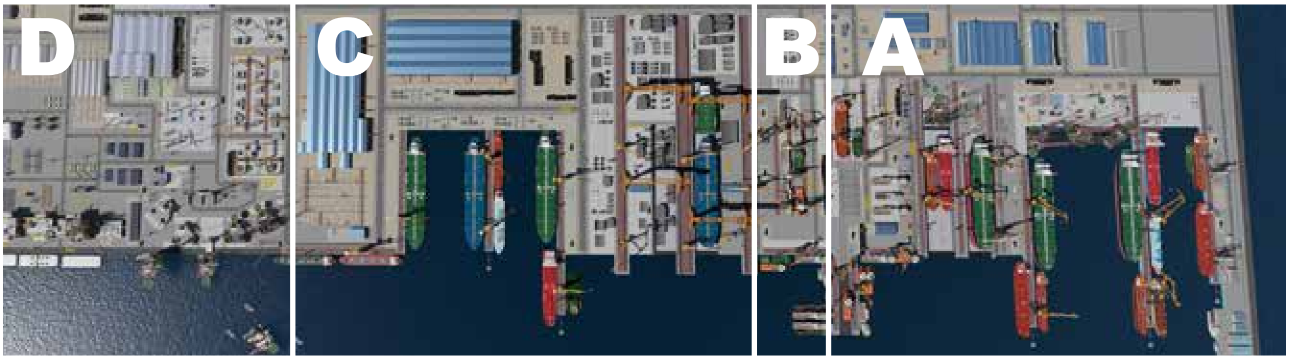
**10.5m²**

### Management

IMI will be run by a nine-member Board and, as per the terms of the joint venture agreement, Lamprell is represented by two of the nine members including the Deputy Chair.






**Zone D**
Technical Partner:
Lamprell
New build jackups

Partial completion date: **1H 2019**
Full completion date: **1H 2020**

**Zone C**
Technical Partner:
HHI
New build commercial vessels

Partial completion date: **1H 2020**
Full completion date: **2H 2020**

**Zone B**
Technical Partner:
HHI
MRO and new build OSVs

Partial completion date: **2H 2021**
Full completion date: **1H 2022**

**Zone A**
Technical Partner:
Lamprell
MRO jackups and commercial vessels

Partial completion date: **2H 2021**
Full completion date: **2H 2022**

**140m**

**Capital Investment by Lamprell (USD)**
Lamprell will invest up to USD 140 million over the course of the construction of the IMI yard from existing financial resources and future cash flows.

**3.5bn**

**Government investment (USD)**
USD 3.5 billion of the USD 5.2 billion aggregate construction cost will be funded by the Government of Saudi Arabia as it invests in the yard infrastructure.

**20 new build jackup rigs**

**Future pipeline**
Over a 10-year period, Saudi Aramco (through ARO Drilling) will place orders with the IMI yard to construct a minimum of 20 jackup drilling rigs based on the LJ43 design and use IMI for all its MRO work on regional jackup rigs.

"The IMI yard will become the largest in the region in terms of production capacity and scale. The facility will serve offshore oil & gas rigs, offshore support vessels, and commercial vessels including very large crude carriers ("VLCCs"). By becoming the technical partner for the rig building and MRO zones within the maritime yard, Lamprell is enhancing its reputation both regionally and globally as a company of choice for rig builds and services."

**George Gourlay**
Chief Operating Officer for IMI Zones A and D



IMI has been identified as a priority initiative towards the Saudi Government's Vision 2030 programme for economic development and represents a fully integrated engineering, fabrication and services shipyard for vessels and offshore rigs.

## Project overview

The integrated maritime yard will be the largest in the region in terms of production capacity and scale, providing an unprecedented mix of products and services in the area. IMI will enable its customers to meet their engineering, manufacturing, construction and MRO requirements for offshore drilling rigs, offshore support and commercial vessels, as well as VLCCs.

The yard is unique in scale and integration as it will have:

- the largest combined drydock area compared to any other yard in the region;
- the largest ship lift in the world with a capacity of 25,000te;
- the largest combined lift capability over a drydock of 2,150te; and
- the region's longest quayside of approximately 8,600 million metres.

The new facility will have the annual capacity to manufacture four offshore rigs, over 40 vessels including three VLCCs, and service over 260 maritime products.

A unique combination of expertise and capabilities are made available through IMI, with Lamprell and HHI offering their technical expertise, track record and capabilities while Saudi Aramco and Bahri will conclude offtake agreements with IMI and make available their operational knowledge and market access. Also, IMI is in the process of establishing long-term strategic partnerships with original equipment manufacturers and supply chain companies with the aim to positively influence the overall lifecycle costs of the fleets of IMI's customers and create a fully integrated maritime industry ecosystem in Saudi Aramco.

Highly skilled and experienced staff from Lamprell are working with the joint venture partners to establish and implement IT systems, engineering capabilities, procurement systems, production processes and quality assurance policies and procedures that have been proven to be successful at both Lamprell and partner facilities.

IMI will have its first order intake from Saudi Aramco and Bahri in 2018 and 2019 respectively, for the procurement of new rigs and tanker vessels. Lamprell's new proprietary rig design, LJ43, developed in collaboration with GustoMSC, has been selected as the base design for the 20 rigs. The fabrication capabilities are expected to commence in 2H 2019 with the facility reaching its full production capacity by 2022.

## Financial overview

The IMI joint venture company has been officially established by four joint venture parties in collaboration with the Saudi Government. The partners committed to a total investment of more than USD 1.7 billion (of which USD 1 billion will be provided by the Saudi Industrial Development Fund) for the start up of operations as well as the procurement of equipment, while the Saudi Government has started constructing the infrastructure for the industrial complex and developing the surrounding industrial city.

IMI activities are projected to provide a robust return on the investment for its shareholders as well as a solid impact on the gross domestic product of Saudi Arabia, especially in terms of import substitution, job creation/training of Saudi nationals to form a high percentage of the workforce and supply chain management.

## Strategic highlights

Lamprell directly benefits from its participation in IMI as a technical partner due to the diversification of markets and exposure to new but complementary market segments. Synergies are created in production methodologies, product development, engineering activities and skills development of the staff. It is expected that the partnership in IMI is an initial step in the collaboration between the partners in the future, and that multiple commercial initiatives will be developed among the partners directly.

The joint venture is expected to increase revenue generating opportunities for Lamprell within the UAE with significant component parts for the first two jackup drilling rigs expected to be subcontracted to Lamprell's UAE facilities during the initial construction phase of the IMI yard.

**IMI brand**
The new Saudi maritime yard was officially branded as "International Maritime Industries" or "IMI" late in 2017 and provides the organisation with a global brand which will be vital to the marketing of the yard when we are ready to go to the external market for new build and repair projects.

**Our people at IMI**
The combination of world-leading oilfield operators, vessel owners, rig and shipbuilders bring a vibrant multicultural mix of people together and as a technical partner, Lamprell is contributing an array of technical experts who are focused on preparing the IMI yard for the start of operations.

**Saudi Vision 2030**
The IMI yard is a cornerstone project of the Vision 2030 programme which is being driven by the Government of the Kingdom of Saudi Arabia to stimulate its economy and diversify its revenues. Lamprell's investment in the yard in Saudi Arabia demonstrates its commitment to support the country. At the same time Lamprell will aim to grow and diversify its ongoing business at its existing UAE facilities.

**52**
**10 years**
**of sales guaranteed**

**Future pipeline**
Over a 10-year period, Bahri will place orders with the IMI yard to construct a minimum of 52 different vessels including 20 VLCCs plus use IMI for most of its vessel MRO requirements.

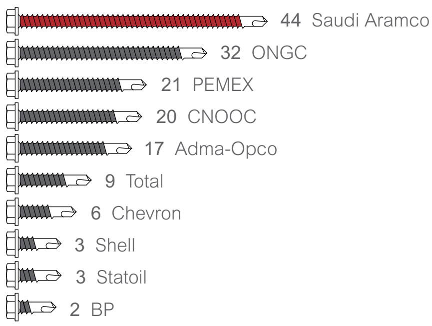
**IMI Board**
Lamprell has two representatives on the IMI Board, CEO Christopher McDonald and CFO Tony Wright. The new IMI Board consists of a total of nine members; they are pictured here with the newly appointed IMI CEO and CFO following their first Board meeting which was held in December 2017.

**5.2bn**

**Aggregate cost (USD)**
The aggregate cost of constructing the IMI yard is expected to be approximately USD 5.2 billion, of which about USD 3.5 billion will be funded by the Government of the Kingdom of Saudi Arabia to establish, prepare and construct the site and shared infrastructure. The remaining cost of about USD 1.7 billion, relating to the specific requirements of each zone, will be funded by the joint venture partners and the IMI lenders, the Saudi Industrial Development Fund.

**Commitment to local investment**
Lamprell is committed to developing businesses and personnel in Saudi Arabia as part of this project. It is actively working with Saudi companies to develop the local supply chain network and has partnered with a Saudi company to develop its presence in-Kingdom. In addition, a further goal of IMI is training of the Saudi workforce. We will see the first group of Saudi apprentices join the IMI yard training academy, which hopes to deliver 750 trades personnel within the next two years and increase Saudization in line with Vision 2030.

**Top users of jackup rigs**[1]




**414bn**

**Expected spending (USD)**
Saudi Aramco, as the national energy company within the Kingdom of Saudi Arabia, is expected to play a vital role in supporting the continued strength of the Saudi Arabian energy market and has stated that it plans to spend more than USD 414 billion over the next decade[2].


**References**
1. IHS Petrodata March 2017
2. Reuters December 2017

# A YEAR OF CHANGE TO THE BUSINESS

Lamprell's operational and financial performance was disappointing in 2017. Lamprell is now entering a critical phase where it must learn from 2017 and deliver the strategic objectives on the path to long-term growth.



We expected 2017 to be the toughest year to date for Lamprell. It was. Unfortunately, in addition to the revenue pressures anticipated by the broader industry, we encountered major operational challenges on the East Anglia One project which resulted in a significant loss for the Group and negatively impacted our financial statements accordingly. The Group's operational and financial performance in 2017 fell well short of our expectations even though we made good progress in delivering our strategic goals.

## Clear strategy

It is critical to preserve the long-term perspective amid immediate challenges, and 2017 has been a year of change and strategic repositioning for Lamprell. Our immediate priority was the operational demands of our ongoing projects. In a global energy environment marked by complexity and uncertainty, the Board focused on developing a clear strategy with solid deliverables to ensure Lamprell's future. Despite initial indications of a recovery in the oil & gas industry, we do not expect the new build jackup rig sector to recover in the near to mid-term as capital expenditure amongst oil producers remains restrained and new project awards continue to slip 04. We therefore are determined to access alternative markets, in particular in the renewables sector, and broaden our service offering by participating in larger and higher value EPC(I) contracts through partnership options.

Another pillar of our strategic vision is gaining access to resilient markets and in particular Saudi Arabia. In spite of being one of the most influential regional players in the Middle East with a 40+ year track record in fabrication, Lamprell has not previously done business with Saudi Aramco, one of the most significant global oil majors. This finally changed in 2017 and we are delighted to have entered into a joint venture agreement with the company along with Bahri and Hyundai Heavy Industries to build a new maritime facility in eastern Saudi Arabia, which will become one of the largest yards in the world 12. For a company of our size, this is a critical point of entry into a dynamic market committed to ongoing growth and a major stepping stone towards our strategic goals.

Our investment will enable Lamprell to build on its core expertise in jackup rigs and will also provide consistent contributions to our revenue streams. Our commitment to invest in this project has also offered an inroad into one of the most sought-after and selective processes in the industry as Lamprell has pre-qualified for a shortlist of companies being considered for a long-term agreement to deliver EPC(I) projects to Saudi Aramco. Our confidence in the prospects of this partnership was almost unanimously supported by our shareholders when they voted for the final investment decision in June last year. We were pleased to receive full backing of our banking syndicate for this venture as well.

## Ability to deliver

We experienced significant challenges on the East Anglia One project 26. This was a very disappointing outcome for our shareholders which resulted in a total USD 98.1 million loss for the Group. We have undertaken a root cause analysis to determine the factors causing the significant, additional costs on the project which started with insufficient rigour during the bidding phase, compounded by inexperienced project leadership in this new market. With these learnings, we have already implemented many performance improvement initiatives to return to productivity levels close to historic norms and to prevent recurrence, 26. The lessons learned and experiences from this project, although painful, have confirmed our commitment and our ability to deliver to the industry in general. The fundamentals of the renewables market are solid and, backed by European policy 05, it is anticipated to become a major pillar of global energy supply over the coming years. Therefore, we now view this as an investment in securing Lamprell's position in this emerging industry.

The prudent approach we have taken towards cost management in the past two years has allowed us to preserve the strength of our balance sheet 20, which in turn enables us to focus on delivery of strategic growth amid market and operational challenges. We are being selective in our new business pursuits, targeting only realistic opportunities that fit with our core competencies and our diversification

"It is critical to preserve the long-term, forward-looking perspective amid immediate challenges, and 2017 has been a year of change and strategic repositioning for Lamprell. We are being selective in our new business pursuits targeting only realistic opportunities that are aligned with our strategic objectives while generating robust margins."

**John Malcolm**
Non executive Chairman

goals while generating robust margins. This approach has refocused our bid pipeline 04, and we have upskilled our workforce and invested in additional resources to broaden our in-house expertise and match our capabilities with the strategic goals set for the business.

Addressing new markets is rarely straightforward and often comes at a cost. In its 40+ year growth history, the Group has faced setbacks, most notably as we diversified from rig refurbishment into new build jackup fabrication in the late 1990s. Our efforts and investment proved worthwhile then and I am confident they will do so again.

The lessons we learnt in 2017 are not only applicable to the renewables sector; they have led us to review our overall approach to accessing new opportunities. The Board is now closely involved in senior leadership planning to ensure our in-house expertise matches our strategic objectives and we are capable of delivering not only on quality but also on cost.

## Board changes

In September 2017 I replaced John Kennedy as Lamprell's Chairman. John's leadership has taken the Group onto a new strategic path as the industry entered a significant downturn. I thank John for his efforts over the last five years and very much look forward to taking the vision to the next level. In 2017 we welcomed Nick Garrett and James Dewar as new Non-Executive Directors; their collective experience in delivering strategic transformations within major industry players will be highly valuable. Following these appointments, the Board has made a number of changes to the composition of its Committees which are detailed on page 42 of this report.

## Final dividend

Given the significant challenges the Group encountered in 2017 and the uncertainty in the industry, the Board does not recommend a final dividend for the year. We are grateful for the confidence and support of our shareholders and our lending banks as we work through the near-term issues facing the Group and look to deliver long-term growth.

## Looking to the future

We experienced significant challenges throughout 2017 and these have had a profound effect on the way that we approach and implement our vision. We streamlined the business over the past two years and we have adapted and added to our resources to support the strategic objectives. We are now entering into a phase of delivering on our goals. The Board is confident that transformational growth and diversification is the right strategy for Lamprell for future success.

John Malcolm
Non-Executive Chairman

**Total shareholder return**

# (16.8)%

2016: (3.4)%

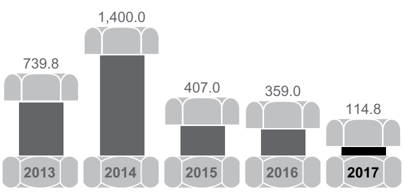
# CONFRONTING CHALLENGES, LEARNING FOR THE FUTURE

As the downturn in the oil industry continues to affect our traditional sources of revenue, in 2017 we struggled to execute on our entry into the renewable foundations market. This is a major new market for Lamprell which presents both significant opportunities and challenges.



2017 was my first full year as CEO, and it has been a year of repositioning for Lamprell. It has also been dominated by the problems on the East Anglia One project which we have worked hard to overcome, as detailed below. Despite early signs of recovery in the wider oil industry, the global jackup rig market remained dormant. Therefore, building upon our core competencies, Lamprell has adopted a strategy of geographical and sector diversification by addressing opportunities in the renewables sector as well as broadening our expertise and partnership options to access EPC(I) projects. We have also strengthened our position in our core geographic region and the new build jackup rig market by partnering with major energy industry players to establish a large-scale maritime yard in Saudi Arabia 11. This will broaden our global reach, product expertise, and secure a foothold in one of the few oil & gas markets committed to growth in the current environment. Investing in people will be vital to implement our strategy 08.

**Total awards**
(USD million)




## Health and safety

I am pleased to report that we achieved a TRIR of 0.30 for 2017, in line with industry best practice. This achievement is particularly noteworthy given the large numbers of new employees hired during 2017. In May 2017 we appointed a new Vice President of HSESQ 29 who has brought new energy to drive improvement in our safety standards. Although the results of this effort are impressive, we are looking for new ways to improve safety performance as our TRIR statistics should not be allowed to stagnate. An area of specific focus will be safety practices at remote site locations where the risks of an incident can be higher due to reduced oversight. We are striving to provide a best practice safety and wellbeing environment for our employees 30.

## Operational update

2017 saw the completion of three new build jackup rigs, two for NDC (now known as ADNOC Drilling) and one to Shelf Drilling. We also completed the large-scale UZ-750 module fabrication project for Petrofac 27.

With the delivery of the above projects, our operational focus moved onto the execution of the two major projects awarded at the end of 2016: the USD 90 million rig upgrade project for Master Marine and the contract for the fabrication of 60 foundations for the UK's East Anglia One offshore wind farm project. While we made good progress on Master Marine, 27, I am disappointed with the outcome of the East Anglia One project which has resulted in a significant loss for the Company, especially as we successfully delivered five major projects in 1H 2017 including the above three rigs. Renewables is a new sector for us and one which we believe offers significant long-term potential. It turned out that our first project involved a steep learning curve. Having said this, we have learned the hard way how to be competitive in future in this sector.

Based on our root cause analysis for this project, we did not spend enough time and effort during the bidding stage to develop a robust project execution plan that adequately addressed project risks. We compounded this problem by initially assigning a project leadership team that was experienced in our traditional core competencies but not this new market. We have learned by experience that the risks and challenges associated with constructing and shipping 60 jackets in an assembly line process are very different from constructing multiple rigs concurrently.

We identified a number of performance improvement opportunities, and we have already taken actions to deliver these including the replacement of the project leadership team, 26. As a result, we have seen substantial performance improvement as the project has progressed and we are now delivering overall productivity close to our historical norms, and we can see opportunities to improve this further. With correct project pricing at the beginning of the project and execution at the levels of productivity that we are now seeing


towards the end of the project, we would have made a profit in line with our return expectations. This gives me confidence that going forward we can compete successfully in this important and fast-growing sector.

Our rig refurbishment segment continues to demonstrate solid performance, and we noted a recovery in new orders towards the end of the year, although the scope of work requested remains below historical norms.

In other segments, we reported successful completion of a mid-size project for Schlumberger comprising of two land rigs of their new design. The client is deploying them for operation in the region. This project has reinforced our emerging reputation for constructing high-quality land rigs in a safe and timely manner, and we will be looking to build on this in the coming years.

## Implementing the strategic objectives

During 2017, the Group successfully implemented a number of steps towards fulfilment of its strategy as it looked to diversify and de-risk its exposure to oil price volatility and to access revenue generating opportunities in new sectors and geographies.

Our most ambitious step in the journey of transformation was the joint venture in May 2017 to establish a major maritime yard in Saudi Arabia see 11. This was the culmination of many months of negotiation and due diligence, and so it was pleasing not only to sign the agreement with the partners, but also to see such overwhelming support from our shareholders for the project. When fully operational, the yard will provide Lamprell with an unprecedented opportunity to access a major growth market. Construction works have already commenced, and we expect full commissioning of all zones by 2022. Not only has this strengthened our position in new build jackup rigs, it has also led to further regional opportunities which are aligned with our long-term strategy. We prequalified for a long-term agreement with Saudi Aramco which, if successful, would make us one of a limited number of companies bidding for approximately USD 3 billion of offshore EPC(I) contracts each year. To access this opportunity, we are partnering with a renowned offshore installation partner to complement our construction expertise. In addition to the LTA, we are also pursuing EPC(I) work in other regions representing an annual opportunity set of approximately USD 3 billion. We have reinforced our in-house resources to be able to address the bidding and execution to a high standard and have invested in building a team with expertise in the segment, as well as specifically in working within an LTA framework.

Our first win in the renewables sector in 2016 has affirmed our intention to solidify our position in this fast-growing industry and having learned from the substantial project challenges we encountered at the start we remain enthusiastic about future opportunities – around 45% of our current bids are focused on this sector.

## Outlook

With many of our strategic opportunities coming into focus, 2018 is set to become a critical year for Lamprell. Our revenue levels will come under further pressure in 2018 in the absence of significant new awards in 2017. That said, we are working to convert some key opportunities during the year: the first two jackup rigs from the Saudi joint venture are expected to be awarded with portions of the work to be subcontracted to our facilities in the UAE, and we will also know the outcome of the highly competitive selection process for the LTA in 2H 2018. In addition, some of the bids in our current pipeline are expected to be awarded towards the end of 2018. We are, however, seeing an increase in activity in our bid pipeline, which stood at USD 3.6 billion at the end of 2017 and are confident that the diversification strategy along with market recovery in the medium term will allow us to deliver on our growth ambition. Over the years Lamprell has proved time and again its ability to address temporary challenges and to emerge a more resilient and reliable industry player. That was only possible with an exceptionally committed and experienced workforce 31, and I thank the team for their full dedication during these challenging times.

Christopher McDonald
Chief Executive Officer

# BALANCE SHEET STRENGTH FOR STRATEGIC INVESTMENT

Lower levels of capital expenditure in the oil & gas industry led to a fall in revenues for Lamprell with further margin pressure resulting from operational challenges. We have a strong focus on cash conservation aligned with our strategic investment.



As anticipated, the Group's financial performance came under pressure as the capital expenditure cuts in the oil & gas industry over the last four years affected our levels of new project awards and therefore our revenues. Our revenue for 2017 was USD 370.4 million, a significant but expected reduction on USD 705.0 million reported in the prior year.

The first half of the year showed steady revenue flows with a number of major project completions 25 and the resulting final milestone payments. Second half revenues were driven primarily by the East Anglia One and Master Marine projects, the contract with Schlumberger for the construction of two land rigs and the slow recovery of the rig refurbishment segment where we saw an increase in activity towards the end of the year 27.

The newbuild jackup rig segment generated USD 49.4 million in revenue during the reporting period, a sharp reduction (2016: USD 567.6 million) driven by the prolonged market downturn. Revenue for oil & gas contracting services, which includes the Master Marine project, increased to USD 131.3 million (2016: USD 47.6 million). The offshore platforms segment, which includes the East Anglia One project, generated USD 140.7 million in revenue (2016: USD 12.8 million).

**Net cash (USD million)**

**257.0**

2016: 275.2 million

Modules revenue amounted to USD 3.0 million (2016: USD 40.8 million) and operations, maintenance and manpower supply USD 46.1 million (2016: USD 36.2 million).

### Margin performance

Despite strong margin contributions from project completions in the first half of 2017, the Group made a gross loss of USD 50.2 million for the year ended 2017 as a result of reduced revenues as well as the significant losses incurred on the East Anglia One project (2016 gross profit: USD 57.2 million). The negative net margin was thus 13.5%. The Group has delivered a reduction in overheads for the sixth consecutive year; in 2017 our overheads amounted to USD 82.4 million (2016: USD 98.4 million). We will continue to control overheads in line with current market outlook but expect an increase in 2018 as we continue to invest in Lamprell's strategic initiatives.

Group EBITDA from continuing operations amounted to USD (70.5) million (2016: USD 30.6 million[1]). EBITDA margin was (19.0)% compared to 4.3% reported in 2016.

### Finance cost and financing activities

In 2017, lower levels of debt, facilities commitment fees and bonding commissions resulted in a reduction in net finance cost to USD 5.1 million (31 December 2016: USD 9.9 million). Gross finance costs were USD 9.0 million. Our higher levels of cash in 2017 have resulted in our finance income increasing to USD 3.9 million (2016: USD 2.9 million).

### Net (loss)/profit before exceptional items

Due to the operational challenges on the East Anglia One project the Group recorded a loss before exceptional items for 2017 attributable to the equity holders of USD 98.1 million (2016: loss of USD 0.4 million). The fully diluted loss per share for the year was 28.70 cents (2016: loss per share of 53.94 cents).

### Capital expenditure

The Group's operational capital expenditure for the year ended 31 December 2017 decreased to USD 23.7 million, compared to USD 25.6 million in 2016. Strategic capital expenditure of USD 20 million is attributable to the Group's first installment of our capital injection into the IMI yard 11 to fund the joint venture formation activities. Over the coming years the Group will be required to make further contributions on an annual basis totaling up to USD 140 million over the five to six year construction period. We expect to fund this project from our balance sheet.

Lamprell retains considerable flexibility in capital expenditure on its existing operations and our current commitments reflect the strength of the balance sheet and our net cash position.

### Cash flow and liquidity

The Group's net cash flow from operating activities for the full year ended 2017 reflected a net inflow of USD 32.4 million (2016: net inflow of USD 99.9 million), which was driven primarily by the conversion of working capital into cash on the completion of projects, offset in part by increased working capital on

**References**

1. EBITDA reported in 2016 includes the settlement with Ensco.


the East Anglia project. Prior to working capital movements and the payment of employees' end of service benefits, the Group's net cash outflow was USD 56.3 million (2016: inflow of USD 41.1 million). Cash and bank balances decreased by USD 38.2 million to USD 296.4 million. Throughout 2017 we continued to focus on cash flow and on preserving our strong cash position. We will diligently protect the cash position of the Group in 2018, but there will be a reduction in our net cash as a result of the funding requirement of USD 30 million on the East Anglia One project, an equity contribution of USD 38 million in the Saudi Maritime Yard ("IMI") and continued investment of USD 10 million in capital expenditure to deliver efficiency improvements in our yard facilities. The final payment of USD 41 million for the two S116E rig kits (which we contracted for in 2015 from Cameron Le Tourneau to secure our supply chain) will come due in 2018 in line with the amended delivery schedule. Whilst the cash flows relating to the East Anglia One project will reduce the Group's tangible net worth in 2018, the cash out flows into the IMI, the S116E rig kits and the operational capital expenditure will increase our tangible asset base. We believe it is important to use our financial strength to make these investments and position the Group to take advantage of future opportunities.

## Balance sheet

At USD 257.0 million the Group's net cash was marginally below 2016 levels (31 December 2016: USD 275.2 million). This reflects the initial investment in the Saudi Maritime Yard 11 as well as working capital requirements on our major projects.

The Group's total current assets at 31 December 2017 were USD 498.9 million (31 December 2016: USD 616.8 million). Trade and other receivables decreased to USD 164.7 million (31 December 2016: USD 275.3 million).

Shareholders' equity reduced to USD 460.8 million (31 December 2016: USD 555.4 million).

## Borrowings

Borrowings at 31 December 2017 were USD 39.5 million (31 December 2016: USD 59.5 million). The Group's facilities comprised (a) a USD 100 million term loan amortised over five years, of which USD 60 million had been repaid by the end of the reporting period; (b) USD 50 million for general working capital purposes which remained unutilised; and (c) USD 100 million of working capital for project financing (reduced from USD 200 million), also undrawn. In 2017 the USD 150 million committed bonding facility (which reduced from USD 250 million in 2016) to be used in connection with new contract awards funded by the above working capital facility, was reduced by a further USD 100 million to 50 million as it was replaced by lower cost bilateral bonding facilities. The Group's debt to equity ratio at 31 December 2017 was low at 8.6%.

## Amendments to debt facility covenants

The Group's balance sheet remains strong. The Board believes that maintaining significant liquidity is beneficial to the Group. As a result, in 2017 the Group obtained debt facility amendments from its lenders in relation to certain of the financial covenants, to provide financial flexibility. These include a waiver of the ratio of EBITDA to debt service covenant up to the period ended 31 December 2018 and the ratio of borrowings to EBITDA covenant for the periods ended 31 December 2017 and 30 June 2018. The tangible net worth covenant was also amended to a level of USD 325 million for the remaining duration of the facility. Securing these waivers further demonstrates the strong, continuing support that the Group receives from its lender group.

## Going concern

The Group continues to adopt the going concern basis as detailed on 72.

## Dividends

In the context of ongoing market challenges, the low revenue levels in 2017 and the investment for future growth in the Saudi maritime yard, the Directors do not recommend the payment of a dividend for the period in relation to the financial year ended 31 December 2017.

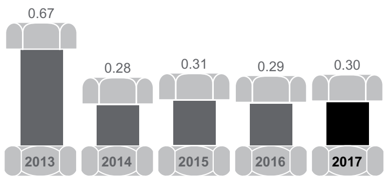
Tony Wright
Chief Financial Officer

# EVALUATING OUR PERFORMANCE IN 2017



We use a number of key performance indicators to measure our performance and track the delivery of strategic goals. Most are linked either to the short-term or long-term incentives for the remuneration of the executive team (these are marked with KPI).

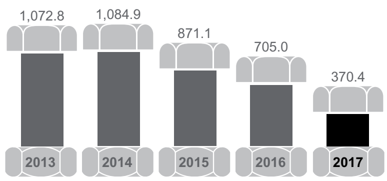
## Safety TRIR KPI
(rate per 200,000 hours)




**Definition:**
Number of injuries per 200,000 hours worked. This includes any injury that requires more than first aid treatment, which would be designated a medical treatment case or requires restrictions in work activities due to injury and days away from work.

**Strategic relevance:**
Safe operations are efficient operations. We want all our employees to return home safely after each shift. Our safety track record often forms part of the bidding and evaluation process by our clients.

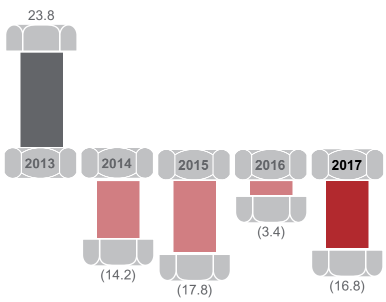
## Revenue
(USD million)




**Definition:**
Income from existing operations during the reporting period before deduction of costs.

**Strategic relevance**
Revenue is a key metric underpinning our ability to operate efficiently on a daily basis and generate sufficient working capital for new contracts and business growth.

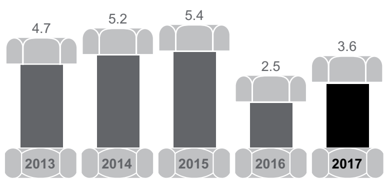
## Total shareholder return KPI
(%)




**Definition:**
Share price appreciation and dividends paid to shareholders.

**Strategic relevance:**
Maximising shareholder value is a key metric we consider when addressing Group strategy.

## Bid pipeline
(USD million)




**Definition:**
Total value of commercial bids ongoing which are expected to be awarded in the next 12 to 18 months.

**Strategic relevance:**
Our goal is to sustain a robust bid pipeline that includes realistic prospects matching our core expertise and allowing us to expand into new strategic sectors, whilst maintaining strong margins.

Consistently maintained a world class safety record in its operations

Decline in awards and order book due to the global energy market downturn since 2014

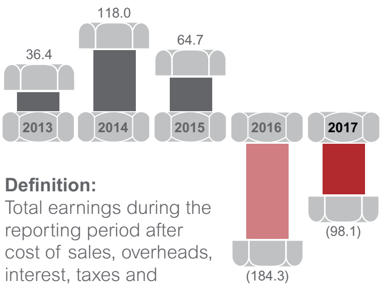
Profitability in 2017 significantly impacted by loss on wind farm project

Balance sheet strength supported by year-end net cash position



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

KPI

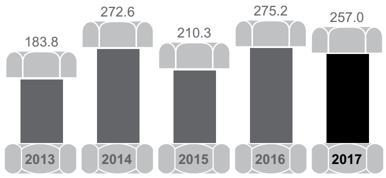



**Definition:**
Total earnings during the reporting period after cost of sales, overheads, interest, taxes and other expenses.

**Strategic relevance:**
Profitability is a key indicator of business efficiency and cost management and a major requirement for business growth and sustainability.

**Net cash**
(USD million)

KPI

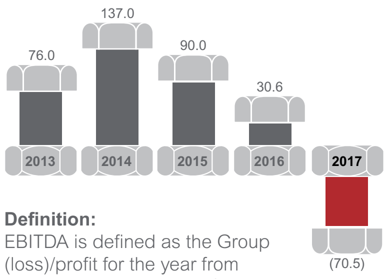



**Definition:**
Cash generated from our funding activities and operations, after deduction of debt.

**Strategic relevance:**
Net cash is a core indicator of capital and balance sheet management. The strength of our balance sheet allows us to remain competitive and to address capital requirements for strategic growth.

**EBITDA**
(USD million)

KPI

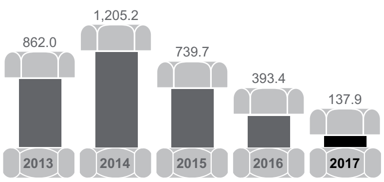



**Definition:**
EBITDA is defined as the Group (loss)/profit for the year from continuing operations before depreciation, amortisation, net finance expense and taxation.

**Strategic relevance:**
EBITDA indicates the effectiveness of cost management as well as operational efficiency and revenue growth.

**Order book**
(USD million)

KPI

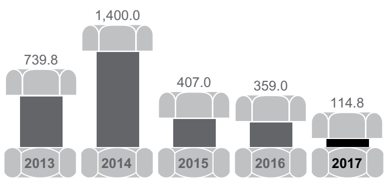



**Definition:**
Total value of current works to be undertaken on firm contracts and 50% of projected walk-in work as at the end of the reporting period.

**Strategic relevance:**
Our order book provides short- to medium-term visibility of our financial position and activity levels in our yards.

**Total awards**
(USD million)

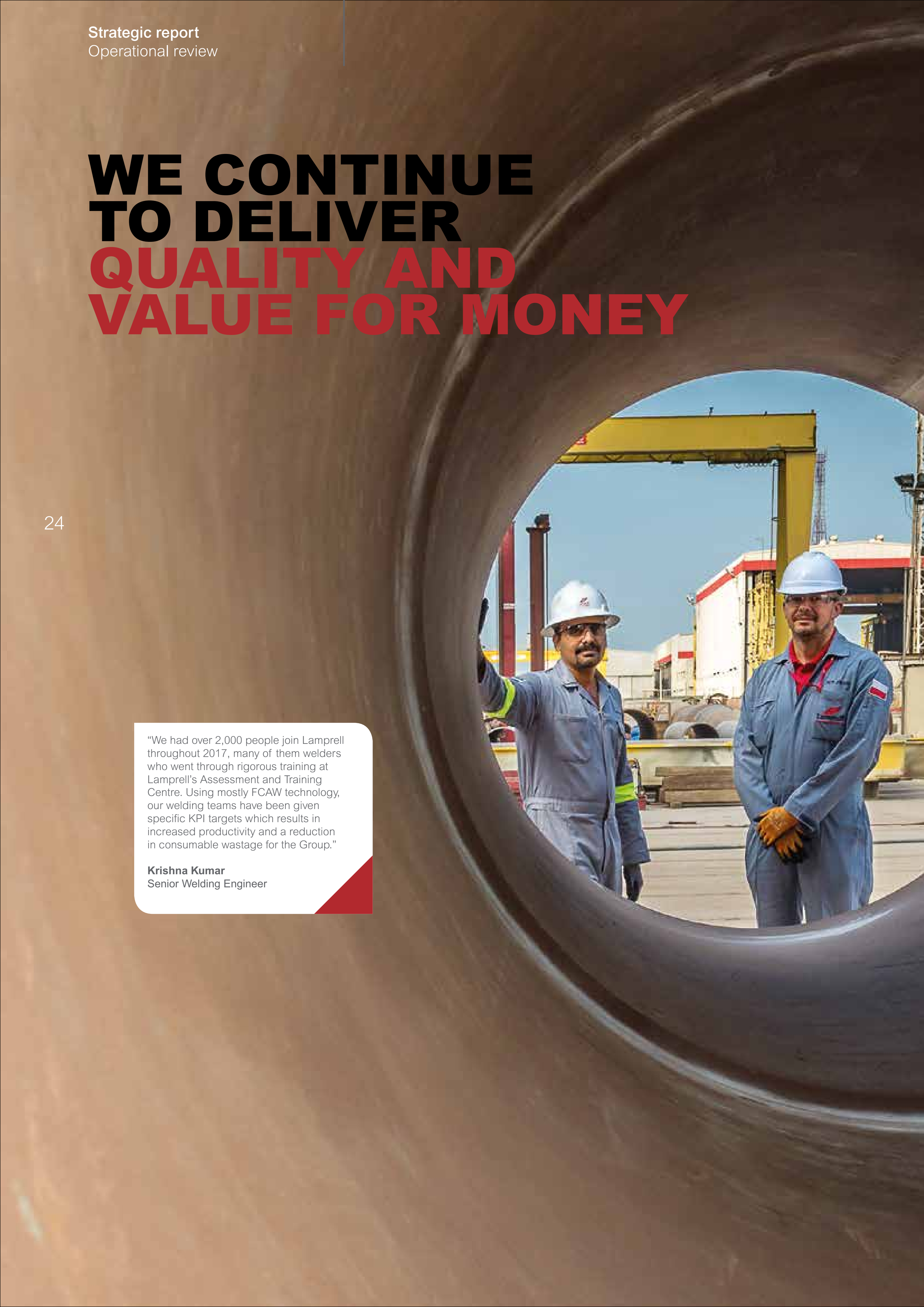
KPI




**Definition:**
Total value of all contracts awarded in the reporting period.

**Strategic relevance:**
Converting the bid pipeline into contract awards ensures sustainable operation of our business. The metric is of particular relevance during the industry downturn as we look at revenue streams outside of our traditional sectors of expertise.

# WE CONTINUE TO DELIVER QUALITY AND VALUE FOR MONEY





"We had over 2,000 people join Lamprell throughout 2017, many of them welders who went through rigorous training at Lamprell's Assessment and Training Centre. Using mostly FCAW technology, our welding teams have been given specific KPI targets which results in increased productivity and a reduction in consumable wastage for the Group."

**Krishna Kumar**
Senior Welding Engineer

"2017 saw the completion of our largest and longest-running project so far with delivery of the final two jackup rigs for ADNOC Drilling. Bringing the eight-year project for construction of nine rigs in total to a successful conclusion was a memorable milestone for the team. Our project management teams are dedicated to delivering Lamprell's projects safely, within budget and on schedule."

**Piotr Jaworski**
Project Manager

We started 2017 well with the successful delivery of the final two jackup drilling rigs for ADNOC Drilling out of a series of nine, as well as handover of the second rig "Shelf Drilling Krathong" to Shelf Drilling. We also completed the UZ750 module project and the Kaombo project for HMC. As we brought those projects to a successful completion, we turned our attention to the new Master Marine and East Anglia One projects.

## Overview

Project completions early on in the year and the slow pace of new contract awards brought yard activities to a relatively low level in 1H 2017. However, once fabrication work commenced on the East Anglia One project, as well as our major upgrade for the "Haven" mobile operating unit on behalf of Master Marine, yard activity quickly picked up. We had over 2,000 new employees join us throughout 2017, and our Lamprell Assessment and Training Centre was kept busy with ongoing induction, safety and other training throughout the second half of the year. While the upgrade of the "Haven" unit proceeded as planned, we experienced a steep learning curve on the East Anglia One project which was our first foray into the wind farm foundation market 18.

- Major execution and project management challenges experienced on East Anglia One
- Final two rigs out of a total of nine delivered to our biggest client
- Successfully completed second rig for Shelf Drilling
- Delivery of final modules for UZ750 project finalised
- Launched the LJ43 new proprietary jackup rig design
- Five million manhours without a day away from work case achieved on East Anglia One project
- Two land rigs delivered to Schlumberger

"Throughout 2017, Lamprell has been upgrading the "Haven", a jackup accommodation unit, on behalf of our client Master Marine. The project team celebrated 2.4 million manhours without a day away from work case at the close of 2017. Work in our UAE yards is complete and our team will work through the Norwegian winter to complete final installation works."

**Daniel O'Doherty**
Deputy Project Manager



### Safety first

Lamprell considers the safety of its employees as its top priority. In early 2017, a large number of our employees had been contracted to work at a client's worksite but, following a deterioration in various safety processes at the site, we responded proactively to address these concerns and protect our workforce. We attempted to collaborate with the client to improve safety standards, but once it became clear that this would not be possible, we decided to terminate the relationship with the client and withdraw our employees from the site. The health and well-being of our employees is of paramount importance, even when working on remote locations. At Lamprell yards we saw a significant ramp-up in our manpower as we staffed up to work on the East Anglia One and Master Marine projects and, as part of that, we implemented a number of campaigns to educate and train the new employees up to the rigorous safety standards that Lamprell expects and maintains. This proved to be highly successful and, while our rolling TRIR increased early in 2017 due to the remote site issues, the exemplary performance in our own yards ensured that our safety track record returned to historical strong performance levels as we ended the year with a TRIR of 0.30 30.

### Transformational joint venture

After lengthy discussions, the Group signed a joint venture agreement with Saudi Aramco, Bahri and HHI to establish and operate a maritime yard in the Kingdom of Saudi Arabia through a joint venture company 11. Lamprell will be the technical partner in two zones, focusing on construction of offshore jackup rigs as well as MRO services for rigs and commercial vessels. The construction process at the site is under way with dredging and associated activities in progress. A full briefing on this project can be found on pages 10 to 15.

### Amicable settlement

In August 2017, we reached an amicable settlement with Cameron, a subsidiary of Schlumberger, in respect of the issues associated with their jacking equipment supplied in 2016. We are pleased to have successfully resolved the issues and to preserve a healthy relationship with Schlumberger, who commissioned Lamprell to fabricate two land rigs in accordance with the client's proprietary rig design. We completed the rigs and this further strengthened Lamprell's credentials in the land rig sector.

### New proprietary rig design

In November 2017, Lamprell and technology partner GustoMSC unveiled the "LJ43", an advanced jackup rig design, at the Abu Dhabi International Petroleum Exhibition and Conference. Lamprell's new proprietary rig design, LJ43, developed in collaboration with GustoMSC, has been selected as the base design for the 20 rigs to be constructed at the IMI yard in Saudi Arabia 12. Our investment in a new rig design helps to underpin Lamprell's future in the new build rig market for the foreseeable future.

## Renewables market

East Anglia One is Lamprell's first major renewable foundations contract, and we are disappointed that our performance on this project in 2017 was below historical levels, given our delivery of five major projects in early 2017. The poor performance originated at bidding stage when we underestimated the complexities of the work scope and planning requirements as this represented a new sector for us. During the early stages of project execution, our initial project management team was slow to address key issues such as change management, management of the supply chain and recruitment of specialist welders which compounded the difficulties.

As a result, we have faced a steep learning curve incurring significant additional costs and experiencing inefficiencies as we worked to deliver the project as per our client requirements. We are very disappointed with our execution on this project, however, we have already implemented many steps to improve performance. These include considerable investment in resources and new talent with specialist sector experience, improved and transparent manpower forecasting, greater scrutiny of benchmark data for bidding norms on these kinds of projects, a focus on key individual project risks as part of the initial bidding processes, closer alignment between our functional teams during bidding and into the handover phase; and closer engagement with our clients to manage change orders. Not only has this raised productivity on this project


close to our historical norms, but we have also learned the hard way how to be competitive in the future in this sector.

We have recognised the importance of meeting our client's expectations in terms of schedule and quality, and we have embedded the many lessons learned to create a production line mentality for the construction and delivery of the 60 foundations. Completion of this renewables project is one of our primary focus areas for 2018 to demonstrate our capabilities in this market. With these performance improvement measures in place, we can compete effectively and profitably in similar future projects in what is a strategic, growing market.

With regard to rigs destined for the renewables market, Lamprell will bid for WTIVs on a selective basis, similar to those that we have constructed in the past. There are limited numbers included in our bid pipeline 04 but this is also a potentially attractive market given the likely expansion of the renewables market 05.

## Oil & gas market

### Rigs

February and April 2017 saw the delivery of new build jackup drilling rigs "Al Hudairiyat" and "Al Lulu" respectively to ADNOC Drilling. Also in April, Lamprell successfully delivered the rig "Shelf Drilling Krathong" which was deployed alongside its previously constructed sister rig operating offshore Thailand. To date, Lamprell has fabricated and successfully delivered a total of 22 new build jackup drilling units to the oil & gas market.

The land rigs "501" and "502" which were awarded to Lamprell by Schlumberger in 2017 are complete after being fully assembled in Lamprell's Hamriyah yard. The client is deploying them for operation in the region and we are looking to foster this collaborative partnership into a long-term relationship.

The Master Marine project progressed well throughout the year, and all construction work in our UAE yards was completed successfully. There were significant safety milestones including the 2.4 million manhours reached by the close of 2017 without any DAFWCs. The Lamprell project team mobilised to Norway where they will carry out final installation work during the first half of 2018.

While 1H was relatively quiet in rig refurbishment projects, the second half of 2017 saw a significant increase in bids and projects with clients coming back to Lamprell due to our proven track record of quality, completing projects on a compressed timetable and because of our first class quayside facilities that allow us to conveniently stack rigs.

By the close of 2017, our rig refurbishment business completed a total of 13 projects and our stacking facility housed approximately 14 rigs for various lengths of time throughout the year.

### EPC(I)

In 1H 2017 Lamprell delivered the final modules for the UZ750 Abu Dhabi-based project to Petrofac, bringing the total number of module deliveries to 45. The project team celebrated the achievement of over 6.5 million manhours DAFWC free during the final celebration and awards ceremony held in Lamprell's Jebel Ali facility.

The E&C business unit successfully delivered the final buoyancy tanks for the HMC Kaombo project located in Angola in 1H 2017. They also delivered numerous pressure vessels and provided fabrication and maintenance services to various clients throughout 2017.

### Contracting services

Throughout the year the O&M business unit continued to provide skilled labourers and supervisors to various clients spread across the UAE. They also played a crucial role in assisting with initial ramp-up requirements for tradesmen and particularly specialist welders on the East Anglia One and Master Marine projects.

Sunbelt Safety Services did better than anticipated in 2017 winning nine new contracts after a slow start to the year. Project locations were spread across the Middle East in KSA, the UAE and Qatar.

Note: The Operational Review is reported in line with our strategic objectives 8. A comparison with the previous segments is reported in the Financial Review 20, and segment Note (5) is shown on Note 36.

# SAFETY IN NUMBERS


"Paying attention to detail is how we will move towards improving our safety record and being recognised as a leader in HSES. We use vital tools such as toolbox talks, Take 5, SOAP and risk assessments to prepare for our projects and execute our work. We then audit to ensure implementation and effectiveness."

**Phil Baron**
HSES Manager



**Reduction in recordable incidents compared to 2016**

**23%**

**Reduction in high potential incidents**

**46%**

**Manhours of training provided at Lamprell Assessment & Training Centre**

**398,645**

"At Lamprell, we have the systems needed to create sustainable improvement in our safety and environmental performance, and to compete on a global stage by measuring our progress against agreed targets. Safety has strategic relevance for Lamprell because safe operations are efficient operations and our performance forms an important differentiator during the bidding and evaluation process by our clients."

**Iain Walker**
Vice President HSESQ



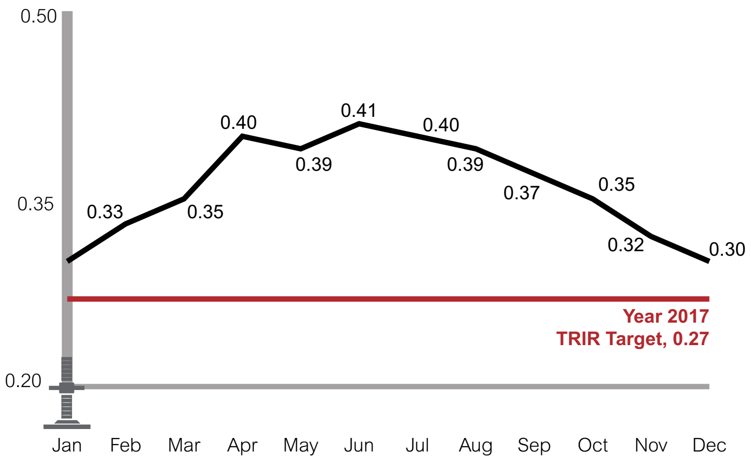
Maintaining the highest standards of safety remains a core value for Lamprell but we go further and aim to link safe activities with supplying high-quality products on time and budget. Our approach follows the belief that exceptional safety management contributes to good business performance, giving a higher probability of better returns for all of our stakeholders.

## Robust sustainability structure

2017 included numerous audits across HSES and Quality, client visits and staff training which were all very successful. In terms of environment, our ongoing commitment to reduce our carbon footprint improved further reducing our waste to landfill percentage from previous years. We delivered against our HSES activity targets and maintained our key certifications.

We took particular interest in the occupational health of our employees and continued this approach with various health-related campaigns and the reinforcement of our successful heat stress campaign which is key to ensuring the safety of our employees during the hot summer months in the UAE.

**Rolling monthly total recordable injury rate (TRIR)**
January 2017 to December 2017




**Description**
TRIR: Total number of recordable incidents (27) ÷ number of manhours worked (18,000,000) x 200,000 = 0.30.



Rising 1H 2017 TRIR figures seen in the graph above were heavily influenced by incidents occurring on external project sites not controlled by Lamprell. Following crucial decisions by our leadership team, our performance improved significantly in 2H 2017 resulting in a year-end figure consistent with historic trends.

**92 | 08**
male % female %

**Employee gender split as at 31 December 2017**

## Q What was the most significant HSES challenge in 2017?

**Iain Walker** Although we marginally failed to meet the annual TRIR target, we turned our HSES performance around in 2H 2017 to bring us back within range. The 0.30 outcome by year-end was a remarkable recovery. The turning point in the year came with a pivotal decision to withdraw Lamprell personnel from a remote site which was not under our supervision. This was the main contributor of recordable incidents in 1H 2017 and almost single-handedly drove the TRIR trend upwards. This move demonstrated that Lamprell management will not put commercial considerations before the safety of its workforce. In addition, we implemented a self-imposed HSES improvement plan called "Back to Basics". The aim was to refocus on what we do to manage risk and behaviours to a detailed level. After the first month of implementation the improvement began, and by December there had been a five-month sustained improvement despite a steady month on month increase in new personnel, manhours and activity. The ongoing challenge will be to take the momentum and positive changes forward and continue improving our performance into 2018. We have kicked this off with our 'Safe Start 2018' initiative.

## Q How much of an impact and influence does the management team have in leading HSES within Lamprell?

**Iain Walker** The management team 10 has a significant impact on and desire to be part of developing an embedded safety culture. At Lamprell, we believe safety is not owned by the HSES department, but rather by our employees, the leadership, managers and supervision teams. HSES is a support function role which effectively helps identify trends and areas of improvement, then provides the tools, guidance and assistance to the management and supervisory personnel to roll out and implement. We all want our employees to go home injury-free at the end of each shift. Our management plays an active role every day and each manager regularly does site inspections across all Lamprell's facilities and staff accommodation. Examples of key activities they led in 2017 include:

- Weekly worksite walkabout inspections;
- Attendance at HSES inductions to welcome new employees, communicate their expectations and support the "Stop Work Authority" programme;
- Hosting of regular HSES Town Halls to communicate HSES performance; and
- Contributing to the observation and intervention card system.

"At Lamprell, as a senior management team, we aim to ensure that employees have sufficient channels of communication available to contribute ideas, ask questions or raise issues and concerns. Employees must feel comfortable interacting with senior management on any topic, and we place a high priority on management visibility and accessibility."

**John Macdonald**
Vice President HR & Admin

"We believe that employee work-life balance is key to ensuring our workforce deliver our projects safely. In addition to our full calendar of sports and entertainment events, we regularly have medical professionals come and speak to our staff about health and well-being. We believe in promoting a healthy lifestyle and appreciate the full support we receive from our senior management team in carrying out these activities."

**Nipa Joshi**
Compensation & Benefits Analyst



## Q What are the key focus areas to take forward into 2018?

**Iain Walker** Observation and intervention, if done correctly, is an effective and efficient way to identify unsafe acts or conditions and correct them at an early stage to prevent potential accidents. We will continue to empower the workforce to use their "Stop Work Authority" where there are legitimate safety concerns. There were many improvements in HSES performance in 2017 compared to prior years, however high-level focus will be on the reduction of all incidents as they affect the organisation in various ways whether it be reputational, monetary or in human safety terms. Hand and finger injuries were the most common and accounted for approximately 38% of all injuries (see graph on 32). We plan to extend our campaigns on this topic in 2018 through a refreshed approach. Additionally, the most frequent root cause of incidents was "lack of care and attention". The data collected from our incident investigations showed that the majority were not caused by HSES management system failures, but rather were behaviour-related. They are therefore avoidable but this requires further training and education for our workforce. With that in mind, improvements in behaviours, procedural compliance, hazard and situational awareness will be high focus areas. Asset damage incidents decreased from 2016, and we will focus on further reducing this with a goal of eliminating these types of incidents.

## Q How do you make Lamprell an attractive place to work?

**John Macdonald** For the last five years we have continually placed emphasis on employee work-life balance. We coordinated an annual calendar of employee sports and social events, including football, cricket, rugby, bowling and badminton tournaments, as well as talent shows and quizzes. 2017 concluded with over 1,000 employees as well as senior management participating in and watching the annual sports day at our Jebel Ali yard. These events bring together our multi-cultural workforce of over 40 nationalities, and we believe that they have a positive impact on employee engagement and loyalty towards the Group as evidenced by our low employee attrition rates, long service culture and nationally recognised employee welfare awards received between 2014-2016 at the Daman Corporate Health event.

## Q What differentiates Lamprell from other employers in the Middle East?

**John Macdonald** Initiatives that we believe differentiate us from many other employers within our regional industry sector are our yard staff accommodation and daily transportation facilities, the quality of our medical and life insurance provisions which are significantly ahead of the minimum requirements, and the channels of communication that we maintain for our workforce to interact with management. Examples of this include our employee welfare committees for our yard workforce, our "Bright Ideas" suggestion scheme, the twice-yearly CEO Town Hall meetings, the frequency of our yard staff and supervision toolbox talks and our whistle-blowing hotline which enables employees to raise concerns or issues confidentially and securely.

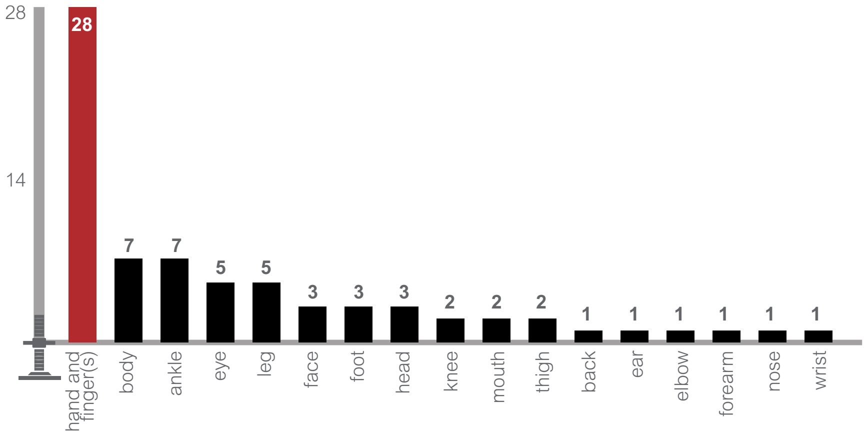
## Q What was Lamprell's employee attrition rate in 2017?

**John Macdonald** Voluntary attrition remains at around 5% for our admin workforce for the second year running and, in 2017, was down to 5.15% amongst our yard workforce compared to 8.04% in 2016. Our employee loyalty is evidenced by the fact that 28% of admin employees and 34% of yard employees have more than ten years' service. This is formally recognised through our Long Service Award programme.

### Incidents breakdown

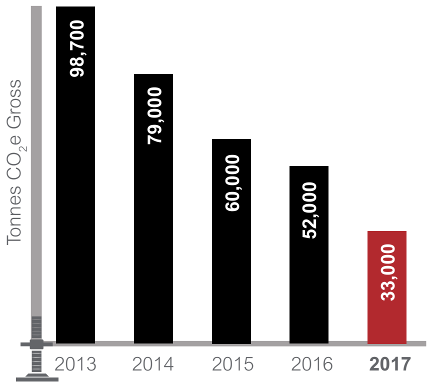
by body part throughout 2017[1]

Out of all the body-related injuries, hand and fingers were the most common followed by body (core) and ankle. Injuries occurred from a number of different causes resulting in slip, trips and falls, burns and entrapment between pinch points.




### Greenhouse gas emissions

In 2017, Lamprell was once again successful in decreasing gross $CO_2e$ emissions. This was achieved through a combination of investment in cleaner energy options and efficient use of resources.






## Health and Safety

### Highlights

Successfully recertified by third party certification body to OHSAS 18001 standards with zero non-conformances

Strong safety performance achieved across all Lamprell managed sites despite increased levels of activity and potential risks

We successfully retained the leading international safety management system standard, OHSAS 18001, with no non-conformances. Such certifications indicate our systems are being implemented, monitored and managed properly. The award is based on the ability to comply with the clauses within the standard through auditing and interviews with key personnel within the organisation. The requirement to show evidence of the system in action is key to verifying we do what we say we do.

The third party certifying authority auditors were highly complimentary on how Lamprell's systems were being managed and maintained in all areas. They further support our commitment to manage our approach to safety in a conscientious manner as a responsible employer and contractor.

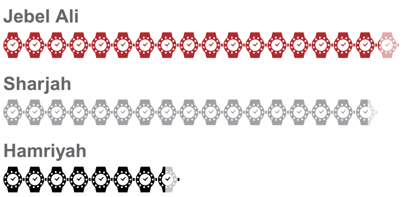
In 2017 the Group reduced the number of recordable injuries by 23% in comparison to 2016. This is significant as it reflects a reduction in the number of personnel hurt who required treatment more than minor first aid. Incidents classified as high potential (Level 3) were reduced by 46%.

**References**

1. Due to rounding, the remaining 1% is made up of decimals.

The Jebel Ali site managed to complete one year without a single recordable injury which was a remarkable achievement. Our inability to reach and improve on our TRIR target in 2017 was primarily due to a 46% increase in incidents at remote sites where the activities operated under the supervision and systems of the client. We have reviewed our current approach to recording hours and incidents in contracts where we do not have management control or influence, and a new approach will be adopted in 2018 which brings the organisation more in line with current industry practices. However, we will also continue our focus and training on employees assigned offsite where Lamprell is not providing the supervision, empowering them to intervene when they consider an operation to be unsafe.

Lamprell's ultimate goal is to reach zero injuries in the workplace. In pursuit of this, our sites across Hamriyah, Jebel Ali and Sharjah have all achieved the following significant milestones showing total manhours expended without a DAFWC:




Note: Each clock represents 1 million manhours worked.

## Quality

### Highlights

Strengthened and restructured quality engineering and welding management as part of Lamprell's strategy to enhance EPC(I) capabilities

Additional ISO 3834 and EN 1090 certifications targeting European market kick-started

Our Hamriyah facility achieved ASME certification

## Competitiveness and customer focus

As part of Lamprell's business strategy to develop its EPC(I) capabilities and maximise competitiveness, the overall QA/QC functional leadership team has been strengthened. The significant changes included a transfer of welding engineering from the production department to the QA/QC function and the development of in-house non-destructive testing capability. In May 2017, our Hamriyah facility attained ASME approval, which certifies Lamprell's ability to manufacture, repair and modify products according to the American Society of Mechanical Engineers (ASME) 'U', 'U2', 'S' and National Board 'R' and 'NB' standards. The ASME accolade is highly regarded as the hallmark of acceptance and certification. As part of Lamprell's strategy to target the European market, we are working towards additional certifications such as ISO 3834 and EN 1090 (CE Marking). This certification process was kick-started in 2017 with the aim to be certified in 1H 2018. Lamprell also successfully completed a number of audit assessments as part of our ongoing business development efforts. These audits support the Group's participation in bidding activities with prospective clients.

"We at Lamprell believe in preventing quality problems from happening, eliminating activities which do not add value and reducing waste. We are determined to consistently exceed customer expectations and enhance their overall experience with us through continual improvement of the quality of our products, services, people and processes."

**Mathew Shajee Varghese**
Group Quality Manager



## Environment

| Highlights |
|---|
| 36% reduction in annual gross $CO_2e$ emissions from Company operations |
| 90% waste recycling |
| Zero environmental non-compliance events |
| Certification to latest ISO:14001 2015 EMS standard |
| Maintained C Carbon Disclosure Score |

In 2017, Lamprell was successful in improving its environmental performance across a range of sustainability metrics. These improvements include an increase in waste recycling from 85% to 90% diversion from landfill and a decrease in gross $CO_2e$ emissions for the third year running, with emissions decreasing by approximately 36% in 2017 from the previous year's 14% decrease.

Lamprell also completed the transition to the new ISO 14001:2015 certification standard for Environmental Management Systems. The certification to this latest international standard highlights the best-practice approach to environmental protection taken by the Group.

In 2017, we launched the inaugural UAE Clean Coastline Initiative, in which volunteers from Lamprell partnered with a government agency to clear a beach of assorted waste. This successful initiative resulted in the removal of 300 kilograms of waste, thereby reducing a serious risk to both bird and marine life.

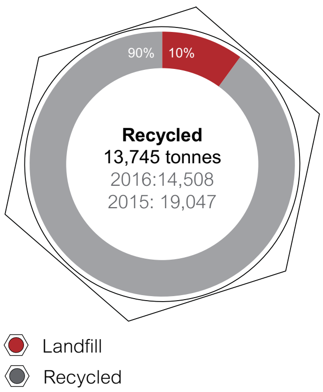
## Corporate social responsibility

| Highlights |
|---|
| Group continues to support local and global CSR initiatives |
| Employees sponsored to take part in CSR events |

During 2017, Lamprell employees participated, with the financial support of the Group, in a number of local community initiatives, two of which were global events. In May, Lamprell-sponsored employees took part in a fund-raising event for the "Wings for Life" Foundation, a non-profit organisation that funds spinal cord research. The event took place concurrently in 58 countries and 111 locations worldwide.

In November our employees participated in the Relay for Life 24 hour walk, the world's largest fundraising event which is organised on behalf of the "Friends of Cancer Patients" group. 100% of funds are donated to those impacted by cancer, either as patients or their support network.

**Waste diversion 2017**
(tonnes)




## Employee welfare

| Highlights |
|---|
| Continued focus on promoting employee health and wellness |
| Recognition of International Women's Day and Breast Cancer Awareness month |
| Over 2,000 employees take up company subsidised flu vaccinations |

Having been nationally recognised by a leading corporate health organisation for our high standards of employee wellness on three occasions in the last four years, we continued to build on our strategy of promoting employee wellness through a series of health awareness campaigns throughout 2017.

In March, the Group hosted a Women's Wellness Seminar to recognise International Women's Day with talks on nutrition, diet, sleep and exercise. This was followed by a Breast Cancer Awareness seminar held in September.

Aside from a number of other health awareness events focusing specifically on posture, bone mineral density and summer heat awareness, the Group subsidised flu vaccinations and made them available to the whole workforce resulting in take-up of over 2,000 participants.

Once again the Group maintained its highly regarded and successful heat stress awareness campaign during the hot summer months of June to September. This provides an early warning and "Stop Work Authority" system when temperatures and humidity rise above certain tolerance levels and also mandates all of our yard workforce to carry adequate supplies of drinking water at all times.

# EMBEDDING RISK MANAGEMENT INTO OUR PROCESSES

Lamprell's risk management processes have been developed to ensure that clear alignment exists between the strategic objectives of the Group and its everyday business decisions in order to ensure risks are highlighted prior to making judgements.



## A robust risk management framework

We continue to have a single depository for all major risks that the Lamprell Group faces – our Enterprise Risk Management ("ERM") system. A robust assessment of all major risks is undertaken by senior management and the Audit and Risk Committee twice a year, as a minimum. The process reported in previous years has been retained whereby all risks are ranked taking into account both a probability and an impact assessment, and on a gross (pre-mitigation) and net (post-mitigation) basis. Regular review and updates to our risk management procedures improve our ability to identify risks promptly and help ensure that we maintain our processes in line with best industry practices.

The poor performance on the East Anglia One project 26 highlighted a number of weaknesses in our processes notably around bidding and estimation, in change management procedures and in welding engineering. The Group has also been taking steps to address the issues that were identified in the 2016 rig projects, specifically around supply chain management. We have taken steps to embed these lessons learned into our processes and enhance our risk management systems to ensure that we are able to bid competitively and effectively on future workscopes.

The register provides an efficient analytical tool to assess the position of our business risks at any given time, with identified risks being evaluated to develop adequate mitigation plans. In addition, the register provides a valuable audit trail of our management of risks through their lifecycles.

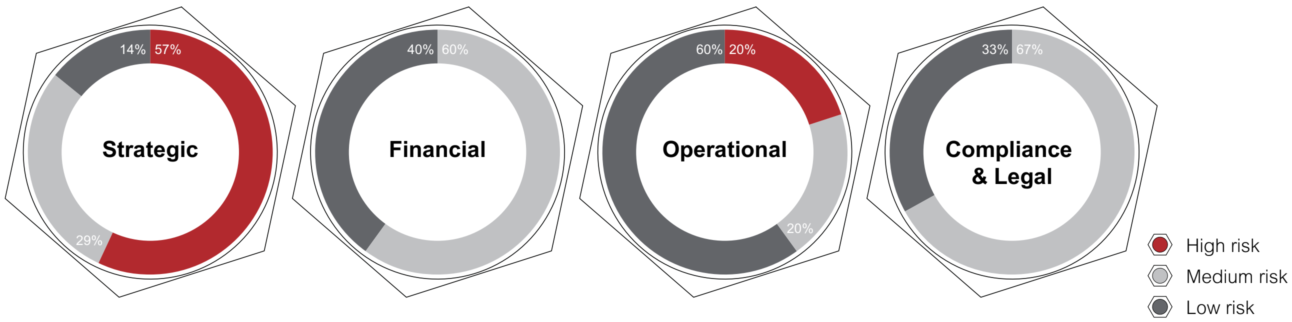
Internal communication of business risks is essential for the effectiveness of our risk management process. Individuals within the business who are best placed to manage identified risks work with project managers, senior management and our Board of Directors to ensure that there is a full understanding of recorded risks. In addition, such communication ensures that the approach to appropriate mitigation strategies amongst stakeholders is aligned.

We believe that our approach to risk management provides a clear framework that allows for decisions to be made on an informed basis. Internal participation in the process improves stakeholder relations and ensures effective collaboration in order to protect Lamprell's business interests.

## Principal risks and uncertainties for Lamprell

Lamprell faces a variety of risks, and these may change annually depending on internal and external factors. Our profiling of project risks confirms that, like 2016, the strategic category had the highest number of key risks for this reporting period. We believe that this is due to the anticipated upturn in the energy sector being slower than initial market predictions. This has had a significant impact on Lamprell's ability to win new work 04.

## Analysis of risks within our business




Note: The graphic represents all enterprise risks faced by the Group. Risks 35 and 36 highlight higher priority risks.

## Strategic risks

| Risk description | Business implication | Mitigation |
|---|---|---|
| **Economic conditions**<br>**Risk to strategy**<br>high<br>Slow market recovery may lead to continued bid pipeline instability, meaning that project awards may be significantly delayed and even suspended indefinitely.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>high<br>Lack of approval and implementation of significant investment initiatives by its target client market may affect the Group's position in the marketplace. | Levels of expenditure by oil & gas companies and those involved in renewable energy directly affect demand for the Group's products and services. The oil & gas and renewables sectors remain unstable, and such instability could contribute to more cautious spending habits. | • We aim to ensure that Lamprell has a diversified portfolio to cover multiple market sectors.<br>• We actively work to maintain and develop a robust bid pipeline.<br>• Utilisation of our Client Relationship Management system ensures that we retain regular contact with our client.<br>• Active investigation of potential partnerships/ alliances to aid diversification of products, services and territories.<br>• Focus on leveraging in our key locations in Saudi Arabia and the UAE where capital expenditure remains in a growth mode. |
| **Mergers and acquisition**<br>**Risk to strategy**<br>high<br>An opportunistic transaction could significantly alter the intended strategic direction of the Group, thus rendering current initiatives and goals obsolete.<br>**Risk change**<br>increased<br>**Risk to business model**<br>medium<br>A proposed acquisition of the Company may lead to decreased focus on targeted initiatives, and could result in loss of traction in the marketplace. | With the prolonged downturn, low levels of backlog and current operational challenges, the Group could see an opportunistic approach for purchase at a suppressed price. | • The Group has a clear long-term growth strategy with plans to achieve strategic objectives.<br>• Lamprell's majority shareholder can act as a negative veto to hostile approaches based on unreasonably low valuations.<br>• We have appointed a professional advisory and broking team who provide advice to the Board of Directors and senior management.<br>• We actively maintain a robust bid pipeline with high bidding activity. |
| **Ability to win new work**<br>**Risk to strategy**<br>high<br>Lack of competitiveness may impede Lamprell's efforts in progressing existing business areas and making a meaningful entry into new markets.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>high<br>Failing to provide reliable, on time, competitive solutions may negatively affect the Group's reputation in the marketplace amongst current and target clients. | The Group is dependent on a relatively small number of contracts at any given time, some of which are for the same customers, and strong client relationships are critical for a sustainable business. In addition, Lamprell's ability to retain current clients and compete successfully in the market depends on its ability to provide on time, low cost, high-quality products and services. If the Group fails to be competitive (technically and commercially), it will not win new project awards. | • A highly customer focused business development team targets strategic and growth markets.<br>• Leverage on our quality and safety performances.<br>• We work to ensure that benchmarking and estimating tools are current to provide competitive pricing.<br>• Continual improvement of the skillsets of our personnel through dedicated training initiatives and project reviews.<br>• Dedicated internal initiatives have been implemented to improve cost control, productivity and overall efficiency.<br>• Implementation of thorough QA/QC procedures ensures that adequate quality is maintained throughout all projects. |
| **Third party alliances**<br>**Risk to strategy**<br>medium<br>The Group's ability to make meaningful inroads to current and new markets may be adversely affected by ineffectual management of alliances.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>medium<br>The success of the Group's infiltration into growth markets and diversification of business offerings may be adversely affected by inefficient relationships. | To conduct business in certain jurisdictions, the Group places reliance on key relationships with local partners, agents and the members of joint ventures and consortia that Lamprell forms part of. Ineffective management of these relationships could leave Lamprell exposed to additional contractual and/or execution liability or render the Group's operations in certain jurisdictions uncompetitive. | • All agreements have a clear strategic goal and are documented through a formal contractual process.<br>• Advice is obtained from external experts where necessary.<br>• We work to retain strong partner relations at senior management level.<br>• Board has oversight of all proposed and current joint venture/consortium initiatives and is given appropriate opportunity to review and challenge proposals. |

## Financial risks

| Risk description | Business implication | Mitigation |
|---|---|---|
| **Ability to fund business**<br>**Risk to strategy**<br>medium<br>Inability to fund strategic objectives could lead to significant re-evaluation and re-alignment of the Group's intended direction for growth.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>medium<br>Continued development of current business units and movement into growth markets could be significantly impeded if sufficient funding does not exist. | The Group's continuing operations and future growth, including strategic investments, may be dependent on the ability to fund the business, either through its balance sheet or through the availability of funding. As the Group's assets and particularly cash decline, or if the Company cannot raise debt or equity funding, a lack of funds could threaten the long-term viability of the business. | • Balance sheet is strong and includes significant net cash as at 31 December 2017.<br>• Debt facility in place until mid-2019.<br>• Good relations and regular dialog with banking syndicate.<br>• Debt to equity ratio in the business is low at 8.6%.<br>• Effective cash management processes in place and operating. |

## Operational risks

| Risk description | Business implication | Mitigation |
|---|---|---|
| **Geopolitical**<br>**Risk to strategy**<br>medium<br>Instability in emerging regions may affect the viability of target key projects there, which in turn may significantly impact plans for geographical expansion.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>high<br>Unstable target markets may impact the risk profiles of growth initiatives which may adversely affect anticipated diversification plans and desired market infiltration. | The Group is subject to the legal, economic and political conditions of operating in emerging markets, in which regulatory or contractual enforcement may be difficult, and such emerging markets may be prone to corruption issues. Also, with the Group's increasing exposure to the Kingdom of Saudi Arabia due to its IMI investment and ongoing LTA bid 09, the Group is dependent on a stable political and business environment in that country. | • Regular input from advisers for any key changes in regulatory or contractual regimes.<br>• Strong partner relationships developed and maintained, including with our partners at the IMI yard.<br>• Phased investment into IMI yard over a number of years.<br>• HSESQ monitors and advises on security and political risks.<br>• Major operations take place in the UAE, which is considered to be politically and financially stable. |
| **Project execution**<br>**Risk to strategy**<br>high<br>Delivery of reliable, on time solutions cannot be achieved if project scopes are not fully understood or if risks are not identified and translated into effective execution plans.<br>**Risk change**<br>increased<br>**Risk to business model**<br>high<br>Failure to deliver projects successfully may negatively impact the Group's reputation in the marketplace and could negatively impact available revenue for future Group development initiatives. | As the Group diversifies into new markets and product offerings, it faces additional risks surrounding project execution including bid estimation, scheduling, supply chain management including optimal use of vessels, training of specialist workers and delivery planning. Failure to execute, project-manage and deliver a project in accordance with contractual terms and conditions may expose the Group to additional costs, damage to reputation, losses or reduced revenues. | • Improved bidding and estimation procedures to account for all relevant costs and remove silos between departments.<br>• Implementation of the "lessons learned" on previous projects aims to avoid repeats of any identified inefficiencies.<br>• Transparent project risk management processes and "gap identification and analysis" exercises ensure awareness of contemplated issues.<br>• Upskilling of existing workforce and additional, experienced resources hired.<br>• Development of strong relationships with clients allows a better understanding of their requirements. |

## Legal risks

| Risk description | Business implication | Mitigation |
|---|---|---|
| **Contractual commitments**<br>**Risk to strategy**<br>medium<br>Onerous contract terms prevent development of a robust execution plan that aims to mitigate the potential impact these terms could present.<br>**Risk change**<br>unchanged<br>**Risk to business model**<br>medium<br>Failure to protect the Group from liability may lead to project losses which could affect availability of funding for investment in other initiatives. | The continuing market downturn has led to clients adopting a firm line on contractual terms, meaning that acceptance of certain risks cannot be negotiated. As part of contractual arrangements, Lamprell may, therefore, be subject to some onerous terms which could impact revenue or earnings as a result of breach or non-performance. This may include liability for product defects, faulty workmanship or errors in design. | • A thorough risk analysis of contract terms and conditions is implemented, with development of appropriate mitigation strategies where possible.<br>• Upskilling and employee training programmes to improve project execution.<br>• Implementation of the "lessons learned" on previous projects aims to avoid repeats of any identified inefficiencies.<br>• Effective project risk processes are developed and actively implemented across all projects. |

# VIABILITY STATEMENT

Based on the results of the analysis below, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment ending on 31 December 2020.



## 1) Assessment of prospects

Lamprell's strategy and business model are central to an understanding of its prospects 6. Lamprell has been operating for more than 40 years and its business model has proven to be resilient and able to withstand the industry's project cycles. Our strategy focuses heavily around safety, quality, close client relationships and value for money. Further, as is the norm in our industry, cost control and providing a competitive product are also critical to the long-term viability of the business model. Decisions relating to major new projects are made by reference to a review of the key risks and are subject to an escalating system of approvals.

The Company's current top priority is to develop its presence in the Saudi market 10, due to the substantial opportunities noted in that market. The Board has considered the changes in the risk profile that this entails and determined that they are acceptable as part of the expansion into new markets and entry into new geographies.

The Group's prospects are assessed primarily through its strategic review process. This includes an annual review of the strategy and budget, led by the CEO and Executive Committee. The Board participates through a dedicated strategy review each year as well as assessment of progress against the agreed strategic objectives during regular meetings. These objectives 8-9, are a key output from the strategy review process. The Board's assessment considers the Group's cash flows, available debt, capital recycling levels and other financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing the main assumptions underlying the forecasts.

In accordance with provision C.2.2 of the Code and taking into account the Group's principal risks 34, the Board determines the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' statement 72. The Board considers that an assessment period of three years is appropriate for the following reasons: (i) the strategic review covers a period with visibility on likely prospects for the coming three or more years; (ii) most major projects undertaken by the Group last for a period of approximately two years; (iii) the long-term incentive awards for management are structured around a three-year performance period; and (iv) the Company has a reasonable ability to evaluate its likely backlog for a period of two to three years.

The key assumptions in the financial forecasts, reflecting the overall strategy, include:

- The global outlook for the energy industry remains weak in 2018 and becomes positive in the medium to long term, driven by growth within emerging markets and demand from developed markets;
- Actions taken over the past two years to reduce the Group's cost base enable the business to remain competitive in the face of the ongoing weak commodity prices;
- The lessons learned and implemented following the significant losses on the East Anglia One project allow us to maintain high standards of safety and execution in the delivery of projects; and
- A debt refinancing package will be available on reasonable terms after expiry of the current terms in August 2019.

These key assumptions are reflected in the Group's principal risks 34. The purpose of the risks report is primarily to summarise those matters that could prevent Lamprell from delivering on its strategy or could threaten its ability to continue in business in its current form (considered further below).

## 2) Assessment of viability

Although the strategy reflects the Directors' best estimate of the Group's prospects, the Board has also examined several scenarios which represent severe but possible adverse circumstances potentially faced by the Group including:

- Continued depression of energy prices, increasing pressure on customer spending and impacting prospects for future awards;
- Project delivery failure resulting in delayed payments, settlement payments, reputational damage and reduced future work; and
- Risk of cost overruns on lump sum contracts.

The results of this stress testing showed that, due to the core strength of the Company's balance sheet and business model, and taking into account actions taken by management and the Board to mitigate the stress events, the Group would be able to withstand the impact of these scenarios over the viability period.

# RECONFIGURED BOARD WORKING LIKE AN ESTABLISHED TEAM











1 John Malcolm
2 Christopher McDonald
3 Tony Wright
4 Ellis Armstrong
5 Debra Valentine
6 Mel Fitzgerald
7 Nick Garrett
8 James Dewar

Rem Member of the Remuneration & Development Committee

Nom Member of the Nomination & Governance Committee

Aud Member of the Audit & Risk Committee

Indicates Committee Chairman

**John Malcolm**
**Non-Executive Chairman**
Aged 67

Nom

Appointed: May 2013

Strengths: international oil & gas, Middle East operations

Experience: After 25 years with Shell, John Malcolm retired in 2010 to become an independent consultant to the energy industry. During his tenure at Shell, he held several senior positions including Managing Director for Petroleum Development Oman. In 2015 he joined the Oman Oil Co. Exploration & Production as Executive Managing Director. Dr Malcolm is a Chartered Engineer with the UK Engineering Council 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., Director of Bellwood Enterprises Ltd., Chairman of Abraj Energy Services SAOC.

**Christopher McDonald**
**Chief Executive Officer**
Aged 50

Appointed: October 2016

Strengths: business development, EPC, international oil & gas

Experience: Christopher McDonald has over 24 years' experience in the EPC and oilfield services sectors. Before joining Lamprell, Christopher held the position of Executive Vice-President and Group Head of Business Development with Petrofac. From 2007 to 2010, Mr McDonald co-founded and helped to run a boutique private equity firm in London. Prior to that he spent 18 years with Halliburton/KBR starting his career in Engineering and the Sales function before becoming Vice President with responsibility for the KBR Development Co. and the KBR/JGC gas alliance, during which time he served on the board of MW Kellogg Ltd. Christopher has a Bachelor's degree in Mechanical Engineering from Cornell University.

External appointments: None

**Tony Wright**
**Chief Financial Officer**
Aged 46

Appointed: August 2015

Strengths: finance & accounting, Middle East operations

Experience: Tony Wright joined Lamprell in January 2013 as Vice-President, Finance and in November 2014 he stepped into the role of Deputy CFO, followed by a promotion to Chief Financial Officer in August 2015. Mr Wright is a qualified Chartered Certified Accountant with over 15 years' experience working in the oil & gas and construction industries. Since 2010 Mr Wright worked with Leighton Holdings Group in Malaysia and the UAE, thereafter with the Habtoor Leighton Group. Prior to joining Leighton, he spent five years as Group CFO with Dubai-based oilfield EPC firm, Global Process Systems. When in the UK, Tony held senior finance positions with Input/Output Inc. and the Expro Group.

External appointments: None

**Ellis Armstrong**
**Senior Independent Director**
Aged 60

Aud Nom Rem

Appointed: May 2013

Strengths: finance & accounting, international oil & gas

Experience: Ellis Armstrong is a senior executive within the energy industry with broad international experience. Mr Armstrong worked for more than 30 years with BP, where he held a range 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 Pacific Energy Limited.



**Mel Fitzgerald**
**Non-Executive Director**
Aged 67

Nom Rem Aud

Appointed: August 2015

Strengths: EPC, international oil & gas

Experience: Mel Fitzgerald has over 30 years' experience in the energy industry and currently acts as a director of a number of companies, notably in the role of Chairman for Suretank Group Limited. Mr Fitzgerald served as CEO and Board Director at Subsea 7 for five years until 2012 and has a Bachelor of Engineering from the University of Ireland and a MBA from the University of Kingston. He is also a chartered engineer. In July 2015 Mr Fitzgerald was awarded the Honorary Doctor of Business Administration (HonDBA) by Robert Gordon University in Aberdeen in recognition for his contribution to the UK oil & gas industry.

External appointments: Chairman for Suretank Group Limited, Director/shareholder of Cathx Ocean.

**Debra Valentine**
**Non-Executive Director**
Aged 64

Nom Rem Aud

Appointed: August 2015

Strengths: risk management, legal, public company boards

Experience: Debra Valentine has experience in heavy industries having led government relations, governance, risk and legal functions across global jurisdictions. She also has expertise in competition and anti-trust issues. Ms Valentine worked at United Technologies Corporation and as a partner with the law firm O'Melveny & Myers, as well as serving as general counsel at the US Federal Trade Commission from 1997 until 2001. Most recently, she was Group executive, Legal & Regulatory Affairs for Rio Tinto. Ms Valentine has an AB magna cum laude from Princeton University, a JD from Yale University, and is a member of the District of Columbia bar, Council on Foreign Relations and the American Law Institute.

External appointments: None.

**Nick Garrett**
**Non-Executive Director**
Aged 55

Appointed: March 2017

Strengths: public markets, financial and accounting

Experience: In his 23-year career at J.P. Morgan Cazenove, Nick Garrett advised a wide range of companies on the delivery of their growth strategy, corporate transactions and access to capital. In his role as the Head of the IPO/Execution team he worked on Lamprell's listing in 2006, as well as being involved in listings of numerous companies on the London market. Prior to this, from 1989 to 2001, Nick worked at J.P. Morgan Cazenove in a variety of corporate finance advisory and broking roles. Since 2012, he has consulted for various private companies on their growth strategy and access to funding. Nick has a Bachelor's degree in Human Geography from the University of Reading and is a member of both the Institute of Chartered Accountants and the Chartered Institute for Securities and Investment.

External appointments: Director of Garrett & Read Ltd., Director of Colburn East Ltd.

**James Dewar**
**Non-Executive Director**
Aged 61

Rem Aud

Appointed: November 2017

Strengths: public company boards, international oil & gas, Middle East operations, financial and accounting

Experience: James spent nearly 30 years working in the oil & gas industry, notably as VP Transformation and VP Global Financial Systems for BP and as Group CFO for Dana Gas PJSC. Mr Dewar retired in 2011 to take up Board and advisory positions for companies operating in the energy sector including PICO Petroleum Corporation and Cheiron Petroleum in Egypt, Equus Petroleum PLC in London and Kazakhstan, and Viking International in the UAE. In many cases he acted as chair of their audit committees, driving world class corporate governance at board committee level. Mr Dewar has a Bachelor's degree in Accountancy & Marketing from Strathclyde University and is a member of the Institute of Chartered Accountants of Scotland.

External appointments: Non-Executive Director for PICO International Petroleum, Cheiron Petroleum Corporation; Senior Independent Director for Ambit Energy Corporation; Chairman of lifetile.

# STRENGTHENING GOVERNANCE IN CHANGING TIMES

As detailed in the Strategic Report 08, last year was a period of significant change for the Group and the Board has demonstrated a critical leadership and governance role as the Company responded to major issues, both from a corporate and an operational perspective.



Dear Shareholders,

Lamprell saw key changes in 2017 including my appointment to the role of Chairman. I took over last September at a time when the Company faced significant challenges driven initially by the prolonged market downturn but compounded by our own business issues. The Board has an important leadership role to play in overcoming the current challenges and overseeing this longer-term transformation.

## Investment in people

People are the foundation of our business. It is therefore critical that every one of us applies high standards of governance to assure effective implementation of our strategy to the benefit of shareholders. We have invested in the upskilling of our workforce; we added new resources in support of our strategic objectives in the EPC(I) and renewables sectors; we are supporting management in its use of data-gathering and lessons learned processes to measure performance and improve results. The Board has also recognised the importance of adapting the Company's governance structure to support the business and so changed the scope of the Remuneration and Development Committee 58 to oversee senior leadership performance management and development, ensuring that talent management is aligned with the Group's strategy and business plans.

Succession planning was a Board priority for 2017 and this change to the Remuneration and Development Committee's terms of reference was an important first step towards that. However, the Board has decided to retain this as a Board priority for 2018 because of the need to prepare for the market recovery and the Group's move into new markets.

At Board level, I was pleased to welcome Nick Garrett and James Dewar as Directors. Nick's knowledge of growth strategies for companies, corporate transactions and access to capital will prove invaluable as Lamprell looks to implement its growth strategy in the coming years. James has worked for many years in senior roles in the global energy industry. We are already making considerable use of his business and finance experience as he has taken over Ellis Armstrong's role as the chair of the Audit and Risk Committee, as Ellis has decided to transition out of the Company in 2018. I would like to take this opportunity to thank Ellis for his contribution over the last five years.

## Implementing our strategy

Christopher McDonald was brought in as CEO to develop our strategy and expand the Lamprell franchise into new markets. As a result, the Directors have spent considerable time during 2017 reviewing Lamprell's strategy and this was a regular agenda item at Board meetings, plus the Board held its annual two-day strategy review during its July meeting.

The Goup is aiming to diversify away from its historic reliance on jackup rigs and instead is focussing on strategic moves into EPC(I) projects, the renewables sector and accessing the Saudi Arabian market 08. 2017 has seen the Group make progress on all three although notably our first project in the renewables market – the East Anglia One wind farm foundation project – has come at a significant cost as there was a far steeper learning curve than anticipated, resulting in a USD 80 million loss. This is a disappointing result for shareholders and it is imperative that the Group learns the lessons to generate profitable returns on future projects in this alternative market.

On the positive side, the Group made a major entry into the Saudi Arabian market with the conclusion of the joint venture agreement with partners including Saudi Aramco 11. This project is expected to be transformational for Lamprell and the Board noted the shareholders' emphatic support of the decision with a nearly unanimous vote in favour at the extraordinary general meeting in June last year.

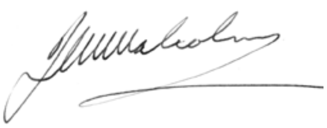
## Governance structure

In 2015, the Board adopted a formal gender policy for the first time. Last year, the Directors considered that it was important to update and extend the policy in order to improve gender diversity levels among the workforce where female representation has been stagnant. Accordingly, in mid-2017, the Board reviewed and updated the gender policy, details at 51.



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 the UK Corporate Governance Code 2016 as the pre-eminent set of global standards for corporate governance (the “Code”, available at www.frc.org.uk). Where the Company does not comply, this is explained in this Annual Report and Accounts, and typically in this Corporate Governance Report specifically.

A company’s governance structure should be appropriate for the size and complexity of its business. The Board continues to evaluate its composition, size and performance regularly, bearing in mind the current challenges but also the long-term growth strategy. As this is my first letter to the shareholders in my capacity as Chairman, I would like to thank you for your continued support of Lamprell and I hope to meet with you in 2018, to ask for feedback on ways to enhance our governance structure.



John Malcolm
Non-Executive Chairman

## Our core values

### Safety

We deliver world class safety performance 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, fairness and transparency 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 will strive to work together with our stakeholders and believe great teams will achieve incredible things.

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 2017.

## Results and dividends

The financial statements of the Group for the year ended 31 December 2017 are set out on 80 to 87. The Group’s losses from continuing and discontinued operations after income tax and exceptional items for the year amounted to USD 98.1 million (2016: losses of USD 184.3 million). The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2017.

## Other information

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

# TOGETHER AS A LEADERSHIP TEAM

The Directors collaborate to reach collective decisions that they consider to be in the best interests of the Group as a whole following evaluation of all relevant factors. In this way, the Board works as an effective leadership team for the business.



The Board operates together as a team and is collectively responsible for the long-term success of the Group, aiming to achieve this through effective risk management, robust and constructive dialogue with the executive team and transparency in its decision-making. Given the prolonged market downturn and the operational challenges on the East Anglia One project, the Board meeting agendas were structured predominantly around the growth strategy and ways to deal with near-term issues. In this way, the Directors had adequate time to discuss all business-critical issues.

## Board composition

The Board is comprised of the Non-Executive Chairman, CEO, CFO, four independent Non-Executive Directors ("NEDs") and another Non-Executive Director; 39 for biographical details. During 2017, there were a number of changes among the Directors. John Kennedy stepped down from Executive Chairman to Non-Executive Chairman on 24 April and then left the Board on 20 September, at which point John Malcolm took over as Non-Executive Chairman. Nick Garrett was appointed as a Non-Executive Director on 24 March 2017 and James Dewar was appointed as a Non-Executive Director on 1 November 2017. All other Directors served as usual throughout 2017. The CEO and the CFO are the Executive Directors currently on the Board.

## Roles and responsibilities

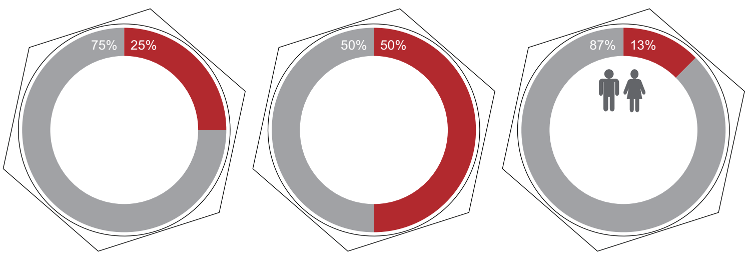
The roles and duties of the Chairman and CEO are separate, in line with the best practices set out in the Code, as agreed by the Board. This will ensure that strong governance is maintained at Board level.

The Chairman is a Non-Executive Director and his primary responsibility is to provide effective leadership for the Board and the Group as a whole including strategy and direction. He chairs all Board and general meetings within an effective corporate governance framework. In addition, the Chairman is responsible for ensuring the integrity and effectiveness of the Board/ Executive relationship.

The CEO is responsible for the day-to-day running of the Group's business, including execution of the Group's strategic objectives, its business plans and for communicating decisions from/ recommendations to the Board. The CEO is also the primary conduit for communications with the shareholders and other key stakeholders.

The CFO is responsible for the financial stewardship, navigation and control activities of the Group as well as the investor relations activities. The role of all NEDs is critical to ensure an effective counterbalance to executive management 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.

## Board composition

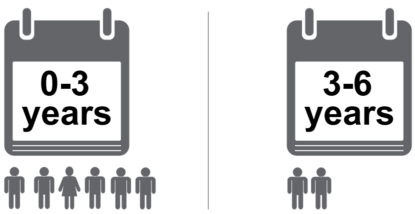



Executive Directors
Non-Executive Directors

Independent NED
Other Directors

Female Directors
Male Directors

## Tenure on the Board




Christopher McDonald
Tony Wright
Debra Valentine
Mel Fitzgerald
Nick Garrett
James Dewar

John Malcolm
Ellis Armstrong

## Board attendance in 2017

| | John Malcolm | Christopher McDonald | Tony Wright | Ellis Armstrong | Nick Garrett[1] | Debra Valentine | Mel Fitzgerald | James Dewar[2] | John Kennedy[3] |
|---|---|---|---|---|---|---|---|---|---|
| Number of **meetings** attended | 12 | 14 | 14 | 13 | 10 | 13 | 11 | 2 | 2 |
| Number of **meetings** possible | 13 | 14 | 14 | 13 | 11 | 13 | 12 | 2 | 2 |
| Number of **strategy days** attended out of 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | n/a | n/a |

**Note:**
1. Nick Garrett joined the Board on 22 March 2017
2. James Dewar joined the Board on 1 November 2017
3. John Kennedy left the Board on 20 September 2017

The Senior Independent Director acts as a sounding board and confidante to the Chairman and is available to shareholders to answer questions which cannot be addressed by the Chairman or CEO. Mr Armstrong was appointed as Senior Independent Director in mid-2015 and continues to hold this role.

### Board meetings and attendance

The Directors met in person on six occasions during the course of 2017 and all meetings took place in Dubai, UAE. However, where required and in order to receive an interim update on ongoing matters, the Directors convened ad hoc at short notice by way of conference call with attendance outside of the UK. Meetings in person generally take place over the course of two days and will ordinarily include meetings of both the Board and the Committees.

Directors are expected to attend all scheduled Board and relevant Committee meetings, unless they are prevented from doing so by unavoidable prior business commitments or other valid reasons. All Directors are provided with full papers in advance of each meeting. Where a Director is unable to attend a meeting, he/she is encouraged to discuss any issues arising with the Chairman or CEO as appropriate.

The Company Secretary is responsible to the Board and provides the Board and each of the Directors with advice and assistance on governance matters. He ensures that all Board materials and other information are delivered in a timely fashion, typically five to seven days before scheduled Board meetings through a secure, online software system.

As well as the Directors and the Company Secretary, it is common for members of the Executive Committee 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.

### How the Board operates

There is a formal schedule of matters reserved to the Board and the Board retains discretion to approve decisions on key subject matters such as the Group's strategy, annual budget and financial statements. The Board also reviews other relevant matters including standing agenda items and key topics for discussion at that relevant time of year or as a result of current business requirements. In all cases, the agenda focuses on topics in pursuit of the Company's strategic objectives 08 underpinned by our core values, rather than administrative matters. The Chairman sets the agenda for each meeting in consultation with the CEO and the Company Secretary. At the meeting, the Executive Directors give an update on business, operational and financial matters, thereby enabling the Board to understand progress within the business but also anticipate likely forthcoming risks 34.

During 2017, there were detailed presentations from key managers including the Vice Presidents of Business Development, Operations, Supply Chain Management and HR & Administration on matters such as strategy and in particular the Group's renewables strategy, its entry into Saudi Arabia, operational issues around the East Anglia One project and talent development and performance management. In addition, from time to time, the Board invites external presenters to speak to the Directors. Experts from the oil & gas industry and the Company's brokers (J.P. Morgan Cazenove (JPMC) and Investec Bank plc (Investec)) and lawyers presented to the Board.

### Nationalities on the Board

John Malcolm
Non-Executive Chairman

Tony Wright
Director and CFO

Ellis Armstrong
Senior Independent Director

Nick Garrett
Non-Executive Director

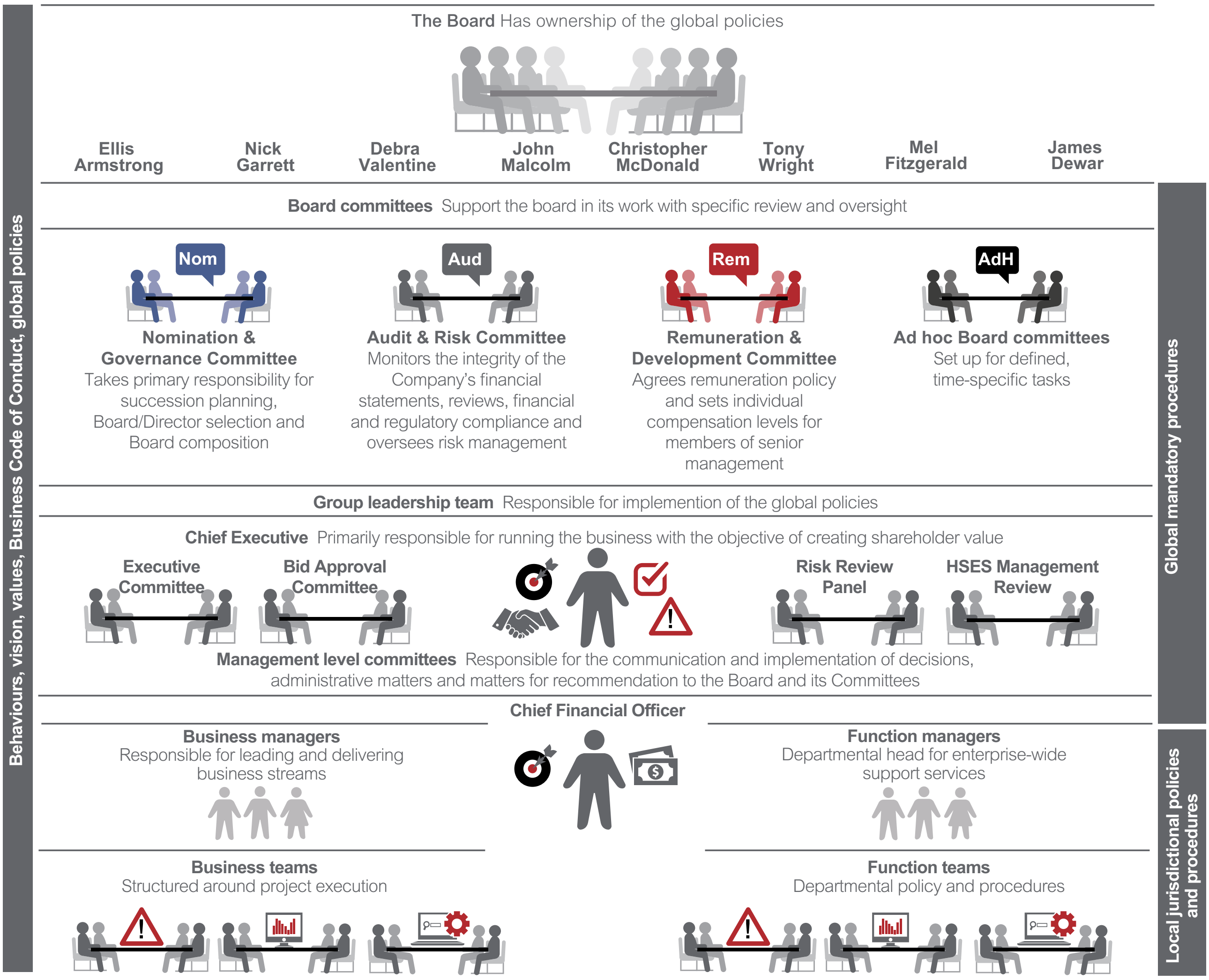
James Dewar
Independent NED

Christopher McDonald
Director and CEO

Debra Valentine
Independent NED

Mel Fitzgerald
Independent NED

## Board functions






The Board makes decisions based on the reports or presentations produced, or on the recommendations from one of the principal Committees. It is therefore critically important that such reports and presentations are comprehensive and the requests for approval are clear. By way of example, the VP of Business Development made a detailed and high quality presentation to the Board in relation to the Company's renewables strategy at the November Board meeting and the Board was able to give clear direction and feedback on implementation of this strategy.

Between Board meetings, management distributes a monthly report to the Board providing a summary of the financial performance of the Group, highlighting developments and key risks 34.

### Principal Board Committees

There are three principal Board Committees – the Audit and Risk Committee, the Nomination and Governance Committee and the Remuneration and Development Committee – and much of the Board oversight of the executive management team is conducted by delegation through these Committees. It is important for the Directors to operate in an environment of trust and for delegated responsibilities to be effective. Certain authorities are delegated either to the Committees or to the executive management team.

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

In addition, the Company has a Disclosure Committee, comprising the CEO, CFO and Company Secretary. The Company is required to make timely and accurate disclosure of all information that is required to be so disclosed to meet the legal and regulatory requirements arising from its listing on the London Stock Exchange.

### Meetings structure

The Board is primarily responsible for the leadership of the Company and wider Group; however it is ably supported both by the Board Committees and the management team which makes use of a number of management level committees – see above for details. It is a core principle for all that there is an effective working relationship between each of the Directors, between the Board and management

"Every year the Board evaluates its composition, size and independence to determine whether any changes are required to maintain an appropriate balance. A key development last year was the return of the Chairman role to a non-executive capacity, in line with best practice governance standards, as well as the adoption of an updated gender diversity policy."

**Debra Valentine**
Independent Non-Executive Director



**Board size and composition** There continues to be a strong combination of industry, regional and operational experience among the Directors enhanced by the diverse professional competences of each Board member. Following John Kennedy's decision to step down from the Board, the Board prioritised the process to identify a suitable replacement as Chairman. The Board considered the options for identifying potential candidates and evaluated the market conditions, and determined that the appointment of a highly qualified, internal candidate in John Malcolm was in the best interests of the Company. The Board also aims to refresh its membership on a regular and phased basis in order to bring relevant experience and independence to the Board while at the same time ensuring continuity and stability. With this in mind, the Board welcomed the addition of James Dewar and Nick Garrett as Non-Executive Directors during 2017 and noted that Ellis Armstrong decided not to stand for re-election at the 2018 AGM.

and at the management level. Structurally and from a governance perspective, this provides a robust framework for achieving the Company's strategic objectives.

Accordingly, there are regular discussions outside of scheduled Board meetings, particularly between the Chairman and the CEO, as well as between the Chairman and the other Directors, with a view to reaching a mutual understanding of views prior to wider discussions at meetings. At in person Board meetings, the NEDs and the Non-Executive Chairman meet without the CEO or CFO present and share insights on matters of governance and discuss concerns regarding management of the business, if any.

## Independence and conflicts

In accordance with the Code, 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. The percentage proportion of independence on the Board is 50% including the Chairman and 57% excluding the Chairman. Throughout 2017, the percentage proportion of independence on the Board (excluding the Chairman) always exceeded 50% although the actual figure varied as a result of the changes at the Board level. At the date of publication, Ellis Armstrong, Debra Valentine, James Dewar and Mel Fitzgerald are all considered by the Board to be independent NEDs as defined by the Code.

At the beginning of each year, the Company asks each of the independent NEDs to re-confirm their independence. The Chairman of the Board was considered to be independent on his original appointment in May 2013.

Integrity is a core value for the Group. Each Director recognises the importance of transparency in trying to avoid any actual or potential conflict of interest and 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. The following procedures are 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 for consideration, prior to deliberation at the next meeting.

No conflicts of interest were noted from the Directors in 2017, save that each Director was excluded from any discussions or decisions around his or her change of role in the Company and/ or remuneration. All conflict management procedures were adhered to and operated effectively.

## Board priorities 2018

| Matter(s) considered | Observation(s) | Board Priority(ies) |
|---|---|---|
| Bidding and estimating on future projects | There should be a more structured approach to bidding with clearer bidding pack to the Board allowing informed decision to be made based on complete information and on review of individual project risks. | The bidding on new projects (and especially major/non-core projects) must be conducted through more systematic and 'deep-dive' processes based on all key information being provided to the Board by management with a focus on the risks and proposed mitigations. |
| Incorporating lessons learned into risk management | The challenges on the East Anglia One project had highlighted some gaps in the risk management processes which had to be incorporated to ensure earlier warning of key risks. Also, high level risk assessments could result in superficial analysis which had to be addressed. | The ERM and project risk management processes will be improved to take on board all lessons learned from the East Anglia One project. Further value would be achieved by spending more time on deeper dives into individual risks, rather than high level assessments. |
| Identifying and developing internal candidates as part of succession planning | Effective succession planning would be critical for the business, both in terms of talent development and retention of key personnel in a market which could recover in the coming 12-18 months. | The overall succession planning should operate in a way to identify potential internal candidates that could step into senior roles and develop those candidates so as to achieve their full potential. Remuneration packages should be structured to retain candidates within the Company. |



### Appointments to the Board

There is a formal, rigorous and transparent process for the appointment of new Directors to the Board and this is led by the Nomination and Governance Committee which then makes any such recommendations to the full Board for approval. Prior to embarking on a search, the Committee on the advice of the VP HR & Administration will prepare a list of key criteria for any candidates, taking into account the Board's composition, and will ordinarily appoint external search consultants to prepare candidate lists and assist with the recruitment/evaluation process.

Following the announcement in April 2017 that John Kennedy was planning to step down from the Board in September, the Nomination and Governance Committee considered the options for appointment of a new Chairman, and, after due consideration, the Nomination and Governance Committee recommended the appointment of an internal candidate, John Malcolm, given his knowledge of the Company and long industry experience.

In addition, the Board made two further appointments to the Board:

- Nick Garrett was nominated as a potential candidate for the role of a Non-Executive Director by the Company's major shareholder, Lamprell Holdings Limited 49. While this nomination prevents Mr Garrett from being considered as 'independent' in accordance with the Code, the Board considered Mr Garrett's knowledge of strategy, corporate transactions and access to capital would be a valuable addition to the Board. Mr Garrett was also part of the JPMC team that led the Company's initial public offering in 2006 and he continued to advise the Company until 2012.
- James Dewar joined Lamprell as a Non-Executive Director on the Board following an extensive and in-depth recruitment process which was overseen by the Nomination and Governance Committee and which made use of senior management recruitment specialists, Korn Ferry, to advise the Committee on potential candidates.

### Training and development

All Directors are encouraged to attend relevant external seminars and, on an ongoing basis, there is training for the Directors as a whole by way of presentations to the Board from guest presenters. The individual Directors also make efforts to remain current with the latest regulatory obligations for UK listed companies with the assistance of our brokers and lawyers. Similarly, any Director is entitled to take independent professional or legal advice on Company matters, as and when needed. Nick Garrett took advice in relation to his position as a Non-Executive Director that had been nominated by the major shareholder. John Kennedy took advice as part of the process for his decision to step down from the Board. No other director sought independent advice during the financial year.

The Audit and 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.

### Board performance evaluation

As the Board had made use of an external facilitator to assist with its 2015 performance evaluation process, it continued with the internally driven, cost-effective evaluation process for 2017. This process was conducted under the stewardship of the Nomination and Governance Committee.

The evaluation included a review of the Board's activities, performance and teamwork and made use of an online questionnaire (with questions asking for quantitative ranking and for qualitative feedback to the Board, principal Board Committees and the Directors). It also included feedback from each Director as well as specific, invited key executives who have had regular interaction with either the Board or the Board Committees. The final report summarised the results of the evaluation on an aggregated and confidential basis and was subsequently




**Induction of new Directors** Upon joining, Mr Dewar was given an induction into the Group's business and this included visits to the Group's main facilities in the UAE, presentations from all key managers and a meeting with the Chairman and Company Secretary to discuss governance and regulatory matters, as well as Board procedural matters. Mr Garrett completed similar activities following his appointment to the Board, although his prior knowledge of the Group provided a solid, existing knowledge base of the business.

provided to the Board which then discussed the results in open session.

As a result of this process, the Board has been able to structure its priorities for 2018 around the results 46. The NEDs, led by the Senior Independent Director, evaluated the Chairman's performance and confirmed that he was performing effectively. The Board considers that it is beneficial to take time to evaluate its own performance as this strengthens and enhances the performance and transparency of discussions and decision-making at the Board level.

## General Meetings of the Company

In May 2017, the Company held its AGM in Dubai, United Arab Emirates and the Directors able to attend were present and stood for re-election. As John Kennedy had previously advised that he would be standing down in September 2017, he did not stand for re-election. We encourage our shareholders to attend the AGM as an opportunity to engage in a constructive dialogue with the Board members. As has been the norm, all resolutions were passed on a show of hands; however as a matter of good governance and in accordance with the changes to the Code, voting on resolutions 7, 9, 11 and 13 (which related to the re-election of the independent Non-Executive Directors) was conducted by independent shareholders only (i.e. excluding the "controlling shareholders") 49.

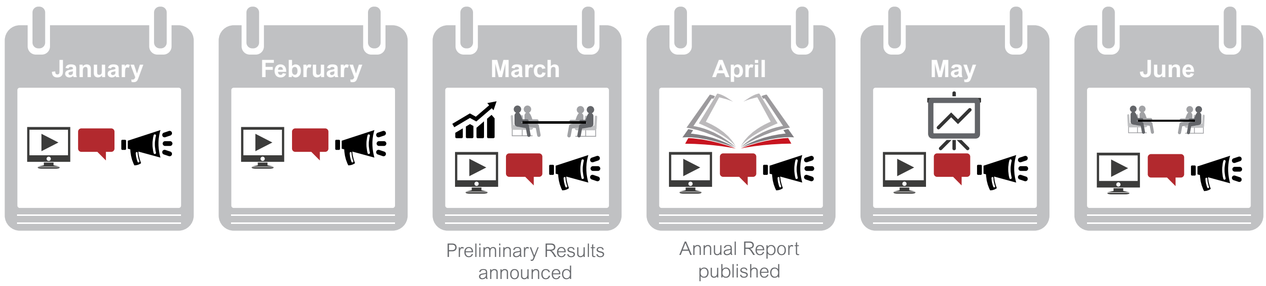
The Company plans to hold its 2018 AGM on 23 May 2018 in Dubai and full details will be set out in the Notice of Meeting which accompanies this report and is also available on our website. All Directors are planning to attend and will be available to answer questions from shareholders. Each item will be presented as a separate resolution. 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.

Pursuant to the Company's Articles of Association, the Directors are required to submit themselves for re-election by shareholders at least every three years and, in the case of James Dewar, at the first available AGM of the Company. However, in line with the Code and best practices, the Board has decided that all Directors will retire and stand for re-election at the 2018 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.

In June 2017, the Company held an extraordinary general meeting in Dubai,

## Consistent communication with our shareholders




**Key**

- Sell-side and buy-side roadshow
- Corporate presentations, market announcements including trading updates and contract wins, and other Company information on our website at www.lamprell.com
- Regular, ongoing dialogue and phone calls with major shareholders and analysts
- Results announced
- Annual Report published
- AGM attended by all Directors
- Regular press releases regarding Company's business



United Arab Emirates. This EGM was held in order for shareholders to consider the proposal for the Company to enter into the proposed joint venture in Saudi Arabia 11. Shareholders voted overwhelmingly to approve the proposal with more than 99.9% of shareholders voting in favour of the resolution.

### Communications with shareholders

As in previous years, Lamprell focused heavily on effective and open communications with its shareholders, not least because of the conclusion of the joint venture relating to the IMI yard in Saudi Arabia 11. Whilst the Chairman assumes overall responsibility for communication of shareholder views to the Board, investor relations activities are primarily handled by the CEO and CFO with the support of a dedicated investor relations team. During 2017, over 100 investor and analyst meetings were held by the investor relations team face-to-face or over the phone; of these, the CEO and/or CFO attended over 55%.

As in previous years, Company representatives met with major institutional shareholders and market analysts following the announcement of our financial results and at other key times during the year such as around trading updates to the market. To the extent possible, the Company will aim to make analyst site visits (similar to the ones organised in previous years) a regular occurrence. In addition, 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 2017.

The Company has made use of the services of JPMC and Investec as its joint corporate brokers, with JPMC acting as the lead broker since its listing in 2006. JPMC has supported and advised the Board through a number of challenging corporate transactions since 2012 including the rights issue of 2014. Investec acted as the Company's broker and adviser in relation to the proposed joint venture in Saudi Arabia leading to the above-mentioned EGM in June 2017.

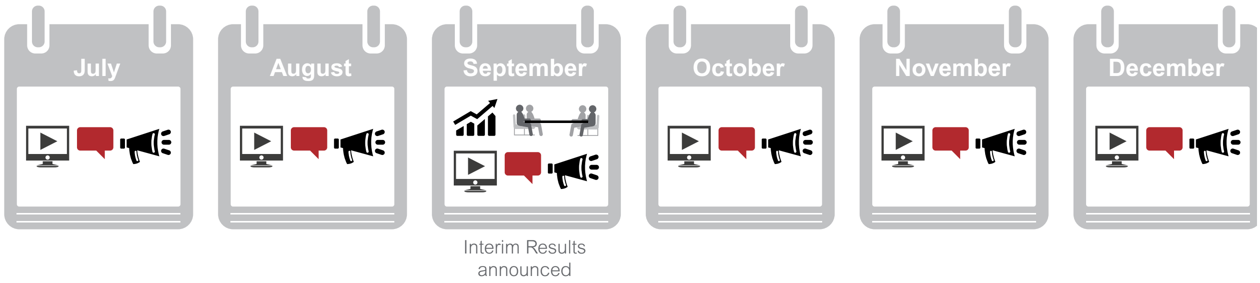
The Company also views the AGM as an important process for liaising with shareholders. The Company has strived to take on board comments from shareholders and has engaged with investor advisory groups to understand any concerns with the aim of maximising the votes in favour of resolutions submitted for approval at the AGM. With the exception of the resolution 2 (relating to the Directors' Annual Report on Remuneration for 2016), all resolutions were passed with at least 98% of the votes cast in favour of the respective resolutions. Resolution 2 received more than 90% of the votes cast in favour and this is discussed further in the Directors' Remuneration Report 58.

### Significant shareholders

As at 21 March 2018, being the latest practicable date prior to the publication of this Annual Report, the significant interests in the voting rights of 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 ordinary shares | % of total voting rights |
|---|---|---|
| Lamprell Holdings Limited | 113,182,291 | 33.12 |
| Schroders plc | 53,623,713 | 15.69 |
| MFS Investment Management | 24,780,026 | 7.25 |
| Prudential plc group (including M&G Investment Management) | 23,258,915 | 6.81 |
| Blofeld Investment Management | 22,606,729 | 6.62 |

By virtue of the size of its shareholding in the Company, Lamprell Holdings Limited and its ultimate owner, Steven Lamprell, are "controlling shareholders" for the purposes of the UK's 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 and all other provisions in the Controlling Shareholder Agreement. So far as the Company is aware, the controlling shareholders have also complied with the independence and all other provisions in the Controlling Shareholder Agreement. The Controlling Shareholder Agreement represents a key component of the Company's corporate governance structure.

### Communications with other key stakeholders

Lamprell's core lending group is another key stakeholder 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 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 Lamprell's internal Corporate Communications team coordinates campaigns for the management team to cascade key messages throughout the organisation. In 2017, there were campaigns relating to significant safety matters such as the risk of heat stress in the hot summer months in the UAE and cyber attacks. In continuation of the process undertaken by the previous CEO, Christopher McDonald conducted a regular series of "townhall meetings" at each of the three main facilities in the UAE, which were focused on the Company's performance and on developments within the business. The management team considers that such close communication with the workforce enables employees to voice concerns but also allows the CEO to set out key developments within the business and the ways that employees can help to deliver the Company's strategic goals.

### Directors' remuneration

The Remuneration and Development Committee is primarily responsible for determining the Company's remuneration policy, taking into account the best practices as well as the advice from external consultants. Details of the Company's policy on remuneration, the Directors' remuneration for the year ended 31 December 2017 and their interests in the ordinary shares of the Company can be found in the Directors' Annual Report on Remuneration 64.

### Directors' and Officers' insurance cover

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 AND GOVERNANCE COMMITTEE REPORT

The Committee was involved in managing the Board succession process, with the transition from the previous Chairman to the new Chairman, as well as the appointment of two new Non-Executive Directors.



### Committee attendance

The Committee is comprised of four members, three of whom are considered to be wholly independent, plus the Chairman of the Board. Aside from the members, the Company Secretary and the Group's VP of HR are typically invited to attend meetings. Following John Malcolm's appointment as the new Chairman in September, Mel Fitzgerald became chair of the Committee in his place.

### Remit of the Committee

The Committee has primary responsibility for the structure, balance, diversity and experience on the Board and Committees, and for leading the evaluation of the Board's performance and effectiveness. It also assesses the succession planning needs at the most senior level. In addition, the Committee considers the implications of any changes in the regulatory and governance framework and advises the Board on the same. With the increased global concerns around security, the Board also delegated responsibility for overseeing the Group's security activities to the Committee. The Committee's written terms of reference are available on the Company's website.

### Activities during 2017

As required by the Code, the Committee took a leadership role with regard to succession planning at the Board level during 2017. This was important to ensure the transition from the previous Chairman, John Kennedy, to the new Chairman, John Malcolm, which followed Mr Kennedy's decision to step down from the Board in September. The Committee also advised the Board in connection with the change from Executive Chairman to Non-Executive Chairman which took place earlier in the year.

The appointment of John Malcolm as the new Non-Executive Chairman was made following consideration of various factors, notably his deep knowledge of the Company and long experience of working in the oil & gas market, a core market for the Group. Accordingly, the Committee determined that the appointment of an internal candidate, rather than a potentially time-consuming external search process, was the optimal solution for hiring the new Chairman for the Company.

The Committee devoted considerable time to the appointment of the two new Non-Executive Directors. The appointment of James Dewar followed a review and interviews of a number of short-listed candidates, all with the assistance of Korn Ferry, a recruitment specialist firm. Once Mr Dewar had been identified as the preferred candidate, the Committee acted as the primary evaluating body for his candidacy, but regularly reported to the full Board on progress. The Company made use of Korn Ferry

### Committee members

Mel Fitzgerald
Committee Chair and Non-Executive Director

Ellis Armstrong
Senior Independent Director

Debra Valentine
Non-Executive Director

John Malcolm
Non-Executive Chairman

Mel Fitzgerald
Committee Chair and Non-Executive Director

because of its strong profile in the industry, proven assessment processes and broad contact networks from which to source candidates. Save in relation to this process, Lamprell had no other connection with this company.

In relation to Mr Garrett, the Committee carefully considered Mr Garrett's credentials to be a Non-Executive Director in light of his candidacy being proposed by the major shareholder, 48. The Committee concluded that, while he would not be considered as independent for the purposes of the Code, he brought additional strengths and expertise to the Board as well as his long history of working with the Group.

## Leadership succession planning

The Board considers succession planning and internal talent management to be significant for delivery of the Group's strategy. This was a Board priority for 2017 and the Committee recommended that it should continue to manage succession planning for the Directors and especially for Executive Directors. However, talent development, notably for the next level of management, was best suited to the Remuneration & Development Committee, hence the amendment to its terms of reference, 58. While the Board considered that positive progress was made in this area during 2017 as a result, this remains a top priority for the business, particularly for any key retention risks in anticipation of a market recovery in 2019 and beyond.

## Gender diversity

Lamprell recognises that the quality of our people is fundamental to our success and aims to recruit on merit and hire the best candidates with the widest range of skills and experience, whatever their background or gender. Our sector of fabrication, engineering and construction projects continues to be a predominantly male-dominated profession; however, the Group is committed to building its diversity pipeline as a long-term objective for the whole organisation. We believe that diversity creates a dynamic and creative environment which contributes to solving issues as they arise and thereby will support the future growth of our business.

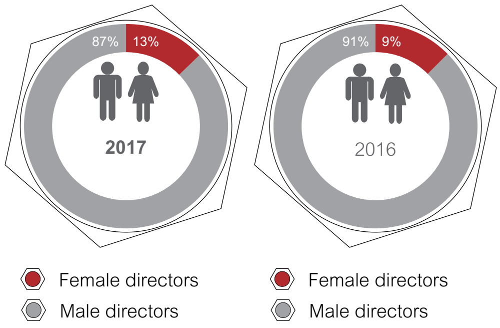
The Board has also considered the recommendations of the Hampton-Alexander Review and in 2017 issued its gender diversity policy for Board appointments. Given the current size and balance of experience of Lamprell's Board and the refreshing of the Board's independent Non-Executive Directors in 2015 and 2017, it is unlikely that Lamprell will be fully compliant with the recommendations of the Hampton-Alexander Review in the short-to-medium term.

## Committee attendance

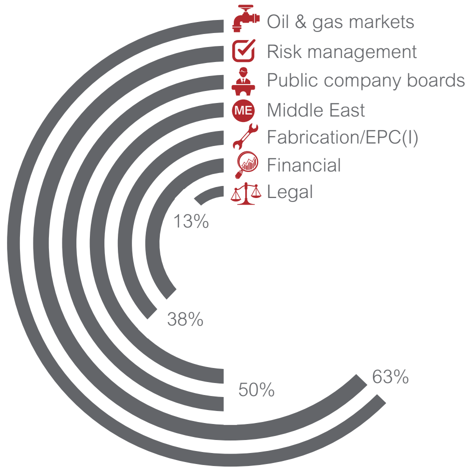
| | Mel Fitzgerald | Ellis Armstrong | Debra Valentine | John Malcolm | John Kennedy[1] |
|---|---|---|---|---|---|
| Number of **meetings** attended | 19 | 19 | 19 | 19 | 5 |
| Number of **meetings** possible | 19 | 19 | 19 | 19 | 5 |

**Note:**
1. John Kennedy left the Board on 20 September 2017

Board gender split




Board expertise






However, looking ahead as the Group grows and as new positions become available, the Board diversity policy commits the Group to:

- A corporate culture which hires candidates on merit based on the most appropriate range of skills and experience for a role, and offers equal opportunities for all employees, regardless of gender (as well as ethnic origin, background or physical disabilities);
- Secure senior leadership commitment to the diversity agenda and to raise awareness about the benefits of a diverse workforce;
- Require external recruitment consultants to submit their diversity policies to the Group before taking on any Board or executive management search;
- Ensure that external consultants submit candidate shortlists reflecting an appropriate gender balance, relative to the target recruitment market, for consideration by the Nomination and Governance Committee in connection with any Board or executive management appointment;
- A target of at least one female Director on the Board; and
- An annual review by the Nomination and Governance Committee of its progress complying with the best practice recommendations for gender diversity.

## Service agreements and letters of appointment

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 fixed terms but they are subject to re-election by the Company's shareholders at intervals of not more than three years.

All existing Directors and new Directors will be proposed for election by the shareholders at the 2018 AGM.

# AUDIT AND RISK COMMITTEE REPORT

The Committee takes a leading role to ensure that the financial statements are fair, balanced and understandable. It must also oversee other key aspects of the business such as the enterprise risk management process, consideration of significant judgements affecting the business and assessment of findings from internal audits.



## Committee attendance

Throughout 2017, membership of the Committee was comprised solely of independent NEDs. Debra Valentine was appointed to the Committee when John Malcolm stepped down to take up the role of Chairman of the Board. James Dewar was added as a member of the Committee when he joined the Company in November and became Committee Chairman effective 1 January 2018. Both James Dewar and Ellis Armstrong have relevant financial experience for the purposes of the Code, thereby ensuring the strong background in both financial metrics 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 but the Board determined that it was in the best interests for the Committee to have at least three members. Aside from the members, the Company Secretary and the Group's CFO are typically invited to attend the 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 attend by invitation.

## Remit of the Committee

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 terms of appointment for, performance and independence of the Company's external auditors. The Committee advises the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

The Committee also oversees the Company's enterprise risk management system 34 as well as its internal control systems, and monitors the effectiveness of such systems particularly against potential ethical or fraudulent activities. This includes assessment of the whistleblowing hotline activities.

The Committee's written terms of reference are available on the Company's website.

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

## Committee attendance

| | James Dewar[1] | Ellis Armstrong | Debra Valentine | Mel Fitzgerald | John Malcolm |
|---|---|---|---|---|---|
| Number of **meetings** attended | 1 | 6 | 1 | 6 | 5 |
| Number of **meetings** possible | 1 | 6 | 1 | 6 | 5 |

**Note:**
1. James Dewar joined the Board on 1 November 2017

## Committee members

James Dewar
Committee Chair and Non-Executive Director

Ellis Armstrong
Senior Independent Director

Debra Valentine
Non-Executive Director

Mel Fitzgerald
Non-Executive Director




## Activities during 2017

The Committee's main activities during 2017 were as follows:

- overseeing management's effort to forecast and manage its cash and cash equivalents through the continuing, prolonged market downturn;
- assessing the basis and impact of the goodwill impairment as part of the 2016 financial results;
- reviewing the year-end/interim financial statements for the Company including ongoing risks and opportunities;
- considering the funding scenarios for the potential joint venture in Saudi Arabia 11;
- evaluating the external Auditor's independence, objectivity and the effectiveness;
- assessing the basis and impact of the additional costs on the East Anglia One project 26;
- monitoring the Group's progress for implementing systems and processes to cater for the introduction of VAT in the UAE as from 1 January 2018;
- assessing the Group's enterprise risk management database and how enterprise risks are identified and mitigated;
- reviewing the internal audit reports, outstanding action points and the 2018 audit plan;
- ongoing assessment of the control environment and systems; and
- reviewing the whistleblowing statistics and reported cases.

## Significant judgements in 2017

The Committee considered the significant judgements 55 during 2017. The Committee was satisfied that the judgements made by management were reasonable and that appropriate disclosures have been included in the accounts.

## External auditor – activities and performance

Deloitte LLP has been the Company's auditors following a formal tender process in 2015. During 2017, Deloitte LLP presented to the Committee on various matters (including their audit report on the 2016 financial results) on two occasions. Deloitte LLP also provided the Committee with updates on changes to accounting, regulatory and corporate governance laws and regulations that impact the Company and the Group. The Committee remains satisfied as to the Auditor's effectiveness and, in making this assessment, had due regard to their expertise and understanding of the Group, their resourcing capabilities, independence and objectivity.

The Company's Policy on Auditor Independence, which is available on the Group's website, is designed to safeguard the objectivity of our external auditors and to ensure the independence of the audit is not compromised. Under the policy, all audit-related services or non-audit services must receive specific pre-approval from the Audit and Risk Committee if the total annual fee for all such services exceeds 50% of the sum of the annual fees for audit services. Any and all audit-related services or non-audit services in excess of this amount must be expressly pre-approved by the Audit and Risk Committee. Further, in respect of all such other services, a tender process is required for any project or scope of work which is anticipated to generate fees in excess of USD 250,000. Accordingly, Deloitte LLP could, under certain conditions, be engaged to undertake non-audit services provided that it does not compromise the integrity of their audit work. However, the policy also sets out services that Deloitte LLP is prohibited from undertaking under any circumstances. There was no breach of the policy.

In 2017, Deloitte LLP provided non-audit services with a total value of USD 0 (2016: USD 0) against an annual audit fee including Group audit fees with a total value of USD 596,000 (2016: USD 520,000). This continues the positive developments to minimise the amount of non-audit services conducted by the external auditors (as compared to audit services) commenced in 2015. During the year, the Committee reiterated the importance of ensuring that the non-audit fees remain below 50% of the total audit fee.

| Significant judgments considered by the Committee during 2017 | View/actions of the Committee with respect to significant judgements |
|---|---|
| Revenue recognition and estimated cost to complete on major projects including onerous contracts | The Committee reviewed the reasonableness of judgements made regarding the cost to complete estimates, recognition of variation orders and contractual claims, and the adequacy of contingency provisions to mitigate contract specific risks. In particular the Committee focused on any onerous contract to ensure that the assumptions made to assess the contract loss were appropriate. The Committee concluded that the quantification and timing of revenue, margin and loss recognition continues to be in line with IFRS requirements and satisfied itself that 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. |
| Review of subjective provisions | At each meeting, the Committee evaluated management's report on material subjective provisions taken in respect of matters including doubtful debts, contract accruals, project risks and warranty issues. The Committee considers the appropriateness, adequacy and consistency of approach to provisioning at each meeting and all material provisions are discussed and challenged. Given the uncertain economic climate for supply chain companies in the oil & gas sector, there was a focus in the year on the recoverability of receivables and on the processes in place to monitor credit risk. |
| Impairment of property, plant and equipment | At both the half year and the year end, the Committee considered whether indicators of impairment existed and the results of any impairment reviews conducted. Given the decline in both revenues and profits in 2016 and 2017; and the projected fall in revenues in 2018, the Group had considered it appropriate to review for the possible impairment of property, plant and equipment and the Committee considered the appropriateness of the assumptions and challenged the factors used in the review process. After discussion, it was satisfied that the assumptions and the disclosures in the year-end financial statements were appropriate. |



Given the oversight by the Committee, the minimal non-audit services undertaken by Deloitte LLP and the change of auditor in 2015, the Committee considers that the objectivity and independence of the external auditor were safeguarded throughout the financial year.

## Performance and effectiveness of the external auditor

Under the Committee's terms of reference, it assesses the auditor's independence, performance and effectiveness at least on an annual basis, by reference to the activities of Deloitte LLP and also by way of feedback from several sources: the Committee relies on self-assessment by Deloitte LLP of its performance, on feedback from certain senior managers that work closely alongside the auditors including the CFO and the Company Secretary, and on its own evaluation of Deloitte LLP'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 Deloitte LLP's independence and effectiveness and the Board concurs with the assessment by the Committee.

## Auditor tender process

The Code provides that a listed company should put its external audit contract out to public tender at least every ten years. As noted above, the Company retendered for its external audit services in 2015 which is in line with best practice.

Deloitte LLP has expressed its willingness to be appointed and continue to act as external auditor and a resolution to appoint Deloitte LLP will be proposed at the forthcoming 2018 AGM for their services in respect of the 2018 financial year.

## FRC review and findings

During the year the Financial Reporting Council ("FRC") conducted a review of the audit performed by Deloitte LLP of the Group's financial statements for the year ended 31st December 2016. The scope of the FRC review covered the audit work performed in the following areas:

- Estimate of project costs and revenue recognition;
- Recoverability of goodwill and other assets;
- Review of subjective provisions;
- End of service liability benefits; and
- First year audit procedures.

The review also covered the quality of communication with the Committee, plus certain matters relating to ethics, independence, quality control and completion. The outcome of the review was that the audit work in two of the areas covered required limited improvements. These were the impairment of non-current assets and the end of service liability benefits. Deloitte LLP and Lamprell have taken actions to make improvements in these areas. The Committee would like to thank the FRC for the rigorous and professional manner in which they conducted the review.

## Interaction with internal auditors

The Company has a well-established and embedded internal audit ("IA") function and the Head of IA presents to the Committee at least on a bi-annual basis, providing updates and analysis for the internal audits, as well as making key recommendations and observations to the Committee and submitting a proposal for the internal audits proposed for the subsequent year.

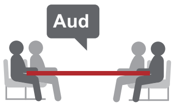
Aside from leading the annual control self-assessment exercises undertaken during the year, the IA function conducted the following audits during 2017:

- Surprise cash count;
- Operations & Maintenance business unit;
- Yard labour management;
- Procurement function;
- Projects management: new build and onshore/offshore;
- Inventory management: ERP configuration and utilisation;
- Third party QC inspection services;
- Camp assets disposal process; and
- Late project costs review.

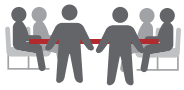
There has been close interaction between the IA and Group risk functions in order to formulate the 2018 planned internal audits. Necessary amendments to the IA plan are made during the year, subject to the Committee's approval, in instances where the level of risk had increased, or

## Managing risk appropriately during 2017

**At Board level**




Audit & Risk Committee conducts an annual review of the effectiveness of the systems of financial, operational and compliance controls and risk management systems



The Board regularly receives comprehensive written reports from the CEO and the CFO on the strategic and financial risks within the business respectively

**At executive management level**

VP Commercial & Risk Management is a member of the Executive Committee – forum for management oversight of project and department risks

Business unit/department heads are responsible for the identification, evaluation and mitigation of risks within their businesses/departments

**At the project/operational level**

Project managers are directly responsible for identification and ensuring that risks are captured in the risk database

As project risk owners, project managers implement the risk mitigation plans within their respective projects



decreased significantly, or circumstances within the Group have changed, or as specifically requested by management. The Committee will assess, by reference to the highlighted risk trends within the business and best practice, the key recommendations, and approve actions and the forward-looking internal audit plan.

As a matter of best practice the Committee meets with the internal auditor without executives present to discuss any sensitive matters or concerns. Equally and in much the same way as with the external auditors, the Committee reviews the performance and effectiveness of the IA function and remains satisfied with the effectiveness of the IA function.

### Enterprise risk management

Each of the Directors acknowledges and accepts that the Board as a whole takes responsibility for risk management in line with the Code requirements. The Board has delegated the administration and monitoring of the effectiveness of the Group's internal control and risk management systems to the 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 Committee. In 2017, management formally presented on two separate occasions to the Committee (in May and November). The purpose of such presentations was to ensure that the Committee, and therefore the Board, has appropriate oversight of enterprise risks and their potential impact on the business, with a particular focus on the risks that are specific to the Group. In addition, the Board discussed the key risks facing the Company and business as part of the processes for release of the 2016 financial results in March and the 2017 half-year results in September.

This two-way disclosure and monitoring system for enterprise risks facing the Group provides the Directors with reasonable (but not absolute) assurance against material misstatements and losses. The structure of the risk management mechanisms as well as the results of this system can be seen in the information relating to the principal risks and uncertainties faced by the Group 34.

The executive team has been working to embed risk management into the daily activities of all Lamprell employees. However, in light of the significant losses incurred on the East Anglia One project, it was recognised that additional improvements had to be made around project risk reporting, measurement of performance against metrics and feeding lessons learned from previous projects into future bidding activities.

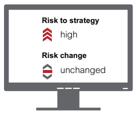
There have been a series of workshops in the management team to identify the risks on the EA1 project as well as the systems and controls required to identify potential hazards and risks on a project at an early stage and take mitigating actions accordingly.

Risk is assessed formally at the business unit level through the maintenance of project and department risk registers. The updating of the risk registers is a regular process, involving the regular effective identification, evaluation and management of risks by individual managers.

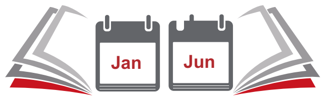
### Internal controls framework

The Company has a system of internal controls based around the following key features:

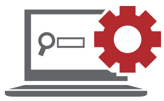
- a strategy defined and implemented by the Board;
- financial planning including annual budgets, quarterly reviews and three-year forecasting;
- oversight and approval of projects and/or contract awards either through executive management and/or, where required on major projects, the Board;
- implementation and use of an integrated enterprise resources planning system, linking the various business functions;




Presentation by management to the Audit & Risk Committee on the status of the Group's risk management systems




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


Project managers report on project risks on a monthly basis to the Group Risk Manager

Internal Audit ensures application and consistency of Group's risk policies and procedures by undertaking internal audits



- policies and procedures which define the Group's standards of business including a schedule of matters reserved for the Board, a clear organisation structure and a delegation of authority matrix; and
- the Company's Business Code of Conduct framed according to the Group's core values.

There are also various 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. With the issuance of the Market Abuse Regulation ("MAR") in July 2016, the Board updated and reissued its share dealing code to comply with MAR and has also implemented a more formalistic process for identifying and disclosing inside information which includes the use of a Disclosure Committee.

The Modern Slavery Act 2015 was enacted during 2016 and requires companies to evaluate internal and external risks related to human trafficking and modern slavery. Lamprell has amended its procedures and practices to highlight risks among the workforce in relation to trafficking and slavery. The Group also employs other processes to educate the workforce on the importance of high standards of behaviour and ethics such as training around the Company's Business Code of Conduct and annual conflict of interest declarations for managers and key personnel. The Modern Slavery and Human Trafficking policy statement for Lamprell, which includes the Board's assessment of our practices and procedures in this area, was published and is available on the Company's website.

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.

Finally, the 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 is 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, and the improvements made in light of the issues and learnings on the East Anglia One project, the internal control environment is operating effectively.

# DIRECTORS' REMUNERATION REPORT

The Remuneration & Development Committee now has a collective focus on executive reward and retention as well as succession planning and development. This ensures that the Committee maintains a more holistic oversight of executive performance and talent management.



Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2017. We have listened to your comments in previous years and we shall be seeking your support for each part of this report at the forthcoming AGM on 23 May 2018.

## Performance and reward in 2017

As a result of major, unplanned costs on the East Anglia One project that caused significant losses 22, the Company did not meet the minimum threshold required in relation to the EBITDA target to trigger any STIP pay-out. As such no STIP pay-outs were made to any of the Executive Directors in respect of the 2017 plan.

As a further consequence of the Group's 2017 performance and its impact on cumulative EBITDA, end of period backlog and relative TSR, the performance shares awarded to Tony Wright on 9 April 2015, with a performance cycle related to the three years ending 31 December 2017, failed to achieve the minimum vesting requirements in all three metrics and as such resulted in nil vesting.

Long-term incentive awards were granted in October 2017 to the CEO, Christopher McDonald, and the CFO, Tony Wright, in accordance with the rules of the performance share plan, 66.

John Kennedy stood down as Executive Chairman on 24 April 2017 and as a non-executive director on 20 September 2017. Mr Kennedy was eligible for a share-based and performance-related short-term incentive award in relation to his period of appointment as Executive Chairman and he vested in 116,047 retention shares under the Company's 2009 Retention Share Plan. Details of both these awards are given 66.

As reported in last year's Directors' Remuneration Report, Christopher McDonald was eligible for certain compensatory awards in relation to forfeited incentives with his previous employer. Details of awards that vested in 2017 are given 66.

## Remuneration policy for 2018

The Remuneration & Development Committee has continued to monitor emerging trends in UK executive remuneration practices and has engaged actively in reviewing the need for any potential changes in policy for 2018. The Committee is satisfied that the current remuneration policy that was approved at the 2016 AGM is broadly aligned with the UK market.

The Committee is also satisfied that the remuneration policy continues to maintain a strong link between executive reward and high performance and 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.

During the year, the Committee's terms of reference were extended to incorporate a focus on executive succession and development. This has enabled the Committee to establish and maintain effective oversight of talent management and retention.

On behalf of the Board, I recommend this remuneration report to you and I hope that you will find it clear, concise and understandable.

Debra Valentine
Chair of the Remuneration & Development Committee
21 March 2018


Debra Valentine
Committee Chair and Non-Executive Director



## Remuneration Policy

This part of the report sets out the remuneration policy for the Company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Remuneration Policy for the Company has been developed taking into account the principles of the Code and the views of our major shareholders and describes the policy applied from the 2016 AGM onwards. The Policy Report was put to a binding shareholder vote and approved at the 2016 AGM[1].

### 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, the Committee considers the remuneration policy and levels of remuneration for the wider employee population, compensation policies and practices in the UAE and also in 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 broadly 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;

### Committee members

Debra Valentine
Committee Chair and Non-Executive Director

Ellis Armstrong
Senior Independent Director

Mel Fitzgerald
Non-Executive Director

James Dewar
Non-Executive Director

John Malcolm
Non-Executive Chairman

1. The Company's Remuneration Policy was approved at the 2016 AGM, based on the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 300,865,886 | 99.1% |
| Against | 2,805,311 | 0.9% |
| **Total votes cast (for and against)** | **303,671,197** | **100%** |
| Votes withheld* | 656 | – |
| **Total votes cast (including withheld)** | **303,671,853** | **–** |

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

- 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; and
- 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 and in particular around compensation matters. The Committee also considers the AGM to be an opportunity to meet and communicate with investors and consider shareholder feedback received as a result of the AGM each year and guidance from shareholder representative bodies more generally. This feedback, together with any additional feedback received from time to time, is then considered as part of the Company’s annual review of its 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.

## 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 for 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 Group 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 |

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

| 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 apply to all 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<br><br>Exceptional maximum opportunity of 150% of base salary | Performance is assessed against challenging independent financial metrics that may include relative or absolute total shareholder return ("TSR"), cumulative EBITDA, end of period backlog and other equally challenging metrics<br><br>On each element, 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' well-being 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, fuel allowance, annual leave air fares and utility expenses | Actual value of benefits provided | None |
| 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 200% of base salary for the CEO and 150% 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 |

## 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 HSES.

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 appropriate 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 Directors in 2018 at different levels of performance. The charts highlight that the performance-related elements of the package comprise a significant portion of the Executive Directors' total remuneration at maximum performance.

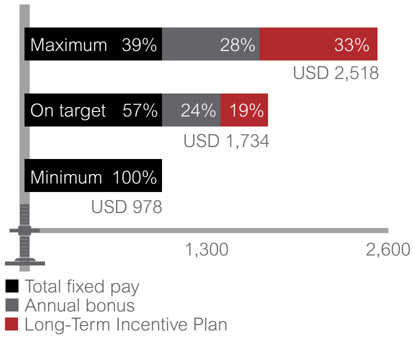
## Directors' recruitment and promotions

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.

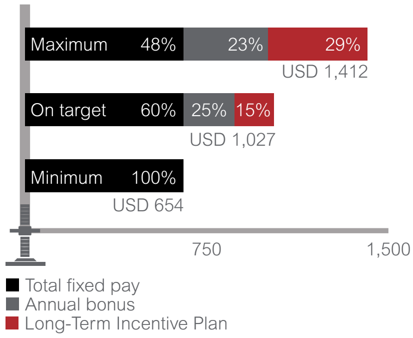
If a new Executive Director were to be appointed, the Committee would seek to align the remuneration package with the remuneration policy approved by shareholders, including discretion to award an annual bonus up to 100% of base salary and an LTIP award up to 120% for the CEO and 100% for other Executive Directors, with discretion, in exceptional circumstances, to grant an award of up to 150% of base salary. Flexibility would be retained to set base salaries at the level necessary to facilitate

## *Remuneration scenarios

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




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




**Assumptions:**
1. Base salary levels applying on 1 January 2018.
2. Benefits are estimated, based on the annualised value for the year ended 31 December 2017.
3. The end of service gratuity is estimated, based on the accrual for the year ended 31 December 2017.
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, 60% 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.

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 the awards would have vested or been paid.

In exceptional circumstances and only on recruitment (e.g. to buy out 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 Non-Executive 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 up to 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

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 (e.g. 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 |
|---|---|
| John William Kennedy* | 13 August 2015 |
| Antony Robert William Wright | 13 August 2015 |
| Christopher Michael McDonald | 2 August 2016 |

* John Kennedy stepped down as Executive Chairman on 24 April 2017 and as a Non-Executive Director on 20 September 2017.

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.

Remuneration payments under all Service Agreements are enforceable only insofar as they fall within a shareholder-approved Remuneration Policy.

### Non-Executive Directors' ("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, four NEDs 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 Malcolm | 27 May 2013 |
| Ellis Armstrong[1] | 27 May 2013 |
| Mel Fitzgerald[1] | 13 August 2015 |
| Debra Valentine[1] | 1 September 2015 |
| Nick Garrett | 24 March 2017 |
| James Dewar[1] | 1 November 2017 |

1. Ellis Armstrong, Mel Fitzgerald, Debra Valentine and James Dewar are considered to be independent NEDs of the Company.

# DIRECTORS' ANNUAL REPORT ON REMUNERATION

This report has been prepared in accordance with Part 3 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 2018 AGM. The information 64 to 69, save as where indicated, 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 UK Corporate Governance Code in relation to remuneration. From 2017, the Committee's terms of reference were extended to ensure the appropriate level of Board attention is given to executive performance, talent development and retention through effective succession planning and identification of succession issues. 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 John Malcolm (Committee Chair and member until 19 September), Debra Valentine (Committee Chair from 20 September), Ellis Armstrong, Mel Fitzgerald (from 20 September) and James Dewar (from 1 November). Membership is comprised solely of independent NEDs. None of the current Committee members has 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.

## External advice received (unaudited)

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, CFO and Executive Chairman but not in relation to their own remuneration.

NBS is a signatory to the Remuneration Consultants' Code of Conduct and adheres 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 £11,900.

## Committee attendance (unaudited)

| | Debra Valentine | Ellis Armstrong | Mel Fitzgerald[1] | James Dewar[2] | John Malcolm |
|---|---|---|---|---|---|
| Number of **meetings** attended | 6 | 6 | 1 | 1 | 5 |
| Number of **meetings** possible | 6 | 6 | 1 | 1 | 5 |

**Note:**
1. Mel Fitzgerald was appointed to the Committee on 20 September 2017.
2. James Dewar was appointed to the Committee on 1 November 2017.

## Shareholder voting at AGM (unaudited)

At last year's AGM held on 21 May 2017, the Directors' Remuneration Report received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 281,190,584 | 91.7% |
| Against | 25,339,966 | 8.3% |
| **Total votes cast (for and against)** | **306,530,550** | **100%** |
| Votes withheld[1] | 0 | – |
| **Total votes cast (including withheld)** | **306,530,530** | **–** |

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.

# Implementation of the Remuneration Policy for 2018

## Base salary (unaudited)

In setting base salaries for 2018, the Committee considered external market data as well as the challenging market environment that has driven the continued need for overhead cost reductions. Accordingly the base salaries of the Executive Directors in 2018 will remain the same for the second successive year.

The base salaries for 2018 are as follows:

| | | Base salary from 1 January | | % increase |
|---|---|---|---|---|
| | | 2017 | 2016 | |
| Christopher McDonald | USD | 700,000 | 700,000 | 0% |
| Tony Wright | USD | 410,000 | 410,000 | 0% |

## Annual bonus for 2018 ("STIP") (unaudited)

For 2018 the annual bonus opportunity will be 100% of base salary for the CEO and 85% of base salary for the CFO, payable in cash. 40% of the bonus will be based on sales, 20% will be based on gross profit, set in relation to the Group's budget, 15% will be based on net cash at 31 December 2018 and the remaining 25% will be based on strategic and/or personal targets, including safety performance. This structure is intended to provide a rounded assessment of the Group and management's performance against challenging targets which are aligned with the Group's strategic objectives.

The sales targets will be within a range from USD 375 million to USD 750 million with associated pay-outs within the range of 20-100% of target. The Committee considers any disclosure of future gross profit and net cash targets 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 to all bonus pay-outs. Clawback may apply in a number of circumstances, for example, where a misstatement of performance or events arises after the payment of a bonus or in circumstances where misconduct may lead to significant reputational damage.

## Long-term incentives (unaudited)

Subject to compliance with the Listing Rules, awards will be made in 2018 and the maximum LTIP potential will be 120% of base salary for the CEO and 100% for the CFO. 50% of the award will be based on relative TSR (relative to the FTSE World Oil Equipment & 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 2018 (unaudited)

| | 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 2020 |
| Cumulative EBITDA | 20 | USD 10m | 100 | USD 75m | 31 December 2020 |
| End of period backlog | 20 | USD 600m | 100 | USD 1.0bn | 31 December 2020 |

The awards will be subject to clawback provisions and a mandatory holding restriction of two years beyond vesting will apply to the 2018 awards.

## Performance conditions for outstanding LTIPs

For the sake of completeness, the Company discloses the performance conditions which are attached to the awards of LTIPs in 2015, 2016 and 2017 as follows:

## 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 320m | 100 | USD 420m | 31 December 2017 |
| End of period backlog | 20 | USD 1.0bn | 100 | USD 1.4bn | 31 December 2017 |

The outcome of the performance conditions applicable to the 2015 LTIP awards is shown below:

| Performance condition | Outcome | % Vesting |
|---|---|---|
| TSR vs. FTSE World Oil Equipment & Services Index | Below median | 0% |
| Cumulative EBITDA | USD 50m | 0% |
| End of period backlog | USD 138m | 0% |

## LTIP 2016

| | 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 2018 |
| Cumulative EBITDA | 20 | USD 300m | 100 | USD 360m | 31 December 2018 |
| End of period backlog | 20 | USD 1.2bn | 100 | USD 1.6bn | 31 December 2018 |

## LTIP 2017

| | 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 2019 |
| Cumulative EBITDA | 20 | USD 65m | 100 | USD 100m | 31 December 2019 |
| End of period backlog | 20 | USD 600m | 100 | USD 1.05bn | 31 December 2019 |



## 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 shall 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.

## Directors’ contracts

The following information regarding the service contracts of Executive Directors should be noted.

## Service contract for outgoing Executive Chairman, John Kennedy

Mr Kennedy stood down as Executive Chairman on 24 April 2017 and as a Non-Executive Director on 20 September 2017. As reported in the 2016 Directors’ Remuneration Report, Mr Kennedy was eligible for a short-term incentive award that was calculated by reference to 100% of base salary earned during the period of his Executive Chairman appointment and was payable in performance shares of the Company based on achievement against pre-defined performance goals. Mr Kennedy’s maximum award was 426,400 performance shares that were awarded in two instalments of 292,570 on 21 September 2015 and 133,830 on 10 October 2016 both with a vesting date of three months after his termination date, i.e. 20 December 2017, subject to performance conditions. The outcome of the award was as follows:

| Performance metric | Weight | Performance | Shares vested |
|---|---|---|---|
| Strategy development | 20% | 100% | 85,280 |
| Leadership succession and development | 13% | 100% | 55,432 |
| TSR growth | 67% | 0% | Nil |
| Total shares vested | | | 140,712 |

In addition, as previously reported, on 18 November 2014, Mr Kennedy was awarded 122,499 shares under the Company’s 2009 Retention Share Plan. These shares were due to vest on 17 November 2017. In accordance with the rules of the plan, the shares vested pro-rata to the termination date of 20 September 2017. Accordingly Mr Kennedy vested in 116,047 shares. After seeking external advice, the Company also made an ex gratia payment of £85,682 to Mr Kennedy by way of compensation to recognise his contribution.

## Service contract for CEO Christopher McDonald

As reported in last year’s Annual Report on Remuneration, the incoming CEO Christopher McDonald was eligible for certain compensatory awards in respect of forfeited incentives with his previous employer. As such, during 2017, Mr McDonald received a cash payment of USD 112,500 and, on 1 October 2017, vested in 123,647 retention shares in compensation for forfeiting his STIP eligibility to 30 September 2016 with his previous employer. In addition, he was eligible for a performance-based incentive of up to USD 175,000 in respect of the three months to 31 December 2016 from which he received USD 123,375. The breakdown of his performance criteria and outcomes are detailed in the table below. In addition, in compensation for forfeited LTIP incentives with his previous employer, on 10 October 2017, Mr McDonald vested in 158,114 retention shares and 55,219 performance shares measured by the Company’s relative TSR performance during the first year of his employment.

| Performance metric | Weight | Performance | Amount USD’000 |
|---|---|---|---|
| Financial | 35% | 32% | 56 |
| HSES | 20% | 0% | 0 |
| Strategy development | 20% | 16% | 28 |
| Role transition | 25% | 22.5% | 39.375 |
| Total | 100% | 70.5% | 123.375 |

## Outside appointments (unaudited)

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.

## Fees for the Chairman and Non-Executive Directors (unaudited)

The Non-Executive 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. Non-Executive Directors receive no other benefits. A summary of the current fees is as follows:

| | Fee at 1 January 2018 £000 | Fee at 1 January 2017 £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 2017

The table below summarises Directors' remuneration received in 2017 with comparisons, where appropriate, to (2016)[1].

| | Base salary and fees USD'000 | Benefits and allowances[2] USD'000 | End of service gratuity[3] USD'000 | Annual bonus[4] USD'000 | Long-term incentives USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Christopher McDonald | 700 (197) | 237 (56) | 41 (9) | – (–) | 350[5] (–) | 236[5] (–) | 1,564 (262) |
| John Kennedy[6] | 347 (680) | – (–) | – (–) | – (–) | – (–) | – (–) | 347 (680) |
| Tony Wright | 410 (410) | 213 (243) | 31 (21) | – (–) | – (2) | – (–) | 654 (676) |
| **Lamprell Energy total** | **1,457 (1,287)** | **450 (299)** | **72 (30)** | **– (–)** | **350 (2)** | **236 (–)** | **2,565 (1,618)** |
| **Non- Executive Directors** | | | | | | | |
| John Kennedy | 39 (000) | – (–) | – (–) | – (–) | – (–) | – (–) | 39 (000) |
| John Malcolm | 137 (103) | – (–) | – (–) | – (–) | – (–) | – (–) | 137 (103) |
| Ellis Armstrong | 116 (133) | – (–) | – (–) | – (–) | – (–) | – (–) | 116 (133) |
| Debra Valentine | 88 (99) | – (–) | – (–) | – (–) | – (–) | – (–) | 88 (99) |
| Mel Fitzgerald | 89 (92) | – (–) | – (–) | – (–) | – (–) | – (–) | 89 (92) |
| Nick Garrett[7] | 67 (–) | – (–) | – (–) | – (–) | – (–) | – (–) | 67 (–) |
| James Dewar[8] | 15 (–) | – (–) | – (–) | – (–) | – (–) | – (–) | 15 (–) |
| **Lamprell plc total** | **551 (427)** | **– (–)** | **– (–)** | **– (–)** | **– (–)** | **– (–)** | **551 (427)** |
| **Total** | **2,008 (1,714)** | **450 (299)** | **72 (30)** | **– (–)** | **350 (2)** | **236 (–)** | **3,116 (2,045)** |

1. All Directors' pay is reported above in USD. Christopher McDonald's pay is determined in USD and paid in AED. Tony Wright is remunerated in AED; Ellis Armstrong and Debra Valentine's remuneration is determined in GBP and paid in USD and the remuneration of John Kennedy, John Malcolm, Mel Fitzgerald, Nick Garrett and James Dewar is determined and paid in GBP.
2. Benefits and allowances included housing, private medical insurance, life insurance, club membership, the use of a company car, private fuel card, airfare tickets and utility expenses. The table below summarises the main benefits and allowances.
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 2017 and 2016. 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 2% p.a. (2016: 2%). The expected liability on the date of termination has been discounted to its net present value using a discount rate of 3.2% p.a. (2016: 3.5% p.a).
4. The annual bonus for 2017 was based on performance against financial and non-financial performance targets. Performance against these targets is set out in the tables below. No annual bonus payments were made in respect of the 2017 plan.
5. Details of the long-term incentives and other payments to Christopher McDonald are given on page 66. Vested share-based long-term incentive amounts are calculated by reference to average share price and £/USD exchange rate in 10 dealing days to 7 March 2018.
6. John Kennedy stood down as an Executive Director on 24 April 2017 and as a Non-Executive Director on 20 September 2017.
7. Nick Garrett was appointed a Director on 24 March 2017.
8. James Dewar was appointed Director on 1 November 2017.

## Summary of benefits and allowances

| | Housing USD'000 | Vehicle USD'000 | Schooling USD'000 | Annual leave tickets USD'000 | Medical & life insurance USD'000 | Other USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| Christopher McDonald | 125 | 27 | – | 36 | 17 | 32 | 237 |
| Tony Wright | 105 | 21 | 23 | 39 | 17 | 8 | 213 |

## Annual bonus 2017: Performance against targets

### CEO and CFO

| Metric | Weighting as % of maximum annual opportunity | Actual performance | Pay-out outcome as % of maximum annual opportunity |
|---|---|---|---|
| Sales[1] | 40% | 0% | 0% |
| Net cash[2] | 15% | 87% | 0% |
| EBITDA[3] | 20% | 0% | 0% |
| Personal goals | 25% | N/A | N/A |
| **Total** | **100%** | **N/A** | **0%[4]** |

1. Sales targets were in the range of USD 400 million (threshold) to USD 600 million (target) and USD 700 million (stretch). Threshold target was not achieved.
2. Net Cash targets were in the range of USD 220 million (threshold) to USD 250 million (target) and USD 300 million (stretch). USD 257 million was achieved.
3. EBITDA targets were in the range of USD 3 million (threshold) to USD 6 million (target) and USD 25 million (stretch). Threshold was not achieved.
4. Whilst the personal goals of the CEO and CFO were achieved in excess of 50% of target, no bonus pay-out was made due to the failure to achieve the threshold EBITDA. Had Threshold and Target been achieved, the pay-outs would have been at 30% and 75% respectively.

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

An award of 705,484 performance shares was made to Christopher McDonald and an award of 344,343 performance shares was made to Tony Wright on 2 October 2017 in accordance with the Company's performance share plan rules with associated performance conditions. These 2017 LTIP conditional share awards vest in full on 1 October 2020, subject to achieving the performance conditions relating to relative TSR, three-year cumulative EBITDA and end of period backlog 66. The awards are subject to a holding period of two years following the date of vesting.

### 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 2017 as set out below.

### LTIP awards

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

| Executive Director | At 1 January 2017 | Awarded in 2017 | Date of vesting | Vested in 2017 | Lapsed in 2017 | At 31 December 2017 |
|---|---|---|---|---|---|---|
| Christopher McDonald | 923,234 | 705,484[1] | 01.10.2020 | 0 | nil | 1,628,718 |
| Tony Wright | 577,805 | 344,343[2] | 01.10.2020 | 1,385 | nil | 920,763 |
| John Kennedy[3] | 548,899 | nil | 20.09.2017<br>20.12.2017 | 256,759 | 292,140 | – |

1. Christopher McDonald's award of performance shares was based on 120% of his annual base salary, share price of £0.8846 and foreign exchange rate of USD 1.346/£1.00.
2. Tony Wright's award of performance shares was based on 100% of his annual base salary, share price of £0.8846 and foreign exchange rate of USD 1.346/£1.00.
3. John Kennedy stepped down as Executive Chairman on 24 April 2017 and as a Non-Executive director on 20 September 2017.

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 66.

### 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 200% of base salary for the CEO and 150% 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 McDonald and Mr Wright have not currently achieved these targets.

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 2017 as set out below. There were no changes to the interests of the Directors in the ordinary shares of the Company in the period from 1 January 2018 to 21 March 2018, being the last practicable date that the Company is able to report on Directors' interests.

| | Beneficially owned at 31 Dec 2017 | Beneficially owned at 31 Dec 2016 | Ordinary shares owned (directly or beneficially) | Outstanding share awards including options (retention condition only) | Outstanding share awards including options (subject to vesting conditions) | Shareholding as a % of base salary | Shareholding requirement met? |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Christopher McDonald | 2,356,311 | 1,650,827 | 336,980 | 141,263 | 1,878,068[1] | 67% | No |
| Tony Wright | 910,361 | 617,805 | 41,385 | – | 868,976 | 14% | No |
| John Kennedy[2] | N/A | 2,150,838 | N/A | – | – | N/A | N/A |
| **Non-Executive Directors** | | | | | | | |
| John Kennedy[2] | N/A | 2,150,838 | N/A | – | – | – | – |
| Ellis Armstrong | – | – | | – | – | – | – |
| John Malcolm | – | – | | – | – | – | – |
| Debra Valentine | – | – | | – | – | – | – |
| Mel Fitzgerald | – | – | | – | – | – | – |
| Nick Garrett | – | – | | – | – | – | – |
| James Dewar | 40,000 | N/A[3] | 40,000 | – | – | – | – |

1. This comprises the LTIPs awarded in 2016 and 2017, as well as the compensatory awards issued by the Company to Mr McDonald on appointment.
2. John Kennedy stepped down as an Executive Director on 24 April 2017 and from the Board on 20 September 2017.
3. James Dewar was appointed Director on 1 November 2017.

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 made to former directors during the year other than the consultancy arrangement for James Moffat disclosed 58 of the 2016 Annual Report.

## Payments for loss of office

A payment of £85,682 was made to John Kennedy by way of compensation to recognise his contribution 66.

## Percentage change in remuneration levels (unaudited)

The table below and opposite shows the movement in base salary, benefits and annual bonus for the CEO between the 2017 and 2016 financial years, compared to that for the average employee of the Group.

| | % change |
|---|---|
| **Chief Executive Officer** | |
| Base salary | 0% |
| Benefits | 0% |
| Bonus | 0% |

| | % change |
|---|---|
| **All employees** | |
| Base salary | 0.34% |
| Benefits | 0.3% |
| Bonus | 0% |

## Relative importance of the spend on pay

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

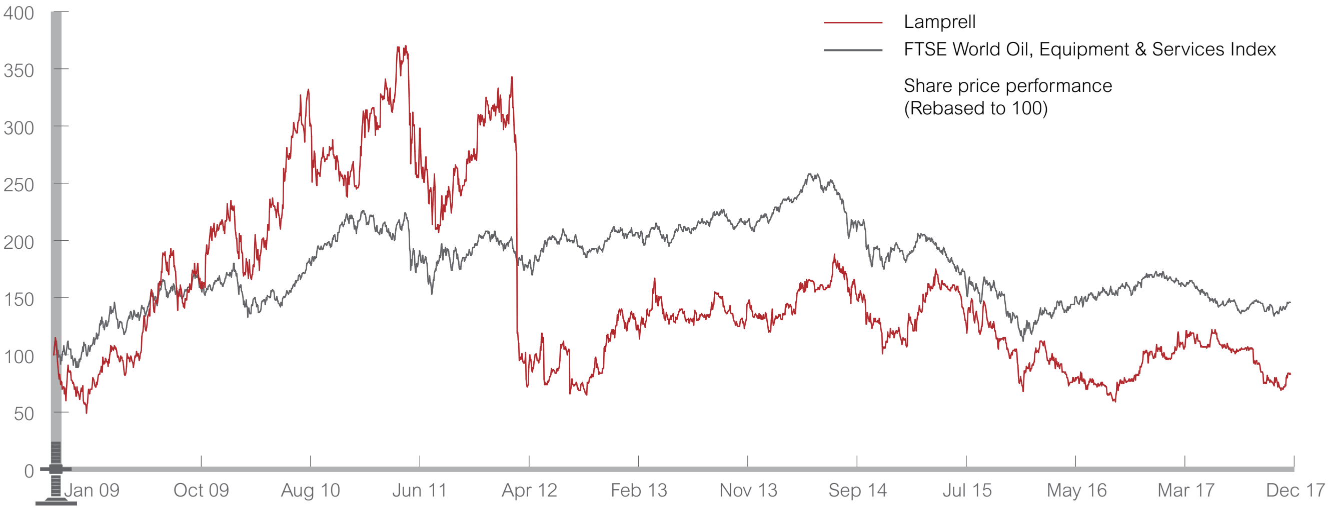
| | 2017 USD'000 | 2016 USD'000 | % change |
|---|---|---|---|
| Staff costs[1] | 120,170 | 151,915[2] | -21% |
| Dividends | – | – | 0.00% |

1. Staff costs includes wages, salaries and other benefits.
2. 2016 figure is restated in accordance with Note 10 to the Annual Report and Accounts.

## Performance graph and CEO pay (unaudited)

The graph below shows the growth in value of a notional £100 invested in the Company compared to the FTSE World Oil Equipment & Services Index, which is used as the basis for one of the Company's LTIP metrics. The graph covers the time period from 1 January 2009 to 31 December 2017.

## Share price performance: Jan 2009 – Dec 2017




The total remuneration figures for the CEO during the last nine 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) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2016 | 2015 | 2014 | 2013 | 2013 | 2012 | 2012 | 2011 | 2010 | 2009 | 2009 |
| **CEO** | **McDonald** | **McDonald[1]** | **Moffat[2]** | **Moffat** | **Moffat** | **Moffat** | **Whitbread[3]** | **Whitbread** | **McCue[4]** | **McCue** | **McCue** | **McCue** | **Whitbread** |
| Total remuneration | 1,564 | 262 | 891 | 1,349 | 1,716 | 1,652 | 1,504 | 352 | 2,739 | 2,094 | 1,824 | 514 | 1,211 |
| Annual bonus % | 0% | 0% | 0% | 45% | 91% | 99% | 0% | 0% | 0% | 72.3% | 100% | 0% | 0% |
| LTIP vesting % | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 100% | 100% | 0% | 0% | 0% |

1. Christopher McDonald was appointed as CEO on 1 October 2016.
2. James Moffat was appointed CEO on 1 March 2013 and stepped down on 30 September 2016.
3. Peter Whitbread was appointed as interim CEO on 4 October 2012 and his employment ceased on 30 June 2013.
4. Nigel McCue's employment ceased on 3 October 2012.

## Approval of the Directors' Remuneration Report

The Directors' Remuneration Report, including both the Directors' Remuneration Policy and the Annual Report on Remuneration, was approved by the Board on 21 March 2018.

Debra Valentine
Chair of the Remuneration & Development Committee

By order of the Committee
21 March 2018

# STATUTORY INFORMATION AND DIRECTORS' STATEMENTS

Our Directors provide other statutory information and the Directors' statements for the year ended 31 December 2017, in addition to the information provided in the strategic report 2 to 37 and the Corporate Governance Report 38 to 69.



## 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 of and voting at general meetings. The Articles also set out the rules relating to Directors (including by way of example, their appointment, election, retirement, duties and powers).

## Capital structure and corporate authorities

Details of the authorised and issued share capital together with details of movements in share capital during the year are included in Note 24 to the financial statements. The Company has one class of shares 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 Articles 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 64 and in Note 8 to the financial statements.

The awards under the Lamprell plc Free Share Award Plan, Retention Share Plan and Long-Term Incentive Plan are granted at nil price.

Pursuant to the Company's share schemes, the Employee Benefit Trust as at the year-end, held a total of 16,268 (2016: 16,268) ordinary shares of 5p, representing less than 0.01% (2016: 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 approved proportions, be allowed to vest early or to be exchanged for awards of equivalent value in the acquiring company.

The Company was given authority at the 2017 AGM to make market purchases of up to 33,000,000 ordinary shares of 5p, which represented approximately 10% of the Company's then issued ordinary share capital. This authority will expire at the 2018 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 will be sought to authorise the Directors to allot the 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 Articles or 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 2017 AGM to issue

| | Granted | | Outstanding | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016 and prior** |
| Lamprell plc Free Share Plan | Nil | Nil | Nil | Nil |
| Lamprell plc Retention Share Plan | 1,303,758 | 898,024 | 1,303,758 | 876,263 |
| Lamprell plc Executive Share Option Plan | Nil | Nil | Nil | 340,855 |
| Lamprell plc Long-Term Incentive Plan | 2,577,122 | 3,940,072 | 2,577,122 | 4,550,548 |


a similar percentage of the Company's then issued ordinary share capital. The authorities now sought, if granted, will expire on the earlier of the conclusion of the AGM of the Company next year and the date which is 15 months after the granting of the authorities.

## Contracts of significance

In 2017, the Group entered into a joint venture agreement for the establishment of a major new maritime yard in Saudi Arabia 11. This agreement commits the Company to invest up to USD 140 million into this new yard (subject to satisfaction of conditions precedent) over the course of the coming 5-6 years and includes certain provisions which may impact the Company's fair market value upon a change of control in the Company. Details are available on the Company's website and were approved by shareholders at the EGM in June 2017 47. Except for this joint venture agreement, the debt facility agreements which were concluded in 2014 and the Controlling Shareholder Agreement 49, the Company or Group does not have contractual or other arrangements which are significant to its business with any person.

## Directors' responsibility statements

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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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 and the Group'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 the system of internal control, 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 corporate and financial information included on 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.

In accordance with the principles of the Code, the Group has arrangements in place to ensure that the information presented in this Annual Report is fair, balanced and understandable. The Audit and Risk Committee oversees the implementation of this approach. The Directors consider, on the advice of the Audit and Risk Committee, that the Annual Report, 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 39, confirms that, to the best of his/her 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 Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic 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/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

## Going concern and Viability Statement

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 8. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review 20. 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 Directors have concluded therefore that it is appropriate for the Group to continue 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.

The Directors’ Viability Statement and accompanying basis of assessment can be found in the Strategic Report 37.

Alex Ridout
Company Secretary

By Order of the Board
21 March 2018

# INDEPENDENT AUDITOR'S REPORT

to the members of Lamprell plc



## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

**In our opinion:**

- **the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and**
- **the financial statements have been prepared in accordance with the requirements of the Isle of Man Companies Act 1931-2004 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of Lamprell plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related Notes 1 to 37.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matters that we identified in the current year were:<br>• Recoverability of non-current assets: Property, plant and equipment (PP&E) and intangibles; and<br>• Estimation of project costs and revenue recognition, most notably in respect of the East Anglia One project.<br>Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with . |
| Materiality | The materiality that we used in the current year was USD 4.6 million (2016: USD 3.4 million) which was determined as 1% of net assets. |
| Scoping | We performed a full scope audit of the consolidated Lamprell Group, covering 100% of the Group's net assets and 100% of revenue. |
| Significant changes in our approach | Previously we identified a key audit matter relating to goodwill; this was fully written off in the year ended 31 December 2016.<br>Due to the expected low levels of activity in 2018 and ongoing market downturn, we identified a key audit matter in the current year relating to the recoverability of other non-current assets.<br>As noted above, we determined materiality with reference to net assets. This is a change from the prior year where we used adjusted profit before taxation. |



## Conclusions relating to going concern, principal risks and viability statement

**Going concern**
We have reviewed the directors' statement in Note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

**Principal risks and viability statement**
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on page 34 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 34 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Recoverability of non-current assets: PP&E and Intangibles** | |
|---|---|
| Key audit matter description | The Group has property, plant and equipment 'PP&E' with a carrying amount of USD 171.7 million (Note 16) and intangible assets of USD 31.7 million (Note 17) as at 31 December 2017. Due to the expected low levels of activity in 2018 and ongoing market downturn, the Group identified impairment indicators for these non-current assets. Management performed an impairment assessment as at 31 December 2017, in accordance with IAS 36.<br><br>As disclosed in Note 17 the recoverability of non-current assets is driven by management's assumptions over expected business activity, including the anticipated timing and value of future contract awards, assumptions over the forecast contract margin, discount rate, terminal growth rate and yard capacity.<br><br>The Group's accounting policy for impairment of non-financial assets is included in Note 2.22 in the summary of significant accounting policies. The assessment of the recoverability of non-current assets requires management to exercise judgement as described in the "critical accounting judgements and key sources of estimation uncertainty" section of the Annual Report in Note 4 and the "significant judgements" section in the Audit & Risk Committee report on page 55. |
| How the scope of our audit responded to the key audit matter | Our audit work assessed the reasonableness of management's key assumptions in preparation of the PP&E and intangibles impairment assessment. Specifically, our work included, but was not limited to, the following procedures:<br>• an assessment of the design and implementation of relevant controls over the preparation of the PP&E and intangibles impairment assessment;<br>• benchmarking and analysis of revenue growth assumptions against market data and analyst forecasts;<br>• benchmarking of the discount rate, the terminal growth rate applied and review of management's cash flow model with involvement from our valuation specialists and recalculation of the recoverable amount of PP&E and intangibles;<br>• evaluating management's historical forecasting accuracy, specifically including revenue, gross profit margins and overheads;<br>• agreement of estimated new contract awards to tender requests or enquiries received where applicable;<br>• review of the forecast revenue and the yard capacity required to deliver this forecast revenue to assess the potential impact on the currently mothballed Sharjah Yard, mothballed operational assets and challenging the operational capacity to deliver forecast revenue;<br>• verification of estimated future costs by agreement to approved budgets and where applicable, third party data; and<br>• assessment of any evidence contradictory to management's assumptions. |
| Key observations | We are satisfied that the recoverability of non-current assets has been assessed in accordance with the requirements of IAS 36: Impairment of Assets. |

### Estimation of project costs and revenue recognition

**Key audit matter description**

The Group's operations are characterised by contract risk with significant judgements involved in the assessment of both current and future contract financial performance.

The Group's accounting policy for revenue recognition is included in Note 2.2(a) in the "summary of significant accounting policies".

Revenue is recognised based on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract.

The status of contracts is updated on a regular basis. In doing so, management are required to exercise significant judgement in their assessment of the valuation of contract variations, claims and liquidated damages (revenue items); the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within forecast timescales.

Management is required to forecast expected total costs to complete projects, based on professional judgement and historical experience. This drives the calculation of percentage of completion and ultimately revenue recognition. In light of the inherent judgement in estimating future contract costs, there is a risk around the completeness and accuracy of the forecast costs, and consequently the recognition of revenue.

Furthermore, there is a risk around the timing and valuation in recognition of variation orders and variable revenue. In the current year the Group encountered major operational challenges on the East Anglia One project which resulted in a significant loss for the Group (USD 80.4 million). The most significant project judgement included in the recognised loss is in respect of potential liquidated damages on the East Anglia One project as disclosed in Note 4 and the ability of the Group's subcontractor to deliver on time and in accordance with the project's revised delivery dates.

The assessment of revenue recognition requires management to exercise judgement as described in the "critical accounting judgements and key sources of estimation uncertainty" section of the Annual Report in Note 4 and the "significant judgements" section in the Audit & Risk Committee report on page 55. Management's assessment requires an estimation of the total cost to complete each project, and the Group's right to revenue as a result of variation orders and claims. Management has included the impact of sensitivity to the costs to complete in Note 4.2 as a key source of estimation uncertainty.

**How the scope of our audit responded to the key audit matter**

Our work on the recognition of contract revenue, contract costs, margin and related receivables and liabilities included:

- an assessment of the design and implementation of relevant controls over the recognition of contract revenue, contract costs and forecast margin;
- meeting with operational project management to understand contract performance;
- selecting a sample of contracts based on qualitative and quantitative factors in order to challenge both current and future financial performance on the most significant and more complex contract positions. For sampled contracts, we challenged management's key judgements inherent in the forecast revenue and costs to complete that drive the accounting under the percentage of completion method, including the following procedures:
  - reviewing the contract terms and conditions by reference to contract documentation;
  - testing the valuation of claims and variations both within forecast contract revenue and forecast contract costs via inspection of customers' instructions and contracts with customers and the supply chain;
  - reviewing insurance experts' reports received on contentious matters;
  - testing the forecast costs by agreeing a sample of forecast costs to subcontractor agreements and through interviews with commercial and operational management to assess the impact of any commercial and operational risk on the cost estimates;
  - assessing the ability to deliver contracts within budgeted timescales and any exposures to liquidated damages for late delivery of contract works;
    - Involvement of our internal engineers and quantity surveyor specialists to review the East Anglia One contract to assess the specific contractual and commercial risks and then to determine the reasonableness of the completeness and accuracy of the management forecast and assessments of these risks in the project cost estimates;
    - Reviewing of key contractual terms around delivery dates and any contractual milestone dates and the terms for liquidated damages under the contract;
    - Reviewing the actual achievement of the contractual delivery dates or milestone dates against the contractual dates to assess the exposure to liquidated damages;

| Estimation of project costs and revenue recognition (continued) | |
|---|---|
| How the scope of our audit responded to the key audit matter (continued) | • reviewing post-balance sheet contract performance to challenge year end judgements.<br>• assessing the recoverability of related receivables, including testing of post year end cash receipts, and completeness and validity of any contract loss provisions through completion of the above procedures; and<br>• on the East Anglia One project, understanding the basis for and obtaining evidence in respect of management's judgement that the maximum potential exposure of USD 33.8 million of LDs that could be levied under the contract have been reduced through ongoing work with their client and their subcontractor to meet revised key delivery dates, as explained in the key judgement Note 4. |
| Key observations | Management have made certain judgements in relation to estimated project revenue, estimated project costs and the estimated margins recognised on projects including the significant loss making project, East Anglia One. Based on audit work performed we are satisfied that that the estimation of project costs, project margins and the recognition of revenue are appropriate and in accordance with IAS 11: Construction contracts. |

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Materiality | Group: USD 4.6 million (2016: USD 3.4 million).<br>Parent company: USD 4.4 million (2016: USD 3.2 million). |
| Basis for determining materiality | The Group materiality that we used in the current year was determined as 1% of net assets. This is a change from the prior year where we determined materiality based on adjusted forecast profit before taxation.<br>The parent company materiality was determined as 1% of net assets and then has been capped at 95% Group materiality. |
| Rationale for the benchmark applied | Given the volatility in the Group's performance, we considered a number of performance and asset measures and determined that a net asset measure provided a stable basis and the most appropriate reflection of the size of the Group's operations. Our determined Group materiality is equivalent to 1.2% of Revenue and 4.7% of the Group's loss before tax.<br>Parent company materiality was determined using net assets on the basis that it acts as a holding company for the Group. |

We agreed with the audit committee that we would report to the committee all audit differences in excess of USD 230,400 (2016: USD 168,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment and assessing the risks of material misstatement at the Group level.

We performed a full scope audit of the Group's operations which is primarily in the United Arab Emirates ("UAE") and comprises 100% of the Group's net assets and 100% of revenue.

The Group team was responsible for the work performed on the components. The Group team also tested the consolidation process. We have obtained an understanding of the Group's system of internal controls and undertaken a combination of procedures, all of which are designed to target the Group's identified risks of material misstatement in the most effective manner possible.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**



## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 15 of the Isle of Man Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

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

| | |
|---|---|
| **Adequacy of explanations received and accounting records**<br>Under the Isle of Man Companies Act 1931 to 2004 we are required to report in respect of the following matters if, in our opinion:<br>• proper books of account have not been kept by the company and that proper returns adequate for our audit have not been received from branches not visited by us; or<br>• the financial statements are not in agreement with the books of account and returns; or<br>• we have not received all the information and explanations which to the best of our knowledge and belief, are necessary for the purpose of our audit. | **We have nothing to report in respect of these matters.** |
| **Directors' loans and remuneration**<br>Under the Isle of Man Companies Act 1931 to 2004 we are required to report in respect of the following matter if, in our opinion certain disclosures of directors' loans and remuneration specified by law are not been complied with. | **We have nothing to report in respect of this matter.** |



Dean Cook MA FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

21 March 2018

# CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 December 2017 Pre-exceptional items USD'000 | Year ended 31 December 2017 Exceptional items USD'000 | Year ended 31 December 2017 Total USD'000 | Year ended 31 December 2016 Pre-exceptional items USD'000 | Year ended 31 December 2016 Exceptional items USD'000 | Year ended 31 December 2016 Total USD'000 |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 5 | **370,439** | **–** | **370,439** | 704,994 | – | 704,994 |
| Cost of sales | 6 | **(420,605)** | **–** | **(420,605)** | (647,791) | – | (647,791) |
| **Gross (loss)/profit** | | **(50,166)** | **–** | **(50,166)** | 57,203 | – | 57,203 |
| Selling and distribution expenses | 7 | **(717)** | **–** | **(717)** | (798) | – | (798) |
| General and administrative expenses | 9,33 | **(40,197)** | **–** | **(40,197)** | (48,402) | (3,361) | (51,763) |
| Impairment loss | 17,33 | **–** | | **–** | – | (180,539) | (180,539) |
| Other gains/(losses) – net | 12 | **877** | **–** | **877** | 1,944 | – | 1,944 |
| **Operating loss** | | **(90,203)** | | **(90,203)** | 9,947 | (183,900) | (173,953) |
| Finance costs | 11 | **(9,019)** | **–** | **(9,019)** | (12,822) | – | (12,822) |
| Finance income | 11 | **3,875** | **–** | **3,875** | 2,895 | – | 2,895 |
| Finance costs – net | | **(5,144)** | **–** | **(5,144)** | (9,927) | – | (9,927) |
| Share of (loss)/profit of investments accounted for using the equity method – net | 19 | **(2,559)** | **–** | **(2,559)** | 1,944 | – | 1,944 |
| **Loss before income tax** | | **(97,906)** | | **(97,906)** | 1,964 | (183,900) | (181,936) |
| Income tax expense | | **(191)** | **–** | **(191)** | (254) | – | (254) |
| **Loss for the year from continuing operations** | | **(98,097)** | | **(98,097)** | 1,710 | (183,900) | (182,190) |
| **Discontinued operations** | | | | | | | |
| Loss on disposal of subsidiary | | **–** | **–** | **–** | (2,125) | – | (2,125) |
| **Loss for the year attributable to the equity holders of the Company** | | **(98,097)** | | **(98,097)** | (415) | (183,900) | (184,315) |
| **Loss per share for losses from continuing operations attributable to the equity holders of the Company during the period** | 13 | | | | | | |
| Basic | | | | **(28.70)c** | | | (53.32)c |
| Diluted | | | | **(28.70)c** | | | (53.32)c |
| **Loss per share attributable to the equity holders of the Company during the period** | 13 | | | | | | |
| Basic | | | | **(28.70)c** | | | (53.94)c |
| Diluted | | | | **(28.70)c** | | | (53.94)c |

The notes on pages 88 to 124 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 31 December 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| Loss for the year | | **(98,097)** | (184,315) |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurement of post-employment benefit obligations | 26 | **(829)** | 1,523 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Currency translation differences | 25 | **(49)** | (290) |
| Net profit/(loss) on cash flow hedges | 25 | **2,619** | (1,259) |
| **Other comprehensive income for the year** | | **1,741** | (26) |
| **Total comprehensive loss for the year** | | **(96,356)** | (184,341) |
| **Total comprehensive loss for the year attributable to the equity holders of the Company arises from:** | | | |
| Continuing operations | | **(96,356)** | (182,216) |
| Discontinued operations | | **–** | (2,125) |

The notes on pages 88 to 124 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET



| | Notes | As at 31 December 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **171,725** | 172,328 |
| Intangible assets | 17 | **31,715** | 24,951 |
| Investments accounted for using the equity method | 19 | **25,908** | 7,229 |
| Trade and other receivables | 21 | **839** | 10,905 |
| Term and margin deposits | 22 | **13,426** | 6,777 |
| Derivative financial instruments | 27 | **153** | 115 |
| Total non-current assets | | **243,766** | 222,305 |
| **Current assets** | | | |
| Inventories | 20 | **50,509** | 24,415 |
| Trade and other receivables | 21 | **163,866** | 264,417 |
| Derivative financial instruments | 27 | **1,513** | 58 |
| Cash and bank balances | 22 | **283,017** | 327,893 |
| Total current assets | | **498,905** | 616,783 |
| **Total assets** | | **742,671** | 839,088 |
| LIABILITIES | | | |
| **Current liabilities** | | | |
| Borrowings | 30 | **(39,491)** | (20,321) |
| Trade and other payables | 28 | **(200,573)** | (180,021) |
| Derivative financial instruments | 27 | – | (465) |
| Provision for warranty costs and other liabilities | 29 | **(7,475)** | (7,958) |
| Current tax liability | | **(191)** | (223) |
| Total current liabilities | | **(247,730)** | (208,988) |
| Net current assets | | **251,175** | 407,795 |
| **Non-current liabilities** | | | |
| Borrowings | 30 | – | (39,163) |
| Derivative financial instruments | 27 | – | (794) |
| Provision for employees' end of service benefits | 26 | **(34,129)** | (34,745) |
| Total non-current liabilities | | **(34,129)** | (74,702) |
| **Total liabilities** | | **(281,859)** | (283,690) |
| **Net assets** | | **460,812** | 555,398 |
| EQUITY | | | |
| Share capital | 24 | **30,346** | 30,346 |
| Share premium | 24 | **315,995** | 315,995 |
| Other reserves | 25 | **(18,123)** | (20,693) |
| Retained earnings | | **132,594** | 229,750 |
| **Total equity attributable to the equity holders of the Company** | | **460,812** | 555,398 |

The financial statements on pages 80 to 124 were approved and authorised for issue by the Board of Directors on 21 March 2018 and signed on its behalf by:

Christopher McDonald
Chief Executive Officer and Director

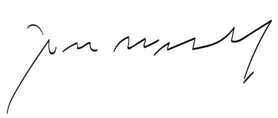
Antony Wright
Chief Financial Officer and Director

The notes on pages 88 to 124 form an integral part of these financial statements.

# COMPANY BALANCE SHEET

| | Notes | As at 31 December 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 18 | **555,710** | 554,448 |
| **Current assets** | | | |
| Other receivables | | **242** | 357 |
| Due from related parties | 23 | **16,936** | 13,694 |
| Cash and bank balance | | **163** | 264 |
| Total current assets | | **17,341** | 14,315 |
| **Total assets** | | **573,051** | 568,763 |
| LIABILITIES | | | |
| **Current liabilities** | | | |
| Accruals | | **(1,241)** | (564) |
| Due to related parties | | **(3,155)** | – |
| Total current liabilities | | **(4,396)** | (564) |
| **Net current assets** | | **12,945** | 13,751 |
| **Non-current liabilities** | | | |
| Provision for employees' end of service benefits | 26 | **(217)** | (173) |
| **Total liabilities** | | **(4,613)** | (737) |
| **Net assets** | | **568,438** | 568,026 |
| EQUITY | | | |
| Share capital | 24 | **30,346** | 30,346 |
| Share premium | 24 | **315,995** | 315,995 |
| Other reserve | 25 | **189,059** | 189,059 |
| Retained earnings | | **33,038** | 32,626 |
| **Total equity attributable to the equity holders of the Company** | | **568,438** | 568,026 |

The financial statements on pages 80 to 124 were approved and authorised for issue by the Board of Directors on 21 March 2018 and signed on its behalf by:



Christopher McDonald
Chief Executive Officer and Director

Antony Wright
Chief Financial Officer and Director

The notes on pages 88 to 124 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



| | Notes | Share capital USD'000 | Share premium USD'000 | Other reserves USD'000 | Retained earnings USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2016** | | 30,346 | 315,995 | (19,144) | 410,360 | 737,557 |
| Loss for the year | | – | – | – | (184,315) | (184,315) |
| **Other comprehensive income:** | | | | | | |
| Remeasurement of post-employment benefit obligations | 26 | – | – | – | 1,523 | 1,523 |
| Currency translation differences | 25 | – | – | (290) | – | (290) |
| Net loss on cash flow hedges | 25 | – | – | (1,259) | – | (1,259) |
| **Total comprehensive loss for the year** | | – | – | (1,549) | (182,792) | (184,341) |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 2,725 | 2,725 |
| – treasury shares purchased | | – | – | – | (543) | (543) |
| **Total transactions with owners** | | – | – | – | 2,182 | 2,182 |
| **At 31 December 2016** | | 30,346 | 315,995 | (20,693) | 229,750 | 555,398 |
| Loss for the year | | – | – | – | (98,097) | (98,097) |
| **Other comprehensive income:** | | | | | | |
| Remeasurement of post-employment benefit obligations | 26 | – | – | – | (829) | (829) |
| Currency translation differences | 25 | – | – | (49) | – | (49) |
| Net gain on cash flow hedges | 25 | – | – | 2,619 | – | 2,619 |
| **Total comprehensive loss for the year** | | – | – | 2,570 | (98,926) | (96,356) |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 2,425 | 2,425 |
| – treasury shares purchased | | – | – | – | (655) | (655) |
| **Total transactions with owners** | | – | – | – | 1,770 | 1,770 |
| **At 31 December 2017** | | **30,346** | **315,995** | **(18,123)** | **132,594** | **460,812** |

The notes on pages 88 to 124 form an integral part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital USD'000 | Share premium USD'000 | Other reserve USD'000 | Retained earnings USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2016** | | 30,346 | 315,995 | 329,153 | 30,299 | 705,793 |
| Loss for the year | | – | – | – | (140,020) | (140,020) |
| **Other comprehensive income:** | | | | | | |
| Remeasurement of post-employment benefit obligations | 26 | – | – | – | 16 | 16 |
| **Total comprehensive loss for the year** | | – | – | – | (140,004) | (140,004) |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 752 | 752 |
| – investment in subsidiaries | 18 | – | – | – | 1,973 | 1,973 |
| – treasury shares issued | | – | – | – | (488) | (488) |
| Impairment during the year | 25 | – | – | (140,094) | 140,094 | – |
| **Total transactions with owners** | | – | – | (140,094) | 142,331 | 2,237 |
| **At 31 December 2016** | | 30,346 | 315,995 | 189,059 | 32,626 | 568,026 |
| Loss for the year | | – | – | – | (1,306) | (1,306) |
| **Other comprehensive income:** | | | | | | |
| Remeasurement of post-employment benefit obligations | 26 | – | – | – | (52) | (52) |
| **Total comprehensive loss for the year** | | – | – | – | (1,358) | (1,358) |
| **Transactions with owners:** | | | | | | |
| Share-based payments: | | | | | | |
| – value of services provided | 8 | – | – | – | 1,163 | 1,163 |
| – investment in subsidiaries | 18 | – | – | – | 1,262 | 1,262 |
| – treasury shares issued | | – | – | – | (655) | (655) |
| Impairment during the year | 25 | – | – | – | – | – |
| **Total transactions with owners** | | – | – | – | 1,770 | 1,770 |
| **At 31 December 2017** | | **30,346** | **315,995** | **189,059** | **33,038** | **568,438** |

The notes on pages 88 to 124 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT



| | Notes | Year ended 31 December 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operating activities | 37 | **32,619** | 100,124 |
| Tax paid | | **(223)** | (222) |
| Net cash generated from operating activities | | **32,396** | 99,902 |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 16 | **(22,060)** | (22,871) |
| Proceeds from sale of property, plant and equipment | | **288** | 1,349 |
| Additions to intangible assets | 17 | **(1,772)** | (2,753) |
| Investment in an associate | 19 | **(23,375)** | – |
| Dividend received from an associate | 19 | **2,137** | – |
| Finance income | 11 | **3,875** | 2,895 |
| Movement in deposit with original maturity of more than three months | | **(105,407)** | (24,506) |
| Movement in margin/short-term deposits under lien | | **2,882** | 804 |
| Net cash used in investing activities | | **(143,432)** | (45,082) |
| **Financing activities** | | | |
| Treasury shares purchased | | **(655)** | (543) |
| Repayments of borrowings | | **(20,000)** | (20,000) |
| Finance costs | | **(9,012)** | (12,637) |
| Net cash used in financing activities | | **(29,667)** | (33,180) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(140,703)** | 21,640 |
| Cash and cash equivalents, beginning of the year from continuing operations | | **245,514** | 224,164 |
| Exchange rate translation | | **(49)** | (290) |
| Cash and cash equivalents, end of the year from continuing operations | 22 | **104,762** | 245,514 |

## Non-cash transaction

Additions to intangible assets as disclosed in Note 17 include an amount of USD 8.7 million prepaid to Sharjah Electricity & Water Authority during the prior year. This has been treated as a non-cash item as the cash outflow was in 2016.

The notes on pages 88 to 124 form an integral part of these financial statements.

# COMPANY CASH FLOW STATEMENT

| | Notes | Year ended 31 December 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the year | 31 | **(1,306)** | (140,020) |
| Adjustments for: | | | |
| Impairment of investment in subsidiaries | | **–** | 140,094 |
| Share-based payment – value of services provided | 8 | **1,163** | 752 |
| Provision for employees' end of service benefits | 26 | **58** | 68 |
| Operating cash flows before payment of employees' end of service benefits and changes in working capital | | **(85)** | 894 |
| Payment of employees' end of service benefits | | **(66)** | – |
| Changes in working capital: | | | |
| Other receivables | | **115** | 277 |
| Accruals | | **677** | 547 |
| Due from related parties | 23 | **(3,242)** | (1,184) |
| Due to related parties | 23 | **3,155** | – |
| Net cash generated from operating activities | | **554** | 534 |
| **Financing activities** | | | |
| Treasury shares purchased | | **(655)** | (488) |
| Net cash used in financing activities | | **(655)** | (488) |
| **Net increase in cash and cash equivalents** | | **(101)** | 46 |
| Cash and cash equivalents, beginning of the year | | **264** | 218 |
| Cash and cash equivalents, end of the year | | **163** | 264 |

The notes on pages 88 to 124 form an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

## 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 interest method (Note 25). 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 First Names House, Victoria Road, Douglas, IM2 4DF, 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: assembly and new build construction for the offshore oil & gas and renewable sectors; fabricating packaged, pre-assembled and modularised units; constructing accommodation and complex process modules for onshore downstream projects; construction of complex living quarters, wellhead decks, topsides, jackets and other offshore fixed facilities; rig refurbishment; land rig services; engineering and construction and operations and maintenance.

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 ("LEL") | 100 | 100 | Isle of Man |
| Lamprell Investment Holdings Ltd. ("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 |
| Cleopatra Barges Limited ("CBL") | 100 | 100 | British Virgin Islands |
| Lamprell plc Employee Benefit Trust ("EBT") | 100 | [2] | Unincorporated |
| 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 |
| Maritime Industrial Services Co. Ltd. & Partners ("MISCLP") | 70[1] | 100 | Sultanate of Oman |
| Global Investment Co. Ltd. Inc ("GIC") | 100 | 100 | Republic of Panama |
| Sunbelt Safety Services Co. Ltd. Inc. ("SSS") | 100 | 100 | Republic of Panama |
| MIS Qatar LLC ("MISQWLL") | 49[1] | 100 | Qatar |
| Lamprell Kazakhstan LLP ("LAK") | 100 | 100 | Kazakhstan |
| Lamprell Energy (UK) Limited ("LUK") | 100 | 100 | England and Wales |
| Lamprell International (Netherlands) B.V. ("LIN") | 100 | 100 | Netherlands |
| Sunbelt Safety Services LLC ("SSSL") | 70[1] | 100 | Sultanate of Oman |
| Lamprell Saudi Arabia LLC ("LSAL") | 100 | 100 | Kingdom of Saudi Arabia |

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, who 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 23).
2. The beneficiaries of the EBT are the employees of the Group.

## 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 to 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 7 (amendments), 'Statement of Cash Flows'** to 'disclosure initiative', these disclosures enable the users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Borrowings (Note 30), the application of these amendments has had no impact on the Group's consolidated financial statements.



**IAS 12 (amendments), 'Income Taxes'** – Recognition of Deferred Tax Assets for Unrealised Losses, the amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group has no deductible temporary differences on assets that are in the scope of amendments.

**IFRS 12 (amendments), Disclosure of Interest in Other Entities**, clarifies that an entity need not provide summarised financial information for interests in subsidiaries, associates and joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments has had no effect on the Group's consolidated financial statements as the Group has no interest classified, as held for sale.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted

**IFRS 2 (amendments), 'Share-based Payment'** – Classification and Measurement of Transactions, addresses three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not anticipate that application of the amendments in future will have a material impact as it does not have any cash-settled share-based arrangements.

**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.

## 2 Summary of significant accounting policies continued

### 2.1 Basis of preparation continued

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted continued

**IFRS 9, 'Financial Instruments' continued**

*Impact assessment of IFRS 9 Financial Instruments*

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management have assessed the impact of IFRS 9 to the Group's financial statements as follows:

*Classification and measurement:*

All financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

*Impairment:*

Financial assets classified as loans and receivables (Note 15) and amounts due from customer under construction contracts (Note 21) will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, due from related parties and amounts due from customer under construction contracts as required or permitted by IFRS 9. In general, management anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

*Hedge accounting:*

Existing hedge relationships (Note 27) would appear to qualify as continuing hedge relationships upon adoption of the new standard.



**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 contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 Group intends to adopt these amendments no later than the accounting period beginning on or after 1 January 2018.

*Impact assessment of IFRS 15, Revenue from Contracts with Customers*

Based on analysis of the Group's revenues from contracts with customers as at 31 December 2017, management of the Group has assessed the impact of IFRS 15 to the Group's financial statements as follows:

- *Contract revenue*

  The Group provides lump-sum fabrication and engineering services to the oil & gas and renewable energy industry. Currently, the Group accounts for the lump-sum construction contracts as a single performance obligation and recognises the contract revenue by reference to the stage of completion on the overall contract (see current revenue recognition policies on Note 2.2).

  Management has assessed the construction contracts and considered IFRS 15's guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to the customer and the timing of the related payments. Management has assessed that revenue from these construction contracts should be recognised over time and the input method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under IFRS 15.

- *Variable consideration*

  Currently, the Group recognises revenue from the construction contracts measured based on the fair value of the consideration received or receivable, net of any allowances. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

  IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint. As the current major contracts are at an advanced stage of negotiation and in our view would meet the requirements of the constraint, we do not anticipate, based on our current knowledge, there to be any variable consideration that could materially affect the revenue recognised to date.

- *Warranty obligations*

  The Group generally offers a one year warranty for defects on work carried out and does not provide extended warranties or maintenance services in its contracts with customers. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. These costs are included in estimated contract costs. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

## 2 Summary of significant accounting policies continued

### 2.1 Basis of preparation continued

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not early adopted continued

**IFRS 15, 'Revenue from contracts with customers' continued**

*Conclusion*

Other than providing more extensive disclosures on the Group's revenue transactions, management do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

Management intends to use the modified transition approach as permitted by IFRS 15. Therefore, the cumulative impact of any required adjustments at the date of initial application, though not expected to be significant, will be recognised in 2018 without restating comparatives.

**IFRS 16, 'Leases'**, specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

*Impact assessment of IFRS 16 Leases*

As at 31 December 2017, the Group has non-cancellable operating lease commitments of USD 109.4 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 34.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.



The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the consolidated financial statements and the Directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete the review.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

**IFRS 17, 'Insurance Contracts'**, replaces IFRS 4 'Insurance Contracts' and covers recognition and measurement, presentation and disclosure of all types of insurance contracts. The new standard is effective for annual periods beginning on or after 1 January 2021. The standard is not applicable to the Group as it pertains to insurance companies.

**IFRS 10 and IAS 28 (amendments)**, deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The amendments state that the gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or joint venture that is accounted for using the equity method are recognised in the parent's profit or loss to the extent of the unrelated investors interest. The effective date of the amendment has yet to be set by the IASB. The Group does not anticipate the amendments will have a material impact.

**IAS 40 (amendments), 'Investment property'** regarding transfers of Investment Property, clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. The amendment is effective for annual periods beginning on or after 1 January 2018. Application of these amendments will have no impact on the Group as it does not have investment property.

**IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'**, addresses how to determine the date of transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income when consideration for the item is paid or received in advance in foreign currency which resulted in recognition of a non-monetary asset or liability. The interpretation specifies the date of transaction is the date on which the receipt is initially recognised. The interpretation is effective for annual periods beginning 1 January 2018 and the Group does not anticipate this will have an impact as it currently accounts for such transactions in a way consistent with the amendments.

### 2.2 Revenue recognition

(a) Contract revenue

Contract revenue is recognised under the percentage-of-completion method by measuring the proportion of costs incurred for work performed to total estimated costs. 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.

For contracts as to which the Group is unable to estimate the final profitability due to their uncommon nature, including first-of-a-kind projects, the Group recognise equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, the Group only recognise gross margin when reliably estimable and the level of uncertainty has been significantly reduced. With respect to fixed price construction contracts with an expected contract duration of 18 months or greater, the Group generally determine this when the contract has progressed to 20% based on the total estimated cost of the contract.

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.

2 Summary of significant accounting policies continued

**2.2 Revenue recognition continued**

(a) Contract revenue continued

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 net of value added tax.

(c) Interest income

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

Refer to Note 2.1(b) for a statement on the impact of IFRS 15 'Revenue from Contracts with customers'.

**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 values 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 interest 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 remeasured 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 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.

### 2.3 Consolidation continued

(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.

### 2.4 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 as dividend in the statement of comprehensive income.

### 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 whose functional currency is Omani Riyal, MISQWLL whose functional currency is Qatari Riyal, LAK whose functional currency is Kazakh Tenge, LIN whose functional currency is Euro, LSAC whose functional currency is Saudi Riyal and for EBT and LUK whose functional currency is the Great British 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 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 Summary of significant accounting policies continued

**2.6 Property, plant and equipment**

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

| | Years |
|---|---|
| Buildings and infrastructure | 3 – 25 |
| Operating equipment | 3 – 20 |
| 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. This review indicated that the actual lives of certain operating equipment were longer than the estimated useful lives used for depreciation purposes in the Group's financial statements. As a result, effective 1 January 2017, the Group changed its estimates of the useful lives of its operating equipment to better reflect the estimated periods during which these assets will remain in service. The estimated useful lives of the operating equipment that previously averaged 3 – 15 years were increased to an average of 3 – 20 years. The effect of this change in estimate was to reduce 2017 depreciation expense and net loss by USD 1.4 million.

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.

**2.7 Intangible assets**

(a) 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 its estimated useful life. The useful life of a trade name is reviewed on an annual basis.

(b) 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.

(c) 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.

(d) 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.

(e) Work-in-progress

Work-in-progress pertains to assets in the course of development and stated at cost. When commissioned, work-in-progress is transferred to intangible assets in accordance with Group policies.

**2.8 Inventories**

Inventories comprise raw materials, finished goods, work-in-progress 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, direct labour 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.

### 2.10 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 performance related bonus and employees' entitlements to annual leave and air fare as a result of services rendered by the employees up to the balance sheet date. This provision is disclosed as a current liability and included in trade and other payables.

Labour laws in the countries in which the Group operates require the Group to provide for other long-term employment benefits. Provision is made, using actuarial techniques, for the end of service benefits due to employees, 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.

Refer to Note 2.1(b) for a statement on the impact of IFRS 16, Leases.

### 2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts with banks less margin deposits, other short-term highly liquid investments with original maturity of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 Summary of significant accounting policies continued

**2.15 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the repayment value is recognised in the consolidated statement of 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 consolidated income statement in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan. The fee is capitalised and amortised over the period of the facility to which it relates.

**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 assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

**2.18 Current and deferred income tax**

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



The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which 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.

### 2.19 Financial assets continued

(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 23), other receivables 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.

Refer to Note 2.1(b) for a statement on the impact of IFRS 9, 'Financial Instruments'.



### 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 27. 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 Discontinued operations

Discontinued operations is a component of the Group's business that has been disposed of, or meets the criteria to be classified as held for sale. Discontinued operations are presented on the consolidated income statement as a separate line and are shown net of tax.

### 2.22 Impairment of non-financial assets

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

## 2 Summary of significant accounting policies continued

### 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 those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Material transactions which may give rise to exceptional items include write downs or impairments of assets including goodwill, restructuring costs or provisions and litigation settlements. See Note 33 for full details of exceptional items.

## 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 balances in Euro, Great British Pound, Norwegian Kroner and Saudi Riyal with certain suppliers. During the year ended 31 December 2017, if foreign exchange rates on foreign balances had been 10% higher/lower, the exchange difference would have been higher/lower by USD 0.2 million (2016: USD 0.1 million).

#### (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 2017, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 1.2 million (2016: USD 1.0 million).

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 taking fixed interest rate swaps against the variable rates. Under these swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. During the year ended 31 December 2017, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by USD 0.3 million (2016: USD 0.4 million).

#### (c) Credit risk

The Group's exposure to credit risk is detailed in Notes 15, 21, 22 and 27. 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 assets 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 the equivalent of investment grade and above are accepted unless if the bank is situated in a frontier market where minimal balances are held. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2017, the Group had a concentration of credit risk with nine of its largest customer balances accounting for 62% (2016: 86%) of trade receivables outstanding at that date. Management believes that this concentration of credit risk is mitigated as the Group conducts credit checks internally and through expert third party providers for new counterparties or in support of major contracts, payment terms under contract are carefully managed and protection against non-payment is built into contractual documentation to ensure the Group has a right to remedy in the event of delayed/non-payment.

## 3 Financial risk management continued

### 3.1 Financial risk factors continued

(c) Credit risk continued

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Counterparty | External rating[1] | USD'000 | External rating[1] | USD'000 |
| Bank A | A+ | 91,927 | A+ | 175,429 |
| Bank B | A | 62,624 | A+ | 74,025 |
| Bank C | AA- | 42,858 | A | 33,369 |
| Bank D | A+ | 38,377 | AA- | 32,479 |
| | | 235,786 | | 315,302 |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Internal rating[2] | USD'000 | Internal rating[2] | USD'000 |
| Customer 1 | Group A | 7,896 | Group A | 37,149 |
| Customer 2 | Group B | 4,577 | Group A | 18,048 |
| Customer 3 | Group A | 2,756 | Group C | 11,219 |
| Customer 4 | Group B | 2,574 | Group C | 4,470 |
| Customer 5 | Group C | 2,376 | Group C | 1,525 |
| Customer 6 | Group A | 1,164 | Group A | 1,293 |
| Customer 7 | Group C | 1,045 | Group C | 1,209 |
| Customer 8 | Group C | 963 | Group B | 1,065 |
| Customer 9 | Group B | 935 | Group C | 1,045 |
| | | 24,286 | | 77,023 |

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

99

The above represents 62% (2016: 86%) of trade receivables of USD 39.3 million (2016: USD 89.4 million) (Note 21).

The counterparties in 2017 are not necessarily the same counterparties in 2016.

The customers in 2017 are not necessarily the same customers in 2016.

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

(d) Liquidity risk

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

The Group's liquidity risk on derivative financial instruments is disclosed in Note 27.

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 2017** | | | | |
| Trade and other payables (excluding due to customers on contracts) (Note 28) | 197,758 | 197,758 | 197,758 | – |
| Borrowings (Note 30) | 39,491 | 40,008 | 20,008 | 20,000 |
| | 237,249 | 237,766 | 217,766 | 20,000 |
| **31 December 2016** | | | | |
| Trade and other payables (excluding due to customers on contracts) (Note 28) | 142,912 | 142,912 | 142,912 | – |
| Derivative financial instruments (Note 27) | 1,259 | 1,259 | 465 | 794 |
| Borrowings (Note 30) | 59,484 | 60,321 | 20,321 | 40,000 |
| | 203,655 | 204,492 | 163,698 | 40,794 |

## 3 Financial risk management continued

### 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 at:

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **31 December 2017** | | | | |
| Derivative financial instruments (Note 27) | – | 1,666 | – | 1,666 |
| **31 December 2016** | | | | |
| Derivative financial instruments (Note 27) | – | 173 | – | 173 |

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

| | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 | Total USD'000 |
|---|---|---|---|---|
| **31 December 2017** | | | | |
| Derivative financial instruments (Note 27) | – | – | – | – |
| **31 December 2016** | | | | |
| Derivative financial instruments (Note 27) | – | 1,259 | – | 1,259 |

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 judgements and key sources of estimation uncertainty

The Group makes judgements, estimates and assumptions concerning the future. These 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 resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, 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:

### 4.1 Critical judgements in applying accounting policies

Apart from those involving estimation (see Note 4.2), the Group has made following critical judgements in applying accounting policies in the process of preparing these consolidated financial statements.

#### 4.1.1 Provisions for liquidated damages claims (LDs)

The Group provides for liquidated damages where there have been significant delays against defined contractual delivery dates or contractual milestones and it is considered probable that the customer will successfully pursue these penalties. This requires management to estimate the amount of liquidated damages payable under the contract based on a combination of an assessment of the contractual terms, the reasons for any delays and evidence of cause of the delays to assess who is liable under the contract for the delays and consequently whether the Group is liable for the liquidated damages or not. Furthermore, there is an assessment by management of any liquidated damages which can be recovered against subcontractors or the supply chain due to late delivery against contractual delivery dates or milestones which are the direct cause of the delays under the contract with the customer and which the supply chain are liable for.

## 4 Critical accounting judgements and key sources of estimation uncertainty continued

### 4.1 Critical judgements in applying accounting policies continued

#### 4.1.1 Provisions for liquidated damages claims (LDs) continued

The Group experienced significant challenges on the East Anglia One ("EA1") project and that caused the Group to incur additional costs as it worked to rectify the shortcomings – see page 26 and Note 4.2.2. While the Group is maintaining an overall delivery schedule for the client, certain key dates have been affected and are subject to ongoing discussions with the client with a view to determining the implications these might have on the overall project master programme.

In view of the above, management have made a significant judgement within the forecast loss calculation in ascertaining the extent to which liquidated damages will arise on the project. In making this judgement, management has considered the following:

- The outcome of ongoing constructive discussions with our client regarding certain key delivery dates and how the delays to the progress of works can be mitigated without impacting any related contractors or any other project activity which minimises the risk of these related contractors pursuing liquidated damages against the client, which the client would in turn seek to recover; and
- The progress of the insurance claim related to the first shipment of the flat packs to our UK subcontractor and the possibility of reimbursement from the insurer.

Based on the discussions to date, management believe the risk of the full extent of LDs being levied has been mitigated and we continue to work with the client and the subcontractors to ensure the overall project master programme is not compromised due to the effect of our operational challenges in meeting certain key dates. The maximum potential exposure to the Group would amount to a reduction in contract revenue by USD 33.8 million.

### 4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.



#### 4.2.1 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.

If the estimated total costs to completion of all outstanding projects were to decrease by 10%, this would result in amounts due from customers on contracts increasing by USD 6.4 million (2016: USD 3.8 million) or amounts due to customers on contract decreasing by USD 6.4 million (2016: USD 3.8 million).

If the estimated total costs to completion of all outstanding projects were to increase by 10%, amounts due from customers on contracts would decrease by USD 19.7 million (2016: USD 6.9 million) or amounts due to customers on contracts would increase by USD 19.7 million (2016: USD 6.9 million).

#### 4.2.2 Onerous contract provisions

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

A provision of USD 41.7 million (2016: Nil) was held at 31 December 2017 relating to estimated losses to completion on the EA1 project. The estimated total losses at completion amount to USD 80.0 million (2016: USD Nil) and the additional costs on the project have been caused by a number of variable factors including investment in further unplanned staffing and equipment requirements, as well as significant additional shipping, subcontractor costs and an assessment by management on the full extent of LDs being levied. See Note 4.1.1 for key judgements on liquidated damages claims.

The application of a 10% sensitivity to management estimates of the total costs to completion on this project would result in provision for onerous contract included in other payables decreasing by USD 4.1 million (2016: Nil) if the total costs to complete are decreased by 10% and provision for onerous contract included in other payables increasing by USD 4.1 million (2016: USD Nil) if the total costs to completion increased by 10%.

#### 4.2.3 Impairment of property, plant and equipment and intangible assets

The Group determines at the end of the reporting period whether there are indicators of impairment in the carrying amount of its property, plant and equipment, intangible assets and other financial assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable amount of its assets which is initially based on its value in use. When necessary, fair value less costs of disposal is estimated. Management performs the review at the cash generating unit ("CGU") relating to an operating segments' assets located in a particular geography.

The market downturn has resulted in a decrease in bidding activities and a reduction in new project awards for the United Arab Emirates CGU. The estimate of future cash flows and terminal value growth rate for the CGU has been significantly affected by the current assumptions relating to market outlook, contract awards and margins.

Determining whether property, plant and equipment and intangible assets are impaired requires an estimation of value in use of the cash-generating unit and fair value of assets. The value in use calculation requires the estimation of future cash flows expected to arise from the cash generating unit and a suitable discount rate to calculate present value of expected future cash flows. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period.

4 Critical accounting judgements and key sources of estimation uncertainty continued

### 4.2 Key sources of estimation uncertainty continued

4.2.3 Impairment of property, plant and equipment and intangible assets continued

Revenue for the first three-year period and the revenue growth rate beyond the three-year period is determined based upon past performance and management expectations of future market development which includes various assumptions relating to market outlook, contract awards and contract margins. As at 31 December 2017, the Group's pipeline amounts to USD 3.6 billion (2016: USD 2.5 billion) – see the strategic report page 5.

The bid pipeline comprises a mixture of opportunities in the renewables and oil & gas market sectors and management have made various assumptions relating to the timing, expected values and the probable outcome of these prospective awards. These assumptions are based on medium-term forecasts for the global energy industry, macro-economic factors, opportunities and market insights obtained from bidding activities. A change in management assumptions relating to the bid pipeline and outlook could result in the property, plant and equipment and/or intangible assets being impaired. Refer to the strategic report on page 5 for a detailed discussion of the market pipeline and opportunities.

A discount rate of 10.00% (2016: 11.54%) is used to discount the pre-tax cash flow 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 a long-term maturity period, the UAE inflation rate, the equity risk premium on the entities operating from the UAE, the Group's beta and the cost of Group's debt. The decrease in discount rate is attributable to a decrease in the risk free rate of US treasury bond and levered equity beta. The following are the key assumptions.

| | **2017** | 2016 |
|---|---|---|
| Revenue growth rate | **0%** | 5% |
| Discount rate | **10.00%** | 11.54% |
| Net profit rate | **3%** | 3% |
| Terminal value growth rate | **3%** | 2% |



In determining the terminal value growth rate, the Group considers the long-term average CPI growth rate for the UAE which is estimated to be c.3% by the Economist Intelligence Unit ("EIU"). Although the forecast cash flows are USD based, the terminal value growth rate is within the UAE long-term forecasts and is considered to be more appropriate given the location of the business and factors driving revenue and long-term growth.

As a result of the above, no impairment has been recorded and the carrying amount of property, plant and equipment at 31 December 2017 was USD 171.7 million (31 December 2016: USD 172.3 million). The carrying amount of intangible assets at 31 December 2017 was USD 31.7 million (31 December 2016: USD 24.9 million).

The headroom attributable to property, plant and equipment and intangible assets as at 31 December 2017 is USD 131.1 million.

If the discount rate used were to differ by 0.5% from management's estimates, in isolation, there would be a reduction in the headroom of USD 24.2 million if the discount rate was to increase or an increase in the headroom by USD 27.8 million if the discount rate was to decrease.

If the net profit as a percentage of revenue used were to differ by 0.5% from management's estimates, in isolation, there would be an increase of USD 48.1 million in the headroom if the net profit was to increase or there would be a reduction in the headroom of USD 48.1 million if the net profit was to decrease.

If the terminal value growth rate used were to differ by 0.5% from management's estimates, in isolation, there would be a reduction in the headroom of USD 18.6 million if the terminal value growth rate was lower or an increase in the headroom of USD 21.5 million if the terminal value growth rate was higher.

4.2.4 Provision for warranty

Warranty provisions are recognised in respect of assurance warranties provided in the normal course of business relating to contract performance. They are based on previous claims history and it is expected that most of the costs in respect of these provisions will be incurred over the next one to two years. For first-of-a-kind projects, management makes use of a number of assumptions in determining the provision for potential warranty claims based on the scope and nature of work, confidence gathered from inspections and quality control during project execution and previous claim history for projects that closely mirror the type of works involved. The application of a 10% sensitivity to management estimates of the provision for warranty claim would result in an increase in provision for warranty claims by USD 0.7 million or a decrease of USD 0.7 million.

4.2.5 Carrying amount of inventory

Inventories comprise raw materials, finished goods, work-in-progress and consumables which are stated at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Determining these estimates involves use of assumptions pertaining to the expected realisable values of inventory in the current market. Based on the review performed at year end, no write down or reversal of previous write downs has been recognised (2016: write down of USD 2.0 million). The application of a 10% sensitivity to management estimates of the net realisable value of inventory would result in a reversal of the previous write down of USD 2.0 million if the net realisable value was higher or a decrease in inventory by USD 2.6 million if the net realisable value was lower.

## 5 Segment information

The Group is organised into business units, which are the Group's operating segments and are reported to the Board of Directors, the chief operating decision maker. These operating segments are aggregated into two reportable segments – 'Fabrication & Engineering' and 'Services' based on similar nature of the products and services, type of customer and economic characteristics.

The Fabrication & Engineering segment contains business from New Build Jackup Rigs ("NBJR"), Modules, ("MOD"), Offshore Platforms ("OP") and Oil and Gas Contracting Services ("OGCS") excluding that from the Operations & Maintenance manpower business. The Services segment contains business from Operations & Maintenance, manpower supply and safety services.

NBJR derives its revenue from assembly and new build construction for the offshore oil & gas and renewables sectors; MOD derives its revenue from fabricating packaged, pre-assembled and modularised units and constructing accommodation and complex process modules for onshore downstream projects; OP derives its revenue from construction of complex living quarters, wellhead decks, topsides, jackets and other offshore fixed facilities; and OGCS derives its revenue from rig refurbishment, land rig services, engineering and construction. Operations and maintenance derives its revenue from manpower supply and ancillary services.

| | Fabrication & Engineering USD'000 | Services USD'000 | Total USD'000 |
|---|---|---|---|
| **Year ended 31 December 2017** | | | |
| Revenue from external customers | **324,351** | **46,088** | **370,439** |
| Gross operating (loss)/profit | **(19,599)** | **16,096** | **(3,503)** |
| **Year ended 31 December 2016** | | | |
| Revenue from external customers | 668,835 | 36,159 | 704,994 |
| Gross operating profit | 99,436 | 14,174 | 113,610 |



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

The reconciliation of the gross operating profit is provided as follows:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Gross operating (loss)/profit for the Fabrication & Engineering segment as reported to the Board of Directors | **(19,599)** | 99,436 |
| Gross operating profit for the Service segments as reported to the Board of Directors | **16,096** | 14,174 |
| Unallocated: | | |
| Employee and equipment costs | **(17,754)** | (23,151) |
| Repairs and maintenance | **(6,151)** | (10,147) |
| Yard rent and depreciation | **(13,689)** | (12,798) |
| Others | **(9,069)** | (10,311) |
| **Gross (loss)/profit** | **(50,166)** | 57,203 |
| Impairment loss[1] (Note 17) | **–** | (180,539) |
| Selling and distribution expenses (Note 7) | **(717)** | (798) |
| General and administrative expenses (Note 9) | **(40,197)** | (51,763) |
| Other gains/(losses) – net (Note 12) | **877** | 1,944 |
| Finance costs (Note 11) | **(9,019)** | (12,822) |
| Finance income (Note 11) | **3,875** | 2,895 |
| Others | **(2,750)** | 1,690 |
| **Loss for the year from continuing operations** | **(98,097)** | (182,190) |

1. The impairment loss of USD 180.5 million recognised during the prior year in respect of goodwill was attributable to the Fabrication & Engineering reportable segment.

Information about segment assets and liabilities is not reported to or used by the Board of Directors and, accordingly, no measures of segment assets and liabilities are reported. The breakdown of revenue from all services is as follows:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Fabrication & Engineering** | | |
| New build jackup rigs | **49,437** | 567,585 |
| Oil and Gas Contracting Services | **131,300** | 47,648 |
| Modules | **2,960** | 40,809 |
| Offshore platforms | **140,653** | 12,793 |
| **Services** | | |
| Operations & Maintenance, manpower supply and safety services | **46,089** | 36,159 |
| | **370,439** | 704,994 |

The Board of Directors assesses 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.

## 5 Segment information continued

The Group's principal place of business is in the UAE. The revenue recognised in the UAE with respect to external customers is USD 366.2 million (2016: USD 700.4 million), and the revenue recognised from other countries is USD 4.2 million (2016: USD 4.6 million).

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| External customer A | 130,715 | 333,432 |
| External customer B | 65,115 | 161,529 |
| External customer C | 34,170 | 77,486 |
| | 230,000 | 572,447 |

The revenue from these customers is attributable to the Fabrication & Engineering segment. The above customers in 2017 are not necessarily the same customers in 2016.

Subsequent to year end, segmental reporting has changed in line with the Group's strategic objectives. See Note 36 to the consolidated financial statements and the strategic report page 8.

## 6 Cost of sales

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Materials and related costs | 135,776 | 304,144 |
| Staff costs (Note 10) | 105,549 | 134,945 |
| Subcontract costs | 99,102 | 128,064 |
| Subcontract labour | 28,563 | 26,998 |
| Depreciation (Note 16) | 18,790 | 22,071 |
| Equipment hire | 10,578 | 8,748 |
| Yard rent | 6,662 | 6,379 |
| Repairs and maintenance | 6,151 | 10,147 |
| Write-down of inventory to net realisable value (Note 20) | – | 2,000 |
| Release of warranty provision | (1,483) | (3,876) |
| Others | 10,917 | 8,171 |
| | 420,605 | 647,791 |

## 7 Selling and distribution expenses

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Travel | 500 | 575 |
| Advertising and marketing | 136 | 153 |
| Entertainment | 75 | 66 |
| Others | 6 | 4 |
| | 717 | 798 |

## 8 Share-based payments

### Group

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Amount of share-based charge (Note 10): | | |
| – relating to retention share plan | 734 | 790 |
| – relating to executive share option plan | 115 | – |
| – relating to performance share plan | 1,576 | 1,935 |
| | 2,425 | 2,725 |

### Company

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Amount of share-based charge: | | |
| – relating to retention share plan | 264 | 178 |
| – relating to performance share plan | 899 | 574 |
| | 1,163 | 752 |

## 8 Share-based payments continued

### Retention share plan

The Company awarded shares to selected Directors, key management personnel and employees under the retention share plan that provides an entitlement to receive these shares at no cost. These retention shares are conditional on the Directors/key management personnel/employee completing a specified period of service (the vesting period). The awards do not entitle participants to dividend equivalents during the vesting period and some of the awards have a performance condition. 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 |
|---|---|---|---|---|
| **2014** | 470,000 | 36 months | £1.55 | – |
| | 122,499 | 36 months | £1.41 | – |
| | 592,499 | | | |
| **2015** | 495,000 | 36 months | £1.20 | – |
| **2016** | 475,000 | 36 months | £0.17 | – |
| | 281,761 | 12 months | £0.73 | – |
| | 94,452 | 24 months | £0.73 | – |
| | 46,811 | 36 months | £0.73 | – |
| | 898,024 | | | |
| **2017** | 1,229,929 | 36 months | £0.90 | – |
| | 24,972 | 17 months | £0.90 | – |
| | 11,825 | 30 months | £0.90 | – |
| | 37,032 | 5 months | £0.90 | – |
| | 1,303,758 | | | |



A charge of USD 733,912 (2016: USD 789,612) 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 264,070 (2016: USD 177,749).

The Group has no legal or constructive obligation to settle the retention 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 2016** | 956,252 |
| Shares granted under the retention share awards | 898,024 |
| Shares lapsed during the year | (20,000) |
| **Shares expected to vest in future periods at 31 December 2016** | 1,834,276 |
| Shares granted under the retention share awards | 1,303,758 |
| Shares vested during the year | (407,808) |
| Shares lapsed during the year | (550,205) |
| **Shares expected to vest in future periods at 31 December 2017** | **2,180,021** |

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 have a vesting condition, 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 2014** | – | | | |
| Granted in 2014 | 1.41 | 340,855 | 17 Nov 2017 | 27 Nov 2027 |
| **At 31 December 2014, 2015 and 2016** | | 340,855 | | |
| **At 31 December 2017** | | **340,855** | | |

The outstanding options as at 31 December 2017 have a fair value per option of £0.73 (2016: £0.73). A charge of USD 114,742 (2016: USD Nil) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings.

**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 is assessed against financial metrics that may include relative or absolute total shareholder return, cumulative EBIDTA and end of period backlog. 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 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| 30 June 2014 | 1,080,142 | 36 months | £1.35 | No | – |
| 18 November 2014 | 321,691 | 24 months | £1.41 | No | – |
| 18 November 2014 | 321,691 | 36 months | £1.23 | No | – |
| | 1,723,524 | | | | |
| **2015** | | | | | |
| 9 April 2015 | 416,569 | 36 months | £1.05 | No | – |
| 9 April 2015 | 1,537,739 | 36 months | £1.05 | No | – |
| 21 September 2015 | 292,570 | – | £0.67 | No | – |
| | 2,246,878 | | | | |
| **2016** | | | | | |
| 10 October 2016 | 1,306,266 | 36 months | £0.45 | No | – |
| 10 October 2016 | 2,255,602 | 36 months | £0.45 | No | – |
| 10 October 2016 | 55,219 | 12 months | £0.38 | No | – |
| 10 October 2016 | 102,019 | 24 months | £0.42 | No | – |
| 10 October 2016 | 147,330 | 36 months | £0.44 | No | – |
| 10 October 2016 | 133,830 | – | £0.41 | No | – |
| | 4,000,266 | | | | |
| **2017** | | | | | |
| 2 October 2017 | 1,049,827 | 36 months | £0.76 | No | – |
| 2 October 2017 | 1,527,295 | 36 months | £0.76 | No | – |
| | **2,577,122** | | | | |

Accordingly, a charge of USD 1,576,344 (2016: USD 1,935,350) 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 898,603 (2016: USD 574,798).

## 8 Share-based payments continued

**Performance share plan continued**

The Group has no legal or constructive obligation to settle the retention 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 2016** | 3,828,414 |
| Shares granted under performance share plan | 4,000,266 |
| Shares vested under performance share plan | (321,691) |
| Shares lapsed due to non-satisfaction of vesting conditions | (1,089,193) |
| **Shares expected to vest in future periods at 31 December 2016** | 6,417,796 |
| Shares granted under performance share plan | 2,577,122 |
| Shares vested under performance share plan | (225,335) |
| Shares lapsed due to non-satisfaction of vesting conditions | (1,641,912) |
| **Shares expected to vest in future periods at 31 December 2017** | **7,127,671** |

## 9 General and administrative expenses

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Staff costs (Note 10) | **22,200** | 25,770 |
| Depreciation (Note 16) | **3,849** | 3,030 |
| Amortisation of intangible assets (Note 17) | **3,535** | 3,147 |
| Legal, professional and consultancy fees | **3,504** | 3,736 |
| Utilities and communication | **1,375** | 1,744 |
| Bank charges | **137** | 181 |
| Provision for impairment of trade receivables, net of amounts recovered | **51** | 977 |
| Staff redundancy expenses (Note 33) | **–** | 3,361 |
| Potential partnership expenses | **–** | 3,373 |
| Others | **5,546** | 6,444 |
| | **40,197** | 51,763 |



## 10 Staff costs

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Wages and salaries | **111,046** | 136,638 |
| Employees' end of service benefits (Note 26) | **5,154** | 6,075 |
| Share-based payments – value of services provided (Note 8) | **2,425** | 2,725 |
| Other benefits | **9,124** | 15,277 |
| | **127,749** | 160,715 |
| Staff costs are included in: | | |
| Cost of sales (Note 6) | **105,549** | 134,945 |
| General and administrative expenses (Note 9) | **22,200** | 25,770 |
| | **127,749** | 160,715 |
| Number of employees at 31 December | **5,320** | 5,189 |
| Subcontracted employees at 31 December | **1,833** | 573 |
| Total number of employees (staff and subcontracted) at 31 December | **7,153** | 5,762 |

## 10 Staff costs continued

**Directors' remuneration comprises:**

| | Salary 2017 USD'000 | Fees 2017 USD'000 | Allowances & benefits 2017 USD'000 | Share-based payments value of services provided 2017 USD'000 | Post employment benefits 2017 USD'000 | Total 2017 USD'000 | Total 2016 USD'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| John Kennedy[1] | 347 | – | – | 60 | – | 407 | 1,014 |
| Christopher McDonald | 700 | – | 237 | 577 | 41 | 1,555 | 420 |
| Jim Moffat | – | – | – | – | – | – | 1,020 |
| Antony Wright | 410 | – | 213 | 174 | 31 | 828 | 805 |
| **Non-Executive Directors** | | | | | | | |
| John Kennedy[1] | 39 | – | – | – | – | 39 | – |
| John Malcolm[2] | – | 137 | – | – | – | 137 | 103 |
| Ellis Armstrong | – | 116 | – | – | – | 116 | 133 |
| Mel Fitzgerald | – | 89 | – | – | – | 89 | 92 |
| Debra Valentine | – | 88 | – | – | – | 88 | 99 |
| Nicholas Garrett[3] | – | 67 | – | – | – | 67 | – |
| James Dewar[4] | – | 15 | – | – | – | 15 | – |
| | 1,496 | 512 | 450 | 811 | 72 | 3,341 | 3,686 |



1. Changed to Non-Executive Chairman on 23 April 2017 and retired as Non-Executive Director on 20 September 2017.
2. Appointed as Non-Executive Chairman and Director from 20 September 2017.
3. Appointed as Non-Executive Director with effect from 24 March 2017.
4. Appointed as Non-Executive Director with effect from 1 November 2017.

The emoluments of the highest paid Director were USD 1.6 million (2016: USD 1.0 million) and these principally comprised salary, share-based payment and benefits.

## 11 Finance costs – net

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Finance costs** | | |
| Interest on bank borrowings | 2,587 | 3,317 |
| Commitment fees | 2,417 | 3,637 |
| Others | 2,219 | 2,137 |
| Bank guarantee charges | 1,796 | 3,731 |
| | 9,019 | 12,822 |

**Finance income**

Finance income comprises interest income of USD 3.9 million (2016: USD 2.9 million) from bank deposits.

## 12 Other gains/(losses) – net

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Exchange gain – net | **727** | 539 |
| Profit on disposal of assets | **263** | 621 |
| Gain/(loss) on derivative financial instruments | **89** | (234) |
| Others | **(202)** | 1,018 |
| | **877** | 1,944 |

## 13 Earnings per share

### (a) Basic

Basic earnings/(loss) per share is calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares (Note 24).

### (b) Diluted

Diluted earnings/(loss) 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 retention share awards, options under executive share option plan and performance share plan, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share awards/options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share awards/options.



| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| The calculations of loss per share are based on the following loss and numbers of shares: | | |
| Loss for the year | **(98,097)** | (184,315) |
| Loss for the year from discontinued operations | **–** | (2,125) |
| Weighted average number of shares for basic loss per share | **341,710,302** | 341,655,353 |
| Adjustments for: | | |
| – Assumed vesting of performance share plan | **–** | – |
| – Assumed vesting of retention share plan | **–** | – |
| Weighted average number of shares for diluted loss per share | **341,710,302** | 341,655,353 |

Assumed vesting of performance and retention share plans amounting to 3,786,640 (2016: 2,467,849) shares and 609,471 (2016: 700,303) shares respectively have been excluded in the current period as these are anti-dilutive.

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Loss per share: | | |
| Basic | **(28.70)c** | (53.94)c |
| Diluted | **(28.70)c** | (53.94)c |
| Loss per share from continuing operations: | | |
| Basic | **(28.70)c** | (53.32)c |
| Diluted | **(28.70)c** | (53.32)c |
| Loss per share from discontinued operations: | | |
| Basic | **–** | (0.62)c |
| Diluted | **–** | (0.62)c |

## 14 Operating (loss)/profit

### (a) Operating (loss)/profit

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Provision for onerous contract (Note 4) | 80,000 | – |
| Depreciation (Note 16) | 22,638 | 25,101 |
| Operating lease rentals – land and buildings | 10,195 | 11,872 |
| Provision for impairment of trade receivables | 33 | 977 |
| Impairment of goodwill (Note 17) | – | 180,539 |
| Write-down of inventory to net realisable value (Note 20) | – | 2,000 |

### (b) Auditor's remuneration

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Audit of parent company and consolidated financial statements | 419 | 302 |
| Audit of Group companies pursuant to legislation | 49 | 90 |
| Interim review of parent company and consolidated financial statements | 116 | 116 |
| Other audit related service | 12 | 12 |
| | 596 | 520 |



## 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 | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| Trade receivables – net of provision (Note 21) | Loans and receivables | 33,942 | 83,943 |
| Other receivables excluding prepayments | Loans and receivables | 4,275 | 17,967 |
| Due from related parties (Note 23) | Loans and receivables | 12,951 | 109 |
| Derivative financial instruments (Note 27) | Fair value through profit or loss | 1,666 | 173 |
| Cash and bank balances (Note 22) | Loans and receivables | 296,443 | 334,670 |
| | | 349,277 | 436,862 |

Liabilities as per balance sheet

| | Classification | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| Derivative financial instruments (Note 27) | Derivatives used for hedging | – | 1,259 |
| Trade payables (Note 28) | Liabilities at amortised cost | 47,897 | 31,662 |
| Due to a related party (Note 23) | Liabilities at amortised cost | 28 | 228 |
| Accruals (Note 28) | Liabilities at amortised cost | 149,833 | 111,022 |
| Provision for warranty costs and other liabilities (Note 29) | Liabilities at amortised cost | 7,475 | 7,958 |
| Borrowings (Note 30) | Liabilities at amortised cost | 39,491 | 59,484 |
| | | 244,724 | 211,613 |

## 15 Financial instruments by category continued

**Company**

Assets as per balance sheet

| | Classification | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| Cash and bank balance | Loans and receivables | 163 | 264 |
| Due from related parties (Note 23) | Loans and receivables | 16,936 | 13,694 |
| Other receivables | Loans and receivables | 242 | 357 |
| | | 17,341 | 14,315 |

Liabilities as per balance sheet

| | Classification | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| Accruals | Liabilities at amortised cost | 1,241 | 564 |
| Due to related parties (Note 23) | Liabilities at amortised cost | 3,155 | – |
| | | 4,396 | 564 |

**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:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Trade receivables** | | |
| Group A | 13,482 | 57,315 |
| Group B | 7,575 | 975 |
| Group C | 2,322 | 17,733 |
| | 23,379 | 76,023 |

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

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Cash at bank and short-term bank deposits** | | |
| Fitch's ratings | | |
| AA- | 73,923 | 39,884 |
| A+ | 157,474 | 259,389 |
| A | 62,773 | 33,420 |
| BBB | – | 395 |
| BBB- | 404 | 13 |
| B | 737 | 620 |
| Not rated | 202 | 202 |
| | 295,513 | 333,923 |
| Cash in hand | 930 | 747 |
| Cash and bank balances and term and margin deposits (Note 22) | 296,443 | 334,670 |

Company

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Due from related parties (Note 23) | 16,936 | 13,694 |

Due from related parties is neither past due nor impaired.

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Cash at bank** | | |
| Fitch's ratings | | |
| AA- | 163 | 264 |

## 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 2016 | 138,131 | 153,325 | 16,542 | 4,249 | 16,649 | 328,896 |
| Additions | 4,166 | 4,643 | 155 | 196 | 13,711 | 22,871 |
| Disposals | (147) | (19,803) | (711) | (1,040) | – | (21,701) |
| Transfers | 3,973 | 8,551 | 982 | 36 | (13,542) | – |
| At 31 December 2016 | 146,123 | 146,716 | 16,968 | 3,441 | 16,818 | 330,066 |
| Additions | 295 | 8,011 | 154 | 49 | 13,551 | 22,060 |
| Disposals | – | (3,394) | – | (135) | – | (3,529) |
| Transfers | 6,798 | 896 | 44 | 112 | (7,850) | – |
| **At 31 December 2017** | **153,216** | **152,229** | **17,166** | **3,467** | **22,519** | **348,597** |
| **Depreciation** | | | | | | |
| At 1 January 2016 | (43,151) | (93,461) | (14,388) | (2,610) | – | (153,610) |
| Charge for the year | (7,661) | (15,652) | (1,315) | (473) | – | (25,101) |
| Disposals | 98 | 19,216 | 711 | 948 | – | 20,973 |
| At 31 December 2016 | (50,714) | (89,897) | (14,992) | (2,135) | – | (157,738) |
| Charge for the year | (9,204) | (11,750) | (1,218) | (466) | – | (22,638) |
| Disposals | – | 3,393 | – | 111 | – | 3,504 |
| **At 31 December 2017** | **(59,918)** | **(98,254)** | **(16,210)** | **(2,490)** | **–** | **(176,872)** |
| **Net book value** | | | | | | |
| **At 31 December 2017** | **93,298** | **53,975** | **956** | **977** | **22,519** | **171,725** |
| At 31 December 2016 | 95,409 | 56,819 | 1,976 | 1,306 | 16,818 | 172,328 |



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 twenty one years. The Group has renewed these land leases upon expiry in the past and its present intention is to continue to use the land and renew these leases for the foreseeable future.

Property, plant and equipment with a carrying amount of USD 104.4 million (2016: USD 109.3 million) are under lien against the bank facilities (Note 30).

A depreciation expense of USD 18.8 million (2016: USD 22.1 million) has been charged to cost of sales; USD 3.8 million (2016: USD 3.0 million) to general and administrative expenses (Notes 6 and 9).

Capital work-in-progress represents the cost incurred towards construction and upgrade of infrastructure and operating equipment.

Refer to Note 4 for details of the impairment assessments performed at year end and key assumptions.

## 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 2016 | 180,539 | 22,335 | 19,323 | 8,338 | 11,528 | – | 242,063 |
| Additions | – | – | – | – | 2,753 | – | 2,753 |
| At 31 December 2016 | 180,539 | 22,335 | 19,323 | 8,338 | 14,281 | – | 244,816 |
| Additions | – | – | – | 8,694 | 65 | 1,540 | 10,299 |
| **At 31 December 2017** | **180,539** | **22,335** | **19,323** | **17,032** | **14,346** | **1,540** | **255,115** |
| **Amortisation and impairment** | | | | | | | |
| At 1 January 2016 | – | 12,339 | 19,323 | 2,454 | 2,063 | – | 36,179 |
| Charge for the year (Note 9) | – | 1,804 | – | 488 | 855 | – | 3,147 |
| Impairment | 180,539 | – | – | – | – | – | 180,539 |
| At 31 December 2016 | 180,539 | 14,143 | 19,323 | 2,942 | 2,918 | – | 219,865 |
| Charge for the year (Note 9) | – | 1,804 | – | 831 | 900 | – | 3,535 |
| **At 31 December 2017** | **180,539** | **15,947** | **19,323** | **3,773** | **3,818** | **–** | **223,400** |
| **Net book value** | | | | | | | |
| **At 31 December 2017** | **–** | **6,388** | **–** | **13,259** | **10,528** | **1,540** | **31,715** |
| At 31 December 2016 | – | 8,192 | – | 5,396 | 11,363 | – | 24,951 |

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 10 to 15 years.

During the period, Sharjah Electricity and Water Authority completed the construction and installation of an electric mainline to the Group's Hamriyah facility. The Group has right of use and the cost incurred by the Group of USD 8.7 million has been capitalised as an intangible asset and will be amortised over the remaining period of the leasehold rights of the facility.

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

| | Years |
|---|---|
| Trade name | 10 |
| Leasehold rights | 10 – 16 |
| Software | 15 |

The Group carries out an impairment review whenever events or changes in circumstance indicate that the carrying value of intangible assets may not be recoverable. Management performs review at cash generating unit relating to fabrication and engineering segments assets located at United Arab Emirates.

Recoverable amount of the cash generating unit (CGU) 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 financial budgets approved by management 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 reflects the 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 for the CGU is as follows:

| | **2017** | 2016 |
|---|---|---|
| Revenue growth rate[1] | **0%** | 5% |
| Discount rate[2] | **10%** | 11.54% |
| Net profit rate[3] | **3%** | 3% |
| Terminal value growth rate[4] | **3%** | 2% |

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 which includes various assumptions relating to market outlook, contract awards and contract margins.
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 a long-term maturity period, the UAE inflation rate, an equity risk premium on the entities operating from the UAE, the Group's beta and the cost of the Group's debt.
3. Net profit rate for the first three-year period is based on the Group budget. Beyond this period, the net profit rate is determined based upon management expectations of future market development.
4. Terminal value growth rate is based upon management expectations of future market development. See Note 4.2.3 for details.

As a result of the above, no impairment has been recorded during the year (2016: USD 180.5 million) and the carrying amount of intangible assets at 31 December 2017 was USD 31.7 million (31 December 2016: USD 24.9 million).

## 18 Investment in subsidiaries

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Balance at 1 January | 554,448 | 692,569 |
| Share-based payments to employees of subsidiaries in accordance with IFRS 2 | 1,262 | 1,973 |
| Impaired during the year | – | (140,094) |
| Balance at 31 December | 555,710 | 554,448 |

The recoverable amount of the investment in subsidiaries is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period.

Cash flows beyond the three-year period are extrapolated using the estimated revenue growth rate of 0% (2016: 5%). A discount rate of 10.00% (2016: 11.54%) 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 a long-term maturity period, the UAE inflation rate, the equity risk premium on the entities operating from the UAE, the Group's beta and the cost of Group's debt. In determining the terminal value growth rate, the Group considers the long-term average CPI growth rate for the UAE which is estimated to be c.3% by the Economist Intelligence Unit ("EIU"). Although the forecast cash flows are USD based, the terminal value growth rate is within the UAE long-term forecasts and is considered to be more appropriate given the location of the business and factors driving revenue and long-term growth. Based on these calculations, an impairment charge of USD Nil (2016: USD 140.1 million) with respect to the investment in LEL was recognised during the year (Note 25).

The Company granted retention and performance shares to employees of its subsidiaries under various plans (Note 8). These shares have a vesting period that ranges five to thirty six months. Accordingly, the proportionate share-based charge for the year of USD 1.3 million (2016: USD 2.0 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

**Group**

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| At 1 January | 7,229 | 5,285 |
| Dividend received during the year | (2,137) | – |
| Investment in an associate | 23,375 | – |
| Share of (loss)/profit of investments accounted for using the equity method – net | (2,559) | 1,944 |
| At 31 December | 25,908 | 7,229 |

Details of the associates during the year and at the balance sheet date are as follows:

| Name of the associate | Place of incorporation and operation | Proportion of ownership | Status |
|---|---|---|---|
| Maritime Industrial Services Arabia Co. Ltd. ("MISA")[1] | Jubail, Kingdom of Saudi Arabia | 30% | Operational |
| International Maritime Industries ("IMI")[2] | Ras Al Khair, Kingdom of Saudi Arabia | 20% | Operational |

1. Production, manufacturing and erection of heat exchangers, pressure vessels, tanks, structural steel, piping and other related activities.
2. Establishment, development and operation of a maritime yard for the construction, maintenance and repair of offshore drilling rigs and vessels.

Refer to the Chief Executive's review on page 18 for further details on IMI.

**Investment in an associate – MISA**

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| At 1 January | 7,229 | 5,285 |
| Dividend received during the year | (2,137) | – |
| Share of profit for the year | 1,933 | 1,944 |
| At 31 December | 7,025 | 7,229 |

## 19 Investment accounted for using the equity method continued

**Investment in an associate – MISA continued**

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Total non-current assets | 7,305 | 7,305 |
| Total current assets | 47,236 | 46,553 |
| Total non-current liabilities | (26,511) | (25,140) |
| Total current liabilities (excluding income tax payable) | (3,005) | (3,005) |
| Net assets (excluding income tax payable) | 25,025 | 25,713 |
| Income tax payable | (1,047) | (1,053) |
| Net assets | 23,978 | 24,660 |
| Group's share of associate's net assets (excluding income tax payable) – 30% | 7,508 | 7,714 |
| Group's share of associate's income tax payable | (483) | (485) |
| Group's share of associate's net assets – net of the Group's share of income tax | 7,025 | 7,229 |
| Revenue | 60,089 | 56,221 |
| Expenses | (52,034) | (48,122) |
| Profit before tax | 8,055 | 8,099 |
| Group's share of associate's net profit – net of the Group's share of income tax | 1,933 | 1,944 |

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

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Letters of guarantee | 4,040 | 2,172 |
| Operating lease commitments | 290 | 284 |



**Investment in an associate – IMI**

During the year, the Group along with its partners formed International Maritime Industries. The investment has been accounted by the Group as an associate and the details of the associate are as follows:

| | 2017 USD'000 |
|---|---|
| At 1 January | – |
| Investment made during the year | 23,375 |
| Share of loss for the year | (4,492) |
| At 31 December | 18,883 |

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

| | 2017 USD'000 |
|---|---|
| Total non-current assets | 36,077 |
| Total current assets | 100,000 |
| Total current liabilities | (58,539) |
| Net assets | 77,538 |
| Group's share of associate's net assets – 20% | 15,508 |
| Acquisition cost capitalisation | 3,375 |
| Carrying amount at 31 December | 18,883 |
| Revenue | – |
| Expenses | (22,462) |
| Loss before tax | (22,462) |
| Group's share of associate's net loss – net of the Group's share of income tax | (4,492) |

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

The Group has the following contingencies and commitments relating to the Group's interest in the associate.

| | 2017 USD'000 |
|---|---|
| Operating lease commitments | 977 |

## 20 Inventories

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Raw materials, consumables and finished goods | 26,267 | 27,989 |
| Work in progress | 26,287 | – |
| Less: Provision for slow moving and obsolete inventories | (2,045) | (3,574) |
| | 50,509 | 24,415 |

The cost of inventories recognised as an expense amounts to USD 17.1 million (2016: USD 21.8 million) and this includes USD Nil (2016: USD 2.0 million) in respect of write-down of inventory to net realisable value.

## 21 Trade and other receivables

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Trade receivables | 39,259 | 89,431 |
| Other receivables and prepayments | 12,559 | 38,244 |
| Advance to suppliers | 2,402 | 17,556 |
| Receivables from a related party (Note 23) | 12,951 | 109 |
| | 67,171 | 145,340 |
| Less: Provision for impairment of trade receivables | (5,317) | (5,488) |
| | 61,854 | 139,852 |
| Amounts due from customers on contracts | 67,800 | 127,809 |
| Contract work in progress | 35,051 | 7,661 |
| | 164,705 | 275,322 |



| | 2017 | 2016 |
|---|---|---|
| Non-current portion: | | |
| Prepayments | 839 | 10,905 |
| Current portion | 163,866 | 264,417 |

Amounts due from customers on contracts comprise:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Costs incurred to date | 951,263 | 1,644,890 |
| Attributable profits | 57,099 | 299,154 |
| | 1,008,362 | 1,944,044 |
| Less: Progress billings | (940,562) | (1,816,235) |
| | 67,800 | 127,809 |

An analysis of trade receivables is as follows:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Fully performing | 23,379 | 76,023 |
| Past due but not impaired | 10,563 | 7,920 |
| Impaired | 5,317 | 5,488 |
| | 39,259 | 89,431 |

At 31 December 2017, trade receivables of USD 10.6 million (2016: USD 7.9 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Up to 3 months | 7,459 | 5,863 |
| 3 to 6 months | 757 | 566 |
| Over 6 months | 2,347 | 1,491 |
| | 10,563 | 7,920 |

At 31 December 2017, trade receivables of USD 5.3 million (2016: USD 5.5 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:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Over 6 months | 5,317 | 5,488 |

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.

## 21 Trade and other receivables continued

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

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| At 1 January | **5,488** | 5,220 |
| Provision for impairment of receivables | **83** | 1,894 |
| Receivables written off during the year as uncollectable | **(204)** | (709) |
| Amounts recovered during the year | **(50)** | (917) |
| At 31 December | **5,317** | 5,488 |

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**

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Cash at bank and on hand | **45,087** | 88,491 |
| Term deposits and margin deposits – Current | **237,930** | 239,402 |
| Cash and bank balances | **283,017** | 327,893 |
| Term deposits and margin deposits – Non-current | **13,426** | 6,777 |
| Less: Margin/short-term deposits under lien | **(8,101)** | (10,983) |
| Less: Deposits with original maturity of more than three months | **(183,580)** | (78,173) |
| Cash and cash equivalents (for the purpose of the cash flow statement) | **104,762** | 245,514 |



At 31 December 2017, the cash at bank and short-term deposits were held with 14 banks (2016: 13 banks). The effective interest rate on short-term deposits was 1.54% (2016: 1.46%) per annum. Margin and short-term deposits of USD 8.1 million (2016: USD 11.0 million) and deposits with an original maturity of more than three months amounting to USD 41.6 million (2016: USD 75.8 million) are held under lien against guarantees issued by the banks (Note 35).

**Company**

Cash and bank balance comprises of cash held with one bank (2016: one bank).

## 23 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 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:

**Group**

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Key management compensation | **6,828** | 6,824 |
| Legal and professional services | **–** | 58 |
| Sales to associates | **427** | 109 |
| Purchases from associates | **147** | 243 |
| Re-chargeable expenses to associates | **12,951** | – |
| Sponsorship fees and commissions paid to legal shareholders of subsidiaries (Note 1) | **308** | 326 |

**Company**

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Key management compensation | **2,829** | 3,258 |
| Revenue (management fees charged to subsidiaries) | **7,619** | 6,723 |

## 23 Related party balances and transactions continued

Key management compensation comprises:

### Group

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Salaries and other short-term benefits | 5,252 | 5,313 |
| Share-based payments – value of services provided | 1,335 | 1,337 |
| Post-employment benefits | 241 | 174 |
| | 6,828 | 6,824 |

### Company

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Salaries and other short-term benefits | 1,947 | 2,438 |
| Share-based payments – value of services provided | 811 | 752 |
| Post-employment benefits | 71 | 68 |
| | 2,829 | 3,258 |

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

### Due from/due to related parties

Due from related parties



| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Group** | | |
| MISA (in respect of sales to associate) (Note 21) | – | 109 |
| IMI (In respect of expenses on behalf of associate) | 12,951 | – |
| | 12,951 | 109 |
| **Company** | | |
| MIS[1] | 11,241 | 11,231 |
| EBT[2] | 210 | 210 |
| LEL | – | 2,253 |
| MOL[3] | 3,375 | – |
| IMI[3] | 2,110 | – |
| | 16,936 | 13,694 |

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 of a receivable in respect of expenses incurred for IMI.

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 a related party

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **Group** | | |
| MISA (in respect of purchases) (associate) (Note 28) | 28 | 228 |
| **Company** | | |
| LEL (in respect of expenses incurred on behalf of the Company) | 3,155 | – |

## 24 Share capital and share premium

**Issued and fully paid ordinary shares**

Group/Company

| | Equity Number | Share capital USD'000 | Share premium USD'000 |
|---|---|---|---|
| At 1 January 2016 and 31 December 2016 | 341,726,570 | 30,346 | 315,995 |
| **At 31 December 2017** | **341,726,570** | **30,346** | **315,995** |

The total authorised number of ordinary shares is 400 million shares (2016: 400 million shares) with a par value of 5 pence per share (2016: 5 pence per share).

During 2017, Lamprell plc employee benefit trust ("EBT") acquired 474,551 shares (2016: 376,691 shares) of the Company. The total amount paid to acquire the shares was USD 654,817 (2016: USD 542,539) and has been deducted from the consolidated retained earnings. During 2017, 474,551 shares (2016: 361,691) were issued to employees and 16,268 shares (31 December 2016: 16,268 shares) were held as treasury shares at 31 December 2017. The Company has the right to reissue these shares at a later date. These shares will be issued on vesting of the retention shares/performance shares/share options granted to certain employees of the Group.

## 25 Other reserves

**Group**

| | Legal reserve USD'000 | Merger reserve USD'000 | Hedge reserve USD'000 | Translation reserve USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 98 | (18,572) | – | (670) | (19,144) |
| Currency translation differences | – | – | – | (290) | (290) |
| Loss on cash flow hedges (Note 27) | – | – | (1,259) | – | (1,259) |
| At 31 December 2016 | 98 | (18,572) | (1,259) | (960) | (20,693) |
| Currency translation differences | – | – | – | (49) | (49) |
| Gain on cash flow hedges (Note 27) | – | – | 2,619 | – | 2,619 |
| **At 31 December 2017** | **98** | **(18,572)** | **1,360** | **(1,009)** | **(18,123)** |



**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 interest method.

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 interest method.

**Company**

Other reserve

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| At 1 January | **189,059** | 329,153 |
| Transferred to retained earnings (Note 18) | **–** | (140,094) |
| At 31 December | **189,059** | 189,059 |

The other reserve arose on acquisition of LEL and is not available for distribution. However, transfers may be made to retained earnings in an amount equal to any impairments recognised.

## 26 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 2017 and 2016, 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 periods is as follows:

**Group**

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| At 1 January | **34,745** | 42,863 |
| Current service cost | **3,414** | 4,879 |
| Interest cost | **1,740** | 1,196 |
| Remeasurements | **829** | (1,523) |
| Benefits paid | **(6,599)** | (12,670) |
| At 31 December | **34,129** | 34,745 |

Remeasurements consist of actuarial loss from a change in demographic assumptions USD Nil (2016: actuarial gain of USD 1.8 million), a change in financial assumptions USD 1.9 million (2016: Nil) and a change in other experiences USD 1.2 million (2016: actuarial loss of USD 0.3 million).

**Company**



| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| At 1 January | **173** | 121 |
| Current service cost | **53** | 61 |
| Interest cost | **5** | 7 |
| Remeasurements | **52** | (16) |
| Benefits paid | **(66)** | – |
| At 31 December | **217** | 173 |

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

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Current service cost | **3,414** | 4,879 |
| Interest cost | **1,740** | 1,196 |
| Total (included in staff costs) (Note 10) | **5,154** | 6,075 |

The above charges are included in cost of sales and general and administrative expenses.

**Company**

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Current service cost | **53** | 61 |
| Interest cost | **5** | 7 |
| Total (included in staff costs) | **58** | 68 |

The above charge of USD 0.1 million (2016: USD 0.1 million) is included in general and administrative expenses.

The principal actuarial assumptions used were as follows:

| | **2017** | 2016 |
|---|---|---|
| Discount rate | **3.20%** | 3.50% |
| **Future salary increase:** | | |
| Management and administrative employees | **2.00%** | 2.00% |
| Yard employees | **2.00%** | 2.00% |

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 3.2% (2016: 3.5%).

## 26 Provision for employees' end of service benefits continued

The rates used for future salary increase are long-term assumptions which take into account inflation, relevant factors in the employment market and the Group's own expectations. There are no changes in the future salary increase rate for Yard employees. It is retained at 2% (2016: 2%).

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 | |
|---|---|---|
| | **2017** | 2016 |
| **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% |



## 27 Derivative financial instruments

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Notional contract amount USD'000** | **Assets USD'000** | **Liabilities USD'000** | Notional contract amount USD'000 | Assets USD'000 | Liabilities USD'000 |
| Forward contracts | **28,950** | **1,359** | **–** | 51,731 | – | 1,259 |
| Interest rate swaps | **40,000** | **307** | **–** | 60,000 | 173 | – |
| Total | **68,950** | **1,666** | **–** | 111,731 | 173 | 1,259 |
| Non-current portion: | | | | | | |
| Forward contracts | **–** | **–** | **–** | 40,179 | – | 794 |
| Interest rate swaps | **20,000** | **153** | **–** | 40,000 | 115 | – |
| Current portion | **48,950** | **1,513** | **–** | 31,552 | 58 | 465 |

The Group has an interest rate swap to switch floating interest rates to fixed interest rates 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 fifty seven months from the date of inception. The fair value at 31 December 2017 of this derivative was USD 0.3 million (2016: USD 0.2 million).

During 2016, the Group designated foreign currency forward contracts as hedges of highly probable purchases of fixed assets and material in EUR, GBP and NOK. The forecast purchases are expected to occur during 2017 and 2018. The terms of the forward contracts have been negotiated to match the terms of the forecast transactions. Consequently, the hedges were assessed to be highly effective and an unrealised gain of USD 1.3 million (2016: unrealised loss of USD 1.2 million) relating to the forward contracts is included in other comprehensive income.

## 28 Trade and other payables

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Trade payables | **47,897** | 31,662 |
| Accruals and other payables | **149,833** | 111,022 |
| Payables to a related party (Note 23) | **28** | 228 |
| Amounts due to customers on contracts | **2,815** | 37,109 |
| | **200,573** | 180,021 |
| Amounts due to customers on contracts comprise: | | |
| Progress billings | **133,597** | 339,528 |
| Less: Cost incurred to date | **(112,711)** | (247,867) |
| Less: Recognised profits | **(18,071)** | (54,552) |
| | **2,815** | 37,109 |

Accruals and other payables includes provision of USD 41.7 million (2016: Nil) relating to estimated losses to completion on the EA1 project (Note 4.2.2).

## 29 Provision for warranty costs and other liabilities

| | Warranty costs USD'000 | Minimum purchase obligations USD'000 | Total USD'000 |
|---|---|---|---|
| **At 1 January 2016** | 8,100 | 234 | 8,334 |
| Charge during the year | 3,500 | – | 3,500 |
| Released/utilised during the year | (3,876) | – | (3,876) |
| **At 31 December 2016** | 7,724 | 234 | 7,958 |
| Charge during the year | 1,000 | – | 1,000 |
| Released/utilised during the year | (1,483) | – | (1,483) |
| **At 31 December 2017** | **7,241** | **234** | **7,475** |

Warranty costs charged during the year relates to management's assessment of potential claims under contractual warranty provisions. The charge during the year is included in subcontract cost in Note 6.

## 30 Borrowings

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Bank term loans | **39,491** | 59,484 |
| The bank borrowings are repayable as follows: | | |
| Current (less than 1 year) | **39,491** | 20,321 |
| Non-current (later than 1 year but not later than 5 years) | **–** | 39,163 |
| | **39,491** | 59,484 |

At 31 December 2017, the Group has banking facilities of USD 924 million (2016: USD 1,362 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 54.5 million (2016: USD 91.2 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, leasehold rights for land and certain contract related receivables.

The Group's debt facilities are subjected to covenant clauses, whereby the Group is required to meet certain key financial ratios. The Group did not fulfil the tangible net worth financial covenant contained within its debt facilities due to the magnitude of the loss on the EA1 Project stated in Note 4.

Due to this breach of the covenant clause, the banks are contractually entitled to request for immediate repayment of the outstanding loan amount of USD 39.4 million. However, Management are in discussion with the banks to waive this requirement. The outstanding balance has been reclassified and presented as current liability as at 31 December 2017.

On 14 March 2018, subsequent to the year end, the Group obtained a waiver from its lenders which reduces the tangible net worth covenant (see Note 36).

The borrowings are stated net of the unamortised arrangement fees and other transaction costs of USD 0.5 million (2016: USD 0.8 million) and including accrued interest of USD 0.1 million (2016: USD 0.3 million).

The bank facilities relating to overdrafts, term loans and revolving facilities carry interest at LIBOR +3.5%. However, the Group has entered into an interest rate swap against the variable interest rate on its term loan facility to convert the LIBOR component into a fixed interest rate of 1.2375% (2016: 1.2375%).

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.

## 30 Borrowings continued

**Reconciliation of liabilities arising from financing activities**
The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flows as cash flows from financing activities.

| | 1 January 2017 USD'000 | Repayment during the year USD'000 | Other changes[1] USD'000 | Classification adjustment USD'000 | **31 December 2017 USD'000** | 31 December 2016 USD'000 |
|---|---|---|---|---|---|---|
| **Bank terms loans** | | | | | | |
| Current | 20,321 | – | (313) | 19,483 | **39,491** | 20,321 |
| Non-current | 39,163 | (20,000) | 320 | (19,483) | **–** | 39,163 |
| Total | 59,484 | (20,000) | 7 | – | **39,491** | 59,484 |

1. Other changes include interest accruals, payments and adjustment to capitalised borrowing costs.

## 31 Profit of the Company

The loss of USD 1.3 million (2016: loss of USD 140.0 million) in respect of the Company is included in these consolidated financial statements.

## 32 Dividends

There were no dividends declared or paid during the year ended 31 December 2017 or 31 December 2016.



## 33 Exceptional items

Exceptional items comprises of:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Impairment of goodwill (Note 17) | **–** | 180,539 |
| Staff redundancy expenses (Note 9) | **–** | 3,361 |
| | **–** | 183,900 |

## 34 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:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Not later than one year | **7,943** | 6,528 |
| Later than one year but not later than five years | **23,982** | 23,997 |
| Later than five years | **77,493** | 76,264 |
| | **109,418** | 106,789 |

### (b) Maritime yard commitments

The Group has entered into commitments associated with the investment in International Maritime Industries (Note 19). Under the Shareholders' Agreement, the Group will invest up to a maximum of USD 140.0 million in relation to its commitment over the course of construction of the Maritime Yard between 2017 and 2022 with USD 20.0 million already paid to date. This excludes expenses directly attributable to formation of yard of USD 3.0 million which have been capitalised. The forecast contributions are as follows:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Not later than one year | **38,500** | – |
| Later than one year but not later than four years | **81,500** | – |
| | **120,000** | – |

### (c) Other commitments

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Capital commitments for construction of facilities | **8,937** | 10,347 |
| Capital commitments for purchase of operating equipment and computer software | **144** | 345 |
| Purchase commitments for rig kits | **41,199** | 51,659 |

## 35 Bank guarantees

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Performance/bid bonds | **120,012** | 163,812 |
| Advance payment, labour visa and payment guarantees | **50,350** | 240,383 |
| | **170,362** | 404,195 |

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

## 36 Events after the balance sheet date

**Reportable segment**

On 2 February 2018, the Group has been structured to approach opportunities by way of our strategic objectives in Rigs, EPC(I) and Contracting Services.

This constitutes a change in strategic objectives of the business and how it is reported and viewed by the Directors. This has had no financial impact to the reportable segments disclosed in Note 5 as the revised segments will be reported effective from 2018 financial statements, being the period in which the strategic structuring of the business occurred. These will comprise of:

Rigs: contains business from new build jackup rigs, land rigs and rig refurbishment. These have been reported under Fabrication & Engineering segment in Note 5;



EPC(I): contains business from modules, offshore platforms and engineering and construction (excluding site works). These have been reported under Fabrication & Engineering segment in Note 5;

Contracting Services: comprises of site works, operations and maintenance, manpower supply and safety services. These have been reported under Services segment in Note 5 except for site works which is reported under Fabrication & Engineering segment.

Refer to strategic report on page 8 for further details.

**Waiver of loan covenant**

As explained in Note 30, as at 31 December 2017 the Group did not fulfil the tangible net worth financial covenant contained within its debt facility. On 14 March 2018, subsequent to the year end, the Group obtained a waiver from its lenders which reduces the tangible net worth covenant for the periods ended 31 December 2017, 30 June 2018 and 31 December 2018.

## 37 Cash generated from operating activities

| | | Year ended 31 December | |
|---|---|---|---|
| | Notes | 2017 USD'000 | 2016 USD'000 |
| **Operating activities** | | | |
| Loss before income tax including discontinued operations | | **(97,906)** | (184,061) |
| Adjustments for: | | | |
| Release of excess tax provision | | – | (260) |
| Impairment of goodwill | 17 | – | 180,539 |
| Share-based payments – value of services provided | 8 | **2,425** | 2,725 |
| Depreciation | 16 | **22,638** | 25,101 |
| Amortisation of intangible assets | 17 | **3,535** | 3,147 |
| Share of profit/(loss) from investment in joint ventures | 19 | **2,559** | (1,944) |
| Release for warranty costs and other liabilities | | **(483)** | (376) |
| Profit on disposal of property, plant and equipment | | **(263)** | (621) |
| Provision for slow moving and obsolete inventories | 20 | **(1,529)** | 1,119 |
| (Release)/provision for impairment of trade receivables, net of amounts recovered | | **(171)** | 977 |
| Provision for employees' end of service benefits | 26 | **5,154** | 6,075 |
| Gain/(loss) on derivative financial instruments | | **2,619** | (1,259) |
| Finance costs | | **9,019** | 12,822 |
| Finance income | 11 | **(3,875)** | (2,895) |
| Operating cash flows before payment of employees' end of service benefits and changes in working capital | | **(56,278)** | 41,089 |
| Payment of employees' end of service benefits | 26 | **(6,599)** | (12,670) |
| Changes in working capital: | | | |
| Inventories before movement in provision/(release) | | **(24,565)** | 3,532 |
| Derivative financial instruments | | **(2,752)** | 1,068 |
| Trade and other receivables before movement in provision for impairment of trade receivables | | **102,261** | 152,027 |
| Trade and other payables | | **20,552** | (84,922) |
| Cash generated from operating activities | | **32,619** | 100,124 |

# GLOSSARY

| | |
|---|---|
| "AED" | United Arab Emirates Dirham |
| "ADNOC" | Abu Dhabi National Oil Company |
| "AGM" | Annual General Meeting |
| "AIM" | Alternative Investment Market – a market operated by the London Stock Exchange Group plc |
| "API" | American Petroleum Institute |
| "ASME" | American Society of Mechanical Engineers |
| "bn" | Billion |
| "Board" or "Directors" | the Board of Directors of the Company |
| "BP" | British Petroleum |
| "BSc" | Bachelor of Science |
| "CBL" | Cleopatra Barges Limited |
| "CDP" | Carbon Disclosure Project |
| "CEO" | Chief Executive Officer |
| "CfD" | Contract for Difference |
| "CFO" | Chief Financial Officer |
| "CGU" | Cash Generating Unit |
| "$CO_2e$" | Carbon Dioxide equivalent |
| "Code" | UK Corporate Governance Code 2014 |
| "Company" | Lamprell plc |
| "CSR" | Corporate Social Responsibility |
| "DAFWC" | Day away from work case |
| "EA1" | East Anglia One |
| "E&C" | Engineering & Construction |
| "EBITDA" | Earnings before Interest, Taxes, Depreciation and Amortisation |
| "EBT" | Lamprell plc Employee Benefit Trust |
| "EGM" | Extraordinary General Meeting |
| "EMS" | Environmental Management System |
| "EPC" | Engineering, Procurement and Construction |
| "EPC(I)" | Engineering, Procurement, Construction and Installation |
| "EPS" | Earnings Per Share |
| "ERM" | Enterprise Risk Management |
| "ERP" | Enterprise Resource Planning |
| "ESOP" | Lamprell plc Executive Share Option Plan |
| "EU" | European Union |
| "FCAW" | Flux Cored Arc Welding |
| "FID" | Final Investment Decision |
| "FPSO" | Floating, Production, Storage and Offloading |
| "FPU" | Floating Production Units |
| "FRC" | Financial Reporting Council |
| "FSP" | Free Share Plan |
| "FTSE" | Financial Times Stock Exchange index |
| "FZCO" | Free Zone Company |
| "GBP" | Great Britain Pound |
| "GCC" | Gulf Cooperation Council |
| "GIC" | Global Investment Co. Ltd. Inc |
| "Group" | The Company and its subsidiaries |
| "GW" | Gigawatts |
| "HR" | Human Resources |
| "HSES" | Health, Safety, Environment, and Security |
| "HSESQ" | Health, Safety, Environment, Security and Quality |
| "HVAC" | Heating Ventilation & Air Conditioning |
| "HVDC" | High Voltage Direct Current |
| "HHI" | Hyundai Heavy Industries |
| "HMC" | Heerema Marine Contractors |
| "HMRC" | Her Majesty's Revenue & Customs |
| "IA" | Internal Audit |
| "IAS" | International Accounting Standards |
| "IFRS" | International Financial Reporting Standards |
| "IHS" | Information Handling Services |
| "IKTVA" | In Kingdom Total Value Add |
| "IMI" | Industrial Maritime Industries |
| "IOC" | International Oil Company |
| "ISO" | International Organization for Standardization |
| "IST" | Information Systems & Technology |
| "IT" | Information Technology |
| "JD" | Juris Doctor |
| "JGC" | Japanese Gas Corporation |

| | |
|---|---|
| "JPMC" | J.P. Morgan Cazenove |
| "JV" | Joint Venture |
| "KBR" | Kellogg Brown & Root |
| "KPI" | Key Performance Indicators |
| "KSA" | Kingdom of Saudi Arabia |
| "Labour Law" | UAE Labour Law (Federal Law No. 8 of 1980 (as amended)) |
| "Lamprell" | the Company and its subsidiary undertakings |
| "LD" | Lamprell Dubai LLC |
| "LEL" | Lamprell Energy Limited |
| "LHL" | Lamprell Holdings Limited |
| "LIH" | Lamprell Investment Holdings Limited |
| "LNG" | Liquid Natural Gas |
| "LS" | Lamprell Sharjah WLL |
| "LSE" | London Stock Exchange Group plc |
| "LTA" | Long Term Agreement |
| "LTIP" | Long-Term Incentive Plan |
| "m" | Million |
| "MAR" | Market Abuse Regulation |
| "MENA" | Middle East North Africa |
| "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 |
| "MOCL" | Maritime Offshore Construction Limited |
| "MOD" | Modules |
| "MOL" | Maritime Offshore Limited |
| "MRO" | Maintenance, Repair & Overhaul |
| "MW" | Megawatts |
| "NBJR" | New Build Jackup Rigs |
| "NBS" | New Bridge Street |
| "NDC" | National Drilling Company |
| "NED" | Non-Executive Director |
| "NOC" | National Oil Company |
| "O&M" | Operations & Maintenance |
| "OGCS" | Oil and Gas Contracting Services |
| "OHSAS" | Occupational Health and Safety Assessment Series |
| "OP" | Offshore Platforms |
| "OPEC" | Organization of the Petroleum Exporting Countries |
| "OSV" | Offshore Supply Vessel |
| "PhD" | Philosophiae doctor |
| "QA/QC" | Quality Assurance Quality Control |
| "QC" | Quality Control |
| "RIM" | Rig Metals LLC |
| "RSP" | Retention Share Plan |
| "SOAP" | Safety Observation Audit Programme |
| "SPR" | ScottishPower Renewables |
| "STIP" | Short-Term Incentive 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 |
| "UZ750" | Upper Zakum 750 |
| "VAT" | Value Added Tax |
| "VLCC's" | Very Large Crude Carriers |
| "VP" | Vice-President |
| "WTIV" | Wind Turbine Installation Vessel |

# ADDITIONAL INFORMATION



## Alternative performance measures

### EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on EBITDA and underlying EBITDA (also referred to as adjusted EBITDA). EBITDA is defined as the Group (loss)/profit for the year from continuing operation before depreciation, amortisation, net finance expense and taxation. Underlying EBITDA is defined as EBITDA before non-recurring items or certain accounting adjustments that do not reflect changes in performance.

We consider EBITDA and underlying EBITDA to be useful measures of our operating performance because they approximate the operating cash flow by eliminating depreciation and amortisation. EBITDA and underlying EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

A reconciliation from Group (loss)/profit for the year from continuing operation, the most directly comparable IFRS measure, to reported and underlying EBITDA, is set out below:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2017 USD'000** | 2016 USD'000 | 2015 USD'000 |
| (Loss)/profit for the year from continuing operations | **(98,097)** | (182,190) | 66,500 |
| Exceptional items (Note 33) | **–** | 183,900 | – |
| Depreciation (Note 16) | **22,638** | 25,101 | 19,378 |
| Amortisation (Note 17) | **3,535** | 3,147 | 2,624 |
| Interest on bank borrowings (Note 11) | **2,587** | 3,317 | 3,588 |
| Finance income (Note 11) | **(3,875)** | (2,895) | (2,679) |
| Tax | **191** | 254 | 541 |
| Share of loss/(profit) of investments – net (Note 19) | **2,559** | – | – |
| EBITDA | **(70,462)** | 30,634 | 89,952 |
| Settlement agreement with Ensco | **–** | 42,629 | – |
| Underlying EBITDA | **(70,462)** | 73,243 | 89,952 |
| Underlying EBITDA margin | **(19.0%)** | 4.3% | 10.3% |

### Net cash

Measures financial health after deduction of liabilities such as borrowings. A reconciliation from the cash and cash equivalents per the consolidated cash flow statement, the most directly comparable IFRS measure, to reported net cash, is set out below:

| | **2017 USD'000** | 2016 USD'000 | 2015 USD'000 |
|---|---|---|---|
| Cash and cash equivalents (Note 22) | **104,762** | 245,514 | 224,126 |
| Margin/short-term deposits under lien (Note 22) | **8,101** | 10,983 | 11,787 |
| Deposits with original maturity of more than three months (Note 22) | **183,580** | 78,173 | 53,667 |
| Borrowings (Note 30) | **(39,491)** | (59,484) | (79,299) |
| Net cash | **256,952** | 275,186 | 210,281 |

**Underlying gross (loss)/profit**

Underlying gross (loss)/profit is defined as gross (loss)/profit before non-recurring items or certain accounting adjustments that can mask underlying changes in performance. A reconciliation from Group gross (loss)/profit, the most directly comparable IFRS measure, to reported and underlying gross (loss)/profit, is set out below:

| | **2017 USD'000** | 2016 USD'000 | 2015 USD'000 |
|---|---|---|---|
| Gross (loss)/profit | **(50,166)** | 57,203 | 123,520 |
| Settlement agreement with Ensco | **–** | 42,629 | – |
| Underlying gross (loss)/profit | **(50,166)** | 99,832 | 123,520 |
| Normalised underlying margins | **(13.54%)** | 14.16% | 14.18% |

Normalised underlying margins are calculated as underlying gross (loss)/profit shown above as a percentage of the Group's revenue.

**Underlying profitability**

Underlying profitability is defined as (loss)/profit for the year from continuing operation before non-recurring items or certain accounting adjustments that do not reflect changes in performance. A reconciliation from (loss)/profit for the year from continuing operations, the most directly comparable IFRS measure, to reported and underlying profitability, is set out below:

| | **2017 USD'000** | 2016 USD'000 | 2015 USD'000 |
|---|---|---|---|
| (Loss)/profit for the year from continuing operations | **(98,097)** | (182,190) | 66,500 |
| Exceptional items (Note 33) | **–** | 183,900 | – |
| Settlement agreement with Ensco | **–** | 42,629 | – |
| Underlying profitability | **(98,097)** | 44,339 | 66,500 |

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