Lamprell

Delivering on our strategic priorities

Lamprell plc Annual Report and Accounts 2018

Who we are

Lamprell is a key player in the 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

Lamprell provides engineering, procurement, construction and other contracting services to the energy industries. 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, rig refurbishment projects, and provide related oil & gas contracting services.

Contents

* Throughout the Annual Report we use a range of financial and non-financial measures to assess our performance. A number of the financial measures, including underlying profitability, underlying gross profit, underlying gross profit margin, underlying EBITDA and net cash are not defined under IFRS, and are termed 'Alternative Performance Measures' (APMs). Management uses these measures to monitor the Group's financial performance alongside IFRS measures because they help evaluate the ongoing financial performance and position of the Group. We have defined and explained the purpose of each of these measures on page 132, where we provide more detail, including reconciliations to the closest equivalent measure under IFRS. These APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, APMs may not be comparable with similarly titled measures and disclosures by other companies.

Cover image: Master Marine "Haven" accommodation vessel
Inside cover image: EDC Mercury jackup rig

2018 highlights

- Record safety performance with TRIR of 0.15
- Progressed in the Renewables market with the contract award of 48 jacket foundations
- Delivered on Saudi strategy with inclusion on LTA programme
- Maintained leading rig position with the new LOI for two new orders in 2018
- Nearing completion on challenging East Anglia One project
- In advanced discussions with lenders for new debt facility
- Increased bid pipeline to USD 6.4 billion by year-end

2018 financial highlights*

Revenue
234.1
(USD million)
2017: USD 370.4m

EBITDA
(35.1)
(USD million)
2017: USD (70.5)m

Net (loss)/profit
(70.7)
(USD million)
2017: USD (98.1)m

(Loss)/earnings per share – diluted
(20.67)
(US cents)
2017: (28.70)c

Net cash
80.0
(USD million)
2017: USD 257.0m

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

Turn to page 6 to learn more about our markets and opportunities

Turn to page 22 for a more detailed review of our finances

Turn to page 34 for a review of our key risks

Our core services

Rigs

32%
Group revenue

Markets

Jackup rigs and vessels: Lamprell is a leading and reliable builder of drilling rigs and multi-purpose vessels for the international market. As part of our commitment to continuous improvement in our yards, Lamprell invested in the installation of an automatic panel line which improves the efficiency of construction of the rig hulls. To date, the Company has successfully delivered a total of 34 self-elevating units since its listing in 2006, comprising of 21 LeTourneau Super 116E's, seven Friede & Goldman Super M2's and six multi-purpose GustoMSC vessels.

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

Land rigs: We build and refurbish land rigs from our UAE facilities as well as provide field and drilling equipment refurbishment services across the Middle East.

KEY

Oil & gas markets

Renewable market

EPC(I) projects

43%
Group revenue

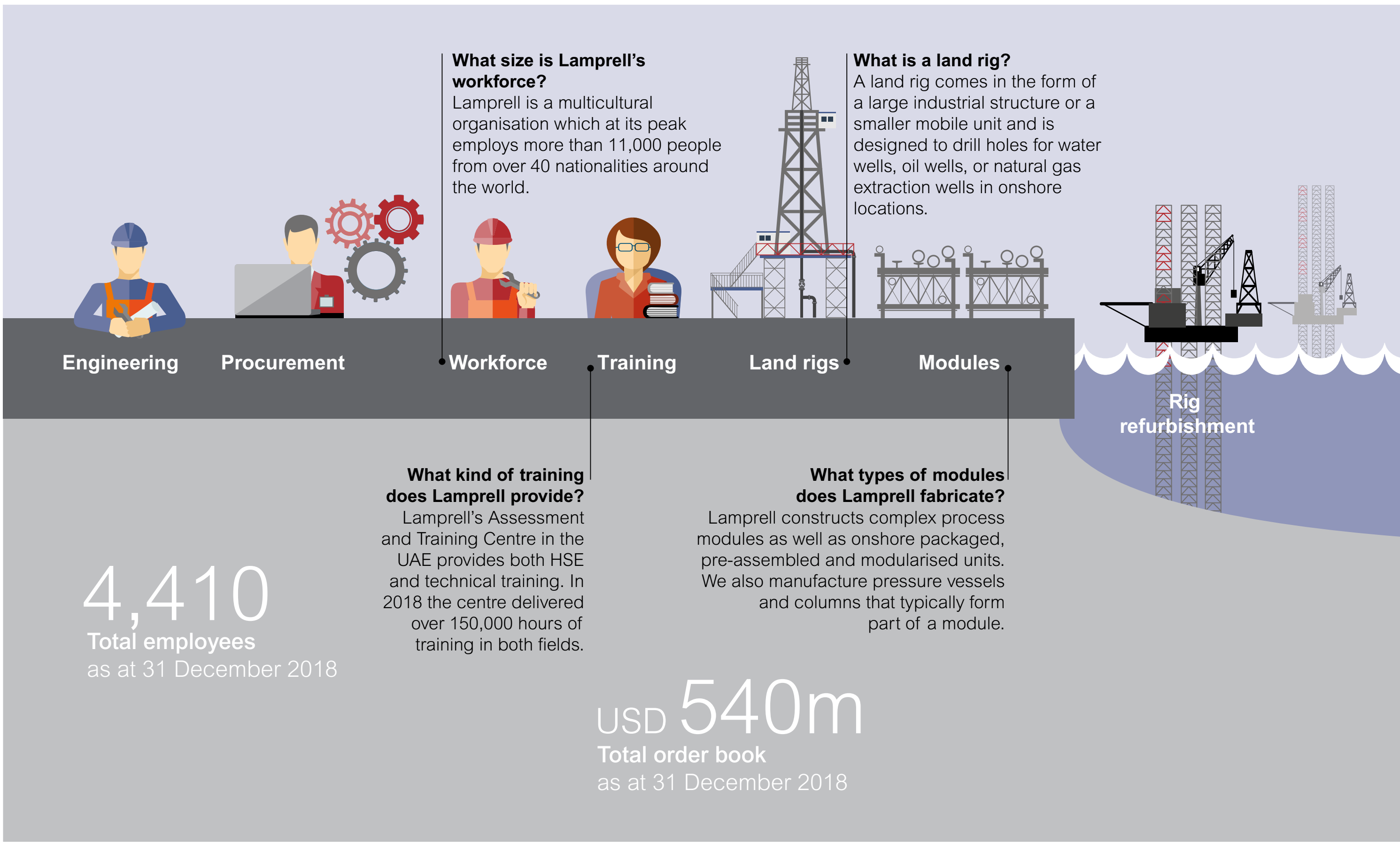
Markets

Engineering: Lamprell provides a range of solutions from design engineering to detailed and construction engineering. This is delivered by a team of experienced multi-discipline engineers and designers using the latest engineering software and 3D modelling techniques.

Procurement: We provide value-driven purchasing solutions and volume leveraged pricing through tested processes, systems and market knowledge. From bid phase through to project award and execution, our use of automation and optimal logistic solutions help to ensure cost certainty, on-time delivery and completion of projects.

Construction: Construction and fabrication are core service offerings, and Lamprell provides efficiency and automation through our highly sophisticated yards. We are fully equipped with an API certified mechanical workshop, a T-beam fabrication system, automated beam cutting systems and we use the latest modern welding equipment. We also have a new state-of-the-art pipe shop for both carbon and stainless steel pipe fabrication, complete with testing, blasting and painting facilities.

Installation: Lamprell partners with leading installation service providers to submit bids on a collaborative basis, demonstrating our complementary strengths.



Contracting services

25%

Group revenue

Markets

Site services: Site services encompass Lamprell's smaller business streams including Sunbelt Safety and minor E&C services. They have an excellent reputation for bringing our strong safety and quality culture into the yards in which they operate.

Operations & maintenance: Lamprell's O&M team has a proven record of high-quality performance and service, with a core workforce including tradesmen and administrative staff. O&M provides manpower, equipment and material services to a diverse customer base at oil & gas and petrochemical facilities and plants, on drilling rigs, offshore facilities, marine docks and marine vessels.

United by our values

How we do business is as important as what we do. Our values unite us, define who we are and make us distinctive. They guide our behaviours and actions.

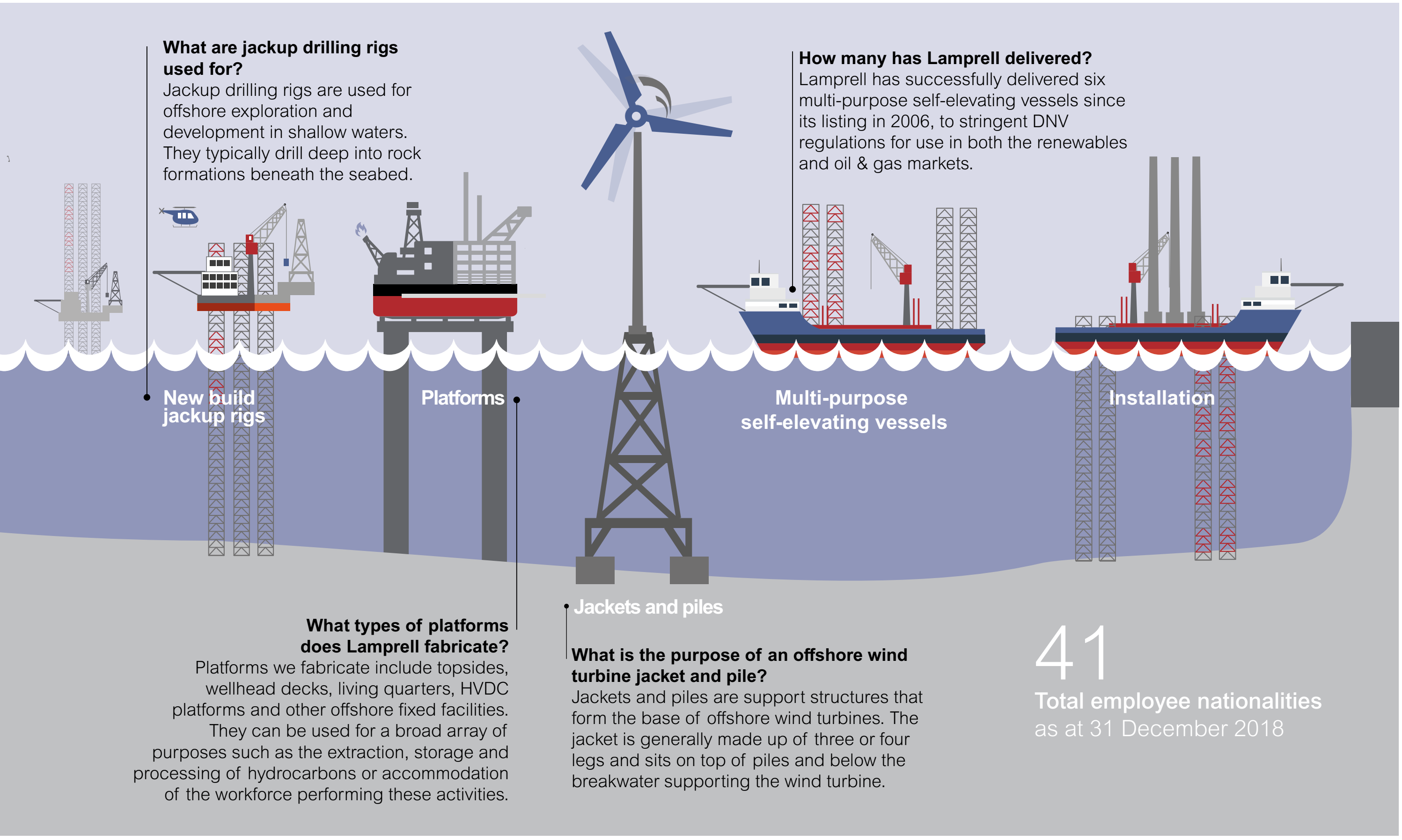
Safety: We deliver world class safety standards and leave nothing to chance, so everybody goes home safely.

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

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

Accountability: We deliver what we say we will.

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



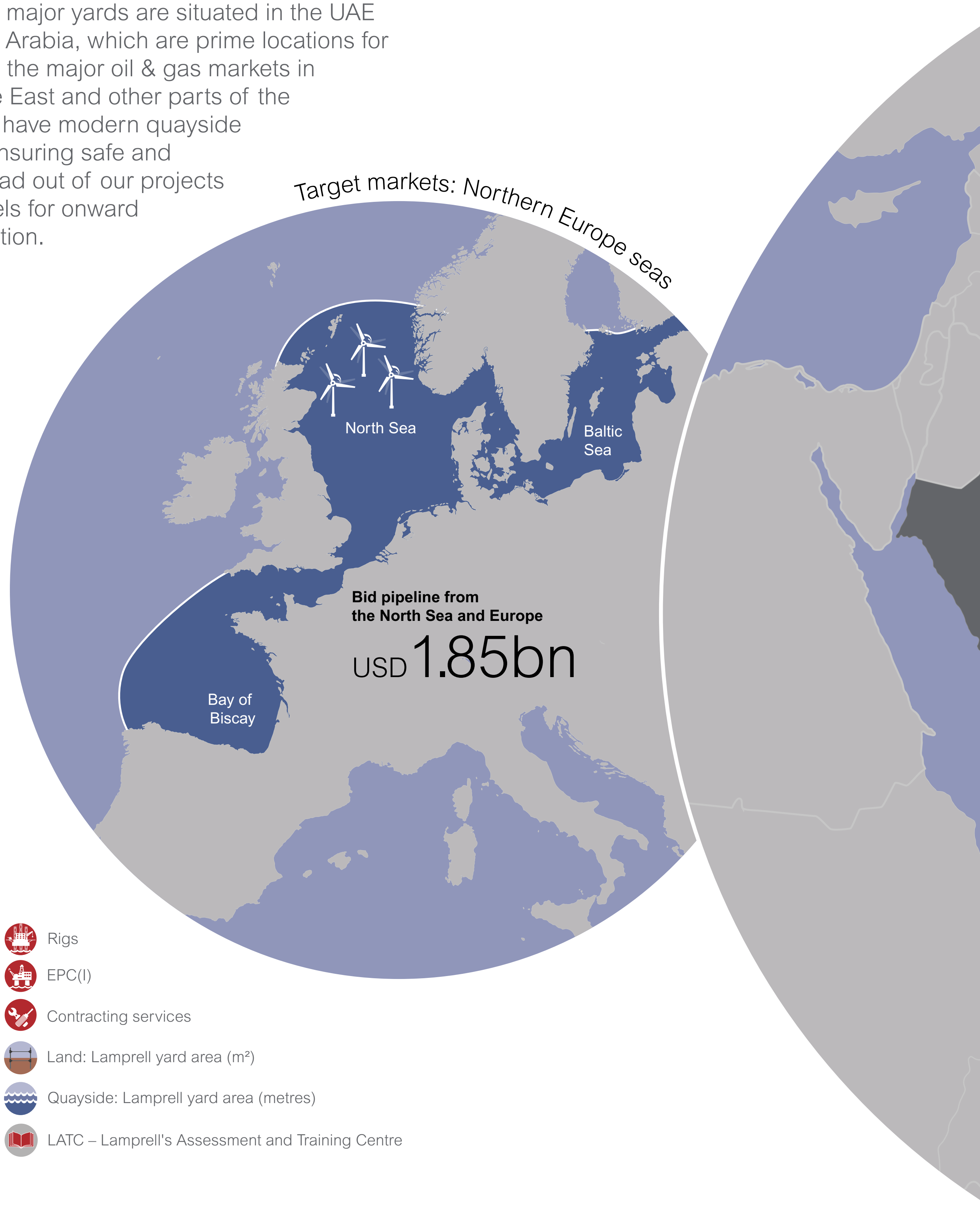
Turn to page 10 to see our strategy in action

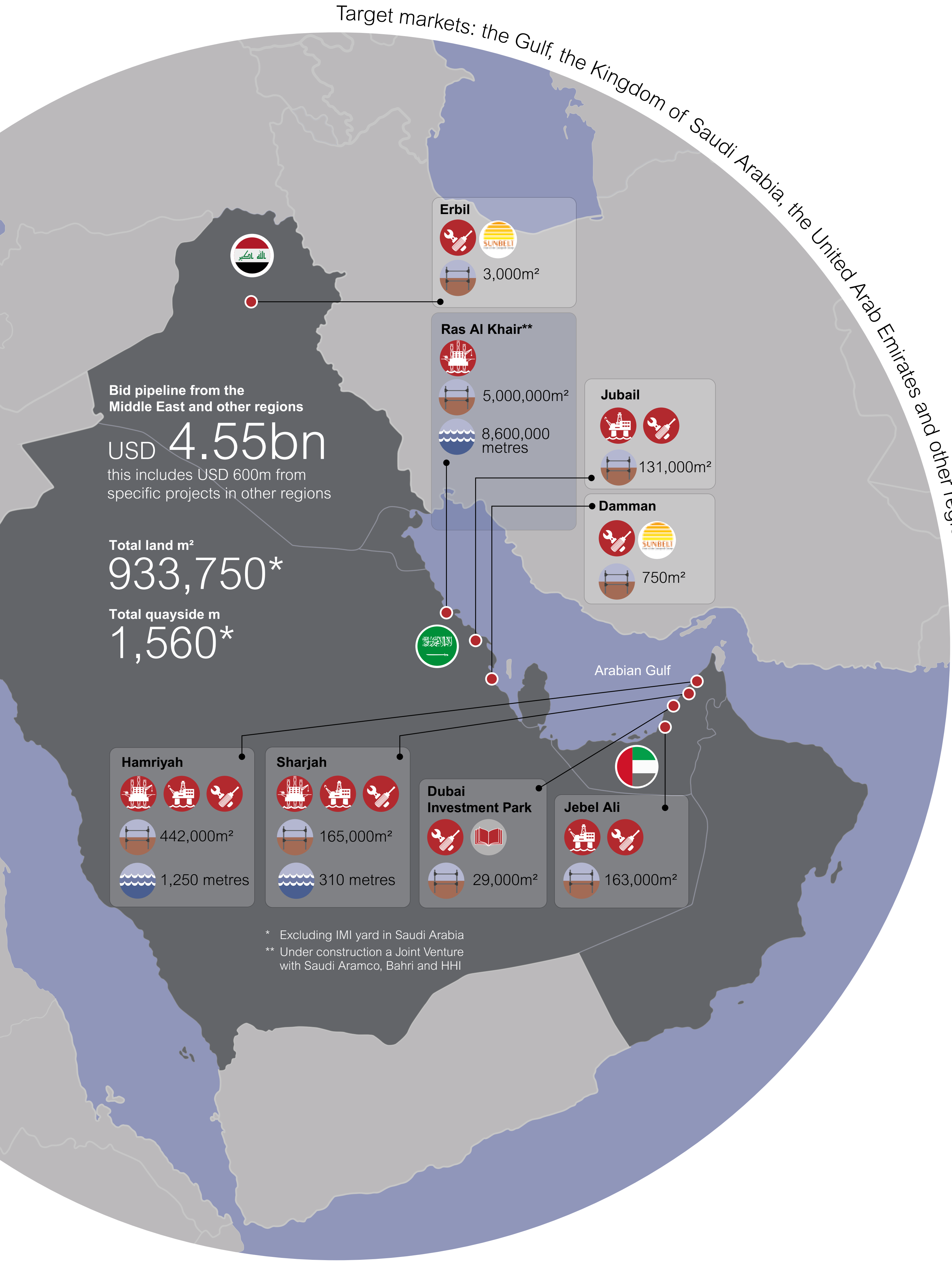
Turn to page 26 for a full review of our operations

Turn to page 28 to learn about our sustainable approach

Our strategic positioning

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





Target markets: the Gulf, the Kingdom of Saudi Arabia, the United Arab Emirates and other regions
Bid pipeline from the Middle East and other regions
USD 4.55bn
this includes USD 600m from specific projects in other regions
Total land m²
933,750*
Total quayside m
1,560*
Erbil
SUNBELT
3,000m²
Ras Al Khair**
5,000,000m²
8,600,000 metres
Jubail
131,000m²
Damman
SUNBELT
750m²
Arabian Gulf
Hamriyah
442,000m²
1,250 metres
Sharjah
165,000m²
310 metres
Dubai Investment Park
29,000m²
Jebel Ali
163,000m²
* Excluding IMI yard in Saudi Arabia
** Under construction a Joint Venture with Saudi Aramco, Bahri and HHI

Our markets, pipeline and future opportunities

Global upstream spending remains subdued with little expectation of material changes in the mid-term. However, in our key target markets of Saudi Arabia and the UAE, over USD 500 billion of investment has been announced over the next ten years and, with local content a key factor in award, Lamprell is well-placed to continue to win work and build backlog.

Macro-economic factors and strategy

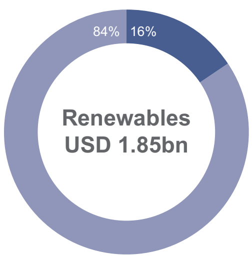
Primary energy demand is expected to grow through 2040 at an annual rate of 1.2%[1], mainly driven by demand in non-OECD regions. World GDP growth rates across the period are a healthy 3.6%, with China and India expecting to increase their collective share of world GDP to 40% from 25% today[1]. The world population also continues to grow, predicted to reach 9.2 billion by 2040, driven by people living longer (OECD and China populations ageing) and with higher birth rates from young populations in Africa and the Middle East. Against this backdrop, the Middle East is well-placed as the world's primary energy provider to support these adjacent fast-growing markets, while using the growing regional human capital to fill the jobs that will be needed to deliver the energy supply of the future.

Energy prices are an important driver to Lamprell's business model page 08 and the oil price story in 2018 was a tale of steady but robust increase for most of the year, with Brent crude spot prices climbing from USD 67/bbl at the start of the year to reach USD 86/bbl in October 2018, a four year high, before falling sharply to end the year at USD 54/bbl[2]. The driving force for the initial increase was the squeeze on oil supply due to sanctions being re-imposed on Iran and the continuing significant production decreases witnessed in Libya and Venezuela. However, in June OPEC decided to commit to raising capacity by 1mbpd and this was followed by US producers increasing production to 11mbpd to take advantage of the higher oil prices[3]. This sudden extra production caused an overshoot in supply which expanded inventories and, set against concerns about a possible global recession, the market sentiment rapidly changed from concern about undersupply to one of oversupply, leading to price falls later in the year.

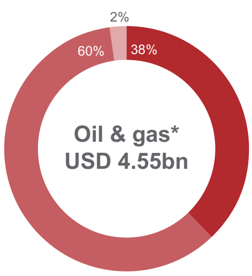
Despite high volatility in energy prices in 2018, major producers continued to demonstrate rapid corrective actions which helped to stabilise the oil price within a reasonable range. OPEC and Russia continue to work together to align their production targets with the aim to keep prices above USD 50/bbl[4], and US shale production is highly correlated to USD/bbl. Essentially, while they have different drivers, the behaviour of the swing-producers Saudi Arabia, the US and Russia helps to keep prices in the range USD 50-80/bbl, and this is not expected to change through to 2025[5].

The renewable energy market continues to attract significant attention and investment, and is predicted to grow 6.8% annually through 2040[6]. Much of this growth is in Lamprell's area of focus, offshore wind, where year-on-year growth in the known global portfolio is approximately 10GW, and now stands at 104GW[6], with approximately 70% in Lamprell's European target market. In May 2019 the UK Contract for Difference (CfD) Round 3 auctions will be held, and with the improving economics of offshore wind projects, Lamprell anticipates a significant number of jacket-based wind farm projects will be awarded and move to Final Investment Decision ("FID") shortly after.

Bid pipeline USD 6.4bn*
USD billion as at 31 December 2018



- Rigs: USD 0.3bn
- EPC(I): USD 1.6bn



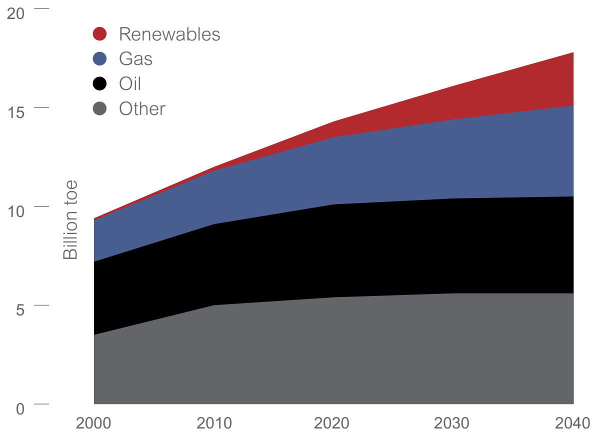
- Rigs: USD 1.7bn
- EPC(I): USD 2.7bn
- Contracting services: USD 0.1bn

*Includes LTA

References

1. October 2017, OPEC World Oil Outlook 2040
2. eia (US Energy Information Administration), Europe Brent Spot Price FOB
3. Petroleum Economist: https://www.petroleum-economist.com/articles/markets/trends/2018/the-rise-and-fall-of-oil-prices-in-2018
4. Bloomberg, www.bloomberg.com/news/articles/2018-12-07/opec-said-to-agree-larger-than-expected-output-cut-with-allies
5. IEA World Energy Outlook 2018, New Policies Scenario
6. Renewables UK Offshore Wind Global Intelligence, June 2018
7. IEA World Energy Outlook 2018
8. Wood Mackenzie Research Note, October 2018, www.woodmac.com/press-releases/upstream-capital-investment
9. Rystad Energy Macro Presentation, September 2018
10. MEED https://www.meed.com/saudi-aramco-raises-10-year-expenditure-budget-414bn
11. Press release, ADNOC Business Plan 2019-2023, www.adnoc.ae/en/news-and-media/press-releases/2018/supreme-petroleum-council-approves-adnocs-2019-2023-business-plan

Primary energy consumption by fuel



Source: BP Outlook 2019

The energy shift to gas and renewables

The global energy mix is undergoing a dramatic change, with the mix of energy sources becoming more diversified than ever. This transformation is being driven by a variety of factors including transportation electrification, the rise of renewables, the upheaval in oil supply dynamics and the globalisation of gas supply. Through the period to 2040, energy demand will grow by more than 25%, and the majority of the new supply required to fill this demand will come from gas and renewables, requiring over USD 2 trillion/year[7] of new investment. In particular the change in energy mix will support continued rapid growth in areas such as LNG and offshore wind. While the change presents major investment opportunities, the pace of change will increase volatility and uncertainty in meeting the shifting demand mix, and governments will play a critical role in how they plan and implement policies to manage the transformation.

Renewables market

Lamprell's renewables focus is in the offshore wind market where typical projects will require the supply of 50-100 jackets of circa 750-1,000 MT across a two-year project schedule[6]. There are a limited number of yards in Europe and the wider fabrication community that can serial-produce jackets on this scale, so although the market remains competitive, successful participants will be able to win work that allows them to continue to invest in their production lines as well as make a reasonable return. While Lamprell's primary focus remains on building jacket-based foundations, we also seek discrete opportunities to leverage our fabrication capacity to move up the value chain into a wider EPC(I) role, in partnership with a transportation and installation provider page 10.

In December 2018 Lamprell was delighted to be selected by GeoSea Procurement and Shipping Luxembourg ("GPSL") for the Moray East wind farm project, whereby Lamprell will build 45 wind turbine jacket foundations and three offshore substation jacket foundations for delivery in 2020 page 16. This success, and the continuing steady stream of high-quality project enquiries confirm our view that the market for Lamprell's products is strong, and that we will continue to bid and secure renewables projects for the foreseeable future.

The opportunity pipeline is based largely on the European market, although we are pursuing work opportunistically in other geographies that are committing to offshore wind such as the USA and Taiwan. The UK leads the world in offshore wind[6], and investment is expected to continue when the Round 3 CfD auction is launched May 2019; a number of jacket-based projects are expected to be successful in the auction, and they will reach FID in 2019/20. European projects typically carry certain in-country spending requirements which benefit local fabrication yards; however, we believe that the regional mass-fabrication capacity will be greatly restrained by the large volume of work expected between 2020 and 2023. This is likely to lead to upward price pressure and/or projects being implemented over longer schedules.

Outside of jacket-based projects, Lamprell is selectively pursuing HVAC/DC substation projects where we can participate in an EPC(I)-type role, consistent with our strategic objective to move up the supply chain. We also continue to receive enquiries to construct wind transport installation vessels which are evaluated through our bid/no-bid process.

Oil & gas market

Global upstream investment is expected to remain restrained in 2019, with spending of USD 425 billion essentially flat with 2016 and 2017, and significantly reduced from the USD 770 billion high of 2014[8]. IOC's remain committed to returning cash to shareholders and will continue to make disciplined spending decisions, accumulating record levels of free cash[9]. The recent lack of investment means that, for the seventh year in a row, liquids discoveries have fallen far below liquids demand[9] suggesting in the mid- to long-term that there will be a supply issue and considerable volatility in energy prices.

There have been no orders for new build jackup rigs over the past four years and the majority of the current fleet has been in operation for over 20 years. Whilst in a capex-constrained environment the market is relying on refurbishment and upgrade rather than new equipment, the utilisation rate of premium rigs clearly exceeds that of more basic ageing models. As technology advances, we expect the efficiency of the new generation rigs to take priority over the coming years, with new build orders resuming gradually in the mid- to long-term.

Saudi Aramco announced plans to invest USD 400 billion over the next ten years[10] and, a significant portion will be directed towards local companies using its "In-Kingdom Total Value Add" ("IKTVA") programme.

Lamprell has demonstrated its commitment to Saudi Arabia with the USD 140 million equity investment in the IMI yard. Over a 10-year period, Saudi Aramco (through its ARO Drilling joint venture) will place orders with the IMI yard to construct a minimum of 20 jackup drilling rigs. Furthermore, in December 2018 Saudi Aramco selected Lamprell (with our partner) for inclusion on the LTA programme page 14. The LTA is the contractual vehicle by which Saudi Aramco awards EPCI contracts for major offshore capital projects in support of its "Offshore Maintain Potential Program". The LTA contract has a duration of 6+3+3 years and, while not guaranteeing work for Lamprell, it does increase our bid pipeline potentially by more than USD 3 billion per annum.

ADNOC has similarly announced a major capital investment programme of USD 132 billion across 2019-2023[11], and this will translate into opportunities in both drilling (land rigs, rig refurbishment and potentially new build jack-ups) and EPC(I) projects, including major offshore developments. In 2017 ADNOC implemented their In-Country Value ("ICV") programme that encourages investment in the UAE and gives preference to bidders who have high UAE content. Lamprell has been a major investor in the UAE for four decades and has a correspondingly high ICV score, thereby enhancing our prospects for benefiting from this programme.

Our business model

Our flexible business model adapts to changing circumstances and we aim to deliver predictable, sustainable and profitable growth through a robust strategy, strong management and leading operational performance.

Our core services

Rigs
page 2

EPC(I)
page 2

Contracting services
page 3

We **reinvest** profits and experience back into our business for continuous improvement

What we are good at:

Clients trust us to listen to them, adapt to their needs and deliver value for money. They seek safe execution of projects, a competitive delivery model, reliability, delivery excellence, local content and risk transfer.

We deliver excellence in **safety**, quality, **fiscal accountability**, reliability, **integrity**, productivity, **accountability**, client relationships, **teamwork** and continuous improvement.

page 03 for our values

What we aim to deliver to our stakeholders

Clients
High quality assets and services that help them to produce energy safely, efficiently and cost-effectively

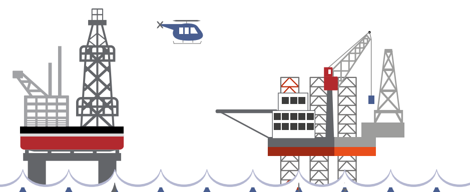
Shareholders
Profits, cash flow and dividends

Employees
Secure jobs, investment in training and health care

Suppliers
Repeat contracts with growth of projects

Joint venture partners
Exchange of skills and experiences

Community
Employment and charitable support



How we generate profit

Profitability derives initially from understanding the project scope at the bidding stage and submitting a proposal to clients which is underpinned by a cost base reflecting the scope and which includes a reasonable and competitive margin. After award, the Project Managers lead our teams to execute projects in accordance with the cost base in the proposal, leaving the margin which generates profit.

We **output** high-quality reliable assets and services which aim to **deliver value** to all our stakeholders

We **input** people, intellectual property, financial assets, relationships, processes, infrastructure, supplies and business development

What we need to operate effectively

People
- Values driven Board of Directors
- Experienced management teams
- Qualified, experienced workforce

Intellectual property
- Specialist industry knowledge
- High levels of technical expertise

Financial assets
- Solid balance sheet
- Targeted capital investment

Relationships
- Close partnerships with clients
- Effective relationships with key stakeholders

Processes
- Enterprise resources planning
- Powerful IT infrastructure
- Project management systems
- Embedded risk management

Supplies
- Wide range of materials suppliers
- Strong supply chain network

Infrastructure
- Geographically well positioned facilities
- Deep water quaysides
- State-of-the-art facilities
- Owned plant and equipment

Business development
- Compelling and competitive bids
- Risk-based estimation process
- Experienced proposals team

Key target markets

Oil & Gas

Renewables

How we identify and secure opportunities

Rigs
- Invitation to tender comes via a rig broker
- Fluid bidding process
- 2-3 month bidding process

EPC(I)
- Invitation to tender comes directly from ultimate client or via an EPCI contractor requiring third party services
- Rigid bidding process
- 6-12 month bidding process

Contracting services
- Invitation to tender comes directly from the client or via a contractor requiring third party services
- Bidding is based on a time and material basis
- Very short bidding process

How we execute projects

The agreement between Lamprell and its customers provides the contractual structure and roadmap for the Project Managers to complete their respective projects. The Project Manager roles are crucial: they are accountable for setting up a project and executing it in accordance with the bid cost basis, for liaising with clients on progress and change management and for involving all other functions, whether internal or external, to provide such specialist support as may be required.

They also feed back lessons learned on their project(s) to improve future performance.

We rely on our supply chain to deliver materials and/or services as agreed, both in terms of quality and time. The network of suppliers feeds into our automated project management and entterprise resource planning systems, which are two of the foundations for successful project execution.

We **create value** by combining our skills, cost discipline, experience and core values to deliver useful products or services

Our strategy in action

Strategic objectives:

Maintain market leadership in new build jackup rigs

Read about our new rig design
page 12

2018 priorities
- Leverage our investment in the IMI yard
- Progress our proprietary LJ43 rig design
- Receive IMI award for Saudi Rigs 1 and 2 as part of the 20+ new build jackup rig programme

Our progress this year
- LJ43 basic design complete
- Provided technical support and know-how for rigs to IMI
- LOI received in December 2018 from IMI for Rigs 1 and 2 to be built collaboratively between IMI and Lamprell with approximately 15% Saudi content

Broaden our presence in Saudi Arabia

Read about the progress in the JV with Saudi Aramco
page 14

2018 priorities
- Be selected by Saudi Aramco as LTA contractor
- Build partnerships within Saudi Arabia
- Investment in Saudi Arabia in support of "Vision 2030" and the IKTVA programme

Our progress this year
- In November 2018 Lamprell was included on the LTA programme
- Support for IMI under USD 140 million committed investment
- Formed Lamprell Saudi Arabia, a joint venture with local Saudi company

Deliver our renewables strategy

Read about business improvement based on key learnings
page 27

2018 priorities
- Use our lessons learned on EA1 and core capabilities to differentiate our offering
- Continue to build the renewables bid pipeline

Our progress this year
- Awarded contract to build 48 jackets for the UK Moray East wind farm project
- Large number of high-quality projects similar to Moray East identified and now under bid

Continue to be an EPC(I) provider to the energy industry

Read about our growing expertise in EPC(I)
page 16

2018 priorities
- Bid on Saudi Aramco EPCI projects under the LTA
- Leverage LTA role to qualify as a bidder on other EPCI projects with IOC and NOC clients
- Pursue EPCI in HVAC/DC renewables

Our progress this year
- Inclusion on LTA programme in 2018 will result in bidding during 2019 and beyond
- A number of HVAC/DC opportunities identified in the bid/no-bid process, bidding on a selective basis

Build on our rig refurbishment and land rig position

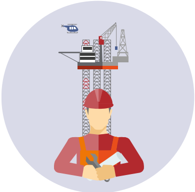
Read about delivering the "Haven" accommodation unit with a perfect safety record
page 27

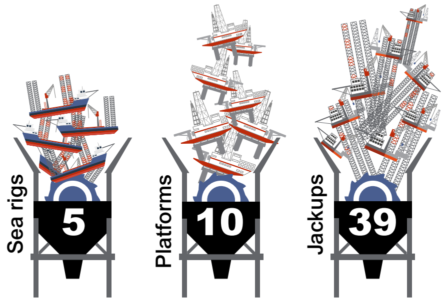
2018 priorities
- Continue to secure rig refurbishment work
- Build on long-term relationship with drilling community

Our progress this year
- Lamprell has been awarded a record 23 rig refurbishment projects in 2018
- Minimal awards for land rig projects in 2018 – NOC's have delayed awards into 2019

KEY
- Achieved/complete
- Made good progress
- Not completed

Key data





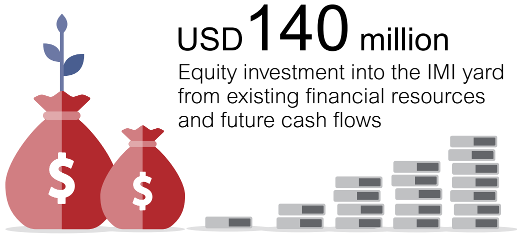
Full set of KPIs page 24

54
Rigs sold for scrapping or conversion in 2018

Source: Offshore Energy Today

2019 priorities
- Support IMI for construction of its near term rig programme
- Promote LJ43 rig design for use on future jackup rigs

Key risks
- LJ43 rig design is not adopted as part of the new build programme
- Delays to awards due to client caution around continuing energy price volatility



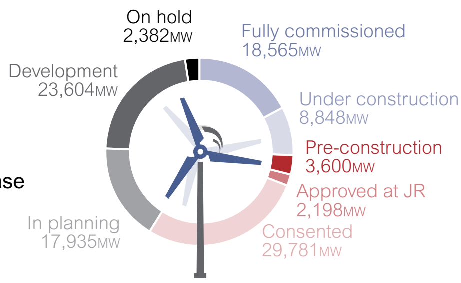
USD 140 million
Equity investment into the IMI yard from existing financial resources and future cash flows

2019 priorities
- Secure EPC(I) work under the LTA
- Further develop Lamprell Saudi Arabia
- Actively participate in Saudi Arabia's IKTVA programme
- Board visit to Saudi Arabia planned for 2019

Key risks
- LTA work is bid competitively, and we are unsuccessful in winning work
- Saudi Arabian geopolitical situation deteriorates

Offshore global wind market increase of 10GW to
104GW

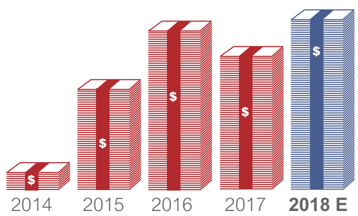
Source: Renewables UK October 2018



Global portfolio by status

2019 priorities
- Secure a further major foundations project
- Partnering on EPC(I) basis to bid HVAC/DC projects

Key risks
- Awards delayed due to capacity constraints
- USD strengthens against GBP/Euro reducing our cost advantage over European yards

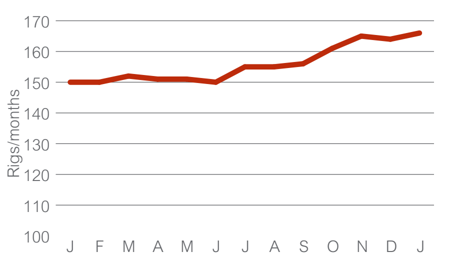


Source: MEED Projects, Dec 2017
Upstream Online, July 2018

Saudi Aramco offshore CAPEX spend
4.3 billion
USD as at 31 December 2018

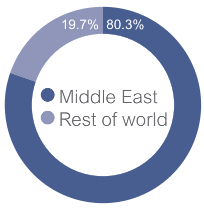
2019 priorities
- Bidding for work under LTA programme
- Qualify to bid for EPCI projects with ADNOC
- Bid on HVAC/DC opportunities

Key risks
- LTA work is bid competitively, and we are unsuccessful in winning work
- We fail to qualify for EPCI prospects with other clients



Mediterranean and Middle East jack up demand 2019-2020
Source: Petrodaily International Rigs Weekly Brief, 25 January 2019

Global rig demand 2018



2019 priorities
- Maintain market share of awards in rig refurbishment
- Convert land rig awards

Key risks
- Further delays to awards because of continuing energy price volatility
- Significant global competition in the land rigs market particularly from Far East fabricators

Strategic objective: Maintain market leadership in new build jackup rigs

Lamprell awarded only jackup rig orders in 2018

In spite of the challenging market backdrop in 2018, Lamprell is living up to its strategic goal of maintaining its leading position as a new build jackup rig builder.

During the year the Group finalised its proprietary 'LJ43' rig design in collaboration with GustoMSC. This is a major milestone in Lamprell's history. Early in 2018, IMI and their client, ARO Drilling, indicated that the LJ43 design was expected to be the base for the jackup rigs to be built at the IMI yard in eastern Saudi Arabia. All parties will work together to agree the optimal rig design and specifications to meet the clients' requirements for drilling offshore Saudi Arabia.

Late in the year, the Group extended its support and investment in the IMI joint venture in which Lamprell is a partner page 14, with the binding letter of intent from IMI to construct the first two rigs for ARO Drilling. These rigs will substantially be built at Lamprell's facility in Hamriyah with approximately 15% to be constructed in Saudi Arabia – this reflects the increasing prominence of in-country value as a key driver for clients and also the commitment by Lamprell to support the establishment of this new major maritime yard.

Safety and Integrity

Best safety record in company history

Having spent over a decade working for Lamprell, I have seen a lot of improvements in our safety culture over the years. The safety message is being driven harder than ever before, direct from our management team, and the efforts have paid off. In 2018 Lamprell achieved its lowest recorded TRIR of 0.15 page 31. Our new "Safe Start" and "Shields for Life" initiatives page 30 have certainly helped us reach these statistics and it was great to see our efforts noticed by our clients, in particular Master Marine. Lamprell completed 2.6 million manhours on the "Haven" project page 27 for this client with zero recordable incidents. I have seen employees put tremendous effort into making this possible and am proud to be part of the team producing these outstanding results.

Investing in technology

At Lamprell we view digitisation as a key enabler for growth and a differentiator that will enhance our competitiveness. We are piloting a number of digital initiatives encompassing robotics, face identification and real time analytics that will optimise the manner in which we utilise assets and human capital across our business. Over time our digitisation strategy will align with and enhance our business strategy to create further value for our shareholders.

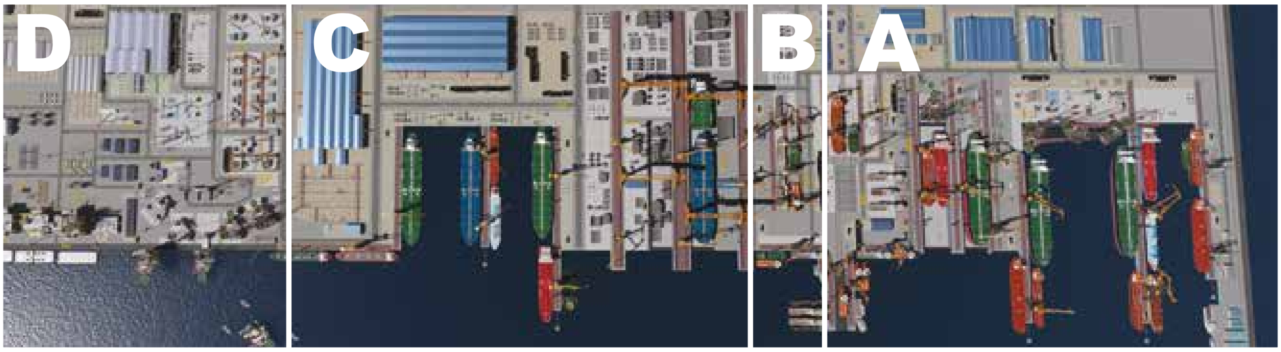
Strategic objective: Build on our rig refurbishment and land rig position

Record number of rigs refurbished in 2018

2018 saw a major comeback in the rig refurbishment arena which is a welcome sign for the oil & gas industry. Lamprell completed upgrades and modifications on 23 jackup rigs, a record number for the business, compared to 13 in the prior year. A number of the refurbishment projects resulted in increased scopes of work as Lamprell progressed their delivery, which supported revenue flow and underpinned our view that the wider market recovery has commenced. We also housed many stacked rigs throughout the year for numerous clients at our Hamriyah and Sharjah facilities and delivered a number of small but significant land rig services for four different clients.

Ascension to Saudi Aramco's Offshore LTA Programme

The LTA is part of Saudi Aramco's offshore investment programme and involves the award of EPCI contracts to an exclusive list of contractors to support Saudi Aramco's offshore activities. Lamprell's bid pipeline will increase by more than USD 3 billion per annum as a result of its inclusion on the LTA, with an initial programme duration of six years, with Saudi Aramco having the option to extend for a further three plus three years.



Zone D
Technical Partner:
Lamprell
New build jackups

Zone C
Technical Partner:
HHI
New build commercial vessels

Zone B
Technical Partner:
HHI
MRO and new build OSVs

Zone A
Technical Partner:
Lamprell
MRO jackups and commercial vessels

Strategic investment in IMI yard

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. We are working with our partners to deliver the joint venture established as "International Maritime Industries" or "IMI". This is a cornerstone project in the Saudi 2030 Vision and will help us to establish Lamprell's business in Saudi Arabia.

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.

Strategic objective: Broaden our presence in Saudi Arabia

Making great strides in the Kingdom of Saudi Arabia

Saudi Arabia is core to our growth strategy, and we pursued multiple opportunities to gain a stronger foothold and build capabilities in the country during 2018. We started the process of strengthening our in-Kingdom capabilities by partnering with strong local businesses through the formation of Lamprell Saudi Arabia. This joint venture company, which includes our local partners, is expected to help us achieve the IKTVA targets for Saudi Aramco. We also became an LTA contractor for Saudi Aramco alongside transportation and installation partner, Boskalis.

JV with local Saudi partner

Saudi Arabia is a strategic geography for Lamprell and, with local content increasing in prominence, we are committed to developing a strong competitive position in-country. This forms part of the In-Kingdom Total Value Added programme, which is a core component and key requirement in Saudi Aramco's LTA programme. Lamprell is investing USD 140 million into the Saudi maritime yard at Ras Al Khair and, in H2 2018, we formed the Lamprell Saudi Arabia joint venture with a Saudi partner, which brings local expertise in working on major projects in Saudi Arabia.

EPC(I) Project Director
Massimo Bettolini

Teamwork

It's all about our people

People are the foundation of Lamprell's business and success. We have invested in the upskilling of our workforce and added new resources in support of our strategic objectives page 10 in the EPCI and renewables sectors. The Group is using data-gathering and improved lessons learned processes to measure performance. This helps to ensure that our workforce is 'future fit', which drives improved productivity.

Securing Lamprell's position on Saudi Aramco's prestigious LTA programme page 18 is a game changer for the Company and would not have been possible without a high level of teamwork shown from the top down including Lamprell's Board, senior management and the many departments within the Company. In 2019 we will not rest on our laurels; the hard work lies ahead as we start to bid on new LTA projects. This will require close alignment between our Proposals Team and the Projects Department that will be executing the work.

Strategic objective: Deliver our renewables strategy

Won new contract for Moray East wind farm project

Lamprell ended 2018 on a high note seeing its renewables strategic objectives bearing fruit following a contract award by GeoSea for the Moray East offshore wind farm project. Valued at more than USD 200 million, we will be fabricating 48 out of around 100 jacket foundations. Out of the 48 jackets awarded, 45 will be built for the wind farm while the other three will form part of the offshore substations also being installed for use on the project. The Moray East wind farm is expected to generate power at less than half the price of power generated by other offshore wind farms under construction today.

The East Anglia One project is nearing completion and Lamprell is supporting Harland & Wolff with their assembly activities and working with the client on the final certification and handover protocols in time for its installation campaign. There have been significant challenges on the project but, with the knowledge and experience gained, we have significantly improved the pricing structure and reduced the overall risk profile page 36 on renewables projects like Moray East.

EPC(I) Project Manager
Angela De Vincentis

Fiscal responsibility and accountability

We deliver what we say we will

As Lamprell's Project Manager on the Moray East project, my team and I helped to ensure that the lessons learned recently on East Anglia One were used to make us more competitive and reduce the overall risk profile page 34 of this new project. Many steps were taken including considerable investment in EPCI sector resources, improved manpower forecasting, greater scrutiny of benchmark data for bidding norms and closer alignment between our functional teams during bidding and handover. I am looking forward to leading the team and delivering the 48 jacket foundations to our client's expectations; we are committed to making this strategic market a success for Lamprell and we will deliver what we say we will.

Investing in people

Lamprell's people are our most important asset, the power of our organisation and we strongly believe in investing in the right talent for the job. We hired 185 new professional and support employees in 2018 to support our strategic objectives; we have also upskilled our workforce through both external and internal training via our very own Lamprell Assessment and Training Centre page 28.

Strategic objective: Continue to be an an EPC(I) provider to the energy industry

Collaborating with leading partners on EPC(I) projects

Lamprell has a clear strategic objective to be an EPC(I) contractor to the energy industry page 10. We measure our performance against various metrics and most notably 2018 saw our inclusion on Saudi Aramco's exclusive LTA programme alongside transportation and installation partner Boskalis. The LTA is one of the most sought-after and selective processes in the industry and, following a competitive bidding process, Saudi Aramco has chosen an elite few contractors to bid for and execute EPCI projects in the waters offshore Saudi Arabia. Selected LTA contractors have the right to bid for tenders put out by Saudi Aramco without further technical prequalification or preselection, considerably shortening the lead time through to award. While we are proud to participate in the LTA programme, inclusion does not guarantee work and 2019 will be the next crucial step forward as we bid on LTA projects and demonstrate our ability to win awards and execute them successfully.

We were pleased to cement our relationship with Boskalis, a leading industry partner, as part of the LTA process. Broadly Lamprell is expected to focus on the engineering, procurement and construction elements while Boskalis will be primarily responsible for transportation and installation. These projects can only be executed effectively with close collaboration and an integrated execution plan between the partners – we are excited by this opportunity and will dedicate our many new resources with EPC(I) specialist knowledge to ensuring that these projects will be a success.

In 2019 Lamprell will also focus on leveraging our LTA role to qualify as a bidder on other EPCI projects with other major clients, in both the renewables and oil & gas markets. We are actively engaged with other potential partners to target and win such new projects and we believe that we have a differentiated offering for projects in the UAE and in the offshore wind farm sector.

Statement from our Chairman

2018 was marked by continued industry uncertainty and by the ongoing challenges in the East Anglia One project, both of which impacted our profitability for the year. Against this backdrop, Lamprell made significant strategic progress, which will help diversify our revenue sources and secure commercially strong prospects in years to come. We will continue to focus on risk management throughout the business to help us return to profitability in the medium term.

The oil & gas industry is now in its fifth year of downturn and instability. We experienced widespread optimism early in the year only to see the oil price slump dramatically late in the year. The current uncertainty affects capital expenditure in the sector, meaning that our traditional sources of revenue remain inaccessible in the near future. We anticipated financial pressure to continue in 2018 as, despite firm fiscal control and responsibility, our current low revenue levels and reduced margin contributions significantly affected our profitability. With that in mind, our goal for 2018 has been to make major advances in delivering against our strategic objectives page 10, taking into account the changing dynamics of the energy industry.

Delivering our strategy

The prolonged downturn in the oil & gas sector has highlighted our over-exposure to a single source of revenue. Our long-term goal is to grow the business' geographical reach, expand the markets and industries we can access as well as move the Company higher up the value chain to access larger, more complex projects.

One of our top priorities for 2018 was to further strengthen our presence in Saudi Arabia, a region with a clear commitment to investment in major oil & gas projects. We are making good progress with our joint venture, the IMI yard, and are pleased to have received a letter of intent for the construction of two jackup rigs at Lamprell's UAE facilities with approximately 15% to be completed in Saudi Arabia. These are the first jackup rigs awarded since 2015 globally – a clear demonstration of growth fundamentals in the region. I am also very pleased to report that following a very rigorous selection process we were able to deliver on our objective of being selected as one of the partners on Saudi Aramco's LTA programme page 14. The LTA covers one of the largest offshore oil & gas capital expenditure programmes in the world, has added over USD 3 billion of opportunities to our bid pipeline and puts Lamprell and its LTA partner Boskalis on a par with other leading EPCI industry players. The programme does not guarantee contracts but I am confident we will soon begin to see the benefit of our efforts to submit an attractive proposition to the client and convert the pipeline into new awards, realising strong revenue opportunities for the Group.

Our third major achievement for the year was the award of a new major contract in the renewables market. Taking into account the challenges we have faced on a similar contract since 2017, the Board considered the commercial and risk profile page 34 of the Moray East project very seriously. The role of renewables in the global energy landscape will continue to gain prominence. The pipeline of projects in Europe, presently the largest wind farm market page 07, is growing and large offshore wind farms are gradually spreading across the globe with the US market now also taking a more proactive step towards cleaner energy. Having assessed the growth forecasts for the renewables industry and incorporated the lessons learned from our first project in this industry, I firmly believe in retaining this product offering as one of our strategic focus areas and I have full trust in Lamprell's ability to deliver this new project and regain shareholder confidence.

Culture and core values

This is my sixth year with Lamprell and second year as Chairman. It has not been an easy period for the Group and I am very pleased to note that, despite the pressures resulting from a volatile market, the Company adhered to its most inspiring values: commitment to safety at our sites is unquestionable page 30 and without doubt makes us stand out for our prospective clients, and fiscal responsibility has provided us with a cash position solid enough to weather the consequences of the market downturn. Lamprell's culture of delivering a product to every client with full accountability and integrity has now opened new opportunities in Saudi Arabia and in the renewables industry and a fresh focus on teamwork is helping us reduce project risk profiles from the early bidding stage. Our core values are fundamental to ensuring that our strategic goals and shareholder value will continue to be delivered in the long-term.

Board changes and talent development

I was pleased to note the stability on Lamprell's Board in 2018. Following Ellis Armstrong's planned retirement at the Company Annual General Meeting in May, Debra Valentine assumed the role of Senior Independent Director and James Dewar now chairs the Audit and Risk Committee. Further detail on the Board and its main focus areas throughout 2018 can be found on page 38.

Succession planning and talent development was a stated Board priority last year, not just at the Board level but also within management. The successful delivery of some of our main

"Lamprell is now a business focused on growth and further progress in our strategic goals. I am confident we will soon begin to see the benefits of our efforts and will be able to demonstrate strong new revenue opportunities to our shareholders."

John Malcolm
Chairman

objectives in 2018 would not have been possible without the highly experienced existing Lamprell team as well as the new talent page 28 that we brought on board to deliver our strategic transformation. The focus and dedication that the combined team continues to demonstrate in its effort to turn the page on the challenges of the past years is commendable. The Company will continue its work to enhance the leadership team in 2019 through a series of workshops which will build on the strengths identified in 2018.

Focus for 2019

The outlook for the oil & gas industry, although improving, still shows elements of volatility. I do not expect the global new build jackup rig market to recover in 2019, but our presence in Saudi Arabia has provided us with rare revenue opportunities in this segment. Our focus on the renewables market will continue and, with our traditional sources of revenue expected to resume in the medium term, global fabrication capacity may come under pressure which will improve the market and pricing dynamics throughout the value chain.

Generating a healthy and sustainable backlog, along with cost discipline, will be our main focus in 2019 and, as we convert current significant opportunities into projects, we are striving to become a cash generative business in the medium term. Over the course of 2018 I have seen very clear evidence of a business striving to improve its process and risk assessment as it enters a new era in its history.

John Malcolm
Chairman

Report from our Chief Executive

"In 2018, the Company continued on its journey of transformation and delivered on its strategic objectives into key markets with the ascension to Saudi Aramco's LTA programme, award of a major new wind farm foundation project and the LOI for the first two rigs to IMI."

Christopher McDonald
Chief Executive Officer

Lamprell has delivered a number of significant milestones on its growth strategy, which, despite continued pressure in the oil & gas industry, has allowed us to plot a clear path to return to growth in 2019 and beyond.

2018 has been a pivotal year in establishing the building blocks for Lamprell's strategic aspirations, and we are pleased to report significant progress in delivering our strategy page 10. Operationally and financially we are still feeling the effects of the prolonged downturn in the oil & gas industry, which resulted in pressure on our backlog and revenue levels. However, we finished the year with a significant new contract in the renewables industry and a stronger position in Saudi Arabia with a binding Letter of Intent ("LOI") for the major portions of the first two IMI rigs and our entry to the LTA opening up further revenue opportunities in 2019 and beyond.

Health and safety

I am proud to report an exceptional safety performance in 2018. A TRIR of 0.15 for the year is a top-tier result for our industry and is our best result since becoming a publicly listed company. I would like to thank both our health and safety team and all our employees for delivering this result. Safe operations are a cornerstone for the success of our business, which is why our "Safe Start" programme page 30 has been developed to involve every employee, with particular focus on safety leadership from the senior management.

Operational update

In the first half of 2018 we completed the UAE-based works on two major projects: the mobile operating unit "Haven" for Jacktel AS, a wholly owned subsidiary of Master Marine AS, and the jacket foundations for East Anglia One on behalf of client ScottishPower Renewables. The "Haven" upgrade was completed in April on time and on budget with an exceptional safety performance. Over 2.5 million manhours were completed with zero recordable incidents, and the unit is now in operation offshore Norway.

Project execution and control on the East Anglia One project page 26 improved during the year, as the project proceeded towards completion. We completed all UAE based works in H2 2018 and this included fabrication and delivery of 42 jackets to the client in Vlissingen and the delivery of the flat-pack components for 18 jackets to our subcontractor in Belfast. With the project nearing completion, we are supporting Harland & Wolff with their assembly activities and working with the client on the final certification and handover protocols in time for its installation campaign. Final delivery remains on track to meet the campaign requirements although the exposure to liquidated damages will remain unchanged until project completion. The results for the year include a further provision of USD 9.4 million for the project.

The yard activity levels were at a historical low following the completion of the above-mentioned works, but we have seen an increase in rig refurbishment work with a record 23 rigs going through the yards in 2018, with many more in various stages of warm or cold stacking throughout the year.

We continue to build on our traditional areas of expertise in anticipation of their recovery in the medium term. As such, we developed an exclusive jackup rig design in collaboration with GustoMSC and completed the basic design process early in the year. The LJ43 rig page 12 utilises a custom-designed hull and living quarters developed by Lamprell along with GustoMSC's leg design. It has been designed to accommodate specific requirements of the Middle Eastern market but Lamprell believes that this state-of-the art design is highly adaptable and capable of being used in a wide array of offshore locations around the world.

Strategic priorities

In 2018 our business has made remarkable progress in advancing its strategic goals. Firstly, we set out to diversify our revenue stream away from jackup rigs by expanding the type and scope of work that we do. In preparation for this transformation we have made a number of changes within the business: we now have a leadership team in place with a significant track record of delivering complex EPC(I) projects in our key markets; our internal bidding and project execution approach has been upgraded to reinforce controls at every stage, and we are highly selective in developing our bid pipeline.

The effort that we put into transforming Lamprell from within is beginning to show results – firstly, we became one of Saudi Aramco's preferred suppliers on its LTA programme for offshore projects page 14. This is a highly sought-after opportunity in the industry, and I would like to thank the team that worked on this bid over the past 18 months. The Middle East, and Saudi Arabia in particular, will remain our major focus as countries with clear growth projections, and it will be intrinsic to our recovery story.

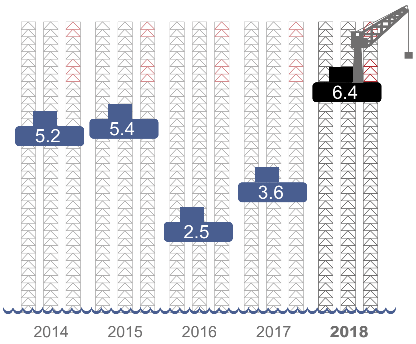
Local content and in-country spending are rapidly gaining prominence in the Middle East, and we are proud to have established a number of partnerships in both Saudi Arabia and Abu Dhabi to help us address our clients' requirements in an efficient manner while contributing to the development of local economies. By partnering with local companies and committing to the USD 140 million equity investment in the Saudi maritime yard, we have demonstrated our commitment for this key market and supported our effort to bid for Saudi Aramco's LTA programme. In Abu Dhabi, our long history of working with ADNOC Drilling has established our high levels of in-country performance and we will build on this to realise opportunities for new business there.

Secondly, our effort to build upon our experience and access further projects in the fast-growing renewables industry has resulted in a major project in our backlog. Moray East page 16 is one of the most prominent wind farms recently committed for construction, and we are delighted to be part of this large-scale, high profile project. With the knowledge and experience we gained through East Anglia One we have been able to significantly reduce the risk profile page 34 on this project, and I am confident we can deliver in a timely and cost-effective manner.

Thirdly, we are proud to continue to support the IMI joint venture with a LOI for the award of the first two new build jackup rigs to be substantially built at Lamprell's facility in Hamriyah with approximately 15% to be constructed in Saudi Arabia. These are the first jackup rig orders to be awarded in the last four years. In this way, IMI will build its capabilities in the rig market and Lamprell will cement its relationships with key stakeholders in Saudi Arabia. Lamprell is committed to support the establishment of this new major maritime yard in Saudi Arabia, both directly and indirectly, as it looks to build its expertise and develop its capabilities and personnel within the Kingdom.

We continue to ensure that our operations follow major industry developments and technological advances. As such, we have dedicated a specialist team with a focus on developing digital solutions page 13 for both our operations and the products we fabricate. The team is working with industry experts to identify potential opportunities which leverage such solutions into the real working environment. We believe that in this rapidly evolving industry, this will improve our operational efficiency and competitiveness, as well as potentially create new revenue streams for the Company.

Bid pipeline
(USD billion)



Outlook

After two years of no major contract awards, we are finally beginning to see traction in the bid pipeline page 06, although we expect that potential new contracts will be in the EPC(I) side of the business in the near team, rather than in Rigs. We forecast a revenue range of USD 250-400 million for 2019, which will be mainly supported by the Moray East project and walk-in work. With the backlog now returning to growth we have demonstrated our ability to rebound from the operational challenges as well as the longest industry downturn since Lamprell became public. We are well positioned for the anticipated coming upturn.

Christopher McDonald
Chief Executive Officer

Review of our finances

Group financial performance was in line with our guidance. Current sales levels and no margin contribution from revenue on the East Anglia One project affected our profitability, but we are pleased to report significant increases in our order book and in our bid pipeline which are expected to improve financial results from 2020.

Revenue

USD 234.1m

2017: USD 370.4m

Net cash

USD 80.0m

2017: USD 257.0m

The Group's financial performance in 2018 reflected the ongoing pressure in the oil & gas industry, as well as the impact of a significant part of the Group's revenue making no contribution to the bottom line. Our revenue levels fell to USD 234.1 million from USD 370.4 million reported during the same period in 2017.

During the first half of 2018 Lamprell completed two major projects in its UAE facilities and with no further significant projects booked into backlog until the end of the year, the Group's revenue is biased towards H1 2018.

The award of two new projects in the later part of the year provides improved backlog to deliver revenue growth in 2019.

Within our strategic markets, Renewables generated USD 94.8 million, down from USD 130.7 million in 2017 as the EA1 project reaches its conclusion; and Oil & Gas generated USD 139.3 million, down from USD 239.7 million in 2017 with Master Marine, which completed in H1 2018, being the only major project in the segment.

Our reporting segment for Rigs delivered revenue of USD 76.0 million compared to USD 160.8 million in 2017. EPC(I) revenues were USD 99.8 million, down from USD 154.3 million in 2017. Improved trading in our O&M manpower and siteworks businesses delivered USD 58.3 million of revenue, up from USD 55.4 million in 2017.

Margin performance

The gross loss for the year is USD 9.1 million, an improvement when compared with the gross loss for 2017 of USD 50.2 million. The gross loss in 2018 is driven by a combination of low levels of revenue from our profitable projects which have been insufficient to recover our operational overheads and an increase in the estimated loss on the EA1 project of USD 9.4 million which brings the overall estimated loss for the project to USD 89.4 million. The primary cause for the increase in the loss is the additional cost incurred supporting the Belfast based subcontractor due to their financial difficulties.

We have kept operational overheads under control with the USD 40 million recorded in 2018, in line with 2017. As we signalled in last year's report, our overall overhead has increased to USD 86.4 million from USD 82.4 million in 2017 largely due to strategic upskilling.

Group EBITDA from continuing operations amounted to a loss of USD 35.1 million (2017: loss of USD 70.5 million). EBITDA margin has improved to (15.0)% when compared to (19.0)% reported in 2017.

Finance costs and financing activities

As our levels of debt and committed facilities reduced during 2018, as expected our net finance cost has also reduced to USD 3.5 million (2017: USD 5.1 million). Gross finance costs were USD 5.7 million (2017: USD 9.0 million).

Net loss

Lower revenue levels, as well as a modest deterioration in the margin performance on the East Anglia One project in 2018, resulted in a loss attributable to the equity holders of USD 70.7 million (2017: loss of USD 98.1 million). The fully diluted loss per share for the year was 20.67 cents (2017: loss per share – 28.70 cents).

Capital expenditure

The Group's operational capital expenditure for the year ended 31 December 2018 decreased to USD 10.0 million, compared to USD 23.7 million in 2017. As project activity levels remained subdued, capital expenditure focused on bringing the pipe shop to the commissioning phase, essential operating equipment and the development cost of the LJ43 rig.

Strategic capital expenditure of USD 39 million is attributable to the Group's investment in the IMI maritime yard in Saudi Arabia page 14. To date, Lamprell has invested USD 59 million of the USD 140 million committed. We expect to continue to fund this investment from our balance sheet.

We continue to review our capital expenditure very carefully with a focus on initiatives that improve our efficiency and productivity.

Cash flow and liquidity

The Group's net cash flow from operating activities for the full year ended 2018 reflected a net outflow of USD 125.1 million (2017: net inflow of USD 32.4 million), which was driven primarily by payment for rig kit inventory and working capital funding for the EA1 and other projects.

Prior to working capital movements and the payment of employees' end of service benefits, the Group's net cash outflow was USD 28.2 million (2017: outflow of USD 56.3 million).

Cash and bank balances decreased by USD 196.6 million to USD 99.8 million.

Net cash will continue to reduce in 2019 as we continue our strategic initiatives, some targeted capital expenditure and working capital requirements on new projects but we still expect to finish the year in a net cash position.

In 2019 a critical focus will be to monetise the strategic asset inventory (the S116E rig kits and our proprietary LAM2K land rig) and finalise the refinancing.

"Although net cash is reducing in line with scheduled investments, the Group balance sheet remains sufficiently robust to support ongoing projects, strategic investments which are already in place and immediate opportunities in the pipeline."

Tony Wright
Chief Financial Officer

Balance sheet

Net cash position at the end of the reporting period reduced to USD 80.0 million from USD 257.0 million at 31 December 2017. This reduction has been primarily caused by the anticipated investment made in the IMI maritime yard of USD 39 million as well as payment for rig kit inventory of USD 34.3 million and funding of the EA1 project totalling USD 40.2 million. Although net cash is reducing in line with scheduled investments, the Group's balance sheet remains sufficiently robust to support ongoing projects, strategic investments which have been committed to and immediate opportunities in the pipeline.

The Group's total current assets at 31 December 2018 were USD 313.3 million (31 December 2017: USD 498.9 million). Trade and other receivables decreased to USD 68.1 million (31 December 2017: USD 164.7 million). Contract Assets increased to USD 54.9 million (31 December 2017: nil).

Shareholders' equity reduced to USD 393.0 million (31 December 2017: USD 460.8 million).

Borrowings

Borrowings at 31 December 2018 were USD 19.8 million (31 December 2017: USD 39.5 million). The outstanding debt reflects the final instalment of the Group's term loan which is due for payment in August 2019 when the facility expires. The Group retains a USD 50 million revolving credit facility for general working capital purposes which also expires in August 2019.

The Group's debt to equity ratio at 31 December 2018 was very low at 5.03%.

Debt refinancing

The Group's balance sheet continues to support ongoing project work and the current bidding activity but in anticipation of the market recovery together with implementation of the strategy, the Board believes that maintaining significant liquidity is essential to the Group.

To deliver this, we are in advanced negotiations with our lenders for a new debt facility, additional details of which are set out under the Going Concern section below. We expect to sign the full facility agreement in Q2 2019 with the syndicate of lending banks that will support the Lamprell Group as it looks to implement its growth strategy. The final details of the facility, which would comprise a term loan and a revolving credit facility on terms broadly similar to our existing facility, will be available only upon signing of the binding agreement.

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis as further discussed in Note 2.1. The Group has received non-binding indicative term sheets and the legal documentation necessary prior to seeking final approval from certain banking institutions is in progress to replace the existing facility which expires in August 2019. After reviewing its cash flow forecasts for a period of not less than 12 months from the date of signing these financial statements and taking into account other key assumptions which include; the sale of the LAM2K land rig and timing of receipt of the sale proceeds, the cash advances expected to be received from new IMI rigs once a contract is signed and the timing of cash calls forecast for investment in the IMI joint venture in addition to the planned debt refinancing, the Directors have concluded they do not represent a material uncertainty that may cast significant doubt upon the continuing use of the going concern basis of accounting. Further details regarding the going concern basis are set out on page 69.

Dividend

In the context of ongoing market challenges, the low revenue levels in 2018 and the investment for future growth in the IMI, the Directors do not recommend the payment of a dividend for the period in relation to financial year ending 31 December 2018. The Directors will continue to review this position in light of market conditions and Group performance at the relevant time.

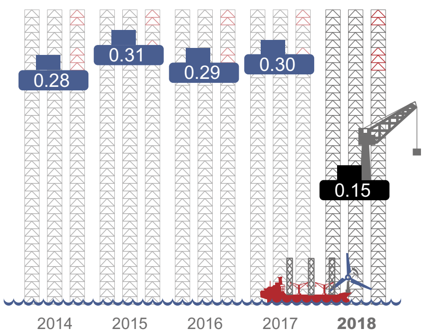
Tony Wright
Chief Financial Officer

Refer to the footnote on the inside front cover for use of Alternative Performance Measures (APMs).

Our key performance indicators

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).

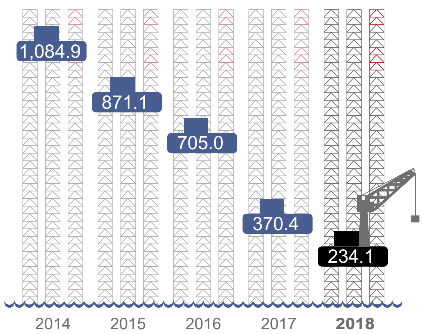
Safety TRIR
(Rate per 200,000 hours)



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.

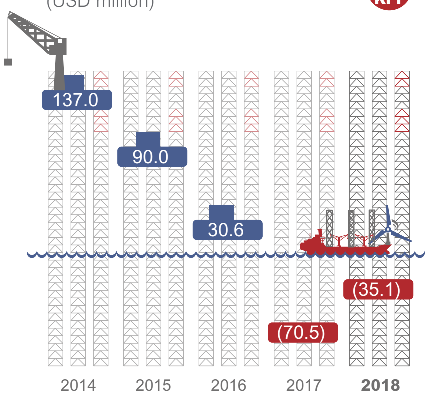
Revenue
(USD million)



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.

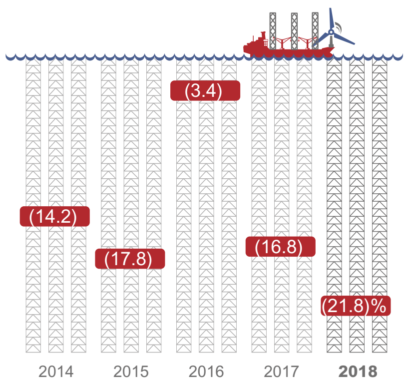
EBITDA
(USD million)



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.

Total shareholder return
(%)

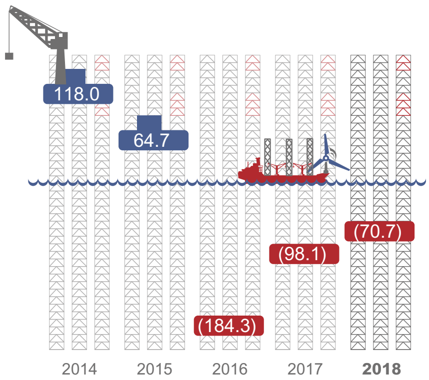


Definition:
Share price appreciation and dividends paid to shareholders.

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

Net (loss)/profit
(USD million)

KPI

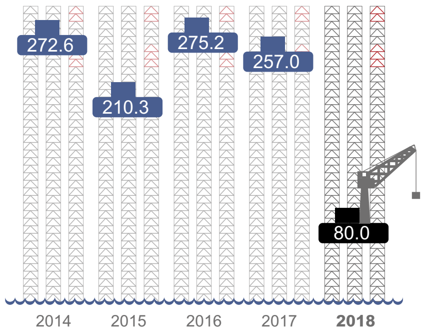


Definition:
Total earnings during the reporting period after cost of sales, overheads, interest, taxes and other expenses.

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.

2018 highlights

Record safety performance in Lamprell's corporate history

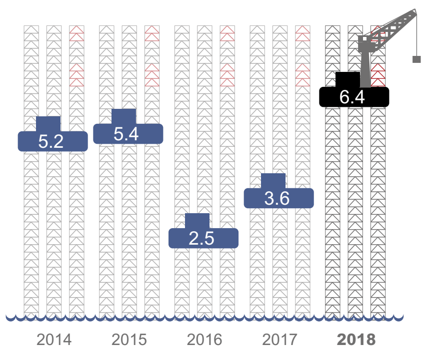
Net cash continues to support our balance sheet for ongoing operations and growth

Backlog starting to rebuild with two major contract wins

Bid pipeline almost doubled to include Saudi Aramco's LTA programme

Profitability impacted by prolonged market downturn and East Anglia One project

Bid pipeline
(USD billion)

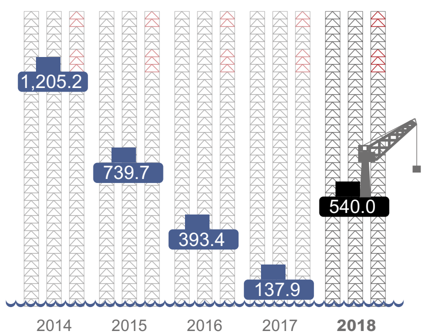


Definition:
Total value of commercial bids ongoing which are expected to be awarded in the next 12 to 18 months.

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.

Order book
(USD million)

KPI

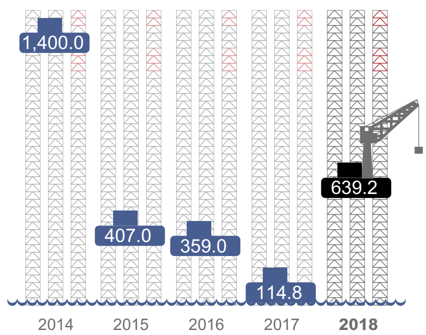


Definition:
Total value of current works to be undertaken on firm contracts and 50% of projected walk-in work as at the end of the reporting period.

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.

Review of our operations

The prolonged downturn in the energy industry has continued to impact our business as we experienced record low activity levels in H2 2018. However we persevered with our strategic initiatives, and we ended the year on a high note with two new contract awards and inclusion on Saudi Aramco's prestigious LTA programme.

Safety first

Our values are always at the heart of everything we do and our safety performance in 2018 has been exemplary. At 31 December 2018, our TRIR stood at 0.15 compared to 0.30 at the same point in 2017. This is our best result since becoming a public company. We took every department through our "Safe Start" programme, held engagement sessions with our subcontractors to embed high safety performance throughout our supply chain and also launched our "Shields for Life" programme page 30. These initiatives proved extremely successful as employees continued to take safety into account in their daily activities, all of which contributed to the improved TRIR.

Enhancing our capabilities

Our strategy and our business model are fundamentally linked page 08 and a key component is the need to continually enhance the capabilities of the business to make us more competitive. That may be through the refinement of the strategy to reflect prevailing market conditions, through improvements to our processes and procedures embracing digitisation and robotics or the upskilling of our workforce. We have a robust bid pipeline, and we aim to convert this into projects which we execute as planned. Institutionalising the way we have automated the 'Lessons Learned' system into our processes will enhance our capabilities, reliability, competitiveness and reduce our risks.

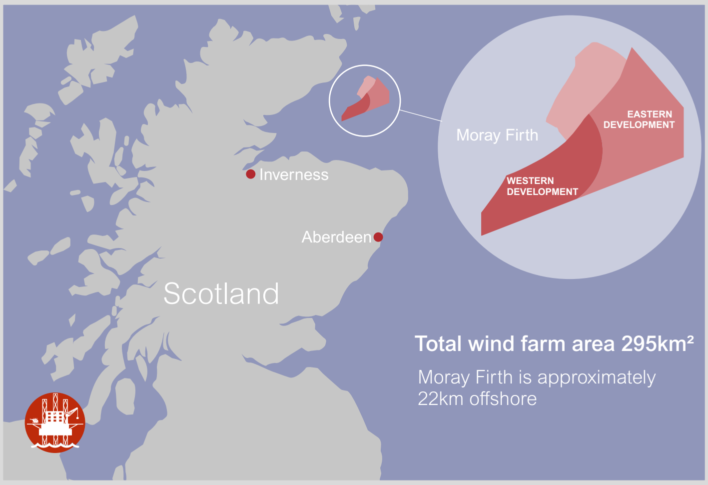
We saw this process in action during 2018 as we continued to execute the East Anglia One project, with its challenges, and used those learnings to improve our performance. These included considerable investment in new resources, transparent automated manpower forecasting, greater scrutiny of benchmark data for bidding norms, 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.

Throughout 2018 we continued to invest in acquiring additional skills page 28. We are increasingly moving into the EPC(I) space, and we are working to ensure that our people are equipped to win and execute such projects.

Converting our pipeline into new awards

The enhancements to our capabilities implemented during 2018 culminated in a number of major positive achievements at the end of the year. In November, Lamprell was included on Saudi Aramco's exclusive LTA programme, and this was quickly followed by the award of a major contract in each of our target markets. In the renewables market, Lamprell won the contract for the fabrication of 48 jacket foundations, with an estimated contract value of more than USD 200 million for the Moray East offshore wind farm project. In our traditional oil & gas market, we were successful in winning a project for the substantial construction of two new build jackup rigs for the IMI yard in Saudi Arabia. All three achievements form part of our growth strategy page 10.

We will continue to focus on streamlining our internal processes and procedures, especially in our bidding activities in 2019 and beyond. Our bid pipeline has increased materially to approximately USD 6.4 billion, with the inclusion on the LTA programme page 17 and we have identified further ways to maintain our competitiveness, in areas such as automation and digitalisation page 13 as well as partnering up with other leading companies with complementary strengths. We firmly believe that, by taking these steps, Lamprell will return to growth.



Moray East contract award

Client name: GeoSea
Project name: Moray East wind farm
Scope of work: 48 jacket foundations

In late 2018 Lamprell received a new contract award from GeoSea Procurement and Shipping Luxembourg for the procurement, fabrication and supply of wind farm jacket foundations for the Moray East project. Valued at more than USD 200 million, we will be fabricating 48 out of around 100 jacket foundations.

This is our second project in the renewables sector, and as such we have been able to significantly reduce the risk profile. The project will run with a new real time production control system which helps address any issues at an early stage, all fabrication will take place in Lamprell's UAE yards and we will deliver the jackets to client at our quayside in Hamriyah. Throughout 2018, we upskilled our workforce and enhanced our systems and processes in order to enable us to deliver projects competitively and safely in this growing sector of the market.

Delivering a perfect safety record

Client name: Jacktel AS
Project name: Master Marine "Haven"
Scope: Accommodation unit conversion

In H1 2018 Lamprell completed the major upgrade to the mobile operating unit "Haven" for Jacktel AS, a wholly owned subsidiary of Master Marine AS. The project was completed on time, on budget and with a perfect safety record – even with 2.5 million manhours on the project. The unit was successfully delivered for operation offshore Norway in April 2018 with a TRIR of 0.0.

Supporting our Saudi clients

Client name: International Maritime Industries
Project name: IMI Rig 1 and 2
Scope: Two new build jackup rigs

In December 2018 Lamprell received an award from IMI confirming its intent to award a subcontract to Lamprell for the construction of two jackup units, with a strong focus on local Saudi work.

Renewables market

Throughout 2018 Lamprell continued to fabricate and deliver wind turbine jacket foundations and piles for the East Anglia One wind farm project to its client ScottishPower Renewables ("SPR"). The total workscope consisted of 42 jackets, 18 flatpack jackets as well as significant grillage and sea fastening totalling over 70,000 tonnes of steel. This project helped create jobs in the UK through Lamprell's collaboration with Harland & Wolff, our subcontractor in Belfast.

The UAE-based fabrication was fully completed in H2 with all 42 jackets delivered to Vlissingen where they have been undergoing inspections and final handover protocols prior to installation by the client. The other 18 jacket components were delivered to Harland & Wolff for assembly at its facility in Northern Ireland. Following the announcement in H2 2018 by Harland & Wolff regarding its restructuring, Lamprell allocated additional resources to their facility in Belfast where we actively managed the assembly of the outstanding jackets. There have been significant challenges on the project but, as it nears completion, we are actively supporting activities in both Vlissingen and in Belfast to complete the final certification and handover protocols in time for the client's installation campaign. This will be achieved pursuant to a detailed process for delivery of the jackets set out in a comfort letter which aims to ensure that the project can be completed successfully with minimal impact on either party. With this in mind, our top operational priority is for the timely delivery and installation of all the jackets, and we will be working closely with SPR to achieve this during 2019.

Operationally the project has been challenging, and Lamprell has gained many valuable lessons which we have implemented to ensure that we can participate effectively and profitably in similar contracts in what continues to be a large and fast-growing market. This has been successful with the contract award in December 2018 from GeoSea for a renewables sector project involving the fabrication of jacket foundations for the Moray East offshore wind farm project. Lamprell will fabricate 45 out of approximately 100 jacket foundations required for the wind farm, plus three jackets for the offshore substations also being installed for use on the project. The jackets will be delivered from Lamprell's Hamriyah facility in the UAE and then transported by GeoSea to the wind farm offshore Scotland.

This demonstrates our commitment to the renewables industry which, based on lessons learned, remains a strategic focus area page 10 for Lamprell.

Oil & gas market

Rigs

Following the completion of upgrade works to the accommodation service vessel "Haven", Lamprell transported the unit to Norway where it was successfully delivered to our client, Master Marine, in April 2018 on time and on budget. The Group was pleased to celebrate a significant project safety milestone of zero recordable incidents.

The construction of the IMI maritime venture is progressing. The delivery dates for the individual zones of the yard are constantly being reviewed to meet local capacity requirements, although the overall delivery date remains unchanged.

The IMI joint venture has proven our commitment to invest in and establish our local presence in Saudi Arabia and in December 2018 IMI and Lamprell signed a letter of intent for the award of two rigs.

Early in 2018 Lamprell finalised its proprietary LJ43 jackup rig design in collaboration with GustoMSC. This is a major milestone in Lamprell's history as it looks to create value for its shareholders through the development of intellectual property in its core areas of expertise. This is an advanced drilling rig with the highest level of safe, efficient and reliable drilling capabilities. It combines Lamprell's system integration capability, detailed engineering expertise and construction experience with the robust and advanced technology of GustoMSC designs, all of which will enable highly efficient drilling. This state-of-the art design is highly adaptable for use in a wide array of offshore locations around the world and strengthens our competitive position in our core rig market.

In 2018 Lamprell refurbished a record 23 jackup drilling rigs and stacked rigs for various clients. In our land rig division, Lamprell worked on several small but important projects.

EPC(I)

In November 2018, Lamprell and its consortium partner Boskalis were selected as LTA contractors by Saudi Aramco. The consortium has the right to bid on offshore EPCI oil & gas projects without additional technical evaluation, reducing the length of time between tender and award, and expects to bid on more than USD 3 billion worth of LTA capital projects per annum, commencing in 2019.

Contracting Services

Our minor business lines including O&M and Sunbelt continued to supply skilled workers and provide safety services, safely and reliably to our clients during 2018, consistent with our core values. These lines, while small, deliver a regular and profitable return to Lamprell's stakeholders.

Our sustainable approach

To ensure an enduring and sustainable business, it's essential that we align our strategy, our core values and the culture of the business and, by doing so, we create a motivated, skilled and productive workforce enabling us to achieve our strategic objectives, as demonstrated by the progress in 2018.

Employee gender split*
as at 31 December 2018

91% male | **9%** female

2017: 92% | 8%

* Based on corporate function staff numbers. Gender distribution for our total workforce, including yard staff, is 98% male and 2% female.

Understanding what matters to our stakeholders

During 2018 we continued a highly visible and successful programme of audits across HSES and Quality functions, alongside client visits and staff training. We encourage and listen to feedback, striving continually to improve, and in doing so maintaining our many business critical certifications which form part of our operating business model.

We're particularly proud of the work we've done in the year around Human Rights and Labour Standards ("HRLS") awareness. Our key labour supply partners have all participated in a detailed qualification questionnaire so that we can understand their current HRLS activities and support them, where required, to meet our expectations. Across both our office and yard-based populations, we've rolled out a comprehensive communications and training programme to ensure everyone has a proper understanding of the Company's expectations around HRLS and how it impacts each of them in their day-to-day work. This is now embedded as part of our HSESQ induction programme so that employees receive this at their first point of entry into the organisation.

It's all about our people

Living our values page 03. Defining the culture. Our people are at the very heart of what we do. Today we have more than 350 employees with over 15 years' service each. As a service business, it is our people, their attitude and skills which set us apart from our competitors. We are therefore committed to developing, identifying and nurturing future leaders, and enabling everyone within the business to perform to their true potential.

The health and well-being of our workforce matter deeply to us. Working closely with various service providers and in-house professionals we have rolled out numerous well-being initiatives during 2018. This has included routine awareness sessions supported by diagnostic testing for conditions such as diabetes, blood pressure, vision, and thus helping to mitigate and manage a host of lifestyle-related ailments.

We maintain strong employee engagement, optimise project performance, execute work safely and thereby manage our risks page 34. By doing this and through our large, diverse, multinational and multitalented workforce we strive to deliver sustainable value to all our stakeholders.

Investing in our people

Across the year, we delivered over 150,000 hours of training in both the trade discipline and HSES fields through our dedicated Lamprell Training and Assessment Centre. This equates to approximately four days of training for every employee in the Group and highlights the focus which we continue to place on upskilling our personnel. Looking forward to 2019 we anticipate this number increasing significantly. Against a corporate KPI of a maximum of 8%, voluntary attrition in the Group was 6.64% (2017: 5.30%).

It is only through working closely with the many stakeholders that we can deliver long-lasting and sustainable results: for our shareholders, employees, customers, contractors and the communities in which we operate.

Health & safety

We deliver world class safety standards and leave nothing to chance so we can all go home safely. We are relentless in keeping our people safe. That's our commitment to everyone who works for us and alongside us.

Quality

Quality is integral in everything that we do. We are driven by excellence and a right-first-time attitude. Our reputation is contingent on how well we deliver value to our customers and wider stakeholders.

Environment

A sustainable environment is the preserve and right of everyone.

We are committed to working in an environmentally responsible way and limiting any environmental impact related to operations. Our target is zero environmental incidents reliably and competitively.

Corporate social responsibility

Wherever we work, we are committed to being a responsible corporate citizen.

We encourage a culture of active community engagement and support a number of initiatives that support local communities.

Employee welfare

We are committed to the well-being and welfare of all our employees. Through a number of regular corporate wellness initiatives underpinned by employment benefits, we watch out for the benefit of all our employees.

Investing in our people – an interview with Kaye Krause-Whiteing

Vice President,
Human Resources & Corporate Services

What makes Lamprell a good place to work and sets you apart?
Lamprell promotes a culture which values fairness, diversity and inclusivity. We have low attrition rates across the business, compared to industry norms, and a work-life balance is respected. For example, we can engage with our on-site clinic to ensure support is given to employees with pre-existing health challenges as well as to those who may develop a condition during employment. This is particularly important considering that the majority of our employees are expatriates and so don't necessarily have the usual family support networks in place to deal with problems, should they find themselves in a predicament.

We repeatedly hear from our yard teams that they like working for Lamprell. Our resolute focus on safety, our yard staff accommodation and associated recreation, transportation facilities and quality of our medical and life insurances are attractive to employees and differentiate us. We believe that this helps us to be an employer of choice in the region.

And while time in the workplace needs to be focused and serious, it also needs to be enjoyable. To this end we have a number of extra-curricular events running throughout the year catering for a variety of preferences: sporting events, quizzes and talent shows, to name but a few. In fact, two of our winning entries in Lamprell's Got Talent 2018, secured themselves invitations from a local Dubai radio station to perform in their local talent sessions.

In the past Lamprell has won the prestigious Daman Corporate Health Award on three consecutive occasions. Is Lamprell still making progress on employee welfare initiatives?
Everyone is fully aligned with the mantra that a healthy employee is a happy employee and our team is very proactive in the welfare space. We continue to build on the philosophy of promoting employee wellness through a number of campaigns which are underpinned by well-attended and popular workshops throughout the year. A new route to faster medical assessment was also established in the year via empanelment of our on-site clinic into the insurance network. This has paved the way for faster and free GP consultations, the prompt issue of prescriptions and referrals to external facilities as necessary.

How does Lamprell approach succession planning and employee development?
This is an area that has received increased focus in 2018. We've initiated the development of competency matrices for all our functions so that everyone understands what is required of them for any particular role and what they need to do in order to progress. We have kicked off a tailored management development programme which will run for approximately eight months, initially with the Executive Committee, and in January 2019 this is also being expanded to cover the next level of management, a cohort of around 50.

What has been the highlight of your first year with the organisation?
There have been many highlights but from my first day, the prevailing culture of 'one Lamprell' that has embraced me is compelling. That's testimony to everyone and their drive to take the Group's values page 03 into account in their daily roles. Of course, we have lots of things we want to do as a leadership team and in our respective functional areas. It's an exciting time for the organisation, and that brings with it a real vitality.

First class safety – an interview with Iain Walker

Vice President, HSESQ

It has been a record year for safety at Lamprell, what key actions did you take to achieve this?
When we speak about safety, we have redirected the focus to demonstrate how good safety approaches can benefit your life, rather than how a negative approach can destroy it. We continued reviewing our previous HSES improvement plans to ensure they were still valid, improved our planning by taking a more proactive approach and increased direct engagement with our workforce. We rolled out a ‘Safe Start’ initiative in H1 and encouraged a ‘Finish Strong’ initiative in H2. We enhanced how we promoted and ran our campaigns by turning them into events involving the whole workforce. Our leadership spoke authentically about safety, our core values page 03 and our expectations. We also held project and general management as well as supervisory levels more accountable for the safety of those under their control. We kept safety conversations alive.

What are the main challenges you foresee in 2019 when it comes to safety?
We expect the manpower level to begin increasing in 2019 to help execute the new projects which were announced towards the back end of 2018 page 20. Moving from a low period of activity to more typical higher levels will be our main challenge. Although our systems and processes are robust, new subcontractors and personnel who have been on long leave will be required to undergo refresher inductions in the Lamprell way of working, ensuring they meet and maintain our safety standards and expectations.

Keeping people safe and informed will be an ongoing effort as we begin to execute work activities which range from low to high risk. Improving on our safety performance from 2018, where we achieved the best performance in the Company’s history, will also be a challenge. Setting good safety standards and demonstrating strong safety leadership will be key success factors.

How do you plan to mitigate these challenges?
In January 2019 we rolled out our already successful ‘Safe Start’ programme across the Group and invited all subcontractor leadership who we anticipate will be working with us, to participate in the programme. We are committed to gaining a ‘one vision’ buy-in for our safety goals, consistently share information and use our influence to obtain a commitment from our workers and subcontractors to work safely. HSES improvement plans will be revisited and refreshed where needed, and risk workshops will be carried out in conjunction with operations supervision to address any potential risk areas.

We plan to invest in and run Institution of Occupational Safety and Health managing safety courses to upskill many of our supervisors making them more effective safety leaders, building on what they already know. Our new ‘Shields for Life’ programme will become the cornerstone of our approach to managing high-risk activities safely and will be enforced across the Group. Finally, project readiness reviews will be undertaken in advance to ensure all HSESQ risks are understood with mitigation plans in place.

Leading in safety

Following on from six months' consecutive improvement in H2 2017, the goal in 2018 was to keep the momentum going and to deliver our best safety performance ever. At the end of 2018 we achieved a historical record within the Group, our lowest ever TRIR of 0.15. Our goal in 2019 will be to continue to reduce injuries and incidents and continue to have a safety performance which is recognised by our industry peers as world class.

down 66%
Total recordable injury rate
Nine cases compared to 27 cases in 2017.

down 86%
Day away from work cases
One case compared to seven cases in 2017.

down 69%
Hand injury frequency rate

unchanged 0%
High potential incident frequency rate

down 66%
Road transport incident frequency rate

down 45%
Dropped object incident frequency rate

unchanged 0%
Environmental incident frequency rate

down 27%
Security incident frequency rate

down 24%
Asset damage incident frequency rate

Health and safety

Highlights
Exceeded TRIR target of 0.27 and obtained the lowest rate in Company history of 0.15, a 51% reduction
Recordable injuries reduced by 66% compared to 2017
Surveillance audits for OHSAS 18001 completed with a recommendation by Bureau Veritas to retain certification
Jebel Ali site recognised with coveted "A" grade safety standard by Dubai Municipality

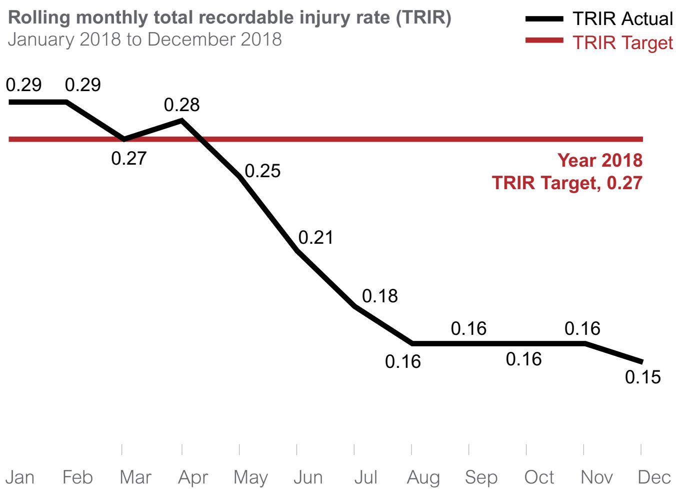
Great strides were made in 2018 to break the four-year plateau in Lamprell's safety performance which had previously stayed in the range of 0.29 – 0.30 between 2014 and 2017. At the end of 2018, our goal was achieved, and we completed the year with a TRIR of 0.15, our safety best performance since becoming a listed company. All efforts will be made to ensure this trend continues throughout 2019 and beyond. Recordable injuries were reduced by 66% with a significant contributing factor being the massive reduction in hand and finger injuries compared to the previous year, as well as a incident-free year for the Contracting Services business unit which supports remote site activities.

We were successful in the mid-year surveillance audit for our OHSAS 18001 Safety Management System. We comply with changes in international standards and, to this end, training was completed in December to enable us to progress with the transition from OHSAS 18001 to the new ISO 45001 standard in time for the next full recertification audit which is due in 2019. With around 45 different certifications in the organisation to maintain, it is testament to the effort and determination of everyone involved whenever another successful audit is completed. 2019 is set to be another very busy year for third party audits.

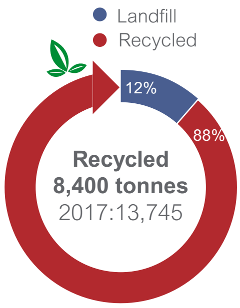
Dubai Municipality conducted a surprise visit to our Jebel Ali facility to review the safety standards being employed. The visit received very positive feedback, and the auditors subsequently granted the site an "A" grade rating. This level of rating is recognised as the highest standard which can be achieved. We know our Company values page 03 are taken seriously and never more so when it comes to safety, but this result from a surprise visit was validation that we truly do what we say.

As a result of the 2017 commitment to improve the quality of Lamprell's HSES campaigns, in 2018 we switched the focus from quantity to quality and limited ourselves to two in an effort to drive key messages more effectively. We turned them into major events and allowed for more time to communicate and embed the messaging. This approach paid its dividends, and the change helped to achieve significant improvements. The hand injury prevention campaign saw a 69% decrease in the number of hand and finger injuries, and our heat stress awareness campaign helped deliver a 100% decrease in the number of heat stress cases from four in 2017 to zero in 2018.

Rolling monthly total recordable injury rate (TRIR)
January 2018 to December 2018

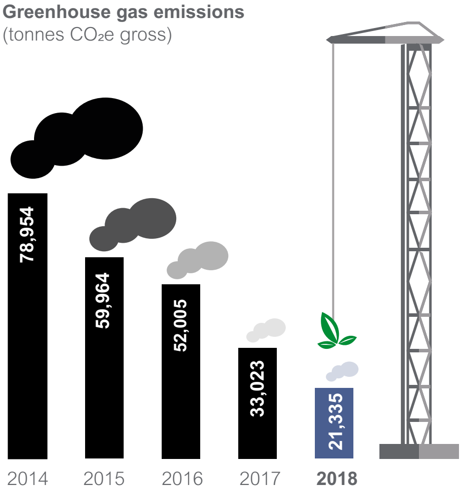


Waste division 2018
(tonnes)



88% of waste was diverted from landfill. 8,400 tonnes was recycled and 1,100 tonnes was landfilled.

Greenhouse gas emissions
(tonnes CO_2e gross)



Lamprell reduced 'gross CO_2e emissions' by 40% and 'intensity CO_2e emissions' by 1.5% from its operations in 2018. Intensity emissions are measured by tonnes of CO_2e emitted per manhour worked.

Quality

Highlights

- Achieved CE certification allowing us to target European markets more efficiently when bidding for new work
- Considerable improvements made to 2018 quality strategy which aims to ensure HSESQ performance remains competitive
- Successfully retained API Q1, monogram licences API4F, 16C along with ISO 9001:2015 and ISO/TS 29001 certifications

As part of Lamprell's strategy to target clients in the European market, we successfully gained a number of important certifications in 2018 relating to our facilities including the CE marking (EN 1090-1:2009/A1:2011) and welding quality management system (ISO 3834-2:2005) which were certified by DNV-GL. These certifications assure that our systems and practices comply with strict European Union regulations and qualify us to supply products to Europe. The certifications secured by Lamprell cover nine different welding processes.

Throughout 2018 various quality-related training activities were undertaken. The American Society of Quality conducted root cause analysis training in 2018 which enhanced the Quality team's skills to perform effective analysis. Also, Lamprell's internal Quality Management System auditors attended an ISO 9001:2015 auditor transition training led by Bureau Veritas. The course qualified ten internal auditors who are now capable of performing effective audits across Lamprell's facilities. A number of additional training sessions were delivered across various functions by the Quality department including API Q1, API 4F, API 16C, API product specification, non-destructive testing, Saudi Aramco requirements, welding engineering, counterfeit awareness and substandard materials training. These activities ensure that Lamprell is applying best practices in its quality training.

Following an intense four-day audit by multiple Bureau Veritas auditors, Lamprell passed several surveillance tests and retained its ISO 9001:2015 and ISO TS29001 certifications. We were also successful in retaining the API Q1, API 4F and API 16C licenses for our Land Rig Services division following stringent audits by API.

Environment

Highlights

- 40% reduction in annual gross emissions from Group operations
- 88% of waste was diverted from landfill
- Zero environmental non-compliance events
- Maintained certification to latest ISO:14001 2015 EMS standard

2018 was another successful year for Lamprell in improving its environmental performance, including a reduction in both gross and intensity CO_2e emissions from Company operations. In addition, the Group remained fully compliant with all applicable environmental regulations and once again diverted the majority of operational waste from landfill through onsite segregation and recycling efforts. We also participated in the Carbon Disclosure Project whilst implementing a number of new onsite pollution prevention controls. These included integrity audits of all hazardous material storage areas and marine operation vessels and monthly 'litter hunts' of active project areas to prevent environmental contamination.

In 2018 Lamprell finalised a major third party energy audit and began instituting a range of energy conservation measures, including replacing all diesel generators and instead running electricity off the grid, to further promote the strength and sustainability of the organisation moving forward. When fully implemented, these initiatives will help the Company save an estimated USD 0.6 million on energy costs over four years, with an associated abatement of 830 tonnes of CO_2e, which would otherwise have been emitted to the atmosphere.

In Q4 2018, following a rigorous assessment of the pipe shop's environmental impact, regulators granted environmental clearance for the pipe shop to commence operations. This is a major milestone in the permission approvals process for the facility and demonstrates the importance which Lamprell places around strong environmental protection measures.

Cricket at Lamprell is a long established institution and teams battle it out each year to be crowned as the indoor cricket champions.

Lamprell takes employee welfare seriously and organises a wide range of wellness activities and events throughout the year.

Corporate social responsibility

Highlights

Our social investment focuses on science, technology, engineering and mathematics ("STEM") education initiatives as well as supporting those communities which may be less privileged

Our employees and Lamprell supported the flood-stricken state of Kerala through donations amounting to USD 50,000

We donated surplus furniture to UAE based Al Ihsan Charity Association which supports community individuals with low incomes

One of the most rewarding exercises of the year was the response to the devastating flooding in the Indian state of Kerala. Across the entire workforce, people wanted to help, donating USD 44,500 with Lamprell contributing to bring the total up to USD 50,000 which was donated to the distress relief fund. This is another excellent illustration of how our workforce embraces our values page 03 in their daily actions.

We had a number of furniture and white goods items in storage in one of our warehouse facilities which were no longer required in the business. Having identified what could be safely passed on we offered them to Al-Ihsan Charity Association to be placed with low-income families. These were donated and gratefully received during the Holy month of Ramadan.

Community is important to all Lamprell employees, and right on our doorstep in Dubai we recently provided support to K9 Friends, a shelter that rescues abandoned and stray dogs in the UAE and finds them new homes. Our contribution helped towards the purchase and installation of new air conditioning units.

Employee welfare

Highlights

Regular programme of events and campaigns running throughout the year

Diagnostic testing and workshops held for a range of lifestyle-related conditions

Numerous fitness-promoting team engagement competitions: football, cricket, basketball, athletics

We continue to build on our strategy of promoting employee well-being and work-life balance underpinned by a series of wellness campaigns. This kicked off in January with a health camp at the Thumbay Hospital Day Care facility. Free consultation was offered across all medical specialities. There were health awareness events focusing on areas such as ergonomics, blood pressure, cholesterol, summer heat awareness and eyesight testing. The Group also helped to provide influenza vaccinations across the workforce.

A major success was the inclusion of our Hamriyah medical facility into the insurance network towards the end of the year. All employees working at that location were given access to doctor consultations, prompt issue of prescriptions and onward referral. For the Company, it helps us maintain better control of our medical insurance thereby keeping it competitive and able to offer optimum benefits to employees.

Once again the Group maintained its highly regarded and successful heat stress awareness campaign during the hot summer months in the UAE from June to September. A critical component is a focus on early warning signs and the "Stop Work Authority" system when temperatures and humidity exceed certain tolerance points. In a country with the temperatures experienced in the UAE, we cannot become complacent to such dangers.

Principal risks and uncertainties

With the Board identifying the Group's risk management processes as a key priority for 2018, there were developments to embed the lessons learned from the challenges faced in 2017 and 2018 and to ensure that risk management is a primary consideration in everyday business decisions.

Linking the strategy and risk management

We believe that our approach to risk management provides a clear framework that allows for effective decisions to be made on an informed basis. Every employee within the organisation is authorised and encouraged to highlight perceived risks which potentially need to be managed. Typically, risks are identified either during project risk management workshops, across departments or through the annual strategy review and planning process; these are then logged and allocated to the 'risk owner' within the business who is best placed to manage each identified risk – for example, a Project Manager has ultimate accountability for his/her project risks, but may delegate day-to-day responsibility for a specific risk to someone within the project team. Risk owners work with other key stakeholders including management and our Board of Directors page 38 to ensure that there is a full understanding of recorded risks. In addition, such communication ensures that the approach to appropriate mitigation and contingency strategies amongst stakeholders is aligned.

Also, risk training and development plays a key part of learning and awareness within the Company, and our Project Execution University has recently rolled out a Project Risk Management training module. We continue to use the challenges experienced on the East Anglia One project to ensure lessons learned are embedded into our processes. While we use a single repository for all major risks that the Lamprell Group faces – our Enterprise Risk Management ("ERM") system – each project risk register provides a valuable audit trail of our management of risks through their respective lifecycles and these are then reviewed by key stakeholders to transfer the lessons learned on to subsequent similar projects.

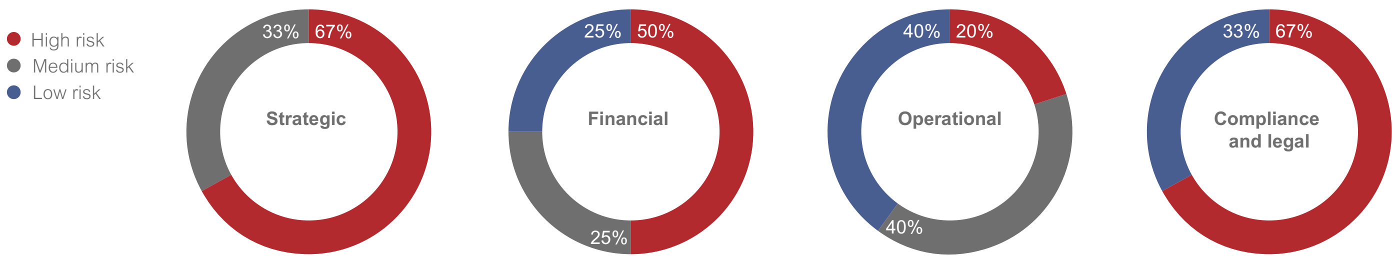
The ERM process and all major risks are reviewed by senior management and the Audit and Risk Committee page 52 twice a year, as a minimum. The Audit and Risk Committee conducted a series of 'deep dive' reviews for certain, high-value enterprise risks and dedicated significant time in assessing the probability and an impact (and on a gross/pre-mitigation and net/post-mitigation basis) and the existing mitigations and controls as well as future actions to offset the potential risk.

2019 will see further rigour applied to our risk management processes with the appointment of a new Group Risk Manager responsible for the coordination of functional and operational risk registers within our centralized Compass Risk Module, helping to lead the development of executive risk dashboards and ensuring upwards alignment of major risks within the ERM system. The 'deep dive' reviews will also continue in 2019.

Principal risks and uncertainties for Lamprell

Lamprell faces a variety of risks, and these change annually depending on internal and external factors. Our profiling of project risks confirms that, as in previous years, the strategic category has the highest number of key risks for this reporting period; however as we move into 2019 we believe that there are signs of improvements with the various strategic GCC investments and awards in the industrial and energy sectors and, in addition, to the continued growth in the renewable sector page 07.

Analysis of risks within our business



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

Level of risk
- ● High risk
- ● Medium risk
- ● Low risk

Strategic risks

Risk description	Business implication	Mitigation
Economic conditions **Risk to strategy** ● (High) Slow market recovery may lead to continued bid pipeline instability, meaning that project awards may be significantly delayed and even suspended indefinitely. **Risk change** Unchanged **Risk to business model** ● (High) 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 the 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. In addition, the potential impact from Brexit remains unclear but could negatively impact our commercial advantage for sales into the UK or Europe.	• Target markets include geographies with low cost hydrocarbon reserves and stated plans for investment such as Saudi Arabia and the UAE page 04. • Diversified portfolio to cover multiple market sectors – new contracts for rigs and renewables won in late 2018. • Robust bid pipeline increased to USD 6.4 billion by 31 December 2018. • Client Relationship Management system ensures that we retain close contact with clients and understand their needs. • Active development of business partnerships to realise our strategic objectives, to complement our existing operational strengths.
Mergers and acquisitions **Risk to strategy** ● (High) An opportunistic purchase could significantly alter the intended strategic direction of the Group, thus rendering current initiatives and goals obsolete. **Risk change** Unchanged **Risk to business model** ● (Medium) A purchase of the Group may lead to decreased focus on targeted initiatives, and could result in loss of traction in the marketplace.	With the prolonged downturn, recovering levels of backlog and new strategic opportunities, Lamprell is vulnerable to an opportunistic approach for purchase at a suppressed price.	• Our growth strategy and business model demonstrates clearly how to generate value for the shareholders in the longer term. • The Group has made significant progress in its strategic initiatives in 2018 and will take further steps in 2019. • Lamprell's major shareholder page 49 can act as a negative veto to hostile approaches based on unreasonably low valuations. • Our professional advisory and broking team provides advice to the Board and senior management. • Robust and diversified bid pipeline with high bidding activity.
Ability to win new work **Risk to strategy** ● (Medium) Lack of competitiveness may impede Lamprell's efforts in progressing existing business areas and making a meaningful entry into new markets. **Risk change** Decreased **Risk to business model** ● (Medium) 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 so 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 markets with stated plans for investment. • Use of benchmarking and estimating tools to establish competitive pricing. • Regular cost competitiveness workshops help to prioritise key initiatives and drive down our cost base. • Dedicated training and project reviews enhance the skillsets for personnel. • Increased frequency and greater depth of quality audits to ensure standards and certifications are maintained. • Focus on digitisation and robotics to increase efficiencies and competitiveness.
Third party alliances **Risk to strategy** ● (Medium) The Group's ability to make meaningful inroads to current and new markets may be adversely affected by ineffectual management of alliances. **Risk change** Unchanged **Risk to business model** ● (Medium) 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 ineffective.	• Conclusion of consortium agreement with Boskalis de-risks aspects of Saudi Aramco's LTA programme. • Lamprell Saudi Arabia joint venture agreement includes clear strategic goal and partner obligations. • External experts engaged as needed. • Partner relationships developed at senior management level. • Board oversight of all joint venture/consortium initiatives – to be developed further in 2019 page 47.

Level of risk
- High risk
- Medium risk
- Low risk

Financial risks

Risk description	Business implication	Mitigation
Ability to fund business **Risk to strategy** ● Inability to fund strategic objectives could lead to significant downgrading of the Group's intended direction for growth and re-assessment of the long-term viability of the business. **Risk change** Unchanged **Risk to business model** ● Development of business units, moves into growth markets and ability to meet liabilities could be significantly impeded or even prevented 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, this potential threatens both the near-term and long-term viability of the business.	• The Company maintains a solid balance sheet including a net cash position. • New debt facility being discussed with banking syndicate; expected to be concluded in H1 2019. • Debt to equity ratio in the business is very low at 5.03%. • Effective cash management processes in place and operating, including frequent cash flow reviews by senior management with the Finance team. • Options to monetise certain assets are available.

Operational risks

Risk description	Business implication	Mitigation
Geopolitical **Risk to strategy** ● Instability in emerging regions may affect the viability of target key projects in those emerging regions which, in turn, may significantly impact plans for geographical expansion. **Risk change** Increased **Risk to business model** ● 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 the Saudi maritime yard and the LTA page 14, the Group is dependent on a stable political and business environment in that country.	• Strong partner relationships developed and maintained, especially with our Saudi clients and business partners. • Phased investment into the IMI yard over a number of years. • HSESQ monitors and advises on security and political risks. • Major operations take place in the UAE, which has been politically and financially stable for many years. • Regular input from advisers for any key changes in regulatory or contractual regimes. • Diversification of target markets
Project execution **Risk to strategy** ● 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. **Risk change** Unchanged **Risk to business model** ● Failure to deliver major projects successfully may negatively impact the Group's reputation and/or potential future Group revenues or, in the worst case, threaten the Company as a going concern.	As the Group diversifies into new markets and product offerings, it faces additional risks surrounding project execution including bid estimation, scheduling, training of specialist workers and delivery planning. Failure to execute and deliver a project to contractual terms and conditions may expose the Group to additional costs, losses or reduced revenues.	• Improved bidding processes including automated manpower forecasting, scrutiny of benchmark bidding norms and a focus on individual project risks (especially during bidding and handover phases). • Technology Committee oversees initiatives including enhanced production controls, investments in new automated technologies such as robotics and digitisation, upgrading Non-Destructive Testing. • Enforcing strict adherence to Change Management procedures and contractual requirements. • Transparent project risk management processes and "gap identification and analysis" exercises ensure awareness of contemplated issues. • Investment in new talent with specialist sector experience and upskilling of existing workforce.

Compliance and legal risks

Risk description	Business implication	Mitigation
Contractual commitments **Risk to strategy** ● Lack of recognition of onerous contractual terms prevents development of a robust execution strategy that aims to mitigate the potential impact that these terms could present. **Risk change** Unchanged **Risk to business model** ● Failure to provide reliable, quality solutions may lead to project losses which could affect the 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.	• Risk analysis of contract terms across stakeholder functions including projects, commercial and legal. • Use of appropriate mitigation strategies including insurance and/or supply chain management where possible. • Employment of personnel with specialist knowledge and/or upskilling for workforce to improve risk analysis and commercial awareness. • Effective project risk processes; adopting lessons learned for a culture of continuous improvement; development/use of project contingencies.

Viability statement

Based on the results of their analysis, 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 2021.

1) Assessment of prospects

Lamprell's strategy and business model are central to an understanding of its prospects. Lamprell has been operating for more than 40 years and its business model page 08 has proven to be resilient and able to withstand the industry's project cycles. Our strategy page 10 centres around the delivery of three business streams – Rigs, EPC(I) and Contracting Services – and applying them to service clients in two markets – Oil & Gas and Renewables. Our commitments to high standards of safety and quality, maintaining close client relationships and delivering value for money enable us to implement the strategy. Further, as is the norm in our sector, cost control and providing a competitive product are also critical to the long-term viability of the business and these have been focus areas in 2018 in light of the challenges faced in 2017. 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 highlighted various strategic initiatives which help to measure its performance in implementing the strategy and there has been considerable progress during 2018. These initiatives are medium term in nature, as is appropriate for a defined strategy, and the Board will continue to monitor developments, refine the measurement and set new targets. Further development of the Company's business in the Saudi Arabia market remains the highest priority, page 14. Another key part of the strategy is the diversification of the portfolio and the Company made progress in 2018 with the contract award of a new renewables project.

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 are a key output from the strategy review process. The Board's assessment considers the Group's current position, 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 to understand the impact on cash flows and working capital requirements. While the balance sheet remains solid, access to future funding is essential. Therefore the Company has received non-binding indicative term sheets and legal documentation from certain banking institutions for a new debt facility, to replace the existing facility which expires in August 2019.

In accordance with the Code and taking into account a robust assessment of those risks that would threaten the business model page 34, the Board determines the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' statement page 69. 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, particularly in light of the recent inclusion on the LTA list of contractors page 17.

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

- The global outlook for the energy industry remains relatively flat during 2019 and becomes positive in the medium to long term.
- The improvement of the overall competitiveness of the business as it institutionalises the lessons learned from the East Anglia One project, to ensure that the risk profile for each new project is addressed through its bidding, handover and execution phases.
- The new debt refinancing package will be available on reasonable terms and concluded in H1 2019.
- Flexibility around the timing of cash calls forecast for investment in the IMI joint venture.
- Cash advances will be received in H1 from IMI in respect of the two jackup rigs currently under LOI.
- Sale of the LAM2K land rig during H1 2019.

2) Assessment of viability

Although the strategy reflects the Directors' best estimate of the Group's prospects, the Board considered the current trading position and reviewed certain future scenarios which stress-tested the viability of the business in severe but plausible scenarios. These scenarios considered changes to the key assumptions above and the potential financial and operational impacts of the Group's principal risks and uncertainties page 34 arising and the degree of effectiveness of mitigating actions. 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.

Whilst the principal risks all have the potential to affect future performance, none of them are considered likely either individually or collectively to threaten the viability of the business over the assessment period. Based on the results of this detailed assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Our Board of Directors

John Malcolm
Non-Executive Chairman
Aged 68

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: Director of Bellwood Enterprises Ltd., Chairman of Abraj Energy Services SAOC.

Christopher McDonald
Chief Executive Officer
Aged 51

Appointed: October 2016

Strengths: business development, EPC, international oil & gas

Experience: Christopher McDonald has over 25 years' experience in the EPC and oilfield services sectors. Before joining Lamprell, Christopher held the position of Executive Vice-President 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

Mel Fitzgerald
Non-Executive Director
Aged 68

Appointed: August 2015

Strengths: EPC, international oil & gas

Experience: Mel Fitzgerald has over 30 years' experience in the energy industry. Mr Fitzgerald served as CEO and Board Director at Subsea 7 for seven 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: Director/shareholder of Cathx Ocean.

Debra Valentine
Non-Executive Director
Aged 65

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.

Tony Wright
Chief Financial Officer
Aged 47

Appointed: August 2015

Strengths: finance and 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. From 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

Member of the Remuneration and Development Committee

Member of the Nomination and Governance Committee

Member of the Audit and Risk Committee

Indicates Committee Chairman

James Dewar
Non-Executive Director
Aged 62

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; Interim Independent Non-Executive Chairman of Cabot Energy plc.

Nick Garrett
Non-Executive Director
Aged 56

Appointed: March 2017

Strengths: public markets, financial and accounting

Experience: In his 23-year career at J.P. Morgan Cazenove, Mr 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. From 1989 to 2001, Mr Garrett 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. Mr Garrett 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; Deputy Chairman/Senior Independent Director of Tri-Pillar Infrastructure Fund.

Directors' Report, letter from the Chairman

The Directors oversaw improvements in many aspects of the governance regime, building on lessons learned and feedback from the previous Board evaluation process. This helped to align the governance framework more closely with the Company's strategy and values.

Dear Shareholders,

In 2018, we saw a year of significant developments in our strategic objectives under Christopher's executive leadership, see the Strategic Report page 02, and the Board also dedicated significant time to measuring progress against implementation of the 2018 Board priorities which support our strategy.

Progress against strategic objectives

With the Group's entry into Saudi Aramco's LTA programme for offshore EPCI projects and the award of the two rigs to be built for the IMI joint venture, the focus on Saudi Arabia as a key strategic market page 10 is starting to deliver benefits to Lamprell and this is expected to continue for many years. Lamprell has made a deep commitment to the country with the establishment of a joint venture called Lamprell Saudi Arabia with a local partner. We have also advanced our strategy in the renewables market with the award for the construction of 48 foundations for the Moray East project; we have successfully implemented the lessons learned from the East Anglia One project into this new project, in a fast-growing market with strong long-term fundamentals.

Governance in joint ventures

With so many of our objectives reliant on relationships with new business partners, the Board recognised the importance of understanding how best to manage those relationships and establish structures which aim to ensure their long-term success. While Lamprell is a minority shareholder in the IMI joint venture, it is expected to bring its decades of experience and expertise in running fabrication yards and constructing jackup rigs to the Saudi Arabian project. We have seconded people into key roles where they have been helping to set up the operating framework and procedures in accordance with best practices. The governance framework for our joint ventures must be fit for purpose and Lamprell is in a prime position to assist.

Lamprell Saudi Arabia is less mature than IMI page 14 but represents an opportunity for Lamprell to influence the company's policies and procedures at an early stage and ensure that Lamprell's high standards and culture will be embedded into the way that business operates. This company is central to our plans for bidding and executing new projects within Saudi Arabia and will be aligned with the way that Lamprell operates its own business. Progress on bids involving Lamprell Saudi Arabia will be reported directly to the Board and many of our key compliance, capital investment and risk management policies will be imported directly into it. This is an exciting project and the Board wants to give it the tools necessary to be successful.

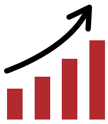
Performance against 2018 priorities

The Board made considerable progress on its agreed priorities in 2018. Following the lessons learned arising out of the East Anglia One project, bidding & estimating was identified as an area requiring investment and attention. Experienced people were recruited into the bidding teams and additional resources have been allocated to enhance the tender reviews. The strong bidding process witnessed on the Moray East project is testament to the enhancements in this function and we are confident of our ability to deliver this project successfully and profitably.

United by our values

How we do business is as important as what we do. Our values unite us, define who we are and what makes us distinctive. They guide our behaviours and actions.

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



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

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

Accountability
We deliver what we say we will.

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

Similarly, the Audit and Risk Committee has overseen changes in the risk management function, with a series of 'deep dives' into a number of specific enterprise risks: each risk owner presented to the Committee highlighting the nature of the individual risk, how it could potentially impact the strategy and/or business model and, most importantly, the mitigations and/or controls that were being implemented to address the risk.

Finally, in support of our continuing upskilling of our workforce, the Remuneration and Development Committee kicked off a leadership evaluation and development programme with the support of a leading external training firm. This programme will continue into 2019 with a series of interactive workshops, aiming to identify strengths and areas for development for management and help them to become a more effective leadership team. Succession planning and talent development are continuing processes and with the solid foundations laid in 2018 will remain critically important over the next few years as the Group cements its position in the key strategic markets of renewables and EPC(I) projects.

Corporate Governance Code

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). Your Board has reported its compliance with the Code during the course of 2018 as set out in this Corporate Governance Report; the Company's maintains high standards of governance but is vigilant for ways to improve where practicable and in the best interests of the Company. Our governance structure must remain appropriate for the size and complexity of the Company, taking into account the prevailing market conditions and our growth strategy.

The Financial Reporting Council published an updated version of the Code in mid-2018 which will apply in respect of accounting periods beginning after 1 January 2019. At the heart of this Code is an updated set of Principles that emphasise the value of good corporate governance. The Board has reviewed the structures of the Board and Committees to ensure that it takes into account the new Code and will continue to do so in 2019.

We achieved a great deal during 2018 but we recognise that we still have much to do. With a strong executive team now in place, the Board will work to deliver improved returns to shareholders. In the mean time, I would like to thank our investors, our workforce and all our stakeholders and other providers of capital for their continued support of Lamprell.

John Malcolm
Non-Executive Chairman

20 March 2019

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 2018.

Results and dividends

The financial statements of the Group for the year ended 31 December 2018 are set out pages 80 to 87. The Group's losses from continuing and discontinued operations after income tax and exceptional items for the year amounted to USD 70.7 million (2017: losses of USD 98.1 million). The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2018.

Other information

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

Directors' Report

The Board leads the business through implementation of a transparent and achievable strategy aligned with a strong governance structure and culture, thereby working to demonstrate how the governance of the Company contributes to its long-term sustainable success and achieves its wider objectives.

As a unitary Board, our Directors share equal responsibility for all decisions, with Directors collectively responsible for the strategic direction of the Company. Having an effective working relationship between our Executive and Non-Executive Directors provides a robust governance framework, which is essential for the promotion of and progression towards the long-term sustainable success of the company, generation of value for shareholders and contribution to the wider community in which Lamprell operates. This also enables the Board to ensure that the Company's purpose, values, strategy and culture are aligned.

The Board 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 management team and transparency in its decision-making. Board meeting agendas are structured to be forward-looking and based around the growth strategy as well as ways to deal with near-term challenges. The Chairman leads Board discussion to ensure that sufficient time is allocated to consider all business-critical issues.

Board composition

The Board is comprised of the Non-Executive Chairman, CEO, CFO, three independent Non-Executive Directors ("NEDs") and another NED; page 38 for biographical details. 2018 was a stable year for the Board in that there were minimal changes among the Directors: Ellis Armstrong stepped down as Senior Independent Director and left the Board on 23 May, at which point Debra Valentine assumed the role of Senior Independent Director. All other Directors served as usual throughout 2018. The CEO and the CFO are the Executive Directors currently on the Board.

Board size and membership

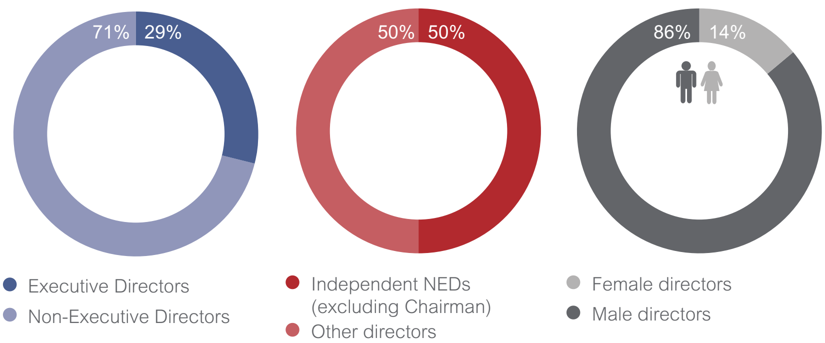
Through the channel of the Nomination and Governance Committee page 50, the Board assesses its structure, composition and breadth of experience regularly and the Board considers that there continues to be a strong combination of industry, regional, financial and operational experience among the Directors enhanced by the diverse professional competences of each Board member.

The Board 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. This ties into the 2018 Board priority around succession planning. In support of the strategy, the Board has identified that it could potentially benefit in the future from a Director either with experience in the offshore wind farm market and/or with a Middle Eastern background page 47. However, the Board is not actively recruiting at the current time given the market conditions and the continuing need to manage overhead costs.

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 and as agreed by the Board. This ensures that strong governance and the segregation of duties is maintained at Board level. The UK Companies Act 2006 sets out a number of general duties to which all directors are expected to adhere. As an Isle of Man company, Lamprell is not required to comply with this legislation; nevertheless, our Directors are guided by UK best practices and in particular act to promote the long-term success of the

Board composition
during 2018



Board attendance
For period 2018

- Number of meetings attended
- Number of meetings in which the Director was eligible to participate
- Number of meetings attended as observer

Former Directors
Ellis Armstrong attended 4 out 5 Board meetings before retiring from the Board on 23 May 2018.

Footnotes:
Directors may be ineligible to participate in meetings if they are in the UK but may be invited as guests. On such occasions, they are not included in the quorum of the meeting and do not participate in the formal business.
All Directors attended the 2018 strategy day held in Dubai.

Company for the benefit of our shareholders and other stakeholders. The Board has been structured to ensure that no single individual can dominate the decision-making processes.

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 and 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 ensuring 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.

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. Ms Valentine was appointed as Senior Independent Director in mid-2018 and continues to hold this role.

The biographical information of each Director as well as the memberships for each Board Committee are detailed on page 38.

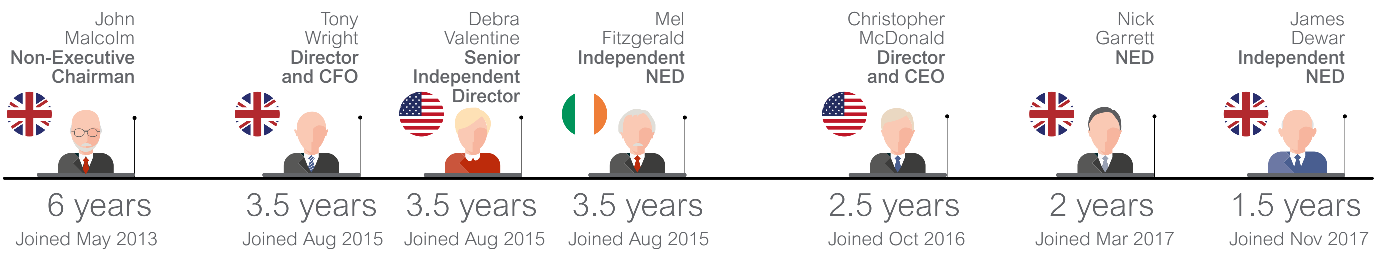
Board meetings and attendance

The Directors met in person on five occasions during the course of 2018 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.

It is common for members of the Executive Committee or other key members of management 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.

Board tenure and nationalities



July 2018 meeting

Review of the impact of the 2018 version of the UK Corporate Governance Code

Debra Valentine's view on the issue

What corporate governance standards does Lamprell comply with? For FY2018, Lamprell complied with the 2016 version of the UK Corporate Governance Code (the 'Code'). However the 2018 version of the Code came into force in July 2018 and will apply for all financial periods commencing after 1 January 2019. Lamprell is already making changes to ensure maximum compliance with the updated Code.

Will the 2018 Code have a major impact on Lamprell's governance structure? No, the changes that we will be making build on Lamprell's existing high standards of corporate governance. The Code is the gold standard of corporate governance for listed companies and the 2018 Code includes an updated set of Principles that emphasises the value of good corporate governance. Each year, Lamprell's Board looks to make incremental enhancements to its performance, such as the deep dives on key enterprise risks by the Audit and Risk Committee during 2018 page 52. By doing so with the new Code, we aim to demonstrate how the governance of the Company contributes to its long-term sustainable success and achieves wider objectives.

In what areas will the Board be making changes to ensure compliance with the 2018 Code? A very positive development highlighted in the 2018 Code is the focus on aligning a company's culture, core values, strategy and remuneration structure. Our employees are committed to our core values in their everyday work and the Company strategy is well defined. Aligning all these with the remuneration structure should translate into a broader role for Lamprell's Remuneration and Development Committee, which is responsible for the compensation philosophy within executive management and is tasked with developing and managing the talent within the Group.

Another of the Code's key Provisions requires the Board to understand the views of other key stakeholders including the workforce. In relation to workforce engagement, the Code indicates how the Board may choose to do so and the Board will report on that in the subsequent Directors' Report.

What is Lamprell doing to prepare for these changes? The Remuneration and Development Committee has already kicked off a series of leadership excellence workshops, which will assist the executive management team to drive the strategy forward based on a clear set of values. Secondly, the Board will target a deeper engagement with its key stakeholders and the wider community as one of its priorities for 2019 page 47. Given the importance of the Saudi Arabian market to our strategy, the Board is planning to visit this key geography and meet with our local business partners. Closer to home, individual Non-Executive Directors are participating in the regular Lamprell Employee Welfare Committee forums held in our UAE facilities; these forums provide an opportunity for the wider workforce to convey messages or concerns to senior management, and now the Board.

Read more on DRR page 56

How the Board operates

There is a formal schedule of matters reserved to the Board; this was reviewed in detail by the Audit and Risk Committee initially and then by the full Board in mid 2018 and updated along with the corporate delegation of authority matrix. The Board retains discretion to approve decisions on key subject matters such as the Group's strategy, annual budget, major capital investments and the financial statements.

The Board also reviews other matters including standing agenda items and key topics for discussion at relevant times of the 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 page 10 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 each meeting, the Executive Directors provide an update on business, operational and financial matters, thereby enabling the Board to understand progress within the business but also anticipate likely forthcoming risks page 34. During 2018, major topics of discussion included the progress on the East Anglia One project (both from an operational and a financial perspective), the Group's strategy and cash management activities. In addition, there were detailed presentations from key managers including the Vice Presidents of IST/ Business Optimisation, Operations, Business Development, Supply Chain Management and HR & Corporate Services on a variety of business-critical matters such as the bid pipeline, the strategy and opportunities for the Group in the field of digitalisation, operational issues and talent development

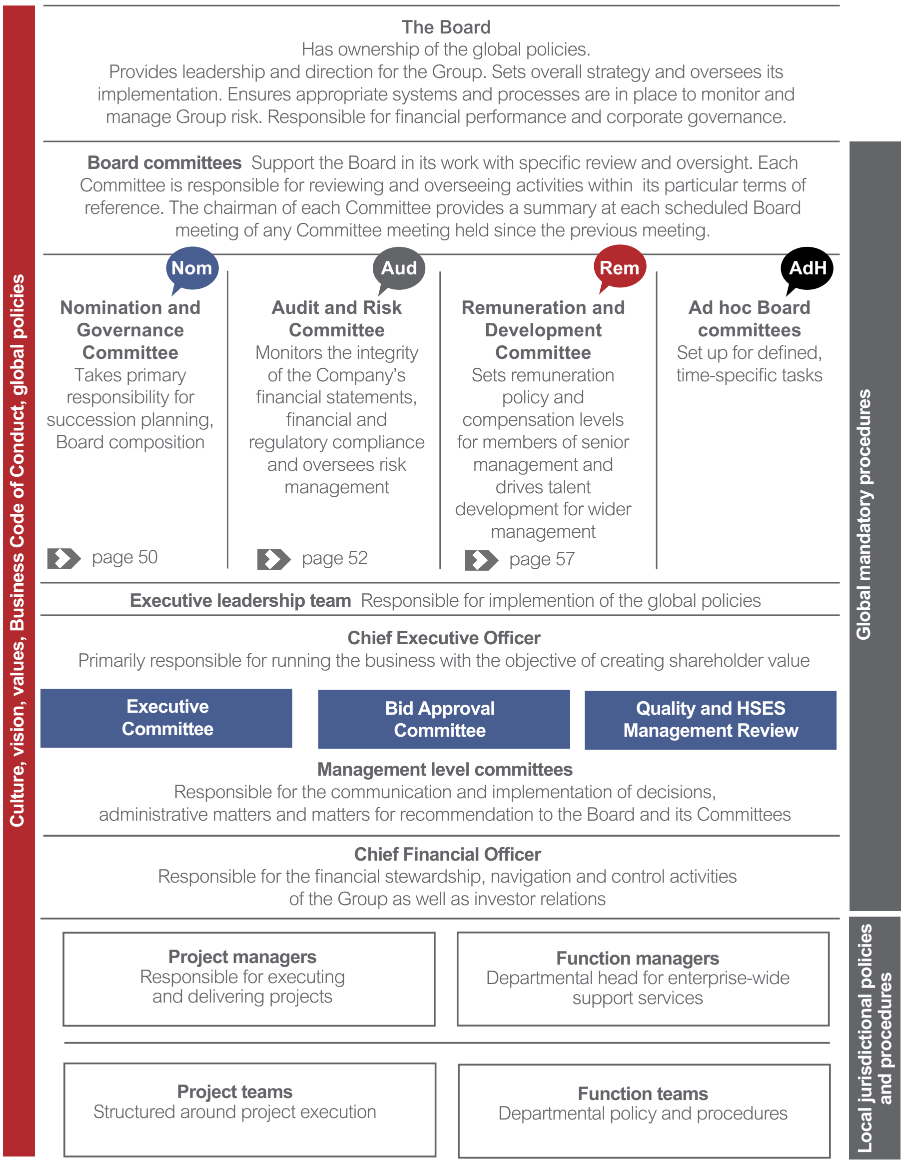
Agenda items

Standing	Periodic	Frequency
Review of actions from previous meetings	Full-year/interim financial statements	Every 6 months
Safey update on enterprise-wide statistics	Group budget, strategy and progress updates	Every 3 months
Reports from the CEO and the CFO, including investor feedback	Corporate transactions	Ad hoc
Reports from each of the principal Board Committees	Risk management	Every 6 months
Report on legal and corporate governance matters	Funding proposals	Every 12 months
	Business development and prospects	Every 2 to 3 months

and performance management. This year, the Company's brokers (J.P. Morgan Cazenove (JPMC) and Investec Bank plc (Investec)) presented to the Board on the subject of the global energy markets, investors' views of the Company and the structure of the Company's shareholder base. In addition, in May 2018, the Board met with senior managers from ScottishPower Renewables who presented the client's views on the future of the wind farm renewables market. The Board was able to engage directly with a major client for Lamprell and understand their key drivers during the subsequent questions & answers session.

The Board actively works to understand the ground-level aspects of the business. In May, the Directors visited a transportation vessel which was sitting alongside the Jebel Ali facility quayside and being loaded with completed jackets for delivery to the client on the East Anglia One project. Key operational personnel accompanied the Directors, who had the opportunity to understand the complexities of the project directly from the project team.

Decision-making is based on the reports or presentations produced, or on the recommendations from one of the principal Committees. It is therefore critical 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 tender bid to construct foundations for the Moray East offshore wind farm project renewables strategy and the Board was able to review and approve the bid on an informed and risk-assessed basis taking into account the lessons learned on the East Anglia One project. 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 page 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. The Committee members discuss and approve matters transparently, in an environment of trust and using delegated responsibilities where that is more efficient. 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

Aside from its Committees, the Board is ably supported by the management team which makes use of a number of management level committees page 45.

It is a core principle for all that there is an effective working relationship between each of the Directors, between the Board and management 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 NEDs, with a view to reaching a mutual understanding of views prior to wider discussions at meetings. At "in person" Board meetings, there is a dedicated agenda item for a private session between the NEDs and the Non-Executive Chairman, without the CEO or CFO present, to share insights on matters of governance or raise concerns regarding management of the business, if any.

September 2018 meeting

Audit and Risk Committee's deep dive into specific risks

James Dewar's view on the issue

What is a 'deep dive' and how is that different from previous risk reviews by the Audit and Risk Committee? A 'deep dive' allows the Audit and Risk Committee to approach enterprise risks from a different perspective – there is direct engagement with each Risk Owner in relation to a single major risk. The Risk Owner presents a summary of each individual risk, addressing both the unmitigated and mitigated impacts and likelihood, to the Committee. There is an assessment of the effectiveness of the controls and mitigations and whether they need to be enhanced. Finally the Risk Owner can highlight how, if Lamprell was to manage a particular risk very well, this could create opportunities or competitive advantages for the business.

Which risks did the Audit and Risk Committee deep dive into and why? The Committee decided to target the higher risk areas for the business and so, during the course of 2018, the relevant Risk Owners presented on the following subjects: Lamprell's ability to win new work in light of the energy industry downturn; Lamprell's historic reliance on a single product line; counterparty credit risk taking into account the contractual supply chain; project execution risk; onerous contractual commitments, particularly in new target markets; and the recruitment and retention of talent in anticipation of an improving business environment.

How has this helped Lamprell's risk management processes? Is there a commercial benefit? The most important result from the deep dive process has been the additional assurance provided to the Board, via the Audit and Risk Committee, that major business risks are approached and evaluated in an appropriate, transparent and detailed manner. The process has improved the risk reporting lines from projects all the way up to Board and there is increased confidence that lessons are being learned and implemented in diverse areas such as project management, contract administration and the structuring of remuneration packages. These all contribute to make Lamprell a more cost competitive and effective business.

Will the deep dives continue into 2019 and, if so, what risks will the Audit and Risk Committee be looking at? The Board considers that the deep dive process has been very successful and has asked the Audit and Risk Committee to continue them in 2019. The Committee will follow up on certain actions arising out of the 2018 deep dives to get a better understanding of matters such as the automated project risk management system, which assists Project Managers in the execution of projects. The Committee is also planning to invite other Risk Owners to present on the following: the risk of an opportunistic approach for the Company which could alter the strategy; the Group's reliance on various IT infrastructure and systems in light of the ever-present cyber threats; doing business in developing economies, from a geopolitical and regulatory viewpoint and considering the establishment of new business relationships. It is expected to be a busy year!

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 Board independence was 50% or more excluding the Chairman throughout 2018.

At the date of publication, 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 during 2018 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.

Appointments to the Board

There is a formal, rigorous and transparent process for the appointment of new Directors to the Board. This is led by the Nomination and Governance Committee page 50 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 & Corporate Services 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.

There were no appointments to the Board in 2018 but, in light of Ellis Armstrong's decision to leave the Company prior to the 2018 AGM in May 2018, the Nomination and Governance Committee considered the options for appointment of a new Senior Independent and, after due consideration, recommended that Debra Valentine be appointed into the role because of her knowledge of the Company and high level of integrity.

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 Company provides Directors with the necessary resources to maintain and enhance their knowledge and capabilities. The individual Directors also regularly update and refresh their skills and make efforts to remain current with the latest regulatory obligations and accounting matters for quoted companies with the assistance of our professional advisers. This year, various Directors attended updates on, among other subjects, changes to the IFRS, the UK Corporate Governance Code and recent developments in governance and compliance.

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

All Directors are also entitled to seek independent professional advice concerning the affairs of the Company at the Company's expense, as and when needed. No Director sought independent advice during the financial year.

Induction of new Directors

Upon joining, Directors are given a tailored induction programme welcoming and introducing them into the Group's business and this includes visits to the Group's main facilities in the UAE, presentations from key managers and a meeting with the Chairman and Company Secretary to discuss governance and regulatory matters, as well as Board procedural matters. The process is documented and will be reported upon the arrival of any new Director(s).

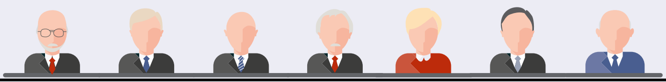
Board performance evaluation

The Board decided to run an internally driven process to evaluate its performance in 2018, similar to the process used the previous year. This process was considered to be effective and cost-conscious in light of the ongoing drive to manage costs in the business, and 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 Director feedback on

Board priorities for 2019

Matters considered:



Succession planning and talent management

Observation
This is a continuing matter and the Board wanted to build on the foundations laid in 2018 to ensure that key staff are developed to their full potential and properly incentivised to deliver the strategic objectives.

Board priority
Oversight of the executive leadership training programme and provide direct mentoring to senior managers. Formulation of the Board's own succession plan for the medium term.

Develop deeper connections within key geographies

Observation
The UAE and KSA are central to Lamprell's strategy and so it is appropriate for the Group to develop deeper bonds with clients and business partners in each jurisdiction.

Board priority
Implementation of ways to connect the Company with key stakeholders in the UAE and Saudi Arabia, for example direct advice from experienced, regional personnel to the Board; meetings with local business partners and key clients; consider appointing an Emirati or Saudi Director in the medium term.

Board visibility among key stakeholders

Observation
It is beneficial for the Directors to have direct engagement with key stakeholders especially our workforce and shareholders. This demonstrates the Board's desire and commitment to hear their views and act on them, as appropriate.

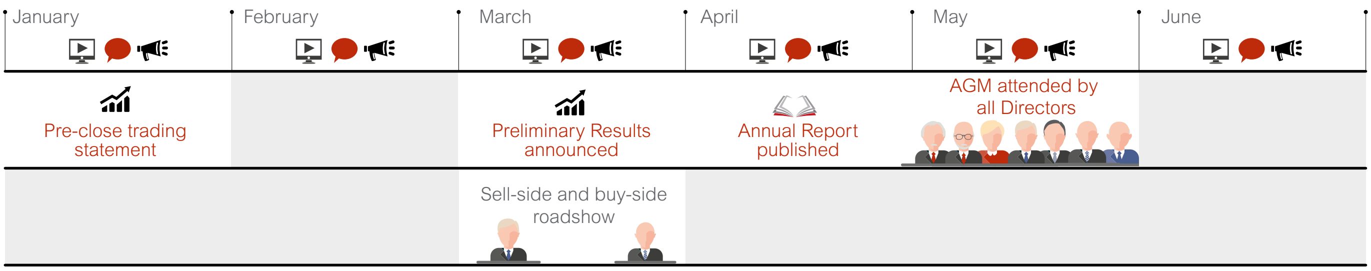
Board priority
Establish and implement a plan for stakeholder engagement including meetings between NEDs and major shareholders; NEDs to continue participating in the Employee Welfare Committee forums; rotation of Board meetings around the facilities.

Improve Board processes and regular performance feedback

Observation
Similar to the rest of the business, the Board considers that it should have a culture of continuous improvement and learn lessons from each round of meetings.

Board priority
Enhance processes for improved, risk-based decision-making: amend the capex approval procedure to align with strategic goals; standing agenda item at each meeting for the Board to review its performance; Director training by external lawyers on latest regulatory developments.

Communications with our shareholders



Key

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

Regular press releases regarding Company’s business

quantitative ranking and qualitative feedback to the Board, principal Board Committees and the Directors). It also included feedback from 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 provided to the Board which then discussed the results in open session, and also summarised the Board’s performance against the previous year’s Board priorities.

As a result of this process, the Board has been able to structure its priorities for 2019 around the results page 47. 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 quality and transparency of discussions and decision-making at the Board level. In 2019 there will be a more regular evaluation of performance by the Board after each round of meetings.

Annual General Meetings of the Company

In May 2018, the Company held its AGM in Dubai, United Arab Emirates and all the Directors attended and stood for re-election. Ellis Armstrong left the Board prior to the AGM.

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 the results from the proxy voting were announced at the AGM and subsequently published. All resolutions passed but our 2017 Directors’ Annual Report on Remuneration was approved by shareholders with 73.3% of votes cast in favour of the resolution. While the Board was disappointed not to have received a higher level of support for the resolution given the report’s conformity with the existing remuneration policy, the Board understood the specific concern raised by the shareholders and agreed to continue actively engaging with them on executive remuneration and other issues.

As a matter of good governance and in accordance with the changes to the Code, voting on resolutions 8, 10 and 12 (which related to the re-election of the independent NEDs) was conducted by independent shareholders only (i.e. excluding the “controlling shareholders”) page 49.

The Company plans to hold its next AGM on 21 May 2019 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 but, in line with the Code and best practices, all Directors will retire and stand for re-election at the 2019 AGM. The Company will make the terms and conditions of Directors’ engagements 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.

Communications with shareholders

Investor relations activities are primarily handled by the CEO and CFO with the support of a dedicated investor relations team.

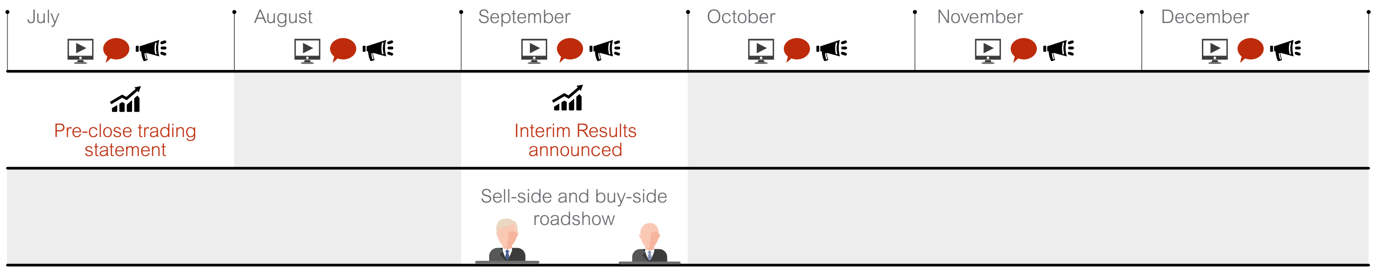
The Group provides scheduled performance updates to the market twice a year, presenting half yearly and annual results to analysts. These presentations are webcast and can be accessed, along with any materials, via our website.

As in previous years, Lamprell focused heavily on effective and open communications with its shareholders and 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 and significant announcements to the market.

The Group CFO provides investor updates to the Board as part of his regular reporting. We also survey equity analyst opinions following each set of financial results, which are communicated to the Board. In addition, the Chairman and Senior Independent Director communicated from time to time with shareholders on specific issues during 2018.

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 the Company’s listing in 2006. JPMC has supported and advised the Board through a number of complex corporate transactions since 2012. Investec acted as the Company’s broker and adviser in relation to the IMI joint venture in Saudi Arabia which was overwhelmingly approved by shareholders at an extraordinary general meeting in mid-2017. The Company also views the AGM as an important process for liaising with shareholders.

The Board strives to give due regard to comments from investors 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.



	Voting rights attaching to issued ordinary shares	% of total voting rights
Lamprell Holdings Limited	113,182,291	33.12
Schroders plc	43,502,487	12.73
Blofeld Investment Management	41,541,541	12.16
Prudential plc group (including M&G Investment Management)	23,889,020	6.99

Significant shareholders

As at 20 March 2019, 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 set out in the table above.

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 looks to engage with the other key stakeholders in the business; in particular the Board places considerable importance on positive and effective interaction with the Group's workforce and it encourages the management team to hear the views of employees through a number of channels page 28. During the course of 2018, our internal Corporate Communications team coordinated campaigns for the management team to cascade key messages throughout the organisation. One of particular note has been our human rights and labour standards awareness campaign and training. This is continuous programme to ensure all our workforce are very clear about their rights in this area.

A primary conduit for the employees to question the management team is by way of the "CEO townhalls". Twice a year at each of the three main facilities in the UAE, Christopher McDonald, CEO, presents a summary of the key developments within or affecting the business and the ways that employees can help to achieve the Company's strategic objectives. At the end of each event, there is a Q&A session and this enables staff employees to voice concerns on any subject directly to the CEO. In line with the new 2018 Code, the NEDs have begun to participate in the regular Lamprell Employee Welfare Committee forums, where the wider workforce is able to convey messages or concerns to senior management, and now the Board.

Our 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 they include 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. 2019 represents a significant year between Lamprell and its lending group because the current debt facility expires in August and the Company will be looking to put a new facility in place page 23.

Directors' remuneration

The Remuneration and Development Committee is primarily responsible for determining the Company's remuneration policy, taking into account best practices as well as advice from external consultants. Details of the Company's policy on remuneration, the Directors' remuneration for the year ended 31 December 2018 and their interests in the ordinary shares of the Company can be found in the Directors' Annual Report on Remuneration page 62.

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

Committee members

Mel Fitzgerald
Committee Chair and Non-Executive Director

Debra Valentine
Senior Independent Director

John Malcolm
Non-Executive Chairman

In support of our strategy, the Committee reviewed the governance regime for joint ventures, in particular the Group's two new Saudi joint ventures, monitored the security arrangements to protect Group assets and considered the implications for the Company of the 2018 version of the UK's Corporate Governance Code.

Committee attendance

The Committee comprises of three members. Two members – Mel Fitzgerald and Debra Valentine – are considered to be wholly independent (with Mel as the Committee Chair), plus the Chairman of the Board. Aside from the members, the Company Secretary and the Group's VP of HR & Corporate Services are typically invited to attend meetings.

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. There has been stability on the Board during 2018 with the only change being the appointment of Debra Valentine as Senior Independent Director following the departure of Ellis Armstrong after five years on the Board. The Committee, and the Board as a whole, is confident that Debra will apply her keen analytical skills and high integrity very effectively to excel in this role.

In addition, the Committee considers the implications of any changes in the regulatory and governance framework and advises the Board on the same. The Committee also has delegated responsibility for overseeing the Group's security activities and this was an area of particular interest to the Committee in 2018.

The Committee takes a leadership role in Board and senior management succession planning, making use of executive recruitment specialists, Korn Ferry and the McNair Partnership, as the Company's primary (but not exclusive) search consultants. These firms have strong industry profiles internationally and regionally respectively, and both have proven assessment processes and broad contact networks from which to source candidates. Save in relation to executive search processes, Lamprell had no other connection with either company.

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

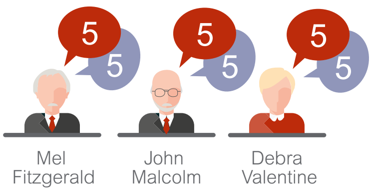
Activities during 2018

Aside from its standing agenda items, in 2018 the Committee dedicated much of its time to review of three key areas: joint venture governance, the Group's physical and cyber security measures and the impact of the new Corporate Governance Code published in July 2018.

JV Governance

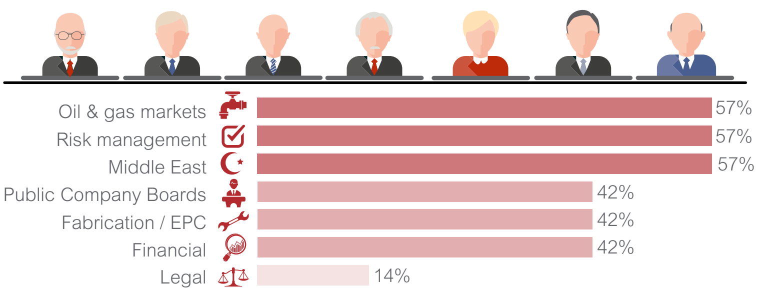
With the investment in the IMI yard and the establishment of Lamprell Saudi Arabia page 15, the Group is participating in two new, complex joint ventures which require support and resources from the Group. Accordingly, the Committee considered each venture to understand the key drivers for success, to recommend actions for enhancing the governing policies for each and to identify governance lessons which could be learned and implemented on future joint ventures. As there are Lamprell secondees working in the joint ventures, it was important

Committee attendance
For period 2018
● Number of meetings attended
● Number of meetings possible



Former Director
Ellis Armstrong attended one out of a possible three meetings before retiring from the Board in May 2018.

Board expertise



for the Committee to verify that there are adequate controls and procedures in place to incentivise them but also to address any potential conflict of interest issues.

Security framework

With the allocation of security matters to the Committee, there were presentations by the VP of IST/Business Optimisation on cyber security and VP of HSESQ on physical security matters within the Group. The Committee had the opportunity to discuss and review the continuing challenges to security faced in certain regions or as a result of increasing technology threats. The Committee agreed that its cyber and physical security measures and policies were robust and helped to reinforce security awareness among employees. In addition the Committee noted that the relevant departments had created plans to improve the measures further, to the extent that resources so permitted.

UK's Corporate Governance Code 2018

As directed by the Board, the Committee has taken the lead role to understand the potential implications of the new Code on the Company and its governance regime, recognising that it applies for financial periods commencing on or after 1 January 2019. To complement the Company's strong framework of policies and procedures and on recommendation of the Committee, the Board is committed to, and has been taking steps to, implementing new standards in preparation for the new Code coming into effect. Such developments demonstrate how the governance of the Company contributes to its long-term sustainable success.

Diversity and inclusion policy

Our people are fundamental to the long-term success of the Company and we believe that it is crucial to hire new talent based on merit and with a wide range of relevant skills and experience, regardless of their background or gender. The Committee has continued to review ways to implement its diversity and inclusion and, while our industry is predominantly male-dominated, the Committee was pleased to note the arrival of two female senior managers in 2018 – the VP of HR & Corporate Services and the Project Manager for the new renewables project for the Moray East offshore wind farm page 16.

As noted previously, 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. Diversity was a key factor discussed during the Board's strategy review day and the Directors recognised the potential benefits of having regional representation on the Board. Accordingly, the Committee will take diversity in its widest sense into account when reviewing the Board composition.

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

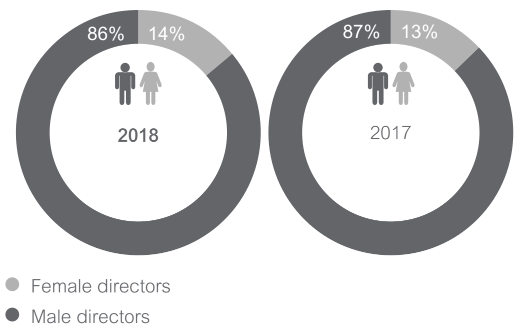
- A corporate culture which hires candidates on merit based on the most appropriate range of skills and experience for a role, and offers equal opportunities for all employees, regardless of gender, ethnic origin, background or physical disabilities;
- Secure senior leadership commitment to the diversity 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.

NEDs 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 NEDs currently serving were re-elected at the 2018 AGM. All existing Directors and new Directors will be proposed for election by the shareholders at the 2019 AGM.

Board gender split



Audit and Risk Committee Report

Committee members

James Dewar
Committee Chair and Non-Executive Director

Debra Valentine
Senior Independent Director

Mel Fitzgerald
Non-Executive Director

There was a change in the Committee Chair but the Committee retained its central role in reviewing the financial aspects and significant judgements affecting the business on an ongoing basis throughout the year. The Committee also provides Board-level support for the internal audit and enterprise risk management functions.

Committee attendance

Throughout 2018, membership of the Committee was comprised solely of independent NEDs, in accordance with the requirements of the Code. 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 of the Company for the Committee to have at least three members. The only membership change was the departure of Ellis Armstrong in May.

James Dewar has been Committee Chairman since 1 January 2018 and he has relevant financial experience for the purposes of the Code, thereby ensuring the strong background in both financial metrics and industry experience, as required to assess the matters presented to the Committee.

Aside from the members, the Group's CFO and the Company Secretary 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 page 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.

1st line of defence

Executive Committee	Internal controls and annual self assessments	Internal policies and training

2nd line of defence

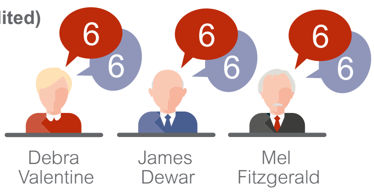
Financial control	Health, safety and environment	Technology
Risk management	Internal audit	Legal

3rd line of defence

Audit and Risk Committee
Monitors the integrity of the Company's financial statements, reviews financial and regulatory compliance and overseas risk management

Committee attendance (unaudited)
For period 2018

- Number of meetings attended
- Number of meetings possible



Former Director
Ellis Armstrong attended two out of a possible three meetings before retiring from the Board in May 2018.

Activities during 2018

The Committee's main activities during 2018 were as follows:

- reviewing the year-end/interim financial statements for the Company including ongoing risks and opportunities;
- assessing the costs and forecasts from the East Anglia One project and their likely financial impact on the Company page 22;
- performing a 'deep dive' evaluation of five high-rating enterprise risks to ensure that the risks were properly identified, managed and being mitigated;
- overseeing management's effort to forecast and manage its cash and cash equivalents through the continuing, prolonged market downturn;
- evaluating the external auditor's independence, objectivity and effectiveness;
- receiving a 'VAT health check' for the Group following 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 page 34;
- considering the schedule of matters reserved for the Board and recommending changes to the same, for approval by the Board;
- reviewing the internal audit reports, outstanding action points and approving the 2019 audit plan;
- ongoing assessment of the control environment and systems; and
- reviewing the whistleblowing statistics and reported cases.

Significant accounting judgements in 2018

The Committee considered the significant judgements – see table opposite – during 2018. 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 services

Deloitte LLP have been the Company's auditors following a formal tender process in 2015. During 2018, Deloitte LLP presented to the Committee on various matters (including their audit report on the 2017 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.

Significant judgements considered by the Committee during 2018	Views/actions of the Committee with respect to significant judgements
Going concern basis of accounting	The Committee reviewed the appropriateness of the going concern basis of accounting used in preparing these financial statements. In particular, the Committee focused on the base model liquidity forecast which included a review of its ability to complete the debt refinancing and sign the full facility agreement in the near term which is expected to comprise of a term loan and revolving credit facility to support the business and other key assumptions disclosed in Note 2.1. After considering the realistic availability and likely effectiveness of actions that the Directors could take to avoid, or reduce the impact or likelihood of a significant deterioration in cash flow arising from these matters, the Committee concluded they do not represent a material uncertainty that may cast significant doubt upon the continuing use of the going concern basis of accounting.
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 continue 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 with management and external auditors	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 and intangibles	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, 2017 and 2018 and the limited recovery projected for revenues in 2019, 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.

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 express 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. 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 2018, Deloitte LLP provided non-audit services with a total value of USD 36,943 (2017: USD 0) against an annual audit fee including Group audit fees with a total value of USD 547,400 (2017: USD 596,000). This continues the Committee's efforts to minimise the amount of non-audit services conducted by the external auditors compared to audit services.

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 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.

Given the oversight by the Committee and the minimal non-audit services undertaken by Deloitte LLP, the Committee considers that the objectivity and independence of the external auditor were safeguarded throughout the financial year. In addition, the Committee remains satisfied of Deloitte LLP's 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 10 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 2019 AGM for their services in respect of the 2019 financial year.

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 2018:

- Consumables management;
- Risk management;
- Security management;
- Cost review for certain projects;
- Subcontractor Payment Review Process;
- Procurement & Supply Chain;
- Follow-up audits;
- Surprise cash count;
- Sales and proposals.

As in previous years, the IA and Group risk functions collaborate closely to determine the 2019 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 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

The Board has delegated the oversight 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.

Each of the Directors acknowledges and accepts that the Board as a whole takes responsibility for risk management in line with the Code requirements.

As per the agreed Committee annual cycle, 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 2017 financial results in March and the 2018 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 page 34.

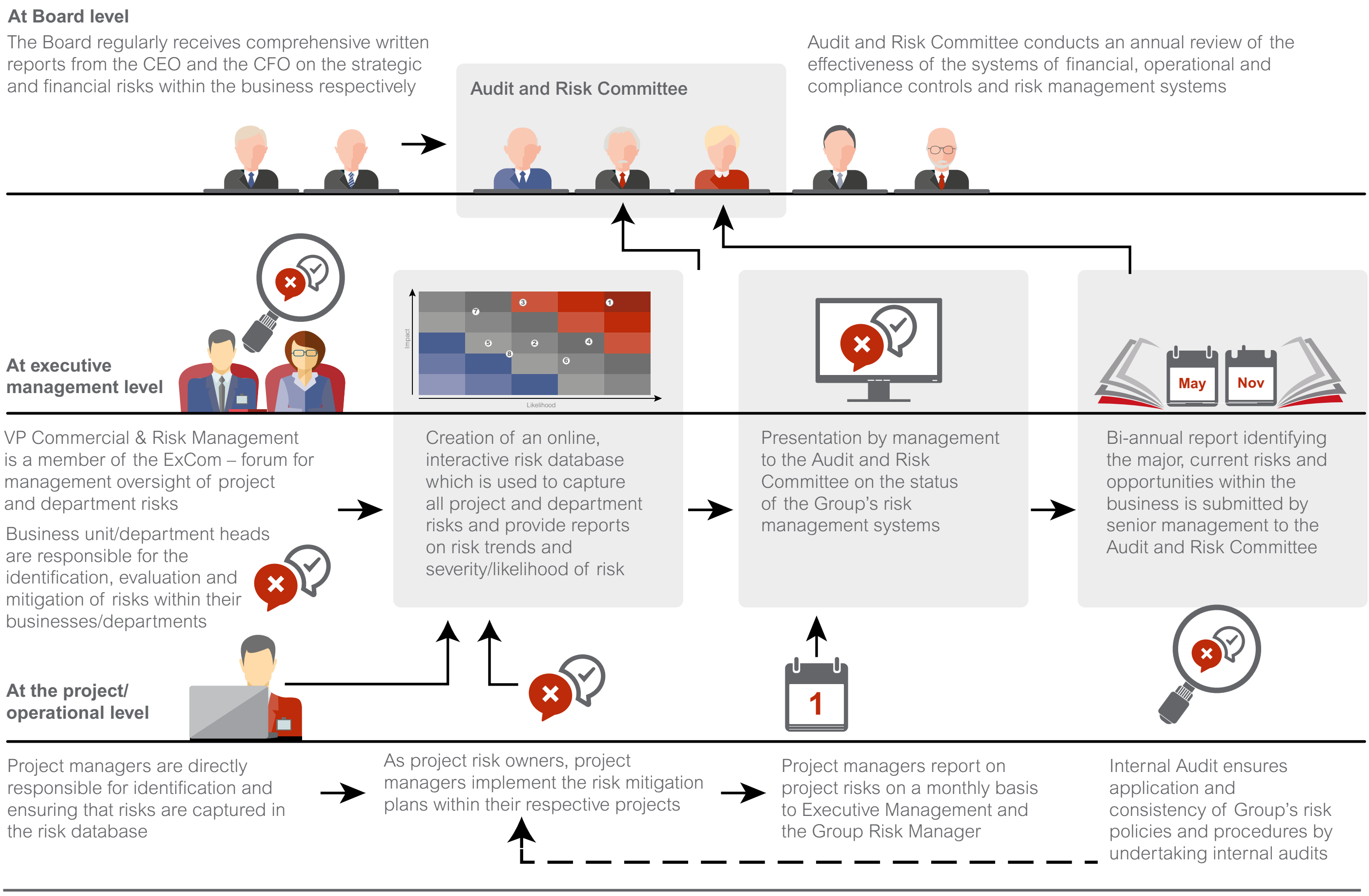
Embedding and institutionalizing the risk management culture is a core objective of the business to ensure our risk management performance stays in line with the dynamic risk profile of the business. In addition risk training and development also plays a key part of learning and awareness within the company and our Project Execution University has recently rolled out a Project Risk Management training module.

We have used the challenges experienced on the East Anglia One project to ensure that the lessons learned are embedded into our processes to make our risk management system more effective and to ensure that we are able to bid more competitively in the future. The business improvement workshops have continued throughout 2018 and management uses them to identify the risks on major projects 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 serves as an analytical tool to assess and quantify the position of our business risks at any given time, with identified risks being evaluated for probability, frequency, consequence, ranking as well as supporting development of contingency and mitigation plans.

Anti-bribery and Corruption Policy

Lamprell is committed to a zero tolerance approach with regard to bribery and corruption throughout our business. We publicise our bribery and corruption policy on a regular basis, and we educate our employees and business partners on it, so as to ensure that all our business is conducted in an honest and ethical manner.

Managing risk appropriately during 2018



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;
- 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, the disclosure policy and the whistleblowing policy. The Company also publishes its annual modern slavery policy statement on the Company's website www.lamprell.com, in accordance with the Modern Slavery Act 2015.

The Group employs various 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 Company's core values – Integrity, Safety, Fiscal Responsibility, Accountability and Teamwork page 03 – are central to the way in which the business is operated and are integrated in all decision-making processes.

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 2018, the internal control environment is operating effectively.

Directors' Remuneration Report

Committee members

Debra Valentine
Committee Chair and Non-Executive Director

Mel Fitzgerald
Non-Executive Director

James Dewar
Non-Executive Director

Dear Shareholders,

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 December 2018.

Performance and reward in 2018

Whilst the external environment in 2018 continued to create a very challenging year for the business, as reported elsewhere in this Annual Report and Accounts, the Group achieved a level of gross margin such that STIP pay-outs were made to the CEO, Christopher McDonald and CFO, Tony Wright at 35.6% and 36.8% respectively of their maximum targets. Details of these pay-outs are given page 65.

However, as a consequence of the Group's cumulative performance in the three years to 31 December 2018, and its impact on cumulative EBITDA, end of period backlog and relative TSR, the performance shares awarded to Christopher McDonald and Tony Wright on 10 October 2016, with a performance period ending on 31 December 2018, failed to achieve the minimum vesting requirements in all three metrics and as such, subject to the approval of the Board, will result in nil vesting on 9 October 2019.

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 2018 are given on page 65. Long-term incentive awards were granted in April 2018 to Christopher McDonald and Tony Wright, in accordance with the rules of the performance share plan page 66.

From 2018, the Committee extended its responsibility for setting remuneration to the wider senior management team and also sought to ensure an appropriate focus on executive and senior management talent development and succession planning. This focus included a number of presentations and discussions, complemented by the implementation of a leadership excellence programme in Q4, which is being rolled out to ExCom and senior leaders in the business throughout 2019. During Q4 2018 and Q1 2019, the Committee discussed at length the need to ensure that the incentive arrangements that the Group has in place for 2019 and beyond continue to be fully aligned with shareholders' interests and that they continuously drive executive behaviour and reward towards the achievement of the Group's strategic goals page 10.

Remuneration Policy for 2019-2022

At the AGM on 21 May 2019, the Remuneration Policy that is set out elsewhere in this report will be subject to a three-year binding shareholders' vote. The Committee has actively undertaken a comprehensive review of the Policy and, in doing so, has continued to monitor and, where appropriate, take on board emerging trends in UK executive remuneration practices. As part of that process, in September 2018, in the interests of good governance, the Committee undertook a review of its external advisors given that the existing advisor, Aon, had advised the Company for five years. After consulting with five advisory firms, including Aon, on all aspects of the current Policy and following a rigorous comparative assessment process, the Committee decided to retain Aon.

As a result of the overall review and consultation process, combined with the proposed changes to the executive share ownership guidelines including post-employment shareholding requirements for new Directors and the description of the Committee's discretionary authority, the Committee is satisfied that the Remuneration Policy, which will take effect from the 2019 AGM, is clear and transparent and well aligned with UK market practices and norms. In completing the review process, we acknowledged the emerging requirement for companies with more than 250 UK employees to disclose CEO pay ratios but underline that Lamprell currently has no UK employees defined by the regulations. We shall continue to monitor UK practices and norms on an ongoing basis.

The Committee also continues to be satisfied that the Remuneration Policy will ensure that we can recruit and retain the right calibre of senior management to maximise shareholder value and deliver sustainable growth over the longer term.

Implementation of Policy in 2019

In accordance with the Remuneration Policy, the Board has approved a one-off exceptional LTIP award, for 2019 only, of 150% of base salary to the CEO and 120% to the CFO in recognition of the need to maximise incentives around out-performance at a critical point in the business.

Below are the other main components of the implementation of our Policy in 2019:

- Base salaries: no increases for the third consecutive year
- STIP:
  – Maximum opportunity levels: CEO 100%; CFO 85%
  – Performance metrics: Closing backlog (25%); EBITDA (25%); Cash headroom (25%); personal goals (25%)
- LTIP:
  – Performance metrics: Relative TSR 50%; Cumulative Net Profit 25%; Cumulative Sales 25%
- Non-Executive Directors' fees: No changes for the sixth consecutive year

The Board is therefore recommending a resolution for approval of the Remuneration Policy by the shareholders at the AGM on 21 May. We shall be seeking your support for each part of this report. On behalf of the Committee, I recommend this Remuneration Policy and report to you and I hope that you will find it clear, concise and understandable.

Debra Valentine
Chair of the Remuneration and Development Committee

20 March 2019

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 has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders and describes the Policy to be applied from the 2019 AGM. The Policy will be put to a binding shareholder vote at the AGM on 21 May 2019.

Policy overview

The Committee is responsible, on behalf of the Board page 38, 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 page 08 and maximise shareholder value by offering remuneration packages that are designed to enable the recruitment, retention and motivation of high calibre executive directors and senior management and are tied to challenging performance targets aligned with the Group's strategic vision.

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 page 34.
- To maintain the highest possible health and safety page 31 standards where any fatality that takes place in a facility operated by the Company or any of its subsidiaries may result in discretionary withdrawal of incentive eligibility.
- To provide a significant proportion of performance-linked pay in shares allowing senior management to build significant shareholding in the business and therefore aligning management with shareholders' interests and the Group's performance.
- To maintain appropriate governance and risk management through the application of holding periods and clawback provisions on incentive plan awards.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors and this Committee, in particular, does so around remuneration 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 from shareholder representative bodies more generally. This feedback, together with 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 page 62.

Summary of the Directors' Remuneration Policy

The following table sets out the key aspects of the Directors' Remuneration Policy. A description of how the Company intends to implement the above policy is set out in the Annual Report on Remuneration. The key changes to the policy approved at the 2016 AGM are an increase in executive share ownership guidelines for the CFO from 150% to 200%, a requirement for Executive Directors hired after 1 January 2019 to retain certain shares for two years post-employment, an updated description of circumstances that may give rise to invoking clawback or malus conditions, and a more robust description of the Committee's discretionary authorities.

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 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	No prescribed minimum or maximum annual increase. The Committee is guided by market position, the average increase for the workforce generally and may recognise an increase due to, for example, assumed additional responsibilities 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 Performance targets are approved annually by the Committee 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 Clawback provisions apply for overpayments due to misstatement, error, negligence, fraud, serious misconduct or other adverse circumstances at the discretion of the Committee	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 and management's performance The financial metrics incorporate an appropriate sliding scale around a challenging target. On each element, only 20% of the maximum target will pay out for achieving threshold performance increasing pro-rata with 100% pay-out on achievement of maximum stretch targets
Long-Term Incentive Plan ("LTIP")	To balance performance pay between the achievement of strong financial performance and delivering sustainable stock market out-performance To encourage share ownership and alignment with shareholder interests	Annual awards of conditional shares or nil (or nominal cost) options with vesting dependent on the achievement of performance conditions over a three-year period An additional mandatory holding period of two years will apply to all vested awards (net of tax) Performance targets and metrics are approved annually by the Committee The Committee has discretion to override the formulaic outturn and 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 Clawback provisions apply for overpayments due to error, misstatement, negligence, fraud, serious misconduct or other adverse circumstances at the discretion of the Committee Dividends may accrue during the vesting period and will typically be paid in 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 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"), EPS, cumulative EBITDA, cumulative sales awards and other equally challenging metrics On each element only 20% of an award will vest for achieving threshold performance, increasing and vesting pro rata with full vesting for achieving maximum stretch performance targets

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
End of service gratuity	To offer Executive Directors a retirement benefit as required under the UAE Labour Law	The Company has no Group-wide pension scheme 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 (or car allowance), fuel allowance, annual leave air fares, children's education and utility expenses Executive Directors will be eligible for other benefits introduced for the wider workforce on broadly similar terms and at times additional benefits might be provided if the Committee decides payment of such benefits is appropriate and in line with emerging market practice	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 until the share ownership guidelines are reached Directors hired after 1 January 2019 will be required to hold the lower of shares to the value of 200% of base salary or their actual vested shareholding at the date of employment termination until the second anniversary of their separation from the Group	Expected to achieve 200% of base salary 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 Fee levels set by reference to market rates, taking into account the individual's experience, responsibility, time and travel commitments	No prescribed minimum or maximum annual increase. The Executive Directors and Chairman are guided by market position but may recognise an increase, e.g. assumed additional responsibilities or an increase in the scale or scope of the role	Annual evaluation of Board performance

Performance metric selection

The annual bonus ("STIP") is predominantly based on key financial performance indicators page 63, to reflect how well the Group succeeded in managing its operations and meeting its short-term strategic goals. The balance is determined on performance against individually determined strategic objectives and annual operational targets, including HSE.

The LTIP performance measures reward significant long-term returns to shareholders and long-term financial growth. Targets take account of internal strategic planning page 10 and external market expectations for the Company and are set appropriate to the economic outlook page 06 and risk factors page 34 prevailing at the time, ensuring that such targets remain challenging, whilst 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

In addition to the formulaic assessment of performance against the respective plan metrics, the Committee recognises its obligation to assess the appropriateness of the awards relative to the Company's underlying business performance over the respective plan's performance period. When determining the final performance outcome under the respective plan, the Committee has discretion over the payment amount or the number of shares vesting considering other important internal or external factors. Any discretion to the formulaic outcome will be reported transparently.

The Committee operates the incentive plans in accordance with their respective rules, the UK Listing Rules and HMRC rules where relevant. The Committee, consistent with market practice, retains discretion over several areas. 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 any or all performance conditions 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, e.g. 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);
- the ability to adjust existing performance conditions for exceptional events and changes in circumstances so that they can still fulfil their original purpose; and
- the ability to cash settle awards where payment in shares is impractical for legal or regulatory reasons.
- the ability to disapply, in full or part, the post-employment shareholding requirements at the time of departure if the Committee believes it is in the best interests of the Company.

In approving this Directors' Remuneration Policy, shareholders give the Company authority 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 remuneration affecting the wider employee population. When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salary and incentive arrangements across the Group to ensure that there is a coherent approach. 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.

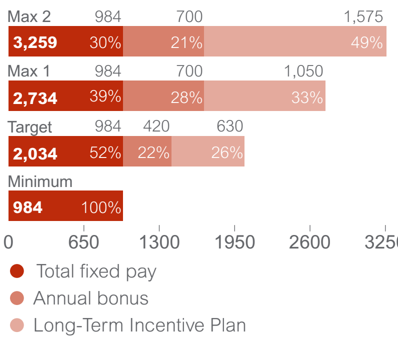
Executive and senior management maintain open channels of communication with the wider workforce so that employees are clear on the design of pay and incentive arrangements and the contribution required from them to achieve an appropriate share in any rewards. The Committee seeks to ensure that, when setting executive and senior management pay, overall business performance and market conditions have a broadly similar impact on salary reviews, bonus and incentive arrangements at all levels across the organisation. The differences that exist between executive and senior management remuneration and that of the general workforce are derived mainly from the need to incentivize executives around longer-term strategic goals which, in turn, places a greater proportion of executive pay "at risk".

Consultation about remuneration between executive management and the general workforce focuses on how at all levels, pay and reward are set by comparisons to industry peers and efforts to maintain equity across the same levels in the workforce, taking into account experience and performance. The Committee is reviewing appropriate methods of facilitating future consultation in light of the new 2018 UK Corporate Governance Code; for example, Non-Executive Directors now attend employee welfare consultative meetings on a rotational basis.

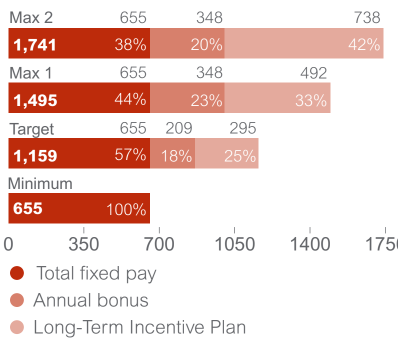
Remuneration scenarios for the Executive Directors

The charts below show an estimate of the potential range of remuneration payable for the Executive Directors in 2019 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.

Chief Executive Officer
Total remuneration USD'000



Chief Financial Officer
Total remuneration USD'000



Assumptions:
1 Base salary levels applying on 1 January 2019.
2 Benefits are estimated, based on the annualised value for the year ended 31 December 2018.
3 The end of service gratuity is estimated, based on the accrual for the year ended 31 December 2018.
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 60% vesting is achieved under the LTIP; and at maximum full vesting under both plans.
5 "Maximum 2" reflects the estimated impact on the LTIP values of a 50% increase in share price.

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 the individuals.

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 to any Executive Director. Flexibility would be retained to set base salaries at the level necessary to facilitate the hiring of candidates of appropriate calibre in external markets. The Committee may also make, in respect of deferred remuneration forfeited on leaving a previous employer, payments or awards under the approved share plans (the LTIP and ESOP) or an award under Listing Rule 9.4.2. In terms of remuneration to compensate for 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 awards would have vested or been paid.

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.

Executive 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 a maximum of 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. The Committee also has discretion to pay for outplacement services if it considers them appropriate and settle legal fees or outstanding legal claims which it considers have a reasonable prospect of success. 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. In such circumstances, 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 Incentive Plan

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, retirement, 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 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
Antony Robert William Wright	13 August 2015
Christopher Michael McDonald	2 August 2016

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

NEDs 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 NEDs currently serving were re-elected at the 2018 AGM. All existing Directors and new Directors will be proposed for election by the shareholders at the 2019 AGM.

Upon termination or resignation, NEDs are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment.

Currently, three NEDs 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
Mel Fitzgerald[1]	13 August 2015
Debra Valentine[1]	1 September 2015
Nicholas Garrett	24 March 2017
James Dewar[1]	1 November 2017

1 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 2019 AGM. The information on pages 62 to 67, save as where indicated, has been audited.

Responsibilities of the Committee

- Determining and agreeing with the Board the Company’s Remuneration Policy
- Ensuring full compliance with the UK Corporate Governance Code in relation to remuneration
- Determining and approving remuneration packages for the Executive Directors and the Non-Executive Chairman’s fee
- Setting and approving remuneration levels across the wider senior management team
- Reviewing remuneration arrangements across the broader workforce, consulting with employees to solicit their views on pay, benefits and welfare and aligning incentives and rewards with the companies overall strategy, goals and culture
- Ensuring an appropriate level of Board attention is given to executive performance, 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 during the relevant period were Debra Valentine (Committee Chair), Ellis Armstrong (until 23 May 2018), Mel Fitzgerald and James Dewar. 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 Corporate Services attends meetings on a regular basis to present and provide related support. In addition, the Committee’s independent external advisers attend as necessary to provide support and independent advice.

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 the London office of Aon (formerly New Bridge Street). Aon did not provide other services to the Group during the year under review and there is no other connection between Aon and the Company or the Directors. The Committee also received advice from John Macdonald, the Company’s former Vice President of Human Resources and Administration who attends meetings on a regular basis and was engaged to provide ongoing advice. Mr Macdonald, who retired from the Company on 9 April 2018, also provided general remuneration consulting support on an ad hoc basis after his retirement, to enable a smooth transition to his successor. The Committee considers Mr Macdonald’s advice to be independent. The Committee also consulted with the CEO, CFO and Non-Executive Chairman but not in relation to their own remuneration.

Aon 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 Aon and is satisfied that the advice it receives is objective and independent.

The fees paid to Aon during the year were £11,300. The fees paid to John Macdonald in respect of Committee support during the year were USD 11,183.

Both Aon’s and John Macdonald’s fees were chargeable on the basis of time provided.

Committee attendance (unaudited)
For period 2018

- Number of meetings attended
- Number of meetings possible

Debra Valentine | James Dewar | Mel Fitzgerald

Former Director
Ellis Armstrong attended two out of a possible three meetings before retiring from the Board in May 2018.

Shareholder voting at AGM (unaudited)

At last year's AGM held on 23 May 2018, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	204,758,392	73.3%
Against	74,650,086	26.7%
Total votes cast (for and against)	**279,408,478**	**100%**
Votes withheld[1]	1,259	–
Total votes cast (including withheld votes)	**279,409,737**	**–**

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.

The Committee noted that the majority of the votes against the Remuneration Report related directly to an ex gratia payment made to the outgoing Executive Chairman in recognition of his services. In response, the Company consulted with key shareholder representatives to explain the nature of the payment which it felt was reasonable in the circumstances and in compliance with policy. However, as a result of shareholder feedback, the Committee has reviewed its discretionary authority, and made appropriate changes to the relevant wording in the Remuneration Policy.

Votes on Remuneration Policy at 2016 AGM

	Total number of votes	% of shares cast
For	300,865,886	99.0%
Against	2,805,311	1.0%
Total votes cast (for and against)	**303,671,197**	**100%**
Votes withheld	656	–
Total votes cast (including withheld)	**303,671,853**	**–**

Implementation of the Remuneration Policy for 2019

Base salary (unaudited)

In setting base salaries for 2019, the Committee considered external market data as well as the market environment that has driven the continued need for overhead cost reductions. Accordingly, the base salaries of the Executive Directors in 2019 will remain the same for the third successive year as follows:

	Base salary from 1 January 2018	Base salary from 1 January 2019	% increase
Christopher McDonald	USD 700,000	USD 700,000	0%
Tony Wright	USD 410,000	USD 410,000	0%

Annual bonus for 2019 (STIP) (unaudited)

For 2019 the annual bonus plan will be structured as follows:

Executive Director	Maximum opportunity (% of base salary)	Metrics/ Weights
Christopher McDonald	100%	• Closing backlog (25%) • EBITDA (25%) • Cash headroom (25%) • Personal goals including safety (25%)
Tony Wright	85%	

The Committee considers any disclosure of certain financial 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.

The personal goals for the Executive Directors are summarised below:

Christopher McDonald		Tony Wright	
HSE:	25%	HSE:	20%
Strategic initiatives:	25%	Liquidity:	30%
LTA implementation:	10%	Strategic initiatives:	30%
Renewables growth:	10%	Six Sigma leadership:	20%
Liquidity:	20%		
Executive Committee development:	10%		

Clawback provisions will apply to all bonus pay-outs. Clawback provisions apply for overpayments due to misstatement, error, negligence, fraud, serious misconduct or other adverse circumstances at the discretion of the Committee.

Long-term incentives (unaudited)

Subject to compliance with the Listing Rules, awards will be made in 2019 and the maximum LTIP potential will be 150% of base salary for the CEO and 120% for the CFO. In the case of the CEO and in accordance with the Remuneration Policy, the Board approved the implementation of a one-off exceptional award at this level in recognition of the need to maximise the level of incentive around stretching long-term strategic goals at a critical point in the business whilst maintaining full alignment with shareholders' interests. For similar reasons, the Board approved a one-off increase in the CFO's opportunity level to 120% for 2019 only. The performance conditions for these awards are set out in the table below.

LTIP 2019 (unaudited)

	Threshold		Maximum		
Performance condition (weighting)	% vesting	Performance	% vesting	Performance	End measurement point
TSR vs. FTSE World Oil Equipment & Services Index (25%)	20	Median	100	Upper quintile	31 December 2021
TSR vs. FTSE 250 Index (25%)	20	Median	100	Upper quintile	31 December 2021
Cumulative sales (25%)	20	USD 2bn	100	USD 3.5bn	31 December 2021
Cumulative net profit (25%)	20	see Note [2]	100	see Note [2]	31 December 2021

1 The awards will be subject to clawback provisions and a mandatory holding restriction of two years beyond vesting will apply to the 2019 awards.
2 The Committee considers any disclosure of net profit targets to be commercially sensitive, however, full retrospective disclosure of performance against targets will be disclosed in the Remuneration Report following the end of the performance period.

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 2016, 2017 and 2018 as follows. In all cases the TSR metric weighting is 50%, Cumulative EBITDA and End of period backlog 25% each.

LTIP 2016

	Threshold		Maximum		End
Performance condition	% vesting	Performance	% vesting	Performance	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

The outcome of the performance conditions applicable to the 2016 LTIP awards is shown below:

Performance condition	Outcome	% Vesting
TSR vs. FTSE World Oil Equipment & Services Index	Below median	0%
Cumulative EBITDA	USD 257m	0%
End of period backlog	USD 393m	0%

LTIP 2017

	Threshold		Maximum		End
Performance condition	% vesting	Performance	% vesting	Performance	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 1.050bn	31 December 2019

LTIP 2018

	Threshold		Maximum		End
Performance condition	% vesting	Performance	% vesting	Performance	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

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

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 2018, Mr McDonald vested in 94,452 retention shares and 63,252 performance shares, page 65.

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. The Executive Directors do not currently hold any outside appointments.

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 are as follows:

	Fee at 1 January 2019 £000	Fee at 1 January 2018 £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 2018

The table below summarises Directors' remuneration received in 2018 with comparisons, where appropriate, to 2017.[1]

	Base salary and fees USD'000		Benefits and allowances[2] USD'000		Annual bonus[3] USD'000		Long-term incentives[4] USD'000		End of service gratuity[5] USD'000		Total remuneration USD'000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive Directors												
John Kennedy	–	347	–	–	–	–	–	–	–	–	–	347
Christopher McDonald	700	700	244	237	249	–	52[6]	586	39	41	1,284	1,564
Antony Wright	410	410	215	213	128	–	–	–	30	31	783	654
Lamprell plc Total	**1,110**	**1,457**	**459**	**450**	**377**	**–**	**52**	**586**	**69**	**72**	**2,067**	**2,565**
Non- Executive Directors												
John Kennedy	–	39									–	39
John Malcolm	247	137									247	137
Ellis Armstrong[7]	42	116									42	116
Mel Fitzgerald	100	89									100	89
Debra Valentine	114	88									114	88
Nicholas Garrett	89	67									89	67
James Dewar	100	15									100	15
Lamprell Energy Total	**692**	**551**									**692**	**551**
Total	**1,802**	**2,008**	**459**	**450**	**377**	**–**	**52**	**586**	**69**	**72**	**2,759**	**3,116**

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 Malcolm, Mel Fitzgerald, Nicholas 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 and driver, private fuel card, airfare tickets, children's schooling and utility expenses. The table below summarises the main benefits and allowances.
3 The annual bonus for 2018 was based on performance against financial and non-financial performance targets. Performance against these targets is set out in the table below.
4 The LTIP awarded in 2016 failed to achieve the minimum necessary for the shares that were due to vest in 2019.
5 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 2018 and 2017. 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 0% p.a. (2017: 0%). The expected liability on the date of termination has been discounted to its net present value using a discount rate of 3.9% p.a. (2017: 3.2% p.a).
6 On 1 October 2018, Christopher McDonald vested in 63,252 performance shares, as detailed on page 66, at a vesting share price of £0.63 per share and USD/GBP exchange rate of USD 1.303/£1.00 delivering a value of USD 51,922. At the date of grant (1 October 2016), the face value of the grant was USD 57,209 based on the share price of £0.73 and exchange rate of USD 1.239/£1.00.
7 Ellis Armstrong stood down as a Non-Executive Director on 23 May 2018.

Summary of benefits and allowances

	Housing USD'000	Vehicle USD'000	Children's education USD'000	Annual leave tickets USD'000	Medical/Life Insurance	Other USD'000	Total USD'000
Christopher McDonald	125	27	20	36	24	12	244
Tony Wright	105	21	25	39	17	8	215

Annual Bonus 2018: Performance against targets

CEO and CFO

Metric	Weighting	Stretch target	Actual performance	Pay-out outcome as % of maximum annual opportunity
Sales[1]	40%	USD 750m	USD 343m	0%
Net Cash[2]	15%	USD 185m	USD 80m	0%
Gross Margin[3]	20%	USD 40m	USD 31.8m	15.6%
Personal Goals – CEO	25%	n/a	80%	20%
Personal Goals – CFO	25%	n/a	85%	21.3%

1 Sales targets were in the range of USD 375 million (threshold) to USD 500 million (target) and USD 750 million (stretch).
2 Net Cash targets were in the range of USD 105 million (threshold) to USD 125 million (target) and USD 185 million (stretch).
3 Gross Margin targets were in the range of USD 10 million (threshold) to USD 25 million (Target) and USD 40 million (stretch). Refer to Note 5 of Financial Statements.
4 At "Threshold" performance, the pay-outs would have been USD 140,000 for Christopher McDonald and USD 69,000 for Tony Wright.
5 At "Target" performance, the pay-outs would have been USD 420,000 for Christopher McDonald and USD 209,000 for Tony Wright.
6 Actual pay-outs were USD 249,200 (35.6% of maximum) for Christopher McDonald and USD 128,422 (36.8% of maximum) for Tony Wright.

The outcome of achievement against the personal goals of the CEO and CFO was as follows:

CEO

Personal goal focus	Weighting	Performance outcome	Pay-out outcome as a % of maximum
HSE – TRIR (0.27)	10%	TRIR 0.15	2.5%
HSE – Safety leadership	15%	Exceeded targets	3.75%
Strategy – Saudi business/renewables awards	45%	Achieved	11.25%
Cash conservation: > USD 105m	20%	USD 80m	0%
ExCom team development	10%	Achieved	2.5%
Total	**100%**		**20.0%**

CFO

Personal goal focus	Weighting	Performance outcome	Pay-out outcome as a % of maximum
HSE – TRIR (0.27)	5%	TRIR 0.15	1.25%
HSE – Safety leadership	10%	Achieved	2.5%
Liquidity	15%	Achieved	3.75%
Overhead costs – max USD 85m	10%	USD 86.4m	0%
Treasury strategy	50%	Achieved	12.5%
IT system implementation	10%	Partly achieved	1.25%
Total	**100%**		**21.25%**

Long-term incentive awards granted during the year

On 9 April 2018, an award of 801,645 performance shares was made to Christopher McDonald, at a face value of £594,900, and an award of 391,279 performance shares was made to Tony Wright at a face value of £290,368 and in accordance with the Company's performance share plan rules with associated performance conditions. These 2018 LTIP conditional share awards vest in full on 8 April 2021, subject to achieving the performance conditions detailed on page 63. The awards are subject to a holding period of two years following the date of vesting. The calculation of the awards to the CEO and CFO was based on:

i) 120% and 100% of annual base salary at 1 April 2018 respectively;
ii) The average closing mid-market share price quote in the 10 dealing days prior to the date of grant (£0.7421); and
iii) The average mid-market USD/GBP exchange rate quoted by XE.com in the 10 dealing days prior to the date of grant (USD 1.412/£1.00)

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 2018 as set out below.

LTIP awards

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

Executive Director	At 1 January 2018	Awarded in 2018	Date of vesting	Vested in 2018	Lapsed in 2018	At 31 December 2018
Christopher McDonald	1,628,718	801,645	09.04.21	0	0	2,430,363
Antony Wright	868,976[1]	391,279	09.04.21	0	141,601	1,118,654

1 Opening balance of LTIPs for Antony Wright takes into account the 51,787 performance shares which lapsed in 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. Further details are set out above.

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. 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 guidelines.

In accordance with the Listing Rules, the Company discloses the beneficial interests of the Directors in the share capital of the Company as at 31 December 2018 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 2019 to 20 March 2019, being the last practicable date that the Company is able to report on Directors' interests.

	Beneficially at 31 Dec 2018	Beneficially at 31 Dec 2017	Ordinary shares held	Outstanding awards (retention only)	Outstanding awards (subject to conditions)	Shareholding as % of base salary[1]	Shareholder requirement met?
Executive Directors							
Christopher McDonald	3,319,189	2,356,311	694,684	46,811	2,577,694	71	No
Antony Wright	1,160,039	910,361	41,385	0	1,118,654	7.2	No
Non-Executive Directors							
John Malcolm	0	0	0	–	–	–	–
Debra Valentine	0	0	0	–	–	–	–
Mel Fitzgerald	11,770	0	11,770	–	–	–	–
Nicholas Garrett	0	0	0	–	–	–	–
James Dewar	40,000	40,000	40,000	–	–	–	–
Ellis Armstrong	N/A[1]	0	0	–	–	–	–

1 Calculated at share price of £0.55 and exchange rate of USD 1.30/£1.00.
2 Ellis Armstrong stepped down from the Board on 23 May 2018.

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.

Payments for loss of office

There were no payments for loss of office during the year.

Percentage change in remuneration levels (unaudited)

The table below shows the movement in base salary, benefits and annual bonus for the CEO between the 2018 and 2017 financial years, compared to that for the average employee of the Group.

	% change
Chief Executive Officer	
Base salary	0%
Benefits	0%
Bonus	see Note 1
All employees	
Base salary	+1.2%
Benefits	+1.0%
Bonus	see Note 2

1 CEO bonus pay-out in respect of 2018 was 35.6% of annual base salary compared to 0% in 2017.
2 Average all employees bonus pay-outs in respect of 2018 were 4% of annual base salary compared to 0% in 2017.

Relative importance of the spend on pay

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

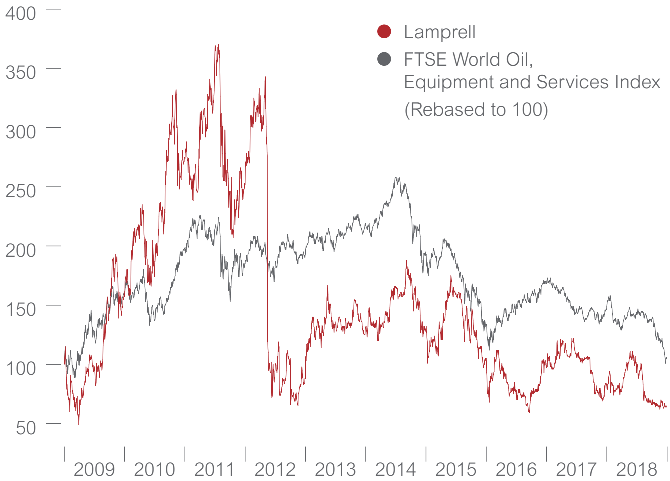
	2018 USD 000	2017 USD 000	% change
Staff costs[1]	112,405	120,170	-6.5%
Dividends	0	0	0%

1 Staff costs include wages, salaries and other benefits.

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 2018.

Share price performance: Jan 2009 – Dec 2018



The total remuneration figures for the CEO during the last ten 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)													
	2018	2017	2016	2016	2015	2014	2013	2013	2012	2012	2011	2010	2009	2009
CEO	**McDonald**	**McDonald**	**McDonald[1]**	**Moffat[2]**	**Moffat**	**Moffat**	**Moffat**	**Whitbread[3]**	**Whitbread**	**McCue[4]**	**McCue**	**McCue**	**McCue**	**Whitbread**
Total remuneration	1,285	1,564	262	891	1,349	1,716	1,652	1,504	352	2,739	2,094	1,824	514	1,211
Annual bonus %	35.6%	0%	0%	0%	45%	91%	99%	0%	0%	0%	72.3%	100%	0%	0%
LTIP vesting %	7.4%	0%	0%	100%	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 20 March 2019.

Debra Valentine
Chair of the Remuneration and Development Committee

20 March 2019

Statutory information and Directors' statements

Our Directors provide other statutory information and the Directors' statements for the year ended 31 December 2018, in addition to the information provided in the Strategic Report page 04 and the Corporate Governance Report page 38.

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, see Note 26 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 page 60 and see Note 9 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 (or nominal) cost. Pursuant to the Company's share schemes, the Employee Benefit Trust as at the year-end, held a total of 16,268 (2017: 16,268) ordinary shares of 5p, representing less than 0.01% (2017: <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 2018 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 2019 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

	Granted		Outstanding	
	2018	2017	2018	2017 and prior
Lamprell plc Free Share Plan	Nil	Nil	Nil	Nil
Lamprell plc Retention Share Plan	2,939,323	1,303,758	2,879,323	1,577,819
Lamprell plc Executive Share Option Plan	Nil	Nil	Nil	Nil
Lamprell plc Long-Term Incentive Plan	2,603,861	2,577,122	2,603,861	5,538,371

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 2018 AGM to issue 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 page 14. This agreement commits the Company to invest up to USD 140 million in equity into this new yard over the course of five to six years (of which approximately USD 59.0 million has already been invested) 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 extraordinary general meeting in mid-2017.

Except for this joint venture agreement, the debt facility agreements which were concluded in 2014 and the Controlling Shareholder Agreement page 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 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 IFRS 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 page 38, confirms that, to the best of his/her knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS 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

The Company's business activities, together with the factors likely to affect its future development, performance and competitive position are set out in the Strategic Report page 04. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review page 22. The Group's consolidated financial statements have been prepared on a going concern basis as further discussed in Note 2.1. The Group has received non-binding indicative term sheets and the legal documentation necessary prior to seeking final approval from certain banking institutions is in progress to replace the existing facility which expires in August 2019. After reviewing its cash flow forecasts for a period of not less than 12 months from the date of signing these financial statements and taking into account other key assumptions which include; the sale of the LAM2K land rig and timing of receipt of the sale proceeds, the cash advances expected to be received from new IMI rigs once a contract is signed and the timing of cash calls forecast for investment in the IMI joint venture in addition to the planned debt refinancing, the Directors have concluded they do not represent a material uncertainty that may cast significant doubt upon the continuing use of the going concern basis of accounting. 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 page 37.

Alex Ridout
Company Secretary

By Order of the Board

20 March 2019

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 of Lamprell plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 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 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 accounting policies; and
- the related notes 1 to 38.

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 Financial Reporting Council's (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: • Going concern basis of accounting; • Estimation of project costs and revenue recognition in respect of the East Anglia ONE Project; and • Recoverability of non-current assets: Property, plant and equipment (PP&E) and Intangibles.
Materiality	The materiality that we used for the Group financial statements was USD 4.3m (2017: USD 4.6m) which was determined as 1.1% 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	The appropriateness of the going concern assumption has been elevated to a key audit matter as a result of the Group's uncertainty relating to the availability of finance facilities which are contingent on successful negotiations with banking institutions.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in Note 2.1 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 considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

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.

Going concern has been identified as a key audit matter. Please see below.

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 pages 34 to 36 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 69 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.

Going concern basis of accounting

Key audit matter description

Note 2.1 to the financial statements includes the Directors' assessment of whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The Group incurred a loss after tax of USD 70.6 million during the year ended 31 December 2018 and was in a net cash position of USD 80.0 million at 31 December 2018 (2017: net cash position of USD 257.0 million). This constitutes a significant decrease in its cash resources and is mainly attributable to expected cash outflows from operating activities of USD 125.1 million (2017: inflows of USD 32.4 million). The Group has bank facilities of USD 540.1 million (Note 33) of which USD 50 million is available to be drawn as cash under a revolving credit facility. The bank facilities are secured by liens/cash margin over term deposits of USD 50.8 million (Note 24).

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 borrowing to EBITDA financial covenant contained within its debt facilities at 31 December 2018. Due to this breach of the covenant clause, the banks were contractually entitled to request for immediate repayment of the outstanding loan amount of USD 20 million. A waiver of this covenant was subsequently obtained.

In view of the anticipated cash position and in addition to other planned cash initiatives, the Group has been in discussions with various banking institutions to renegotiate its bank facilities that are scheduled to expire in August 2019 and these have been positive. At this time management has received non-binding indicative term sheets and the legal documentation necessary prior to seeking final approval from certain of the banking institutions is in progress. Based on this, the Directors have a reasonable expectation that they will be able to complete the debt refinancing and sign the full facility agreement in the near term, which is expected to comprise of a term loan and revolving credit facility to support the business. The conversion from non-binding term sheets to committed facilities with lenders represents a key assumption in the Group's forecast cash flows.

Other key assumptions include:

- the sale of the LAM2K land rig and timing of receipt of the sale proceeds;
- the cash advance expected to be received from International Maritime Industries ("IMI") once a contract to construct two new rigs is approved by both parties; and
- the timing of cash calls forecast for further investment in IMI.

After performing a detailed forecast of liquidity for a period of 12 months from the date of approval of the 2018 Annual Report and Accounts, and considering the realistic availability and likely effectiveness of actions that the Directors could take to avoid, or reduce the impact or likelihood of a significant deterioration in cash flow arising from these matters, the Directors have concluded that the going concern basis remains appropriate.

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

In response to this, we:

- understood the current status of the negotiations in respect of both the sale of the LAM2K land rig and the contract with IMI for the fabrication and sale of the two new build rigs, to consider the reasonableness of management's assumptions as to the timing of the related cash flows;
- considered the impact of a delay of six months to the forecast sale of the LAM2K rig and a three-month delay to the cash flows from the new build's to the Group's cash position, which we assessed as being reasonably possible given the current status of negotiations;
- challenged management's assumption that no further cash contributions may be required to fund the IMI joint venture prior to July 2020 and considered the contractual consequences of needing to delay this further;
- assessed the design and implementation of the controls in place to address this key audit matter;
- engaged in regular discussions with the Directors on the status of negotiations in respect of new facilities, including review of indicative term sheets and other correspondence with potential lenders;
- obtained an understanding of the existing financing facilities, including the nature of facilities, repayment terms, covenants and attached conditions;
- reviewed documentation evidencing the waiver of the covenant breach disclosed in Note 33;
- with the assistance of a specialist, challenged the appropriateness of management's key assumptions in the cash flow forecasts as described in Note 2.1 by assessing historical forecasting accuracy, reviewed supporting and contradictory evidence in relation to these key assumptions and understanding management's consideration of downside sensitivity analyses;
- assessed the existing facility and covenant headroom calculations on both a base case scenario, and management's adjusted base case;
- considered the consistency of management's forecasts with other areas of the audit, including the impairment financial models, the forecasts underpinning the viability statement, and the assumptions underpinning the accounting treatment for the East Anglia ONE project;
- reviewed the wording of the going concern Note 2.1 in the financial statements, including the uncertainties described therein and assessed its consistency with management's forecasts;
- considered as part of our risk assessment the nature of the Group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control; and
- evaluated the Directors' plans for future actions in relation to their going concern assessment.

Key observations

We are satisfied that the going concern assumption remains appropriate given the headroom available in management's base case, together with the mitigating actions available to management should a liquidity shortfall arise in reasonable downside scenarios as discussed in Note 2.1.

We are satisfied that the disclosures in respect of the going concern assumption in Note 2.1 have been made in accordance with the requirements of IAS 1: Presentation of financial statements.

Estimation of project costs and revenue recognition in respect of the East Anglia ONE Project

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 as discussed in the principal risks and uncertainties on page 34.

The Group's accounting policy for revenue recognition is included in Note 2.1 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.

Management is required to forecast expected total costs to complete the East Anglia ONE project, 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.

The Group has encountered major operational challenges on the East Anglia ONE project which resulted in a total forecast loss on this contract for the Group at 31 December 2018 of USD 89.4m (2017: USD 80.0m). The increase in the forecast loss on the contract has been charged to the income statement in the year.

The status of the East Anglia ONE contract is updated on a regular basis. In doing so, management is 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 the project within contracted timescales.

As at 31 December 2018, the customer was contractually entitled to claim liquidated damages up to a maximum of USD 33.8m. However, management has not included these liquidated damages in their contract forecast, as they believe that these damages will not be claimed. In coming to this conclusion, management has considered correspondence with the customer regarding the customer's willingness to enter into a deed of variation to the contract to set a number of milestone dates aligned with the new installation window and include a defined process for acceptance of the jackets to ensure that the project can be completed successfully with minimal impact on either party (the "comfort letter").

Further significant project judgements include:

- the likelihood of acceptance of the jackets by the customer as conforming to the technical specifications stipulated in the contract; and
- the ability of the Group's subcontractor to deliver on time and in accordance with the project's revised delivery dates.

Management have assessed that the outcome of events in respect of the conditions noted above will meet the requirements of the customer. This assessment has required significant management judgement and is described further "critical accounting judgements and key sources of estimation uncertainty" section of the Annual Report in Note 4.1 and the "significant judgements" section in the Audit and Risk Committee report on page 53.

How the scope of our audit responded to the key audit matter	Our work on the recognition of the East Anglia ONE contract revenue, margin and related receivables and liabilities included: • an assessment of the design and implementation of relevant controls over the recognition of contract revenue and margin; • meeting with operational project management to understand contract performance; • challenging management's key judgements inherent in the forecast 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 contract revenue and contract costs via inspection of customers' instructions and contracts with customers and the supply chain; • testing the financial forecast costs by agreeing a sample of 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; • involving an internal engineer specialist to review management's expert's report on the Group's compliance with certain technical specifications required in the contract and comfort letter; • assessing 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 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; • reviewing the terms of the comfort letter, assessing its reliability and evaluating its impact on defining the process for acceptance of the jackets and defining the delivery dates for the installation campaign; • reviewing post-balance sheet contract performance to challenge year end judgements; and • 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.
Key observations	We concur with management's judgement that the conditions of the comfort letter are more likely to be met, and therefore that the contract accounting adopted in the financial statements are appropriate. We concur with management's disclosures in Note 4.2.2 to the financial statements, which describes the estimation uncertainty related to future costs and liabilities of the East Anglia ONE project and the critical accounting judgement in Note 4.1.1 regarding liquidated damages.

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 159.4m (Note 17) and intangible assets of USD 29.9m (Note 18) as at 31 December 2018. Due to the expected low levels of activity in 2018 and slow recovery in the market, the Group identified impairment indicators for these non-current assets. Management performed an impairment assessment as at 31 December 2018, in accordance with IAS 36.

As disclosed in Note 2.1 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.

The Group's accounting policy for impairment of non-financial assets is included in Note 2.21 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 4.1 and the "significant judgements" section in the Audit and Risk Committee report on page 53.

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:

- an assessment of the design and implementation of relevant controls over the preparation of the PP&E and intangibles impairment assessment;
- benchmarking and analysis of revenue growth assumptions against market data;
- 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;
- evaluating management's historical forecasting accuracy, specifically including revenue, gross profit margins and overheads;
- agreement of estimated new contract awards to tender requests or enquiries received where applicable;
- reviewing the forecast revenue and the yard capacity required to deliver this, to challenge their ability to achieve the forecast revenue in the current operational facilities;
- verification of estimated future costs by agreement to approved budgets and where applicable, third party data; and
- assessment of any evidence contradictory to management's assumptions.

Key observations

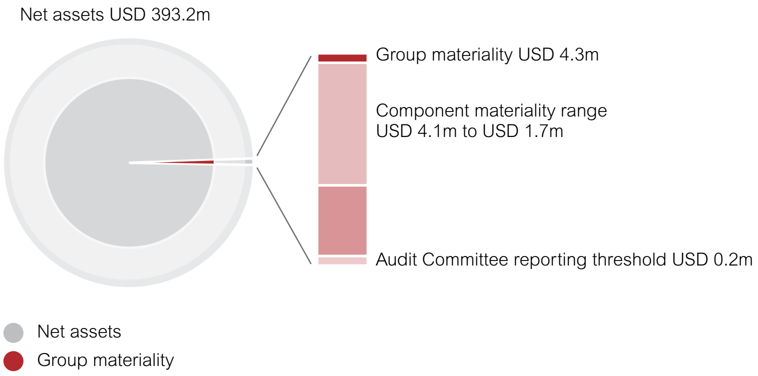
We are satisfied that the recoverability of non-current assets has been assessed in accordance with the requirements of IAS 36: Impairment of Assets.

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:

	Group financial statements	Parent company financial statements
Materiality	USD 4.3m (2017: USD 4.6m)	USD 4.1m (2017: USD 4.4m)
Basis for determining materiality	The Group materiality that we used in the current year was determined as 1.1% (2017: 1.0%) of net assets. There has been no change to this.	The parent company materiality was determined as 1.5% 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 appropriate reflection of the size of the Group's operations. Our determined Group materiality is equivalent to 1.8% of Revenue.	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 0.2m (2017: USD 0.2m), 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 misstatements 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.

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.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and 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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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:

- 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
- the financial statements are not in agreement with the books of account and returns; or
- 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; or
- certain disclosures of Directors' loans and remuneration specified by law are not been complied with.

We have nothing to report in respect of these matters.

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.

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

20 March 2019

Consolidated income statement

	Notes	Year ended 31 December 2018 USD'000	2017 USD'000
Continuing operations			
Revenue	6	**234,074**	370,439
Cost of sales	7	**(243,187)**	(420,605)
Gross loss		**(9,113)**	(50,166)
Selling and distribution expenses	8	**(1,144)**	(717)
General and administrative expenses	10	**(45,171)**	(40,197)
Other gains – net	13	**32**	877
Operating loss		**(55,396)**	(90,203)
Finance costs	12	**(5,678)**	(9,019)
Finance income	12	**2,165**	3,875
Finance costs – net		**(3,513)**	(5,144)
Share of loss of investments accounted for using the equity method – net	20	**(10,576)**	(2,559)
Loss before income tax		**(69,485)**	(97,906)
Income tax expense		**(1,171)**	(191)
Loss for the year from continuing operations		**(70,656)**	(98,097)
Loss per share attributable to the equity holders of the Company during the period	14		
Basic		**(20.67)c**	(28.70)c
Diluted		**(20.67)c**	(28.70)c

The notes on pages 88 to 130 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2018 USD'000	2017 USD'000
Loss for the year		**(70,656)**	(98,097)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations	28	**851**	(829)
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	27	**(160)**	(49)
Net profit on cash flow hedges	27	**–**	2,619
Other comprehensive income for the year		**691**	1,741
Total comprehensive loss for the year		**(69,965)**	(96,356)

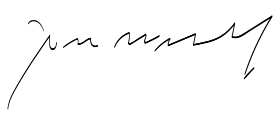
The notes on pages 88 to 130 form an integral part of these financial statements.

Consolidated balance sheet

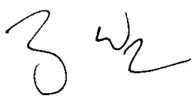
	Notes	As at 31 December 2018 USD'000	 2017 USD'000
Assets			
Non-current assets			
Property, plant and equipment	17	**159,462**	171,725
Intangible assets	18	**29,945**	31,715
Investments accounted for using the equity method	20	**53,321**	25,908
Trade and other receivables	22	**–**	839
Term and margin deposits	24	**333**	13,426
Derivative financial instruments	29	**–**	153
Total non-current assets		**243,061**	243,766
Current assets			
Inventories	21	**90,623**	50,509
Trade and other receivables	22	**68,050**	163,866
Contract assets[1]	23	**54,931**	–
Derivative financial instruments	29	**218**	1,513
Cash and bank balances	24	**99,471**	283,017
Total current assets		**313,293**	498,905
Total assets		**556,354**	742,671
Liabilities			
Current liabilities			
Borrowings	33	**(19,768)**	(39,491)
Trade and other payables	30	**(83,892)**	(200,573)
Contract liabilities[1]	31	**(26,539)**	–
Provision for warranty cost and other liabilities	32	**–**	(7,475)
Current tax liabilities		**(1,114)**	(191)
Total current liabilities		**(131,313)**	(247,730)
Net current assets		**181,980**	251,175
Non-current liabilities			
Provision for employees' end of service benefits	28	**(32,088)**	(34,129)
Total liabilities		**(163,401)**	(281,859)
Net assets		**392,953**	460,812
Equity			
Share capital	26	**30,346**	30,346
Share premium	26	**315,995**	315,995
Other reserves	27	**(19,643)**	(18,123)
Retained earnings		**66,255**	132,594
Total equity attributable to the equity holders of the Company		**392,953**	460,812

1. The Group has initially applied IFRS 15 and IFRS 9 with the cumulative effect of initially applying these standards recognised through retained earnings on the date of the initial application. Under this method, the comparative information is not restated. See Note 2 to the consolidated financial statements.

The financial statements on pages 80 to 130 were approved and authorised for issue by the Board of Directors on 20 March 2019 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 130 form an integral part of these financial statements.

Company balance sheet

	Notes	As at 31 December 2018 USD'000	2017 USD'000
Assets			
Non-current assets			
Investment in subsidiaries	19	**558,355**	555,710
Current assets			
Other receivables		**190**	242
Due from related parties	25	**14,817**	16,936
Cash and bank balance		**201**	163
Total current assets		**15,208**	17,341
Total assets		**573,563**	573,051
Liabilities			
Current liabilities			
Accruals		**(493)**	(1,241)
Due to related parties	25	**(787)**	(3,155)
Total current liabilities		**(1,280)**	(4,396)
Net current assets		**13,928**	12,945
Non-current liabilities			
Provision for employees' end of service benefits	28	**(280)**	(217)
Total liabilities		**(1,560)**	(4,613)
Net assets		**572,003**	568,438
Equity			
Share capital	26	**30,346**	30,346
Share premium	26	**315,995**	315,995
Other reserve	27	**189,052**	189,059
Retained earnings		**36,610**	33,038
Total equity attributable to the equity holders of the Company		**572,003**	568,438

The financial statements on pages 80 to 130 were approved and authorised for issue by the Board of Directors on 20 March 2019 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 130 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 2017		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	28	–	–	–	(829)	(829)
Currency translation differences	27	–	–	(49)	–	(49)
Net gain on cash flow hedges	27	–	–	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	9	–	–	–	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
Loss for the year		–	–	–	(70,656)	(70,656)
Other comprehensive income:						
Remeasurement of post-employment benefit obligations	28	–	–	–	851	851
Currency translation differences	27	–	–	(160)	–	(160)
Reclassification of gain on cash flow hedges	27	–	–	(1,360)	–	(1,360)
Total comprehensive loss for the year		–	–	(1,520)	(69,805)	(71,325)
Transactions with owners:						
Share-based payments:						
– value of services provided	9	–	–	–	3,688	3,688
– treasury shares purchased		–	–	–	(222)	(222)
Total transactions with owners		–	–	–	3,466	3,466
At 31 December 2018		**30,346**	**315,995**	**(19,643)**	**66,255**	**392,953**

The notes on pages 88 to 130 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 2017		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	28	–	–	–	(52)	(52)
Total comprehensive loss for the year		–	–	–	(1,358)	(1,358)
Transactions with owners:						
Share-based payments:						
– value of services provided	9	–	–	–	1,163	1,163
– investment in subsidiaries	19	–	–	–	1,262	1,262
– treasury shares issued		–	–	–	(655)	(655)
Total transactions with owners		–	–	–	1,770	1,770
At 31 December 2017		30,346	315,995	189,059	33,038	568,438
Profit for the year		–	–	–	100	100
Other comprehensive income:						
Remeasurement of post-employment benefit obligations	28	–	–	–	6	6
Currency translation differences	27			(7)	–	(7)
Total comprehensive income for the year		–	–	(7)	106	99
Transactions with owners:						
Share-based payments:						
– value of services provided	9	–	–	–	1,043	1,043
– investment in subsidiaries	19	–	–	–	2,645	2,645
– treasury shares issued		–	–	–	(222)	(222)
Total transactions with owners		–	–	–	3,466	3,466
At 31 December 2018		**30,346**	**315,995**	**189,052**	**36,610**	**572,003**

The notes on pages 88 to 130 form an integral part of these financial statements.

Consolidated cash flow statement

		Year ended 31 December	
	Notes	**2018 USD'000**	2017 USD'000
Operating activities			
Cash (used in)/generated from operating activities	38	**(124,836)**	32,619
Tax paid		**(248)**	(223)
Net cash (used in)/generated from operating activities		**(125,084)**	32,396
Investing activities			
Additions to property, plant and equipment	17	**(7,979)**	(22,060)
Proceeds from sale of property, plant and equipment		**50**	288
Additions to intangible assets	18	**(2,019)**	(1,772)
Investment in an associate or joint venture	20	**(39,102)**	(23,375)
Dividend received from an associate	20	**1,113**	2,137
Finance income	12	**2,165**	3,875
Movement in deposit with original maturity of more than three months		**131,651**	(139,660)
Movement in margin deposits under lien (with original maturity more than three months)		**(5,391)**	(4,840)
Movement in margin deposits under lien (with original maturity less than three months)		**4,301**	41,975
Net cash generated/(used in) investing activities		**84,789**	(143,432)
Financing activities			
Treasury shares purchased		**(222)**	(655)
Repayments of borrowings		**(20,000)**	(20,000)
Finance costs		**(5,401)**	(9,012)
Net cash used in financing activities		**(25,623)**	(29,667)
Net decrease in cash and cash equivalents		**(65,918)**	(140,703)
Cash and cash equivalents, beginning of the year		**104,762**	245,514
Exchange rate translation		**(160)**	(49)
Cash and cash equivalents, end of the year from continuing operations	24	**38,684**	104,762

Non-cash transaction

Additions to intangible assets in 2017 as disclosed in Note 18 included an amount of USD 8.7 million prepaid to Sharjah Electricity & Water Authority. This was treated as a non-cash item in 2017.

The notes on pages 88 to 130 form an integral part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2018 USD'000	2017 USD'000
Operating activities			
Profit/(loss) for the year	34	**100**	(1,306)
Adjustments for:			
Share-based payment – value of services provided	9	**1,043**	1,163
Provision for employees' end of service benefits	28	**69**	58
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**1,212**	(85)
Payment of employees' end of service benefits		**–**	(66)
Changes in working capital:			
Other receivables		**52**	115
Accruals		**(748)**	677
Due from related parties	25	**2,119**	(3,242)
Due to related parties	25	**(2,368)**	3,155
Net cash generated from operating activities		**267**	554
Financing activities			
Treasury shares purchased		**(222)**	(655)
Net cash used in financing activities		**(222)**	(655)
Net increase in cash and cash equivalents		**45**	(101)
Cash and cash equivalents, beginning of the year		**163**	264
Exchange rate translation		**(7)**	–
Cash and cash equivalents, end of the year		**201**	163

The notes on pages 88 to 130 form an integral part of these financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2018

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 27). The Company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange with effect from 16 October 2006. From 6 November 2008, the Company moved from AIM and was admitted to trading on the London Stock Exchange ("LSE") plc's main market for listed securities. The address of the registered office of the Company is 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 and 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
Sunbelt Safety Services LLC ("SSSL")	70[1]	100	Sultanate of Oman

1. The remaining legal ownership 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 25).
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.

These financial statements have been prepared on a going concern basis which assumes that the Group will continue to have adequate resources to continue in operational existence for the foreseeable future notwithstanding the decrease in cash resources which is discussed below.

The Group incurred a loss after tax of USD 70.6 million during the year ended 31 December 2018 and was in a net cash position of USD 80.0 million at 31 December 2018 (2017: net cash position of USD 257.0 million). This constitutes a significant decrease in its cash resources and is mainly attributable to expected cash outflows from operating activities of USD 125.1 million (2017: inflows of USD 32.4 million). The Group has bank facilities of USD 540.1 million (Note 33) of which a further USD 50 million is available to be drawn as cash under a revolving credit facility. The bank facilities are secured by liens/cash margin over term deposits of USD 50.8 million (Note 24).

The Group's bank facilities are subject to covenant clauses, whereby the Group is required to meet certain key financial ratios. The Group did not fulfil the borrowing to EBITDA financial covenant contained within its facilities at 31 December 2018. Due to this breach of the covenant clause, the banks were entitled to request for immediate repayment of the outstanding loan amount of USD 20 million. A waiver of this covenant was subsequently obtained.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

In view of the anticipated cash position and in addition to other planned cash initiatives, the Group has been in discussions with various banking institutions to renegotiate its facilities that are scheduled to expire in August 2019 and these have been positive. At this time management has received non-binding indicative term sheets and the legal documentation necessary prior to seeking final approval from certain of the banking institutions is in progress. Based on this, the Directors have a reasonable expectation that they will be able to complete the debt refinancing and sign the full facility agreement in the near term, which is expected to comprise of a term loan and revolving credit facility to support the business. At the date of approval of these financial statements, the conversion from non-binding term sheets to committed facilities with lenders represents a key assumption in the Group's forecast cash flows. Other key assumptions include:

- the sale of the LAM2K land rig and timing of receipt of the sale proceeds;
- the cash advance expected to be received from International Maritime Industries ("IMI") once a contract to construct two new rigs is approved by both parties; and
- the timing of further cash calls forecast for investment in IMI.

After considering the realistic availability and likely effectiveness of actions that the Directors could take to avoid, or reduce the impact or likelihood of a significant deterioration in cash flow arising from these matters, the Directors have concluded they do not represent a material uncertainty that may cast significant doubt upon the continuing use of the going concern basis of accounting.

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

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 Group has adopted amendments for annual periods beginning 1 January 2018. The application of these amendments has had no effect on the Group's consolidated financial statements 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 ("FVTOCI") and fair value through P&L ("FVTPL").

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.

Impact of IFRS 9, Financial Instruments

In the current year, the Group has applied IFRS 9, Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets, and 3) general hedge accounting. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018 and has not restated comparative information, which continues to be reported under IAS 39.

The adoption of IFRS 9 has resulted in changes in accounting policies for financial instruments as detailed below:

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

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses presented in the consolidated income statement to the extent they are not part of a designated hedging relationship within 'other gains/(losses) – net' in the period in which they arise. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in the consolidated income statement.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

IFRS 9, 'Financial Instruments' continued

Impact of IFRS 9, Financial Instruments continued

(b) Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

(c) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group and the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses ("ECL") if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

Specifically for trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers financial assets to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. In doing so, the Group also takes into account the days the contractual payments are past due.

The Group applied ECL model under IFRS 9 for the first time in the current year which did not have a material impact on the consolidated financial statements of the Group. No additional credit loss allowance as at 1 January 2018 has been recognised against retained earnings nor any loss allowance has been recognised upon the initial application of IFRS 9 as a result from a change in the measurement attribute of the loss allowance relating to each financial asset. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

In accordance with IFRS 9's transitional provisions for hedge accounting, the Group has elected to continue applying the hedge accounting requirements of IAS 39 instead of the requirements set out in IFRS 9. This election applies to all of the Group's hedging relationships at 1 January 2018. Therefore this has had no impact on the results and financial position of the Group for the current or prior year.

The Group's previous financial instruments accounting policy applied until 31 December 2017 is stated below:

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.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

IFRS 9, 'Financial Instruments' continued

Impact of IFRS 9, Financial Instruments continued

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Group's loans and receivables comprise trade receivables (Note 2.9), other receivables (excluding prepayments), receivables from a related party and cash and cash equivalents (Note 2.14) in the consolidated balance sheet and amounts due from related parties (Note 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.

(d) 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 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's 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.

Impact of IFRS 15, Revenue from Contracts with Customers

(a) Changes in accounting policy

The Group has adopted IFRS 15, Revenue from Contracts with Customers from 1 January 2018. This resulted in changes in its accounting policy for revenue as detailed below:

Contract revenue

The Group reviews lump-sum construction contracts and allocates the revenue to each performance obligation of the contract depending on whether the contract is viewed as containing a single or multiple performance obligations. Revenue from each performance obligation is recognised either over time or at a point in time depending on the nature and timing of when the performance obligation is satisfied.

In the case of a performance obligation satisfied over time, contract revenue is recognised under the input 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, due to their uncommon nature, risk profiling, including first-of-a-kind projects, the Group recognises revenue to the extent of cost incurred up to the year end which are considered recoverable. For these contracts, the Group recognises gross margin only when progress towards complete satisfaction of the performance obligation can be measured reliably. This is mainly the case with respect to fixed price construction contracts with an expected contract duration of 18 months or greater.

Revenue related to variation orders is recognised when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the amount of revenue arising from the variation can be reliably measured. 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 are required to be estimated at contract inception. The estimated variable consideration is, however, constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint.

Contract modification are accounted for as a separate contract only if the scope of contract changes due to the addition of the promised goods or services that are distinct; and the price of the contract increases by an amount of consideration that reflects a stand-alone selling price.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

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

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against progress billings at each reporting period. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown under contract assets as amounts due from customers on contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown under contract liabilities as amounts due to customers on contracts.

In determining contract costs incurred up to the reporting date, 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 under contract assets as contract work-in-progress.

The incremental costs of obtaining a contract with a customer are recognised as an asset if those costs are expected to be recovered.

Products and services

Revenue from sale of products and services is recognised in the accounting period in which the control is transferred or the service is rendered net of value added tax.

Interest income

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

Warranty obligations

The Group generally offers a warranty range of one to seven years 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. For first-of-a-kind projects, estimates are based on market observable trends and complexity of the project. In all cases, the Group mitigates its exposure to warranty claims through back-to-back warranties with the original equipment manufacturers and subcontractors. These costs are included in estimated contract costs. As such, the warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

IFRS 15, 'Revenue from contracts with customers' continued

Impact of IFRS 15, Revenue from Contracts with Customers continued

(b) Impact of adoption of IFRS 15

The Group has adopted IFRS 15 from 1 January 2018 and applied the modified retrospective approach permitted by IFRS 15 upon adoption. Following practical expedients available under the modified retrospective approach of IFRS 15 have been adopted by the Group:

- The requirement of new standard have been applied to contracts that are not completed as at date of initial application (1 January 2018); and
- The Group has not restated the contracts in accordance with the revenue standard for contract modifications which took place before the date of initial application.

Set out below are the amounts by which each financial statement line item is affected as at 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have an impact on OCI, earning per share or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

31 December 2018	As per IFRS 15 USD'000	As per previous IFRS USD'000	Increase/ (decrease) USD'000
Current assets			
Trade and other receivables	68,050	122,981	(54,931)
Contract assets	54,931	–	54,931
Impact on total assets	**122,981**	**122,981**	–
Current liabilities			
Trade and other payables	83,892	106,265	(22,373)
Provision for warranty costs and other liabilities	–	4,166	(4,166)
Contract liabilities	26,539	–	26,539
Impact on total liabilities	**110,431**	**110,431**	–

Variable consideration

The current major contracts were at an advanced stage of negotiation as it was highly probable that significant reversal of revenue will not occur and, therefore, met requirements of the constraint. Based on this key judgement, no adjustments have been made to revenue previously reported for the year ended 31 December 2017.

Revenue recognition

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 percentage of completion method used under IAS 11 to measure the progress towards complete satisfaction of these performance obligations continues to be appropriate under IFRS 15. Based on these key judgements, no adjustments have been made to revenue or cost previously reported for the year ended 31 December 2017.

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment – refer to Note 6.

The Group's previous revenue accounting policy applied until 31 December 2017 and is stated below:

(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.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

IFRS 15, 'Revenue from contracts with customers' continued

Impact of IFRS 15, Revenue from Contracts with Customers continued

(b) Impact of adoption of IFRS 15 continued

(a) Contract revenue continued

A claim is recognised as contract revenue when settled or when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be measured reliably.

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

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

In determining contract costs incurred up to the year end, any amounts incurred, including advances paid to suppliers and advance billings received from subcontractors relating to future activity on a contract, are excluded and are presented as contract work-in-progress.

(b) Products and services

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

(c) Interest income

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

IAS 28 (Amendments) 'Investments in Associates and Joint Ventures'. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss ("FVTPL") is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity ("IE") to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The application of these amendments has had no impact on the Group's consolidated financial statements.

IAS 40 (Amendments) 'Transfers of 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 amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The application of these amendments has had no effect on the Group's consolidated financial statements 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 application of these amendments has had no effect on the Group's consolidated financial statements as it currently accounts for such transactions in a way consistent with the amendments.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted

IFRS 9 (amendments), 'Prepayment features with Negative Compensation'. The amendments clarify that for the purpose of assessing whether a prepayment feature meets the 'Solely Payments of Principal and Interest' ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019. The Group does not anticipate that the application of the amendments in the future will have an impact as it currently accounts for such transactions in a way consistent with the amendments.

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.

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 2018 and not early adopted continued

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. Detailed below is management's assessment of the impact of IFRS 16 on the Group.

(a) Impact assessment of IFRS 16, Leases

As at 31 December 2018, the Group has non-cancellable operating lease commitments of USD 113.7 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 36.

Our 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 except those classified as low value or short-term leases. Management intends to use the modified transition approach as permitted by IFRS 16. Therefore, comparatives will not be restated and the right of use asset will be recognised based on the remaining lease period with no cumulative adjustment in retained earnings.

Based on this approach, management of the Group has assessed the impact of IFRS 16 to the Group financial statements as follows:

Impact on consolidated income statement

Administrative expenses would be broadly decreased as a result of the lease expense of between USD 6.5 million and USD 7.5 million being replaced by an increase in depreciation on the right-of-use asset of between USD 3.5 million and USD 4.5 million. Finance costs would increase by less than/more than USD 5.3 million to reflect the current year unwind of the discounted lease liability.

Balance sheet

At 31 December 2018, a right-of-use asset of between USD 56.0 million and USD 58.0 million would be recognised as a non-current asset, along with a lease liability in the same range.

Cash flow statement

The lease payments would be reclassified from operating activities to financing activities.

Critical accounting judgements and key sources of estimation uncertainty

Management has made key judgements in determining the right of use asset and liability as follows:

(a) Interest rate implicit in the lease has been determined as 10% based on the Group's incremental borrowing rate; and

(b) Certain long-term leases have escalation clauses which allow for rent reviews every five years. Management has used historical trends for the respective leases in estimating the future cash flows for these leases.

A change in these assumptions could result in an increase or decrease in the right of use assets, liabilities and finance costs recognised in the consolidated financial statements.

(b) Changes in accounting policy

The Group will adopt IFRS 16, Leases with effect from 1 January 2019. This will result in changes in its accounting policy for leases as detailed below:

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

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 2018 and not early adopted continued

IFRS 16, 'Leases' continued

(b) Changes in accounting policy continued

The Group as a lessee:

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The relative stand-alone price of lease and non-lease components is determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

The non-lease components are accounted for in accordance with the Group's policies.

For determination of the lease term, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

a) is within the control of the Group; and

b) affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

At the commencement date, the Group recognises a right-of-use asset and a lease liability under the lease contract.

Lease liability

Lease liability is initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Where (a) there is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above; or (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group re-measures the lease liabilities to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or its incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where (a) there is a change in the amounts expected to be payable under a residual value guarantee; or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group re-measures the lease liabilities by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group use a revised discount rate that reflects changes in the interest rate.

The Group recognises the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in profit or loss.

The Group accounts for a lease modification as a separate lease if both:

a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For lease modifications that are not accounted for as a separate lease, the Group, at the effective date of the lease modification: (a) allocates the consideration in the modified contract; (b) determines the lease term of the modified lease; and (c) re-measures the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

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 2018 and not early adopted continued

IFRS 16, 'Leases' continued

Right-of-use assets

The right-of-use asset is initially recognised at cost comprising of:

a) amount of the initial measurement of the lease liability;

b) any lease payments made at or before the commencement date, less any lease incentives received;

c) any initial direct costs incurred by the Group; and

d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are recognised as part of the cost of right-of-use asset when the Group incurs an obligation for these costs. The obligation for these costs are incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

For assets that meet the definition of property, plant and equipment, right of use asset is amortised over the term of the lease.

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.

IAS 19 (amendments), 'Employee Benefits Plan Amendment, Curtailment or Settlement'. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019. The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IAS 28 (amendments), 'Long-term Interests in Associates and Joint Ventures'. The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatments', deals with how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The Group does not anticipate the amendments will have a material impact.

2.2 Revenue recognition

The Group revenue recognition policy has been updated following the adoption of IFRS 15, 'Revenue from contracts with customers'. Refer to the Group's revised accounting policy for revenue detailed in Note 2.1(a) – 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.

2 Summary of significant accounting policies continued

2.3 Consolidation continued

(a) Subsidiaries continued

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

(c) Joint arrangements

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

(d) Associates

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

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

2.4 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 the Omani Riyal, MISQWLL whose functional currency is the Qatari Riyal, LAK whose functional currency is the Kazakh Tenge and for EBT and LUK whose functional currency is the Great British Pound). The consolidated and parent company financial statements are presented in USD.

(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'.

2 Summary of significant accounting policies continued

2.5 Foreign currency translation continued

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates for the year; and
- all resulting exchange differences are recognised in other comprehensive income.

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

2.6 Property, plant and equipment

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

	Years
Buildings and infrastructure	3 – 25
Operating equipment	3 – 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 2.21).

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.

2 Summary of significant accounting policies continued

2.7 Intangible assets continued

(e) Development cost and patents

Development expenditures and patent fee are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the asset
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure and patent fee as an asset, the asset is amortised over the period of expected future benefit and carried at cost less any accumulated amortisation.

(f) 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 losses. The Group measures the loss allowance for trade receivables based on the expected credit loss model using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. 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'.

2 Summary of significant accounting policies continued

2.12 Employee benefits continued

(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 an assessment 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.

2.15 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 Executive Directors that make strategic decisions.

2.18 Current and deferred income tax

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

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

2 Summary of significant accounting policies continued

2.18 Current and deferred income tax continued

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 at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Refer to Note 2.1(a), 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. Refer to Note 2.1(a), Impact of IFRS 9, 'Financial Instruments'.

2.21 Impairment of non-financial assets

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

2.22 Share capital

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

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 2018, if foreign exchange rates on foreign balances had been 10% higher/lower, the exchange difference would have been higher/lower by USD 0.3 million (2017: USD 0.2 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 2018, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 0.6 million (2017: USD 1.2 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 2018, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by USD 0.2 million (2017: USD 0.3 million).

(c) Credit risk

The Group's exposure to credit risk is detailed in Notes 16, 22, 24 and 29. The Group has a policy for only 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, contract assets, related party balances 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 the bank is situated in a frontier market where minimal balances are held.

3 Financial risk management continued

3.1 Financial risk factors continued

(c) Credit risk continued

The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors. An impairment analyses is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the days past due for grouping of various customer segments. The calculation reflects the probability weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due with reference to past default experience of the debtor, an analysis of the debtor's current financial position and general current and forecast economic conditions of the industry in which the debtors operate. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

31 December 2018	Contract assets USD'000	Current USD'000	Up to 3 months USD'000	3 to 6 months USD'000	Over 6 months USD'000	Total USD'000
Expected credit loss rate	–	–	–	–	48.4%	
Gross carrying amount	54,931	8,789	26,132	3,160	8,656	101,668
Loss allowance	–	–	–	–	4,189	4,189

1 January 2018	Contract assets USD'000	Current USD'000	Up to 3 months USD'000	3 to 6 months USD'000	Over 6 months USD'000	Total USD'000
Expected credit loss rate	–	–	–	–	69.4%	
Gross carrying amount	102,851	23,379	7,459	757	7,664	142,110
Loss allowance	–	–	–	–	5,317	5,317

Balances in over six months have objective evidence of impairment and hence have been individually assessed. All other ageing categories have been collectively assessed as the expected credit losses are not material.

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

	2018		2017	
Counterparty	External rating[1]	USD'000	External rating[1]	USD'000
Bank A	AA-	40,867	A+	91,927
Bank B	A+	21,839	A	62,624
Bank C	AA-	17,810	AA-	42,858
Bank D	A+	14,583	A+	38,377
		95,099		235,786

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

	2018		2017	
	Internal rating[2]	USD'000	Internal rating[2]	USD'000
Customer 1	Group A	9,652	Group A	7,896
Customer 2	Group B	4,382	Group B	4,577
Customer 3	Group A	3,247	Group A	2,756
Customer 4	Group A	2,647	Group B	2,574
Customer 5	Group A	2,396	Group C	2,376
Customer 6	Group C	1,589	Group A	1,164
Customer 7	Group B	1,453	Group C	1,045
Customer 8	Group C	1,365	Group C	963
Customer 9	Group B	1,111	Group B	935
		27,842		24,286

2. Refer to Note 16 for the description of internal ratings.

The above represents 60% (2017: 62%) of trade receivables of USD 46.7 million (2017: USD 39.3 million) (Note 22).

The counterparties in 2018 are not necessarily the same counterparties in 2017.

The customers in 2018 are not necessarily the same customers in 2017.

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

3 Financial risk management continued

3.1 Financial risk factors continued

(d) Liquidity risk

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

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

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 1 to 5 years USD'000
31 December 2018				
Trade and other payables (Note 30)	83,892	83,892	83,892	–
Borrowings (Note 33)	19,768	19,964	19,964	–
	103,660	103,856	103,856	–
31 December 2017				
Trade and other payables (Note 30)	197,758	197,758	197,758	–
Borrowings (Note 33)	39,491	40,008	40,008	–
	237,249	237,766	237,766	–

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 2018				
Derivative financial instruments (Note 29)	–	218	–	218
31 December 2017				
Derivative financial instruments (Note 29)	–	1,666	–	1,666

There were no liabilities that are measured at fair value as at 31 December 2018 and 31 December 2017:

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 Liquidated damages claims ("LDs")

The Group recognises liquidated damages where there have been significant delays against defined contractual delivery dates or unfulfilled contractual obligations 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.

The Group has encountered major operational and commercial challenges on the East Anglia ONE ("EA1") project which resulted in a total forecast loss for the Group at 31 December 2018 of USD 89.4 million (2017: USD 80.0 million).

Due to delays on the project and concerns over technical specifications stipulated in the contract, the client is contractually entitled to claim liquidated damages to a maximum of USD 33.8 million. Management has not recorded an adjustment in relation to the liquidated damages as it believes that based on the recent correspondence with the customer regarding the customer's willingness to enter into a deed of variation to the contract to set a number of milestone dates aligned with the new installation window and include a defined process for acceptance of the jackets to ensure that the project can be completed successfully with minimal impact on either party ("the comfort letter") received from the client, they will not be claimed if the works under the contract are completed in a timely manner which enables the client to install the jackets during an agreed new installation campaign window ("new installation campaign window"), which is due to commitments with other EA1 contractors which would be impacted if not achieved.

In view of the above, management have made a significant judgement within the forecast loss calculation in ascertaining:

- The ability of the Group's subcontractor to deliver on time and in accordance with the project's revised delivery dates: The Group is working with Harland & Wolff, its subcontractor in Belfast, to complete the assembly of the outstanding 18 jackets for the EA1 project. Given the recent announcement by Harland & Wolff regarding its restructuring, the Group has had to allocate additional resources to Belfast to support and actively manage the assembly of the outstanding 18 jackets to ensure overall project performance stays in line with the new installation campaign window; and
- The acceptance of the jackets by the client as conforming to the technical specifications stipulated in the contract within the revised dates aligned with the new installation campaign window. In its assessment, management has considered the client's willingness to enter into a deed of variation to the contract that in addition to revised milestone dates would define a process for acceptance of the jackets to ensure the project can be completed successfully with minimal impact on either party.

Based on the discussions to date, management believe the risk of LDs being levied has been mitigated and continues to work with the client and the subcontractors to ensure the installation programme is not compromised due to the effect of 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 and a corresponding reduction to net assets.

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 and margin recognition

The Group uses the input method in accounting for its contract revenue. Use of the input 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 Group's accounting policy. 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 contract assets increasing by USD 3.0 million (2017: USD 6.4 million) or contract liabilities decreasing by USD 3.0 million (2017: USD 6.4 million).

If the estimated total costs to completion of all outstanding projects were to increase by 10%, contract assets would decrease by USD 3.0 million (2017: USD 19.7 million) or contract liabilities would increase by USD 3.0 million (2017: USD 19.7 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.

The outstanding provision has decreased to USD 9.5 million (31 December 2017: USD 41.7 million) due to utilisation of the onerous contract provision related to the EA1 project as the contract progresses partially offset by an increase in the total loss of the project to USD 89.4 million.

4 Critical accounting judgements and key sources of estimation uncertainty continued

4.2 Key sources of estimation uncertainty continued

4.2.2 Onerous contract provisions continued

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 1.2 million (2017: 4.1 million) if the total costs to complete are decreased by 10% and provision for onerous contract included in other payables increasing by USD 1.2 million (2017: USD 4.1 million) 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 segment's assets located in a particular geography.

An indicator of impairment exists in that the market downturn and instability in the oil and gas market continues to affect capital expenditure in the sector. This has had an impact on our backlog and utilisation of our assets attributable to the United Arab Emirates CGU, albeit an increase in awards and pipeline compared to the prior year. The estimate of future cash flows and terminal value growth rate for the CGU has been affected by the current assumptions relating to market outlook, contract awards and margins.

Determining an estimation of value in use of the CGU requires the estimation of future cash flows expected to arise from the CGU and a suitable discount rate to calculate the present value of expected future cash flows. These calculations use pre-tax cash flow projections based on financial budgets approved by the Board covering a three-year period.

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 2018, the Group's pipeline of opportunities amounts to USD 6.4 billion (2017: USD 3.6 billion) – see the Strategic Report, page 6.

The bid pipeline comprises a mixture of opportunities in the renewables and oil and 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 6 for a detailed discussion of the market pipeline and opportunities.

A discount rate of 9.35% (2017: 10.00%) 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.

	2018	2017
Revenue growth rate	**0%**	0%
Discount rate	**9.35%**	10.00%
Net profit rate	**3%**	3%
Terminal value growth rate	**3%**	3%

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 during the year. The carrying amount of property, plant and equipment at 31 December 2018 was USD 159.5 million (31 December 2017: USD 171.7 million). The carrying amount of intangible assets at 31 December 2018 was USD 29.9 million (31 December 2017: USD 31.7 million). The headroom attributable to property, plant and equipment and intangible assets as at 31 December 2018 is USD 151.9 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 34.8 million if the discount rate was to increase or an increase in the headroom by USD 40.6 million if the discount rate were 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 55.3 million in the headroom if the net profit was to increase or there would be a reduction in the headroom of USD 46.5 million if the net profit were 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 27.5 million if the terminal value growth rate was lower or an increase in the headroom of USD 32.2 million if the terminal value growth rate were higher.

4 Critical accounting judgements and key sources of estimation uncertainty continued

4.2 Key sources of estimation uncertainty continued

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 claims would result in an increase in provision for warranty claims by USD 0.4 million or a decrease of USD 0.4 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, a write down of USD 3.0 million (2017: Nil) has been recognised during the year. 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 by USD 1.5 million if the net realisable value was higher or a decrease in inventory by USD 2.4 million if the net realisable value was lower.

5 Segment information

On 2 February 2018, the Group was structured to approach opportunities by way of our strategic objectives and this constitutes a change in the strategic objectives of the business and how it is reported and viewed by the Executive Directors, the chief operating decision-maker.

The Group is organised into business units, which are the Group's operating segments and are reported to the Executive Directors, the chief operating decision-maker. These operating segments are aggregated into three reportable segments – Rigs and Engineering, Procurement, Construction & Installation "EPC(I)" and Contracting Services based on strategic objectives, similar nature of the products and services, type of customer and economic characteristics.

The Rigs segment contains business from New Build Jack Up rigs, land rigs and refurbishment. The EPCI segment contains business from foundations, process modules, offshore platforms, pressure vessels and engineering and construction (excluding site works). The Contracting Services segment comprises of Site works, Operations and Maintenance, manpower supply and safety services.

	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
Year ended 31 December 2018				
Revenue from external customers	**75,957**	**99,847**	**58,270**	**234,074**
Gross operating profit/(loss) before absorptions	**19,655**	**(5,453)**	**26,985**	**41,187**

Segment comparatives are restated to reflect the organisational changes that have occurred since the prior reporting period to present a like-for-like view.

	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
Year ended 31 December 2017 (restated)				
Revenue from external customers	160,773	154,260	55,406	370,439
Gross operating profit/(loss) before absorptions	54,351	(75,866)	18,012	(3,503)

Segment comparatives as previously stated are as below.

	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 before absorptions	(19,599)	16,096	(3,503)

The Group uses standard costing method for recording labour, project management and equipment cost on project. Standard cost is based on an estimated or predetermined cost rates for performing an operation under normal circumstances. Standard costs are developed from historical data analysis adjusted with expected changes in the future circumstances. The difference between total cost charged to the projects at standard rate and the actual cost incurred are reported as under or over absorption.

5 Segment information continued

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

	2018 USD'000	2017 USD'000
Gross operating profit for Rigs segment as reported to the Executive Directors	19,655	54,351
Gross operating loss for the EPC(I) segments as reported to the Executive Directors	(5,453)	(75,866)
Gross operating profit for the Contracting services segments as reported to the Executive Directors	26,985	18,012
Gross operating profit/(loss) before absorptions	41,187	(3,503)
Under absorbed employee and equipment costs	(8,600)	(5,483)
Provision for slow moving and obsolete inventories	(1,425)	(1,229)
Release of provision for impairment losses shown as part of operating profit (Note 10)	1,015	(51)
Project related bank guarantee charges shown as part of operating profit (Note 12)	(344)	(1,796)
Gross operating profit/(loss)	31,833	(12,062)
Unallocated:		
Unallocated operational overheads	(17,108)	(12,271)
Repairs and maintenance	(3,041)	(6,151)
Yard rent and depreciation	(14,060)	(13,689)
Others	(6,066)	(7,840)
Add back:		
Release of provision for impairment losses shown as part of G&A (Note 10)	(1,015)	51
Project related bank guarantee charges shown as part of finance costs (Note 12)	344	1,796
Gross loss	(9,113)	(50,166)
Selling and distribution expenses (Note 8)	(1,144)	(717)
General and administrative expenses (Note 10)	(45,171)	(40,197)
Other gains – net (Note 13)	32	877
Finance costs (Note 12)	(5,678)	(9,019)
Finance income (Note 12)	2,165	3,875
Share of loss of investment accounted for using the equity method (Note 20)	(10,576)	(2,559)
Loss before income tax	(69,485)	(97,906)

The breakdown of revenue from all services is as disclosed in Note 6.

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

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

The Executive Directors assesses the performance of the operating segments based on a measure of gross profit. The labour, project management and equipment costs are measured based on standard cost. The measurement basis excludes the effect of the common expenses for yard rent, repairs and maintenance and other miscellaneous expenses.

The Group's principal place of business is in the UAE. The revenue recognised in the UAE with respect to external customers is USD 233.2 million (2017: USD 366.2 million), and the revenue recognised from other countries is USD 3.8 million (2017: USD 4.2 million).

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

	2018 USD'000	2017 USD'000
External customer A	97,052	130,715
External customer B	31,180	65,115
External customer C	–	34,170
	128,232	230,000

The revenue from these customers is attributable to the EPC(I) and contracting services segment. The above customers in 2018 are not necessarily the same customers as in 2017.

6 Disaggregation of revenue

	Year ended 31 December 2018				Year ended 31 December 2017			
	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
Strategic markets								
– Renewables	–	94,753	–	94,753	–	130,715	–	130,715
– Oil and gas	75,957	5,094	58,270	139,321	160,773	23,545	55,406	239,724
	75,957	99,847	58,270	234,074	160,773	154,260	55,406	370,439

Major value streams

	Year ended 31 December 2018				Year ended 31 December 2017			
	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
New build jackups, refurbishment and land rigs	75,957	–	–	75,957	160,773	–	–	160,773
Process modules	–	–	–	–	–	2,960	–	2,960
Platforms	–	3,268	–	3,268	–	9,938	–	9,938
Foundations	–	94,753	–	94,753	–	130,715	–	130,715
Pressure Vessels	–	1,826	–	1,826	–	10,647	–	10,647
Operations and maintenance, site work and safety services	–	–	58,270	58,270	–	–	55,406	55,406
	75,957	99,847	58,270	234,074	160,773	154,260	55,406	370,439

Timing of revenue recognition

	Year ended 31 December 2018				Year ended 31 December 2017			
	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
Recognised over time	75,957	99,847	58,270	234,074	160,773	154,260	55,406	370,439

There was no revenue recognised at a point in time during the years ended 31 December 2018 and 31 December 2017.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied), to be recognised over time, as at 31 December, are as follows:

Performance obligations (unsatisfied)

	Year ended 31 December 2018				Year ended 31 December 2017			
	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000	Rigs USD'000	EPC(I) USD'000	Contracting Services USD'000	Total USD'000
Within one year	35,794	162,272	18,112	216,178	31,022	96,507	10,341	137,870
More than one year	251,700	72,100	–	323,800	–	–	–	–
	287,494	234,372	18,112	539,978	31,022	96,507	10,341	137,870

7 Cost of sales

	2018 USD'000	2017 USD'000
Staff costs (Note 11)	**90,218**	105,549
Subcontract costs	**65,313**	99,102
Materials and related costs	**32,610**	135,776
Depreciation (Note 17)	**17,563**	18,790
Subcontract labour	**16,518**	28,563
Equipment hire	**7,946**	10,578
Yard rent	**6,680**	6,662
Repairs and maintenance	**3,069**	6,151
Write-down of inventory to net realisable value (Note 21)	**3,066**	–
Warranty provision released/utilised	**(5,921)**	(1,483)
Others	**6,125**	10,917
	243,187	420,605

8 Selling and distribution expenses

	2018 USD'000	2017 USD'000
Travel	**902**	500
Advertising and marketing	**134**	136
Entertainment	**82**	75
Others	**26**	6
	1,144	717

9 Share-based payments

Group

	2018 USD'000	2017 USD'000
Amount of share-based charge (Note 11):		
– relating to retention share plan	**1,447**	734
– relating to executive share option plan	**–**	115
– relating to performance share plan	**2,241**	1,576
	3,688	2,425

Company

	2018 USD'000	2017 USD'000
Amount of share-based charge:		
– relating to retention share plan	**49**	264
– relating to performance share plan	**994**	899
	1,043	1,163

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.

9 Share-based payments continued

Retention share plan continued

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	1,252,429	36 months	£0.90	–
	24,972	17 months	£0.90	–
	11,825	30 months	£0.90	–
	37,032	5 months	£0.90	–
	1,326,258			
2018	2,898,074	36 months	£0.77	–
	10,000	34 months	£0.77	–
	10,000	22 months	£0.77	–
	30,000	10 months	£0.77	–
	2,948,074			

A charge of USD 1,446,785 (2017: USD 733,912) 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 49,023 (2017: USD 264,070).

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 2017	1,834,276
Shares granted under the retention share awards	1,326,258
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	2,202,521
Shares granted under the retention share awards	2,948,074
Shares vested during the year	(141,484)
Shares lapsed during the year	(758,750)
Shares expected to vest in future periods at 31 December 2018	**4,250,361**

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, 2016, 2017		**340,855**		
Shares lapsed during the year		(340,855)		
At 31 December 2018		**–**		

The outstanding options as at 31 December 2018 have a fair value per option of £0.73 (2017: £0.73). A charge of USD Nil (2017: USD 114,742) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings.

9 Share-based payments continued

Performance share plan

The Company granted share awards to Directors, key management personnel and selected employees that give them an entitlement to receive a certain number of shares subject to the satisfaction of a performance target and continued employment. The performance target is assessed against financial metrics that may include relative or absolute total shareholder return, cumulative EBITDA 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				
2018					
9 April 2018	1,192,924	36 months	£0.77	No	–
9 April 2018	1,410,937	36 months	£0.77	No	–
	2,603,861				

Accordingly, a charge of USD 2,240,779 (2017: USD 1,576,344) 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 993,977 (2017: USD 898,603).

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 2017	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
Shares granted under performance share plan	2,603,861
Shares vested under performance share plan	(63,252)
Shares lapsed due to non-satisfaction of vesting conditions	(2,739,757)
Shares expected to vest in future periods at 31 December 2018	**6,928,523**

10 General and administrative expenses

	2018 USD'000	2017 USD'000
Staff costs (Note 11)	30,494	22,200
Amortisation of intangible assets (Note 18)	3,789	3,535
Legal, professional and consultancy fees	3,466	3,504
Depreciation (Note 17)	2,656	3,849
Utilities and communication	1,365	1,375
Bank charges	133	137
(Release)/provision for impairment losses, net of amounts recovered	(1,015)	51
Others	4,283	5,546
	45,171	40,197

11 Staff costs

	2018 USD'000	2017 USD'000
Wages and salaries	109,329	111,046
Employees' end of service benefits (Note 28)	4,619	5,154
Share-based payments – value of services provided (Note 9)	3,688	2,425
Other benefits	3,076	9,124
	120,712	127,749
Staff costs are included in:		
Cost of sales (Note 7)	90,218	105,549
General and administrative expenses (Note 10)	30,494	22,200
	120,712	127,749
Number of employees at 31 December	4,410	5,320
Sub-contracted employees at 31 December	205	1,833
Total number of employees (staff and subcontracted) at 31 December	4,615	7,153

Directors' remuneration comprises:

	Salary 2018 USD'000	Fees 2018 USD'000	Allowances & benefits 2018 USD'000	Share-based payments value of services provided 2018 USD'000	Short-term incentive plans 2018 USD'000	Post-employment benefits 2018 USD'000	Total 2018 USD'000	Total 2017 USD'000
Executive Directors								
John Kennedy	–	–	–	–	–	–	–	407
Christopher McDonald	700	–	244	691	257	39	1,931	1,555
Antony Wright	410	–	215	283	115	30	1,053	828
Non-Executive Directors								
John Kennedy	–	–	–	–	–	–	–	39
John Malcolm	–	247	–	–	–	–	247	137
Ellis Armstrong[1]	–	42	–	–	–	–	42	116
Mel Fitzgerald	–	100	–	–	–	–	100	89
Debra Valentine	–	114	–	–	–	–	114	88
Nicholas Garrett	–	89	–	–	–	–	89	67
James Dewar	–	100	–	–	–	–	100	15
	1,110	692	459	974	372	69	3,676	3,341

1. Retired as Non-Executive Director with effect from 23 May 2018.

The emoluments of the highest paid Director were USD 1.9 million (2017: USD 1.6 million) and these principally comprised salary, share-based payment and benefits.

12 Finance costs and income

	2018 USD'000	2017 USD'000
Finance costs		
Interest on bank borrowings	**2,001**	2,587
Others	**1,922**	2,219
Commitment fees	**1,411**	2,417
Bank guarantee charges	**344**	1,796
	5,678	9,019

Finance income

Finance income comprises interest income of USD 2.2 million (2017: USD 3.9 million) from bank deposits.

13 Other gains/(losses) – net

	2018 USD'000	2017 USD'000
Exchange (loss)/gain – net	**(333)**	727
(Loss)/gain on derivative financial instruments	**(29)**	89
Profit on disposal of assets	**26**	263
Others	**368**	(202)
	32	877

14 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 26).

(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.

	2018 USD'000	2017 USD'000
The calculations of loss per share are based on the following loss and numbers of shares:		
Loss for the year	**(70,656)**	(98,097)
Weighted average number of shares for basic loss per share	**341,710,302**	341,710,302
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**	341,710,302

Assumed vesting of performance and retention share plans amounting to 6,700,436 (2017: 3,786,640) shares and 2,481,705 (2017: 609,471) shares respectively have been excluded in the current period as these are anti-dilutive.

	2018 USD'000	2017 USD'000
Loss per share:		
Basic	**(20.67)c**	(28.70)c
Diluted	**(20.67)c**	(28.70)c
Loss per share from continuing operations:		
Basic	**(20.67)c**	(28.70)c
Diluted	**(20.67)c**	(28.70)c

15 Operating loss

(a) Operating loss

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

	2018 USD'000	2017 USD'000
Provision for onerous contract (Note 4)	9,381	80,000
Depreciation (Note 17)	20,218	22,638
Operating lease rentals – land and buildings	10,367	10,195
(Release)/provision for impairment losses	(1,015)	51
Write-down of inventory to net realisable value (Note 21)	3,066	–

(b) Auditor's remuneration

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

	2018 USD'000	2017 USD'000
Audit of parent company and consolidated financial statements	346	419
Audit of Group companies pursuant to legislation	62	49
Interim review of parent company and consolidated financial statements	127	116
Other audit related service	12	12
Non audit related service	37	–
	584	596

16 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	2018 USD'000	2017 USD'000
Trade receivables – net of provision (Note 22)	Amortised cost[1]	42,548	33,942
Other receivables excluding prepayments	Amortised cost[1]	14,195	4,275
Due from related parties (Note 25)	Amortised cost[1]	875	12,951
Derivative financial instruments (Note 29)	Fair value through profit or loss	218	1,666
Cash and bank balances (Note 24)	Amortised cost[1]	99,804	296,443
		157,640	349,277

1. Under IAS 39 these were classified as loans and receivables.

Liabilities as per balance sheet

	Classification	2018 USD'000	2017 USD'000
Accruals (Note 30)	Liabilities at amortised cost	59,897	149,833
Trade payables (Note 30)	Liabilities at amortised cost	23,572	47,897
Contract liabilities excluding amount due to customers (Note 31)	Liabilities at amortised cost	4,166	7,475
Due to a related party (Note 25)	Liabilities at amortised cost	423	28
Borrowings (Note 33)	Liabilities at amortised cost	19,768	39,491
		107,826	244,724

16 Financial instruments by category continued

Company

Assets as per balance sheet

	Classification	2018 USD'000	2017 USD'000
Due from related parties (Note 25)	Amortised cost[1]	**14,817**	16,936
Cash and bank balance	Amortised cost[1]	**201**	163
Other receivables	Amortised cost[1]	**190**	242
		15,208	17,341

Liabilities as per balance sheet

	Classification	2018 USD'000	2017 USD'000
Due to related parties (Note 25)	Liabilities at amortised cost	**787**	3,155
Accruals	Liabilities at amortised cost	**493**	1,241
		1,280	4,396

1. Under IAS 39 these were classified as loans and receivables.

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:

	2018 USD'000	2017 USD'000
Trade receivables		
Group A	**4,199**	13,482
Group B	**2,263**	7,575
Group C	**2,327**	2,322
	8,789	23,379

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.

	2018 USD'000	2017 USD'000
Cash at bank and short-term bank deposits		
Fitch's ratings		
AA-	**59,470**	73,923
A+	**37,268**	157,474
A	**1,110**	62,773
BBB-	**399**	404
B	**665**	737
Not rated	**201**	202
	99,113	295,513
Cash in hand	**691**	930
Cash and bank balances and term and margin deposits (Note 24)	**99,804**	296,443

Company

	2018 USD'000	2017 USD'000
Due from related parties (Note 25)	**14,817**	16,936

Due from related parties is neither past due nor impaired.

	2018 USD'000	2017 USD'000
Cash at bank		
Fitch's ratings		
AA-	**201**	163

17 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 2017	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
Additions	388	1,033	836	125	5,597	7,979
Disposals	–	(892)	(48)	(262)	–	(1,202)
Transfers	637	729	487	28	(1,881)	–
At 31 December 2018	**154,241**	**153,099**	**18,441**	**3,358**	**26,235**	**355,374**
Depreciation						
At 1 January 2017	(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)
Charge for the year	(8,580)	(10,162)	(995)	(481)	–	(20,218)
Disposals	–	867	48	263	–	1,178
At 31 December 2018	**(68,498)**	**(107,549)**	**(17,157)**	**(2,708)**	**–**	**(195,912)**
Net book value						
At 31 December 2018	**85,743**	**45,550**	**1,284**	**650**	**26,235**	**159,462**
At 31 December 2017	93,298	53,975	956	977	22,519	171,725

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 95.5 million (2017: USD 104.4 million) are under lien against the bank facilities (Note 33).

A depreciation expense of USD 17.6 million (2017: USD 18.8 million) has been charged to cost of sales; USD 2.6 million (2017: USD 3.8 million) to general and administrative expenses (Notes 7 and 10).

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.

18 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 2017	180,539	22,335	19,323	8,338	14,281	–	44,954
Additions	–	–	–	8,694	65	1,540	10,299
At 31 December 2017	180,539	22,335	19,323	17,032	14,346	1,540	55,253
Additions	–	–	–	–	71	1,948	2,019
Transfers	–	–	–	–	1,540	(1,540)	–
At 31 December 2018	**180,539**	**22,335**	**19,323**	**17,032**	**15,957**	**1,948**	**57,272**
Amortisation							
At 1 January 2017	180,539	14,143	19,323	2,942	2,918	–	20,003
Charge for the year (Note 10)	–	1,804	–	831	900	–	3,535
At 31 December 2017	180,539	15,947	19,323	3,773	3,818	–	23,538
Charge for the year (Note 10)	–	1,804	–	999	986	–	3,789
At 31 December 2018	**180,539**	**17,751**	**19,323**	**4,772**	**4,804**	**–**	**27,327**
Net book value							
At 31 December 2018	**–**	**4,584**	**–**	**12,260**	**11,153**	**1,948**	**29,945**
At 31 December 2017	–	6,388	–	13,259	10,528	1,540	31,715

18 Intangible assets continued

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.

Development cost and patent represent the costs incurred on patent fees and in developing the Group's proprietary designs. The economic benefit for these is expected to be derived from use of this intellectual property in our 'Rig' operating segment. As at 31 December 2018, an amount of USD 0.6 million (2017: Nil) related to development costs and patent is included in work in progress.

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
Development cost and patents	10

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 Rigs, EPC(I) and contracting services segments assets located in the United Arab Emirates.

Recoverable amount of the 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:

	2018	2017
Revenue growth rate[1]	**0%**	0%
Discount rate[2]	**9.35%**	10%
Net profit rate[3]	**3%**	3%
Terminal value growth rate[4]	**3%**	3%

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 (2017: Nil) and the carrying amount of intangible assets at 31 December 2018 was USD 29.9 million (31 December 2017: USD 31.7 million).

19 Investment in subsidiaries

	2018 USD'000	2017 USD'000
Balance at 1 January	**555,710**	554,448
Share-based payments to employees of subsidiaries in accordance with IFRS 2	**2,645**	1,262
Balance at 31 December	**558,355**	555,710

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% (2017: 0%). A discount rate of 9.35% (2017: 10.00%) 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 the 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.

19 Investment in subsidiaries continued

Based on these calculations, no impairment has been recorded during the year (2017: Nil).

The Company granted retention and performance shares to employees of its subsidiaries under various plans (Note 9). These shares have a vesting period that ranges five to thirty six months. Accordingly, the proportionate share-based charge for the year of USD 2.6 million (2017: USD 1.3 million) has been recorded as an increase in investment in subsidiaries with a corresponding credit to retained earnings.

20 Investment accounted for using the equity method

Group

	2018 USD'000	2017 USD'000
At 1 January	**25,908**	7,229
Dividend received during the year	**(1,113)**	(2,137)
Investment in an associate	**39,102**	23,375
Share of loss of investments accounted for using the equity method – net	**(10,576)**	(2,559)
At 31 December	**53,321**	25,908

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

Name of Company	Place of incorporation and operation	Proportion of ownership	Classification	Status
Maritime Industrial Services Arabia Co. Ltd. ("MISA")[1]	Jubail, Kingdom of Saudi Arabia	30%	Associate	Operational
International Maritime Industries ("IMI")[2]	Ras Al Khair, Kingdom of Saudi Arabia	20%	Associate	Operational
Lamprell Saudi Arabia LLC ("LSAL")[3]	Riyadh, Kingdom of Saudi Arabia	50%	Joint venture	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.
3. Commissioning works, industrial works, oil and gas piping works, marine works and installation services.

Investment in an associate – MISA

	2018 USD'000	2017 USD'000
At 1 January	**7,025**	7,229
Dividend received during the year	**(1,113)**	(2,137)
Share of (loss)/profit for the year	**(1,148)**	1,933
At 31 December	**4,764**	7,025

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

	2018 USD'000	2017 USD'000
Total non-current assets	**5,800**	7,532
Total current assets	**23,640**	39,443
Total non-current liabilities	**(2,999)**	(3,260)
Total current liabilities (excluding income tax payable)	**(10,561)**	(18,690)
Net assets (excluding income tax payable)	**15,880**	25,025
Income tax payable	**–**	(1,047)
Net assets	**15,880**	23,978
Group's share of associate's net assets (excluding income tax payable) – 30%	**4,764**	7,508
Group's share of associate's income tax payable	**–**	(483)
Group's share of associate's net assets – net of the Group's share of income tax	**4,764**	7,025
Revenue	**23,081**	60,089
Expenses	**(26,907)**	(52,034)
(Loss)/profit before tax	**(3,826)**	8,055
Group's share of associate's net (loss)/profit – net of the Group's share of income tax	**(1,148)**	1,933

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.

	2018 USD'000	2017 USD'000
Letters of guarantee	**4,263**	4,040
Operating lease commitments	**338**	290

20 Investment accounted for using the equity method continued

Investment in an associate – IMI

	2018 USD'000	2017 USD'000
At 1 January	**18,883**	–
Investment made during the year	**39,034**	23,375
Share of loss for the year	**(9,425)**	(4,492)
At 31 December	**48,492**	18,883

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

	2018 USD'000	2017 USD'000
Total non-current assets	**32,589**	36,077
Total current assets	**229,802**	100,000
Total non-current liabilities	**(340)**	
Total current liabilities	**(36,466)**	(58,539)
Net assets	**225,585**	77,538
Group's share of associate's net assets – 20%	**45,117**	15,508
Acquisition cost capitalisation	**3,375**	3,375
Carrying amount at 31 December	**48,492**	18,883
Expenses	**(47,124)**	(22,462)
Loss before tax	**(47,124)**	(22,462)
Group's share of associate's net loss – net of the Group's share of income tax	**(9,425)**	(4,492)

IMI is a private company and there is no quoted market price available for its shares. Its yard is under construction and as such it has not generated revenue for the years ended 31 December 2018 and 2017.

The Group has the following contingencies and commitments relating to the Group's interest in the associate.

	2018 USD'000	2017 USD'000
Operating lease commitments	**318**	977

Investment in a joint venture – LSAL

During the year, the Group along with its partner, Mada Al Sharq Company LLC, formed a joint venture – Lamprell Saudi Arabia LLC. The investment has been accounted by the Group as a joint venture and the details are as follows:

	2018 USD'000
At 1 January	–
Investment made during the year	**68**
Share of loss for the year	**(3)**
At 31 December	**65**

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

	2018 USD'000
Total non-current assets	–
Total current assets	**136**
Total current liabilities	**(6)**
Net assets	**130**
Group's share of joint venture's net assets – 50%	**65**
Revenue	–
Expenses	**(6)**
Loss before tax	**(6)**
Group's share of joint venture's net loss – net of the Group's share of income tax	**(3)**

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

The Group has no contingencies and commitments relating to the Group's interest in the joint venture.

21 Inventories

	2018 USD'000	2017 USD'000
Raw materials, consumables and finished goods	**23,996**	26,267
Work in progress	**69,343**	26,287
Less: Provision for slow moving and obsolete inventories	**(2,716)**	(2,045)
	90,623	50,509

The cost of inventories recognised as an expense amounts to USD 11.0 million (2017: USD 17.1 million) and this includes USD 3.1 million (2017: Nil) in respect of write-down of inventory to net realisable value.

The work in progress inventories include two rig kits which will be utilised upon award of new contracts.

22 Trade and other receivables

	2018 USD'000	2017 USD'000
Trade receivables	**46,737**	39,259
Other receivables and prepayments	**22,217**	12,559
Advance to suppliers	**2,410**	2,402
Receivables from a related party (Note 25)	**875**	12,951
	72,239	67,171
Less: Provision for impairment losses	**(4,189)**	(5,317)
	68,050	61,854
Amounts due from customers on contracts	–	67,800
Contract work in progress	–	35,051
	68,050	164,705
Non-current portion:		
Prepayments	–	839
Current portion	**68,050**	163,866

Amounts due from customers on contracts comprise:

	As per IAS 18	Reclassified under IFRS 15	**As at 31 December 2018**	As at 31 December 2017
Costs incurred to date	951,263	(951,263)	–	951,263
Attributable profits	57,099	(57,099)	–	57,099
	1,008,362	(1,008,362)	–	1,008,362
Less: Progress billings	(940,562)	940,562	–	(940,562)
	67,800	(67,800)	–	67,800

An analysis of trade receivables is as follows:

	2018 USD'000	2017 USD'000
Fully performing	**8,789**	23,379
Past due	**33,759**	10,563
Impaired	**4,189**	5,317
	46,737	39,259

At 31 December 2018, trade receivables of USD 33.8 million (2017: USD 10.6 million) were past due but not impaired. These relate to a number of independent customers for whom the Group is not expecting any credit losses.

	2018 USD'000	2017 USD'000
Up to 3 months	**26,132**	7,459
3 to 6 months	**3,160**	757
Over 6 months	**4,467**	2,347
	33,759	10,563

At 31 December 2018, trade receivables of USD 4.2 million (2017: USD 5.3 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 over six months.

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

22 Trade and other receivables continued

Movements on the provision for impairment losses are as follows:

	2018 USD'000	2017 USD'000
At 1 January	5,317	5,488
Provision for impairment losses	–	83
Receivables written off during the year as uncollectable	(113)	(204)
Amounts recovered during the year	(1,015)	(50)
At 31 December	4,189	5,317

The creation and release of the provision for impairment losses have been included in general and administrative expenses in the consolidated income statement (Note 10).

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.

Refer to Note 3.1(c) for an assessment on expected credit losses.

23 Contract assets

	2018 USD'000
Amounts due from customers on contracts	48,081
Contract work in progress	6,850
	54,931

Amounts due from customers on contracts comprise:

	2018 USD'000
Costs incurred to date	389,326
Attributable (loss)/profit	(74,731)
	314,595
Less: Progress billings	(266,514)
	48,081

The Group does not expect any credit losses from contract assets due to history of payment from these customers. Refer to Note 3.1(c) for an assessment on expected credit losses.

24 Cash and bank balances

Group

	2018 USD'000	2017 USD'000
Cash at bank and on hand	26,557	45,087
Term deposits and margin deposits – Current	72,914	237,930
Cash and bank balances	99,471	283,017
Term deposits and margin deposits – Non-current	333	13,426
Less: Margin deposits – under lien (with original maturity less than three months)	(3,800)	(8,101)
Less: Margin deposits – under lien (with original maturity more than three months)	(46,987)	(41,596)
Less: Deposits with original maturity of more than three months	(10,333)	(141,984)
Cash and cash equivalents (for the purpose of the cash flow statement)	38,684	104,762

At 31 December 2018, the cash at bank and short-term deposits were held with 15 banks (2017: 14 banks). The effective interest rate on short-term deposits was 1.85% (2017: 1.54%) per annum. Margin and short-term deposits of USD 6.2 million (2017: USD 8.1 million) and deposits with an original maturity of more than three months amounting to USD 46.9 million (2017: USD 41.6 million) are held under lien against guarantees issued by the banks (Note 37).

Cash and cash equivalents are assessed to have low credit risk as further detailed in Note 3.1c. Accordingly the management of the Company does not estimate the loss allowance on cash and cash equivalents at the end of reporting period as material.

Company

Cash and bank balance comprises of cash held with one bank (2017: one bank).

25 Related party balances and transactions

Related parties comprise LHL (which owns 33.12% 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

	2018 USD'000	2017 USD'000
Key management compensation	**8,087**	6,828
Sales to associates	**827**	427
Purchases from associates	**395**	147
Re-chargeable expenses to associates	**18,008**	12,951
Sponsorship fees and commissions paid to legal shareholders of subsidiaries (Note 1)	**325**	308

Company

	2018 USD'000	2017 USD'000
Key management compensation	**2,984**	2,829
Revenue (management fees charged to subsidiaries)	**4,912**	7,619

Key management compensation comprises:

Group

	2018 USD'000	2017 USD'000
Salaries and other short-term benefits	**4,918**	5,252
Share-based payments – value of services provided	**2,198**	1,335
Short-term incentive plans	**772**	–
Post-employment benefits	**199**	241
	8,087	6,828

Company

	2018 USD'000	2017 USD'000
Salaries and other short-term benefits	**1,569**	1,947
Share-based payments – value of services provided	**974**	811
Short-term incentive plans	**372**	–
Post-employment benefits	**69**	71
	2,984	2,829

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

	2018 USD'000	2017 USD'000
Group (Note 22)		
MISA (in respect of sales to associate)	**653**	–
IMI (In respect of expenses on behalf of associate)	**154**	12,951
Mada Al Sharq Company LLC (in respect of investment in joint venture)	**68**	–
	875	12,951
Company		
MIS[1]	**11,319**	11,241
EBT[2]	**126**	210
MOL[3]	**3,372**	3,375
IMI[3]	**–**	2,110
	14,817	16,936

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.

25 Related party balances and transactions continued

Due from/due to related parties continued

Due from related parties continued

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

	2018 USD'000	2017 USD'000
Group		
MISA (in respect of purchases) (associate) (Note 30)	**423**	28
Company		
CBL (in respect of expenses incurred on behalf of the Company)	**470**	–
LEL (in respect of expenses incurred on behalf of the Company)	**317**	3,155
	787	3,155

26 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 2017 and 31 December 2017	341,726,570	30,346	315,995
At 31 December 2018	**341,726,570**	**30,346**	**315,995**

The total authorised number of ordinary shares is 400 million shares (2017: 400 million shares) with a par value of 5 pence per share (2017: 5 pence per share).

During 2018, Lamprell plc employee benefit trust ("EBT") acquired 353,828 shares (2017: 474,551 shares) of the Company. The total amount paid to acquire the shares was USD 222,420 (2017: USD 654,817) and has been deducted from the consolidated retained earnings. During 2018, 353,828 shares (2017: 474,551) were issued to employees and 16,268 shares (31 December 2017: 16,268 shares) were held as treasury shares at 31 December 2018. 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.

27 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 2017	98	(18,572)	(1,259)	(960)	(20,693)
Currency translation differences	–	–	–	(49)	(49)
Profit on cash flow hedges	–	–	2,619	–	2,619
At 31 December 2017	98	(18,572)	1,360	(1,009)	(18,123)
Currency translation differences	–	–	–	(160)	(160)
Reclassification of hedge reserve	–	–	(1,360)	–	(1,360)
At 31 December 2018	98	(18,572)	–	(1,169)	(19,643)

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.

27 Other reserves continued

Company

Other reserve

	2018 USD'000	2017 USD'000
At 1 January	189,059	189,059
Currency translation differences	(7)	–
At 31 December	189,052	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 impairment recognised.

28 Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2018 and 2017, 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

	2018 USD'000	2017 USD'000
At 1 January	34,129	34,745
Current service cost	3,648	3,414
Interest cost	971	1,740
Remeasurements	(851)	829
Benefits paid	(5,809)	(6,599)
At 31 December	32,088	34,129

Remeasurements consist of actuarial gain from a change in financial assumptions USD 1.2 million (2017: loss of USD 1.9 million) and an actuarial loss from a change in other experiences USD 0.3 million (2017: gain of USD 1.1 million).

Company

	2018 USD'000	2017 USD'000
At 1 January	217	173
Current service cost	61	53
Interest cost	8	5
Remeasurements	(6)	52
Benefits paid	–	(66)
At 31 December	280	217

Group

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

	2018 USD'000	2017 USD'000
Current service cost	3,648	3,414
Interest cost	971	1,740
Total (included in staff costs) (Note 11)	4,619	5,154

The above charges are included in cost of sales and general and administrative expenses.

Company

	2018 USD'000	2017 USD'000
Current service cost	61	53
Interest cost	8	5
Total (included in staff costs)	69	58

The above charge of USD 0.1 million (2017: USD 0.1 million) is included in general and administrative expenses.

28 Provision for employees' end of service benefits continued

Company continued

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	3.90%	3.20%
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 3.9% (2017: 3.2%).

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% (2017: 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	
	2018	2017
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%

29 Derivative financial instruments

	2018			2017		
	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	–
Interest rate swaps	20,000	218	–	40,000	307	–
Total	20,000	218	–	68,950	1,666	–
Non-current portion:						
Interest rate swaps	–	–	–	20,000	153	–
Current portion	20,000	218	–	48,950	1,513	–

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 57 months from the date of inception. The fair value at 31 December 2018 of this derivative was USD 0.2 million (2017: USD 0.3 million).

30 Trade and other payables

	2018 USD'000	2017 USD'000
Trade payables	23,572	47,897
Accruals and other payables	59,897	149,833
Payables to a related party (Note 25)	423	28
Amounts due to customers on contracts (Note 31)	–	2,815
	83,892	200,573

Amounts due to customers on contracts comprise:

	As per IAS 18	Reclassified under IFRS 15	As at 31 December 2018	As at 31 December 2017
Progress billings	130,924	(130,924)	–	133,597
Less: Cost incurred to date	(89,313)	89,313	–	(112,711)
Less: Recognised losses	(19,238)	19,238	–	(18,071)
	22,373	(22,373)	–	2,815

Accruals and other payables include a provision of USD 9.5 million (2017: USD 41.7 million) relating to estimated losses to completion on the EA1 project (Note 4.2.2).

31 Contract liabilities

	2018 USD'000
Provision for warranty cost and other liabilities (Note 32)	4,166
Amounts due to customers on contracts	22,373
	26,539
Amounts due to customers on contracts comprise:	
Progress billings	130,924
Less: Cost incurred to date	(89,313)
Less: Recognised losses	(19,238)
	22,373

32 Provision for warranty costs and other liabilities

	Warranty costs USD'000	Minimum purchase obligations USD'000	Total USD'000
At 1 January 2017	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
Charge during the year	2,612	–	2,612
Released/utilised during the year	(5,687)	(234)	(5,921)
At 31 December 2018	**4,166**	–	**4,166**

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 7.

33 Borrowings

	2018 USD'000	2017 USD'000
Bank term loans	**19,768**	39,491
The bank borrowings are repayable as follows:		
Current (less than 1 year)	**19,768**	39,491

At 31 December 2018, the Group has banking facilities of USD 540.1 million (2017: USD 924 million) with commercial banks. The facilities include bank overdrafts, letters of guarantees, letters of credit and short-term loans. These are summarised below:

31 December 2018	Facility USD'000	Amount utilised USD'000	Amount available to be used USD'000
Funded facilities			
Term loan	20,000	20,000	–
Revolving credit facility	50,000	–	50,000
Unfunded facilities			
Letters of credit/guarantees	470,100	108,100	362,000
Total	540,100	128,100	412,000

The facilities available to the Group as at 31 December 2018 that are capable of being drawn as cash is USD 50.0 million. Bank facilities are secured by liens over term deposits of USD 50.7 million (2017: USD 49.7 million) (Note 24), 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. These facilities expire in August 2019.

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 borrowing to EBITDA financial covenant contained within its debt facilities. 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 19.8 million. However, Management are in process of negotiating debt re-financing with the banks and we do not expect it to pay before due date. Subsequent to year end, the Group has received confirmation from its lenders agreeing to waiver this EBITDA financial covenant.

The borrowings are stated net of the unamortised arrangement fees and other transaction costs of USD 0.2 million (2017: USD 0.5 million) and including accrued interest of USD (0.1) million (2017: USD 0.1 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% (2017: 1.2375%).

The carrying amounts of borrowings in the year approximated to their fair value and were denominated in USD or UAE Dirhams, which are pegged to the USD.

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 2018 USD'000	Repayment during the year USD'000	Other changes[1] USD'000	31 December 2018 USD'000	31 December 2017 USD'000
Bank terms loans					
Current	39,491	(20,000)	277	**19,768**	39,491

1. Other changes include interest accruals, payments and adjustment to capitalised borrowing costs.

34 Profit of the Company

The profit of USD 0.1 million (2017: loss of USD 1.3 million) in respect of the Company is included in these consolidated financial statements.

35 Dividends

There were no dividends declared or paid during the year ended 31 December 2018 or 31 December 2017.

36 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. Refer to Note 2.1 for IFRS 16 assessment.

	2018 USD'000	2017 USD'000
Not later than one year	**5,583**	7,943
Later than one year but not later than five years	**23,774**	23,982
Later than five years	**84,369**	77,493
	113,726	109,418

(b) International Maritime Industries commitments

In 2017, the Group has entered into commitments associated with the investment in International Maritime Industries. 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 59.0 million already paid to date. The forecast contributions are as follows:

	2018 USD'000	2017 USD'000
Not later than one year	**31,456**	38,500
Later than one year but not later than four years	**49,510**	81,500
	80,966	120,000

(c) Other commitments

	2018 USD'000	2017 USD'000
Capital commitments for construction of facilities	**1,198**	8,937
Capital commitments for purchase of operating equipment and computer software	**3,273**	144
Purchase commitments for rig kits	**–**	41,199

37 Bank guarantees

	2018 USD'000	2017 USD'000
Performance/bid bonds	**75,269**	120,012
Advance payment, labour visa and payment guarantees	**31,905**	50,350
	107,174	170,362

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.

38 Cash generated from operating activities

	Notes	Year ended 31 December 2018 USD'000	2017 USD'000
Operating activities			
Loss before income tax		**(69,485)**	(97,906)
Adjustments for:			
Share-based payments – value of services provided	9	**3,688**	2,425
Depreciation	17	**20,218**	22,638
Amortisation of intangible assets	18	**3,789**	3,535
Share of loss of investments accounted for using the equity method – net	20	**10,576**	2,559
Release for warranty costs and other liabilities		**(3,309)**	(483)
Profit on disposal of property, plant and equipment		**(26)**	(263)
Provision/(release) for slow moving and obsolete inventories	21	**671**	(1,529)
Release for impairment of trade receivables, net of amounts recovered		**(1,128)**	(171)
Provision for employees' end of service benefits	28	**4,619**	5,154
(Release)/gain on derivative financial instruments		**(1,360)**	2,619
Finance costs	12	**5,678**	9,019
Finance income	12	**(2,165)**	(3,875)
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**(28,234)**	(56,278)
Payment of employees' end of service benefits		**(5,809)**	(6,599)
Changes in working capital:			
Inventories before movement in provision/(release)	21	**(40,785)**	(24,565)
Derivative financial instruments	29	**1,448**	(2,752)
Trade and other receivables before movement in Provision for impairment losses	22	**97,783**	102,261
Contract assets	23	**(54,931)**	–
Trade and other payables	30	**(116,681)**	20,552
Contract liabilities	31	**26,539**	–
Provision for warranty	32	**(4,166)**	–
Cash (used in)/generated from operating activities		**(124,836)**	32,619

Glossary

"ADNOC"	Abu Dhabi National Oil Company
"AGM"	Annual General Meeting
"AIM"	Alternative Investment Market
"API"	American Petroleum Institute
"APM"	Alternative Performance Measures
"CBL"	Cleopatra Barges Limited
"CE"	Conformité Européenne
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"CfD"	Contract for Difference
"CGU"	Cash Generating Unit
"CO_2e"	Carbon Dioxide Equivalent
"Code"	UK Corporate Governance Code 2014
"Company"	Lamprell plc
"CPI"	Consumer Price Index
"DNV"	Det Norske Veritas
"DNV GE"	Det Norske Veritas Germanischer Lloyd
"EA1"	East Anglia One
"EBITDA"	Earnings before Interest, Taxes, Depreciation and Amortisation
"EBT"	Lamprell plc Employee Benefit Trust
"ECL"	Expected Credit Losses
"E&C"	Engineering & Construction
"eia"	Energy Information Administration
"EIR"	Effective Interest Rate
"EIU"	Economist Intelligence Unit
"EPC(I)"	Engineering, Procurement, Construction and Installation
"EPC"	Engineering, Procurement, Construction
"EPS"	Earnings Per Share
"ERM"	Enterprise Risk Management
"ESOP"	Lamprell plc Executive Share Option Plan
"EU"	European Union
"FID"	Final Investment Decision
"FSP"	Free Share Plan
"FTSE"	Financial Times Stock Exchange Index
"FVTOCI"	Fair Value Through Other Comprehensive Income
"FVTPL"	Fair Value Through Profit or Loss
"FY"	Financial Year
"G&A"	General and administrative
"GBP"	Great Britain Pound
"GCC"	Gulf Cooperation Council
"GDP"	Gross Domestic Product
"GIC"	Global Investment Co. Ltd. Inc.
"GP"	General Practitioner
"GPSL"	GeoSea Procurement and Shipping Luxembourg
"GW"	Gigawatt
"HHI"	Hyundai Heavy Industries
"HMRC"	Her Majesty's Revenue & Customs
"HR"	Human Resources
"HRLS"	Human Rights and Labour Standards
"HSE"	Health Safety & Environment
"HSES"	Health Safety Environment & Security
"HSESQ"	Health Safety Environment Security & Quality
"HVAC"	Heating Ventilation & Air Conditioning
"HVDC"	High Voltage Direct Current
"ICV"	In-Country Value
"IA"	Internal Audit
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IE"	Investment Entity
"IEA"	International Energy Agency
"IFRS"	International Financial Reporting Council
"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
"JPMC"	J.P. Morgan Cazenove
"JV"	Joint Venture
"KBR"	Kellogg Brown & Root
"KSA"	Kingdom of Saudi Arabia
"LAK"	Lamprell Kazakhstan LLP
"LATC"	Lamprell Assessment and Training Centre
"LD"	Lamprell Dubai LLC
"LDs"	Liquidated Damages
"LEL"	Lamprell Energy Limited
"LHL"	Lamprell Holdings Limited
"LIBOR"	London Interbank Offered Rate
"LIH"	Lamprell Investment Holdings Ltd.
"LNG"	Liquid Natural Gas
"LOI"	Letter of Intent
"LS"	Lamprell Sharjah WLL
"LSAL"	Lamprell Saudi Arabia LLC
"LSE"	London Stock Exchange
"LTA"	Long Term Agreement
"LTIP"	Long-Term Incentive Plan
"LUK"	Lamprell Energy (UK) Limited
"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
"MOL"	Maritime Offshore Limited
"MRO"	Maintenance, Repair & Overhaul
"MT"	Metric Tonnes
"NED"	Non-Executive Director
"NOC"	National Oil Company
"OCI"	Other Comprehensive Income
"OECD"	Organisation for Economic Co-operation and Development
"OHSAS"	Occupational Health and Safety Assessment Series
"O&M"	Operations & Maintenance
"OPEC"	Organization of the Petroleum Exporting Countries
"OSV"	Offshore Supply Vessel
"Q&A"	Question and Answer
"RIM"	Rig Metals LLC
"RSP"	Retention Share Plan
"SPPI"	Solely Payments of Principal and Interest
"SPR"	ScottishPower Renewables
"STEM"	Science Technology Engineering and Mathematics
"SSS"	Sunbelt Safety Services Co. Ltd. Inc.
"SSSL"	Sunbelt Safety Services LLC
"STIP"	Short-Term Incentive Plan
"TRIR"	Total Recordable Injury Rate
"TSR"	Total Shareholder Return
"UAE"	United Arab Emirates
"UK"	United Kingdom
"United States" or "US"	the United States of America
"USD"	US Dollar
"VAT"	Value Added Tax
"VP"	Vice-President

Additional information

Alternative performance measures

As set out in our most recent annual report, we use a range of financial and non-financial measures to assess our performance. The tables below set out the definitions of such measures, reconciliations to amounts presented in the interim financial statements and the reason for their inclusion in the report. The metrics presented are consistent with those presented in our previous annual report and there has been no change to the basis of calculation.

EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on EBITDA. EBITDA is defined as the Group (loss)/profit for the year from continuing operation before depreciation, amortisation, net finance expense and taxation.

We consider EBITDA to be useful measures of our operating performance because it approximates the operating cash flow by eliminating depreciation and amortisation. EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

Reconciliation from Group (loss)/profit for the year from continuing operation, the most directly comparable IFRS measure, to reported and EBITDA, is set out below:

	Year ended 31 December	
	2018 USD'000	2017 USD'000
Loss for the year from continuing operations	**(70,656)**	(98,097)
Depreciation (Note 17)	**20,218**	22,638
Amortisation (Note 18)	**3,789**	3,535
Interest on bank borrowings (Note 12)	**2,001**	2,587
Finance income (Note 12)	**(2,165)**	(3,875)
Tax	**1,171**	191
Share of loss of investments accounted for using the equity method – net (Note 20)	**10,576**	2,559
EBITDA	**(35,066)**	(70,462)
EBITDA margin	**(15.0%)**	(19.0%)

Net cash

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:

	2018 USD'000	2017 USD'000
Cash and cash equivalents (Note 24)	**38,684**	104,762
Margin deposits – under lien (with original maturity less than three months) (Note 24)	**3,800**	8,101
Margin deposits – under lien (with original maturity more than three months) (Note 24)	**46,987**	41,596
Deposits with original maturity of more than three months (Note 24)	**10,333**	141,984
Borrowings (Note 33)	**(19,768)**	(39,491)
Net cash	**80,036**	256,952

Overheads

Overheads are costs required to run our business, but which cannot be directly attributed to any specific project or service. A reconciliation from unallocated expenses per the segment note in the consolidated financial statements to reported overheads, is set out below:

	2018 USD'000	2017 USD'000
General and administrative expenses (Note 10)	**45,171**	40,197
Selling and distribution expenses (Note 8)	**1,144**	717
Direct overheads included in cost of sales:		
Unallocated operational overheads	**17,108**	12,271
Yard rent and maintenance	**14,060**	13,689
Repairs and maintenance	**3,041**	6,151
Other	**5,881**	9,375
Overheads	**86,405**	82,400

An analysis of overheads is as follows:

	2018 USD'000	2017 USD'000
Overhead nature		
Fixed	**29,204**	30,403
Semi variable	**9,579**	12,782
Variable	**47,622**	39,215
Overheads	**86,405**	82,400

Designed and produced by www.farraday.com

This document is printed on GalerieArt Matt which has been independently certified according to the rules of the Forest Stewardship Council® (FSC). The virgin fibre is Elemental Chlorine Free (ECF) bleached.

Printed in the UK by CPI Colour using vegetable inks throughout. CPI Colour is a CarbonNeutral® company.

Both manufacturing paper mill and the printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016486

Lamprell plc

Registered office
First Names House
Victoria Road
Douglas
Isle of Man
IM2 4DF

Operations
PO Box 33455
Dubai
United Arab Emirates
Tel +971 6 528 2323
Fax +971 6 528 4325
Email lamprell@lamprell.com

www.lamprell.com