

Corporate Governance Report

The Company is incorporated in the Isle of Man, where there is no formal code covering corporate governance. However, as the shares of the Company are listed on the Official List of the London Stock Exchange and as the Board is strongly committed to the highest standards of corporate governance, the Board applies the provisions of the UK Corporate Governance Code (the "Code") as if the Company was incorporated in the United Kingdom.

The Code seeks to ensure that the Company is run in a manner whereby the interests of shareholders are protected and as such the Code sets out principles of good corporate governance together with specific provisions.

Statement of compliance with the provisions of good governance

The Directors consider that throughout 2011 and up to the date hereof, the Company has applied the principles and complied with the provisions of the Code, subject to exceptions identified in this report.

The Board

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

The current membership of the Board and the commitments of the Directors are stated on pages 32 to 33, which record the names of the Chairman, the Senior Independent Director and the Chief Executive Officer. The names of the Chairmen and members of each of the Audit, Remuneration and Nomination Committees are detailed below under the respective Committee summaries.

The Board met eight times during the year and one of these meetings was conducted by telephone via a conference call. This meeting was required to deal with a specific business matter which arose as part of the business of the Group and which needed to be addressed between scheduled Board meetings. In addition, the Board executes a number of resolutions in writing to conduct Company business. The Chairman and Non-Executive Directors have met without the executives present when necessary and the Executive Directors maintain frequent verbal and written contact with the Non-Executive Directors to discuss various issues affecting the Company and its business. The agenda and appropriate supporting Board papers are distributed by the Secretary to the Board on a timely basis.

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

Meeting description	Board	Audit Committee	Remuneration Committee	Nomination Committee
Total number of meetings	8	4	6	5
Jonathan Silver Chairman of the Company	8	n/a	n/a	n/a
Colin Goodall Senior Independent Non-Executive Director	8	4	6	5
Richard Raynaut Non-Executive Director	7	4	6	5
Brian Fredrick Non-Executive Director	8	4	6	5
Nigel McCue Chief Executive Officer	8	n/a	n/a	n/a
Christopher Hand Chief Operating Officer	8	n/a	n/a	n/a
Scott Doak ¹ Chief Financial Officer	8	n/a	n/a	n/a
Jonathan Cooper ² Chief Financial Officer	0	n/a	n/a	n/a

1 Scott Doak resigned as a Director on 30 October 2011.

2 Jonathan Cooper joined the Board of Directors on 30 October 2011 and there were no Board meetings held between that date and 31 December 2011.

Corporate Governance Report (continued)

The Group maintains Directors' and Officers' Liability insurance cover, the level of which is reviewed annually.

Chairman and Chief Executive

Section A.2.1 of the Code states that the roles of Chairman and Chief Executive should not be exercised by the same individual and responsibilities between these roles should be clearly established, set out in writing and agreed by the Board. The Chairman on appointment should meet the independence criteria set out in Section B.1.1 of the Code.

Nigel McCue is the Chief Executive Officer and Jonathan Silver is the Non-Executive Chairman. Jonathan Silver is a partner of a firm that represents the Company as one of its legal advisers. Jonathan Silver was therefore not deemed independent on appointment as the Chairman of the Company. However, the Board and the Nomination Committee, considering his performance, experience and his detailed knowledge of the Company and the Middle East, believe that, despite his deemed lack of independence on appointment, Jonathan Silver's role as the Chairman of the Company is in the best interests of the Company and its shareholders.

Board balance and independence

The Board currently has seven Directors, consisting of four Non-Executive Directors and three Executive Directors. The Board considers all the Non-Executive Directors, excluding the Chairman, Jonathan Silver, to be independent in accordance with the definition of the Code and their appointment to be in the best interests of the shareholders. To that end, half of the Board excluding the Chairman (as cited above), comprises Non-Executive Directors determined by the Board to be independent. The Directors believe that the extensive knowledge and experience of the Non-Executive Directors combined with the focus and experience of the Executive Directors, enable the Board to lead and give direction to the Group without any imbalance that may allow any individual or group of individuals to dominate its decision-making. Any Director having a concern in this or any other regard may raise this with the Chairman or the Senior Independent Director.

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

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

Appointments to the Board

All appointments to the Board are based on the recommendation of the Nomination Committee. The composition and working of the Nomination Committee are explained under "Principal Board Committees" on page 39. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during normal business hours and will be available at the AGM 15 minutes prior to the meeting and during the meeting.

Induction and professional development

A formal induction programme is provided to new Directors on their appointment. The programme is designed to cover Companies Act requirements, dealing restrictions as outlined in the Disclosure Rules and the Model Code on Directors' dealings in securities contained in the Listing Rules of the Financial Services Authority in the United Kingdom, Board and business-related matters, meetings with senior management, site visits and the opportunity to meet with major shareholders. The Company encourages Directors to refresh their knowledge and skills and to keep up-to-date with the latest developments in corporate governance, financial reporting, the industry and market conditions. The Company reimburses any expenses incurred in this regard.

Major shareholders have had discussions with the Chairman, the Senior Independent Non-Executive Director Colin Goodall and the Chairman of the Remuneration Committee Brian Fredrick. The Non-Executive Directors will be available at the AGM to meet with shareholders.

The Directors are entitled to take independent professional advice, at the Company's expense, if required. Directors have access to the advice and services of the Secretary to the Board, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed, and for advising the Board, through the Chairman, on governance matters. The agenda for each Board and Committee meeting is considered by the relevant Chairman and papers for each scheduled formal Board and Committee meeting are provided beforehand. In addition, the Chairman maintains regular contact with the Executive Directors to discuss specific issues.

Directors are free to meet individual members of the senior management team and have done so during the year under review. The Board and its Committees receive briefings on legislative and regulatory developments and new accounting requirements as appropriate and believe that, given the experience and skills of its Directors, the identification of general training needs is best left to individual discretion.

No Director took independent professional advice during the year.

Performance evaluation

A performance evaluation of the Chairman, the Board, its members and the Committees was conducted through a questionnaire-led interview with other members of the Board. The questionnaires included a review of the Directors' attendance at Board meetings, the Board agenda, those areas on which the Board should focus during its meetings, the effectiveness of the roles of the Chairman and Non-Executive Directors, Board procedures and administration, and the operation of the Board's Nomination, Audit and Remuneration Committees. The results were considered satisfactory by the Board.

The performance evaluation of the Board, its members and its Committees takes place on an annual basis.

Retirement and re-election

In accordance with the Company's Articles of Association, all Directors are subject to election at the first AGM after their appointment and one third, or the number nearest to one third of the Board, shall retire from office at every Annual General Meeting. Any Director in office for more than three years at the start of an Annual General Meeting shall also retire. At the Company's 2012 AGM all current Executive and Non-Executive Directors will retire. All the Executive Directors and Non-Executive Directors will offer themselves for re-appointment in accordance with section B.7.1 of the Code, with the exception of Richard Raynaut who is retiring from the Board.

Directors' remuneration

The principles and details of Directors' remuneration are contained in the Directors' Remuneration Report on pages 42 to 50. The composition and working of the Remuneration Committee are explained under "Principal Board Committees" on page 39.

Principal Board Committees

The Board is assisted by the Audit, Remuneration and Nomination Committees. A summary of the activities of each Committee is set out below. The Committees are constituted with appropriate written terms of reference, which are reviewed annually and are available on the Company's website. The Committee terms of references did not require any material changes further to the annual review. The minutes of meetings and/or reports from the Chairmen of the Committees are made available to the Board for its next scheduled meeting following the Committee meeting in question, or as soon as practicable thereafter.

Audit Committee

The members of the Audit Committee are Richard Raynaut, who acts as Chairman, Colin Goodall and Brian Fredrick. Others may be co-opted onto the Committee by the Committee members. The Board considers all the members of the Audit Committee who are Non-Executive Directors to be independent in character and judgment and free from any relationship or circumstance which may, or could or would be likely to, or which appears to, affect their judgment. Richard Raynaut, the Chairman of the Audit Committee, has relevant and recent financial experience having retired from his position as Chief Financial Officer in 2004. Other members of the Audit Committee also have relevant financial experience.

Meetings of the Audit Committee are held not less than three times a year. The Chief Financial Officer is invited to attend meetings, where appropriate, and the Company's auditors are regularly invited to attend meetings, including once at the planning stage before the audit and once after the audit at the reporting stage. Other Board members may also be invited to attend, although at least once a year the Audit Committee meets the Company's external auditors without management being present. The terms of reference of the Audit Committee include consideration of matters relating to the appointment of the Company's auditors and the independence of the Company's auditors, reviewing the integrity of the Company's annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance. The Audit Committee also reviews the effectiveness of the Group's system of internal audit, internal control and compliance procedures.

The Audit Committee has established and monitors the Group's policy in relation to non-audit services provided by the external auditor, with a view to ensuring objectivity, independence and cost effectiveness.

The Audit Committee also monitors the procedure to ensure that employees may raise ethical concerns in confidence. The Audit Committee has designated the Chief Financial Officer as the Compliance Officer; employees also have access to the Audit Committee if the Compliance Officer has not dealt with their concerns satisfactorily.

The Company has adopted a code of conduct covering all employees including senior executives; the compliance with this code of conduct is monitored by the Human Resource department.

In 2011 the Company adopted an Anti-Corruption and Bribery Policy.

The Audit Committee met (including meetings by conference call) four times during the year and the attendance at its meetings is reported on page 37.

Corporate Governance Report (continued)

Nomination Committee

The current members of the Nomination Committee are Colin Goodall, who acts as Chairman, Richard Raynaut, Brian Fredrick and Jonathan Silver. The Nomination Committee's terms of reference are to periodically review the structure, size and composition, including the skills, knowledge and experience required of the Board compared to its current position and make its recommendations to the Board with regard to any changes. The Nomination Committee also considers the future composition of the Board, taking into account the challenges and opportunities facing the Company, and skills and expertise needed on the Board. The Nomination Committee also makes recommendations to the Board about the membership of the Audit and Remuneration Committees.

On 30 October 2011, Jonathan Cooper was appointed to the Board based on the recommendation of the Nomination Committee.

Deena Mattar has been appointed to the Board with effect from 1 April 2012 based on the recommendation of the Nomination Committee.

The Nomination Committee met (including meetings by conference calls) five times during the year and the attendance at its meetings is reported on page 37.

Remuneration Committee

The members of the Remuneration Committee are Brian Fredrick, who acts as Chairman, Colin Goodall and Richard Raynaut. Brian Fredrick took over the Chairmanship of the Committee from Richard Raynaut in June 2009. The terms of reference of the Remuneration Committee provide for it to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer, other Executive Directors, the Company Secretary and other such members of the executive management as it is designated to consider. The remuneration of the Non-Executive Directors is a matter for the Executive Directors. No Director or manager may be involved in any decisions as to his own remuneration.

The Remuneration Committee met (including meetings by conference call) six times during the year. The attendance at its meetings is reported on page 37.

Accountability and Audit

The Board plays a direct role in the development of the Group's internal controls and risk management systems in addition to overseeing controls and risk management procedures via the Audit Committee. However, the primary responsibility for developing and implementing internal control and risk management procedures covering strategic, commercial, operational and financial aspects of the business, lies with the management.

Financial reporting

The statement on the responsibilities of the Directors in relation to the preparation of the accounts and the Directors' evaluation of the business as a going concern is contained in the Directors' Report on pages 34 to 36.

Internal audit

In March 2010, as per the Company's long term plan, an independent internal audit function was established within the organisation. The Audit Committee evaluated the performance of the internal audit function from the quality of reports received from the Group's internal auditors, feedback from management, and an assessment of work planned and undertaken.

Internal control

The control environment, risk management system and assurance processes, being the three key elements leading to a robust system of internal control in the Group, are described below.

There exists a clear organisational structure for the control and monitoring of the Group's businesses, including defined lines of responsibility and delegation of authority. The business follows policies and procedures which amongst other matters, include policies for the Company and its employees on health and safety, security, the environment, corporate social responsibility and areas of legal compliance.

The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This has been in place for the year under review and up to the date of this Annual Report and is in accordance with the Revised Turnbull Guidance. The Directors are aware that the Group's risk management systems cannot completely eliminate risks and thus there can never be an absolute assurance against the Group failing to achieve its objectives or a material loss arising. In the Board's regular review of the Group's strategic plans, consideration is given to those risks which have been identified as potential impediments to achieving the Group's strategic objectives. The Board receives regular formal updates from management on the key risks and the related controls in relation to the Group's existing business and, if appropriate, on potential new business. Management thoroughly considers risks associated with undertaking new business.

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

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

The Board conducts an annual review of the effectiveness of the systems of internal control including financial, operational and compliance controls and risk management systems. Where material weaknesses have been identified, safeguards are implemented and monitored.

Audit Committee and Auditors

The composition and working of the Audit Committee are explained under "Principal Board committees" on page 39.

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

During the year, the external auditors PricewaterhouseCoopers, were also engaged to provide tax advice in connection with the formation of a branch office in Russia, related to the execution of the EDC project, and as reporting accountant in connection with the acquisition of Maritime Industrial Services Co. Ltd. Inc. The Audit Committee, in accordance with the Policy on Auditor Independence adopted by the Group, and having considered the nature of work carried out believes that, whilst being cost effective, the appointment of the external auditors to provide this advice did not affect the objectivity, or the independence, of the external auditors.

Dialogue with institutional shareholders

The Chairman, the Senior Independent Non-Executive Director, the Chief Executive Officer and the Chief Financial Officer have regular meetings with major shareholders and research analysts. The Board receives regular feedback from analysts and major shareholders, compiled by the Company's brokers and financial public relations consultants, in particular, following presentations and meetings after the publication of financial results. The principal method of communicating with the majority of shareholders is via the Annual Report and Accounts and the Company's website, which contains details of financial presentations to analysts, press releases and other information about the Group. All shareholders have the opportunity to attend the Annual General Meeting. All Directors were present at the 2011 Annual General Meeting and all Directors intend to be present at the 2012 Annual General Meeting to answer shareholders' questions.

Constructive use of the AGM

The Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the AGM the total number of proxy votes lodged on each resolution categorised as for, against, and votes withheld will be made available both at the meeting and subsequently on the Company's website. Each separate issue is presented as a separate Resolution and the Chairmen of the Audit, Nomination and Remuneration Committees will be available to answer questions from shareholders.

The Notice of the AGM, and related papers containing the text of resolutions to be proposed at the AGM, and explanatory notes, where necessary, will be posted to the shareholders at least 20 working days before the AGM. The interim and preliminary results of the Company, along with all other press releases, are posted on the Company's website, www.lamprell.com, as soon as they are announced and are available for download.