Independent auditor's report to the members of Lamprell plc

Report on the Financial Statements

We have audited the accompanying consolidated and parent company financial statements ('the financial statements') of Lamprell plc and its subsidiaries (the 'Group') which comprise the consolidated and company balance sheets as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated and company cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards as adopted by the European Union, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion:

> the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;

> the parent company financial statements give a true and fair view of the financial position of the parent company as at 31 December 2011, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and

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

Matters on which we are required to report by exception

We have nothing to report on the following:

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

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

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

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

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

Under the Listing Rules we are required to review:

> the directors' statement, set out on page 36, in relation to going concern;

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

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

Nicholas Halsall, Responsible Individual
for and on behalf of PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
23 March 2012

Consolidated income statement

	Note	Year ended 31 December 2011 USD'000	2010 USD'000
Revenue	5	**1,147,853**	503,820
Cost of sales	6	**(1,014,913)**	(424,112)
Gross profit		**132,940**	79,708
Other operating income	7	**–**	23,925
Selling and distribution expenses	8	**(2,358)**	(1,183)
General and administrative expenses	10	**(62,863)**	(32,527)
Other gains/(losses) – net	13	**11,928**	(1,801)
Operating profit		**79,647**	68,122
Analysed as:			
Operating profit before exceptional items		**90,191**	68,122
Exceptional items	10	**(10,544)**	–
Operating profit after exceptional items		**79,647**	68,122
Finance costs	12	**(17,965)**	(5,088)
Finance income	12	**1,804**	2,193
Finance costs – net		**(16,161)**	(2,895)
Share of loss of joint ventures	20	**(8)**	–
Profit before income tax		**63,478**	65,227
Income tax expense		**(188)**	–
Profit for the year attributable to the equity holders of the Company		**63,290**	65,227
Earnings per share attributable to the equity holders of the Company	14		
Basic		**26.56c**	30.21c*
Diluted		**26.47c**	30.03c*

* Earnings per share disclosure has been restated for the bonus element of the 2011 rights issue (Note 14).

The notes on pages 62 to 99 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Notes	2011 USD'000	2010 USD'000
		Year ended 31 December	
Profit for the year		**63,290**	65,227
Other comprehensive (loss)/income			
Currency translation differences		**(854)**	679
Cash flow hedges:			
Profit/(loss) arising on hedges recognised in other comprehensive income	32	**13,083**	(304)
Amount reclassified from other comprehensive income	32, 35	**(14,129)**	170
Other comprehensive (loss)/income for the year		**(1,900)**	545
Total comprehensive income for the year attributable to the equity holders of the Company		**61,390**	65,772

The notes on pages 62 to 99 form an integral part of these financial statements.

Consolidated balance sheet

	Notes	As at 31 December 2011 USD'000	2010 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**175,356**	113,304
Intangible assets	18	**230,861**	2,413
Investment in joint ventures	20	**3,870**	–
Held-to-maturity investment	21	**–**	6,875
Due from a related party	25	**7,025**	–
Derivative financial instruments	32	**–**	2,517
		417,112	125,109
Current assets			
Inventories	22	**12,056**	9,458
Trade and other receivables	23	**668,753**	251,124
Derivative financial instruments	32	**699**	–
Held-to-maturity investment	21	**6,879**	–
Financial asset at fair value through profit or loss	24	**8,172**	2,500
Cash and bank balances	26	**149,377**	210,223
		845,936	473,305
Total assets		**1,263,048**	598,414
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	27	**23,552**	18,682
Share premium	27	**211,776**	–
Legal reserve	28	**35**	33
Merger reserve	30	**(22,422)**	(22,422)
Translation reserve		**(77)**	777
Hedging reserve		**(1,180)**	(134)
Retained earnings		**322,214**	287,032
Total equity		**533,898**	283,968
Non-current liabilities			
Borrowings	34	**36**	–
Provision for employees' end of service benefits	31	**39,597**	18,524
Derivative financial instruments	32	**–**	2,651
		39,633	21,175
Current liabilities			
Borrowings	34	**251,089**	–
Derivative financial instruments	32	**1,449**	–
Trade and other payables	33	**436,911**	293,271
Current tax liability		**68**	–
		689,517	293,271
Total liabilities		**729,150**	314,446
Total equity and liabilities		**1,263,048**	598,414

The financial statements on pages 54 to 99 were approved and authorised for issue by the Board of Directors on 23 March 2012 and signed on its behalf by:

Nigel McCue
Chief Executive Officer and Director

Jonathan Cooper
Chief Financial Officer and Director

The notes on pages 62 to 99 form an integral part of these financial statements.

Company balance sheet

	Note	As at 31 December 2011 USD'000	2010 USD'000
ASSETS			
Non-current assets			
Investment in subsidiaries	19	**750,917**	750,018
Current assets			
Other receivables		**112**	17
Due from related parties	25	**209,939**	22,619
Cash at bank	26	**298**	189
		210,349	22,825
Total assets		**961,266**	772,843
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	27	**23,552**	18,682
Share premium	27	**211,776**	–
Other reserve	29	**708,852**	708,852
Retained earnings		**15,744**	43,050
Total equity		**959,924**	770,584
Non-current liabilities			
Provision for employees' end of service benefits	31	**821**	808
Current liabilities			
Other payables and accruals		**521**	1,451
Total liabilities		**1,342**	2,259
Total equity and liabilities		**961,266**	772,843

The financial statements on pages 54 to 99 were approved and authorised for issue by the Board of Directors on 23 March 2012 and signed on its behalf by:

Nigel McCue
Chief Executive Officer and Director

Jonathan Cooper
Chief Financial Officer and Director

The notes on pages 62 to 99 form an integral part of these financial statements.

Consolidated statement of changes in equity

	Note	Share capital USD'000	Share premium USD'000	Legal reserve USD'000	Merger reserve USD'000	Translation reserve USD'000	Hedging reserve USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2010		18,682	–	31	(22,422)	98	–	238,401	234,790
Profit for the year		–	–	–	–	–	–	65,227	65,227
Other comprehensive income:									
Currency translation differences		–	–	–	–	679	–	–	679
Cash flow hedges		–	–	–	–	–	(134)	–	(134)
Total comprehensive income for the year		–	–	–	–	679	(134)	65,227	65,772
Transactions with owners:									
Share-based payments:									
– value of services provided	9	–	–	–	–	–	–	2,060	2,060
Treasury shares purchased	27	–	–	–	–	–	–	(3,475)	(3,475)
Transfer to legal reserve	28	–	–	2	–	–	–	(2)	–
Dividends	37	–	–	–	–	–	–	(15,179)	(15,179)
Total transactions with owners		–	–	2	–	–	–	(16,596)	(16,594)
At 31 December 2010		18,682	–	33	(22,422)	777	(134)	287,032	283,968
At 1 January 2011		18,682	–	33	(22,422)	777	(134)	287,032	283,968
Profit for the year		–	–	–	–	–	–	63,290	63,290
Other comprehensive income:									
Currency translation differences		–	–	–	–	(854)	–	–	(854)
Cash flow hedges		–	–	–	–	–	(1,046)	–	(1,046)
Total comprehensive income for the year		–	–	–	–	(854)	(1,046)	63,290	61,390
Transactions with owners:									
Share-based payments:									
– value of services provided	9	–	–	–	–	–	–	1,439	1,439
Treasury shares purchased	27	–	–	–	–	–	–	(455)	(455)
Proceeds received from exercise of share options		–	–	–	–	–	–	187	187
Proceeds from shares issued (net)	27	4,870	211,776	–	–	–	–	–	216,646
Transfer to legal reserve	28	–	–	2	–	–	–	(2)	–
Dividends	37	–	–	–	–	–	–	(29,277)	(29,277)
Total transactions with owners		4,870	211,776	2	–	–	–	(28,108)	188,540
At 31 December 2011		**23,552**	**211,776**	**35**	**(22,422)**	**(77)**	**(1,180)**	**322,214**	**533,898**

The notes on pages 62 to 99 form an integral part of these financial statements.

Company statement of changes in equity

	Note	Share capital USD'000	Share premium USD'000	Other reserve USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2010		18,682	–	708,852	39,018	766,552
Total comprehensive income for the year	36	–	–	–	19,048	19,048
Transactions with owners:						
Share-based payments:						
– value of services provided	9	–	–	–	443	443
– investment in subsidiaries	19	–	–	–	1,617	1,617
Treasury shares issued	27	–	–	–	(1,897)	(1,897)
Dividends	37	–	–	–	(15,179)	(15,179)
Total transactions with owners		–	–	–	(15,016)	(15,016)
At 31 December 2010		18,682	–	708,852	43,050	770,584
Total comprehensive income for the year	36	–	–	–	2,993	2,993
Transactions with owners:						
Share-based payments:						
– value of services provided	9	–	–	–	543	543
– investment in subsidiaries	19	–	–	–	899	899
Treasury shares issued	27	–	–	–	(2,464)	(2,464)
Proceeds from shares issued (net)	27	4,870	211,776	–	–	216,646
Dividends	37	–	–	–	(29,277)	(29,277)
Total transactions with owners		4,870	211,776	–	(30,299)	186,347
At 31 December 2011		**23,552**	**211,776**	**708,852**	**15,744**	**959,924**

The notes on pages 62 to 99 form an integral part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2011 USD'000	2010 USD'000
Operating activities			
Cash (used in)/generated from operating activities	40	**(54,582)**	232,798
Tax paid		**(120)**	–
Net cash (used in)/generated from operating activities		**(54,702)**	232,798
Investing activities			
Additions to property, plant and equipment	17	**(55,483)**	(29,724)
Proceeds from sale of property, plant and equipment		**439**	89
Additions to intangible assets	18	**(1,800)**	(1,191)
Held-to-maturity investment	21	**(4)**	(6,875)
Finance income	12	**1,531**	2,193
Dividend received from joint ventures	20	**760**	–
Acquisition of subsidiary – net of cash acquired	35	**(322,217)**	–
Movement in deposit with original maturity of more than three months	26	**(19,907)**	(63,599)
Movement in margin deposits	26	**(12,154)**	(300)
Net cash used in investing activities		**(408,835)**	(99,407)
Financing activities			
Net proceeds from issue of share capital	27	**216,646**	–
Proceeds from sale of financial asset at fair value through profit and loss	24	**2,590**	–
Treasury shares purchased		**(455)**	(3,475)
Proceeds from options exercised		**187**	–
Dividends paid	37	**(29,316)**	(15,162)
Proceeds from borrowings		**245,216**	–
Repayments of borrowings		**(45,811)**	(22,547)
Finance costs	12	**(17,965)**	(5,088)
Net cash generated from/(used in) financing activities		**371,092**	(46,272)
Net (decrease)/increase in cash and cash equivalents		**(92,445)**	87,119
Cash and cash equivalents, beginning of the year		**136,804**	49,241
Exchange rate translation		**(854)**	444
Cash and cash equivalents, end of the year	26	**43,505**	136,804

The notes on pages 62 to 99 form an integral part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2011 USD'000	2010 USD'000
Operating activities			
Profit for the year	36	**2,993**	19,048
Adjustments for:			
Share-based payments – value of services provided	9	**543**	443
Provision for employees' end of service benefits	31	**259**	216
Dividends received from LEL		**(29,277)**	(15,169)
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**(25,482)**	4,538
Payment of employees' end of service benefits	31	**(246)**	–
Changes in working capital:			
Other receivables		**(95)**	(12)
Other payables and accruals		**(930)**	889
Due from related parties	25	**(187,320)**	(3,426)
Net cash (used in)/generated from operating activities		**(214,073)**	1,989
Investing activities			
Dividends received from LEL		**29,277**	15,169
Net cash generated from investing activities		**29,277**	15,169
Financing activities			
Net proceeds from issue of share capital	27	**216,646**	–
Treasury shares issued	27	**(2,464)**	(1,897)
Dividends paid	37	**(29,277)**	(15,179)
Net cash generated from/(used in) financing activities		**184,905**	(17,076)
Net increase in cash and cash equivalents		**109**	82
Cash and cash equivalents, beginning of the year		**189**	107
Cash and cash equivalents, end of the year	26	**298**	189

The notes on pages 62 to 99 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2011

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 Investments Holdings Limited ("LHL"), under a share for share exchange agreement dated 25 September 2006 and this transaction was accounted for in the consolidated financial statements using the uniting of interests method (Note 30). The Company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange with effect from 16 October 2006. From 6 November 2008, the Company moved from AIM and was admitted to trading on the London Stock Exchange ("LSE") plc's main market for listed securities. The address of the registered office of the Company is Fort Anne, Douglas, Isle of Man and the Company is managed from the United Arab Emirates ("UAE"). The address of the principal place of the business is PO Box 33455, Dubai, UAE.

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

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

The Company has either directly or indirectly the following subsidiaries:

Name of the subsidiary	Percentage of legal ownership %	Percentage of beneficial ownership %	Place of incorporation
Lamprell Energy Limited	100	100	Isle of Man
Lamprell Investments Holding Limited ("LIH")	100	100	British Virgin Islands
Lamprell Dubai LLC ("LD")	49*	100	UAE
Lamprell Sharjah WLL ("LS")	49*	100	UAE
Maritime Offshore Limited ("MOL")	100	100	Isle of Man
Maritime Offshore Construction Limited ("MOCL")	100	100	Isle of Man
International Inspection Services Limited ("Inspec")	100	100	Isle of Man
Cleopatra Barges Limited ("CBL")	100	100	British Virgin Islands
Lamprell plc employee benefit trust ("EBT")	100	†	Unincorporated
Jebel Ali Investments Limited ("JIL")	100	100	British Virgin Islands
Lamprell Energy FZCO ("LE FZCO")	90+	100	UAE
Lamprell Asia Limited ("LAL")	100++	100	Thailand
Maritime Industrial Services Co Ltd Inc ("MIS")	100	100	Republic of Panama
Maurlis International Ltd Inc ("MIL")	100	100	Republic of Panama
Global Management and Acquisition Co Ltd Inc ("GMAC")	100	100	Republic of Panama
Rig Metals LLC	49*	100	UAE
Litwin PEL Co. LLC	49*	100	UAE
Maritime Industrial Services Co Ltd & Partners ("MISCLP")	49*	100	Sultanate of Oman
Global Investment Co Ltd Inc ("GIC")	100	100	Republic of Panama
Maritime International Agency Services Ltd ("MIAS")	100	100	Republic of Panama
MIS International Ltd Inc	100	100	UAE
Marine Investment Holdings Co Ltd Inc	100	100	Republic of Panama
MIS Trading Company Inc	100	100	Republic of Panama
MIS Qatar WLL ("MISQWLL")	49*	100	Qatar
MIS Control Industrial Company Inc	100	100	Republic of Panama

* The remaining balance of 51% in each case is registered in the name of a Gulf Cooperation Council ("GCC") National/entity owned by a GCC National that has assigned all the economic benefits attached to their shareholdings to the Group entity. The Group has the power to exercise control over the financial and operating policies of the entities incorporated in the UAE through management agreements and accordingly, these entities are consolidated as wholly owned subsidiaries in these consolidated financial statements. These shareholders receive sponsorship fees/commission from the Group (Note 25).

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

\+ A UAE free zone company ("FZCO") is required to have a minimum of two shareholders and consequently, the balance of 10% is held by an employee of LEL in trust for the beneficial interest of the Group.

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and parent company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the Isle of Man Companies Acts 1931-2004. In accordance with the provisions of the Isle of Man Companies Act 1982, the Company has not presented its own statement of comprehensive income. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting polices below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated and parent company financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

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

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

IFRS 10, "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012.

Notes to the financial statements
for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.2 Revenue recognition

(a) Contract revenue

Contract revenue is recognised under the percentage-of-completion method. When the outcome of the contract can be reliably estimated, revenue is recognised by reference to the proportion that accumulated costs up to the year end bear to the estimated total costs of the contract. When the contract is at an early stage and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year end which are considered recoverable.

Revenue related to variation orders is recognised when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

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

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

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

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

(b) Inspection services

Revenue from inspection services is recognised when the services have been rendered, the customer has accepted the service and the collectability of the related receivable are reasonably assured.

(c) Product and services

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

(d) Interest income

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

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of defacto control. Defacto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

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

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

2 Summary of significant accounting policies (continued)

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

Business combinations involving entities under common control do not fall within the scope of IFRS 3. Consequently, the Directors have a responsibility to determine a suitable accounting policy. The Directors have decided to follow the uniting of interests method for accounting for business combinations involving entities under common control.

Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill is recorded as balances remain at book value. Consolidated financial statements include the profit or loss and cash flows for the entire year (pre- and post-merger) as if the subsidiary had always been part of the Group. The aim is to show the combination as if it had always been combined.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed or adjustments have been made to the financial statements of subsidiaries, where necessary, to ensure consistency with the policies adopted by the Group.

(b) Joint ventures

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

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

(c) Associates

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

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

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

2.4 Investment in subsidiaries

In the Company's separate financial statements, the investment in subsidiaries is stated at cost less provision for impairment. Cost is the amount of cash paid or the fair value of the consideration given to acquire the investment. Income from such investments is recognised only to the extent that the Company receives distributions from accumulated profits of the investee company arising after the date of acquisition. Distributions received in excess of such profit i.e. from pre-acquisition reserves are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Notes to the financial statements
for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

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 US Dollar and is the functional currency of all the entities in the Group (except LAL whose functional currency is the Thailand Baht, MISCLP whose functional currency is the Omani Riyal, MISQWLL whose functional currency is the Qatari Riyal, MIS Kazakh Branch whose functional currency is the Kazakh Tenge and EBT whose functional currency is the British Pound). The consolidated and parent company financial statements are presented in US Dollars.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred into other comprehensive income as qualifying cash flow hedges.

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates for the year; and
- all resulting exchange differences are recognised as a separate component of equity.

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

2.6 Property, plant and equipment

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

	Years
Buildings and infrastructure	3 – 25
Operating equipment	3 – 10
Fixtures and office equipment	3 – 5
Motor vehicles	4 – 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 (losses)/gains – net" in the income statement.

2 Summary of significant accounting policies (continued)

2.7 Intangible assets

(a) Goodwill

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

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

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

(b) Trade name

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

(c) Customer relationships

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

(d) Operating lease rights

Intangible assets representing operating leasehold rights are carried at cost (being the fair value on the date of acquisition where intangibles are acquired in a business combination) less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight line method to allocate the cost of the leasehold right over its estimated useful life (17 years).

(e) Computer software

Work-in-progress is stated at cost. When commissioned, work-in-progress is transferred to software and amortised in accordance with Group policies.

2.8 Inventories

Inventories comprise raw materials and consumables which are stated at the lower of cost and estimated net realisable value. Cost is determined on the weighted average basis and comprises direct purchase and other costs incurred in bringing the inventories to their present location and condition.

2.9 Trade receivables

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

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "general and administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "general and administrative expenses" in the consolidated income statement.

Notes to the financial statements
for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

2.12 Employee benefits
(a) Provision for staff benefits
A provision is made for the estimated liability for employees' entitlements to annual leave and related benefits as a result of services rendered by the employees up to the balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the labour laws applicable in the countries in which the Group operates, for their periods of service up to the balance sheet date. The provision relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while that relating to end of service benefits is disclosed as a non-current liability.

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

(b) Share-based payments
The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares/options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of shares/options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of shares/options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to retained earnings.

The Company has granted rights to its equity instruments to the employees of subsidiary companies conditional upon the completion of continuing service with the Group for a specified period. The total amount of the grant over the vesting period is determined by reference to the fair value of the equity instruments granted and is recognised in each period as an increase in the investment in the subsidiary with a corresponding credit to retained earnings. In the separate financial statements of the subsidiary, the fair value of the employee services received in exchange for the grant of the equity instruments of the Company (i.e. parent) is recognised as an expense with a corresponding credit to equity.

2.13 Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

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

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

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

2 Summary of significant accounting policies (continued)

2.16 Dividend distribution

Dividend distributions are recognised as a liability in the Group's consolidated and parent company financial statements in the period in which the dividends are approved by the shareholders.

2.17 Segment reporting

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

2.18 Current and deferred income tax

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

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

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

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

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

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

2.19 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and held-to-maturity. Currently, the Group does not have any available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

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

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.

Notes to the financial statements
for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 2.9), other receivables (excluding prepayments), receivables from related parties and cash and cash equivalents (Note 2.14) in the Group balance sheet and amounts due from receivables from related parties (Note 25) and cash at bank (Note 26) in the Company balance sheet.

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

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

(c) Held-to-maturity

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

(d) Impairment of financial assets

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

2.20 Derivative financial instruments and hedging activities

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 32. 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)

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

2.21 Impairment of non-financial assets

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

2.22 Share capital

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

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

2.23 Exceptional items

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange and cash flow interest rate risk), credit risk and liquidity risk. These risks are evaluated by management on an ongoing basis to assess and manage critical exposures. The Group's liquidity and market risks are managed as part of the Group's treasury activities. Treasury operations are conducted within a framework of established policies and procedures.

(a) Market risk – foreign exchange risk

The Group has foreign exchange risk primarily with respect to commitments in Euro with certain suppliers. To manage the foreign exchange risk exposure arising from future commercial transactions and recognised liabilities, the Group uses forward exchange contracts (Note 32).

(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 2011, if interest rates on deposits had been 0.5% higher/lower, the interest income would have been higher/lower by USD 483,000 (2010: USD 527,000).

The Group's interest rate risk arises from long term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During the year ended 31 December 2011, if interest rates on borrowings had been 0.5% higher/lower, the interest expense would have been higher/lower by USD 668,000 (2010: USD Nil).

(c) Credit risk

The Group's exposure to credit risk is detailed in Notes 16, 21, 23, 24, 26 and 32. The Group has a policy for dealing with customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

Notes to the financial statements
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3 Financial risk management (continued)
Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks, held-to-maturity investment, financial asset carried at fair value through profit or loss, trade and other receivables and derivative financial instruments. The Group has a formal procedure of monitoring and follow up of customers for outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'B' are accepted. The Group assesses internally the credit quality of each customer, taking into account its financial position, past experience and other factors.

At 31 December 2011, the Group had a significant concentration of credit risk with nine of its largest customer balances accounting for 58% (2010: 72%) of trade receivables outstanding at that date. Management believes that this concentration of credit risk is mitigated as the Group has long-standing relationships with these customers.

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

Counterparty	2011 External rating+	2011 USD'000	2010 External rating+	2010 USD'000
Bank A*	AA-	76,060	AA	71,848
Bank B	AA-	7,839	A+	65,813
Bank C	AA-	1,065	A+	43,213
Bank D	AA-	34	A+	34,847
		84,998		215,721

* Includes USD 6.9m (2010: USD 6.9m) with respect to held-to-maturity investment (Note 21).
\+ Based on Standard & Poor's/Fitch long term ratings.

	2011 Internal rating++	2011 USD'000	2010 Internal rating++	2010 USD'000
Customer 1	Group C	26,909	Group B	11,455
Customer 2	Group C	12,381	Group A	6,669
Customer 3	Group A	9,772	Group B	5,803
Customer 4	Group C	5,665	Group B	3,354
Customer 5	Group C	3,462	Group C	4,340
Customer 6	Group C	3,271	Group A	2,376
Customer 7	Group A	3,244	Group C	1,973
Customer 8	Group C	3,203	Group B	1,755
Customer 9	Group B	3,137	Group C	1,713
		71,044		39,438

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

The counterparties in 2011 are not necessarily the same counterparties in 2010.

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

(d) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business and through progress billings, the Group maintains adequate bank balances to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flow.

The Group's liquidity risk on derivative financial instruments is disclosed in Note 32.

3 Financial risk management (continued)

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

	Carrying amount USD'000	Contractual cash flows USD'000	Less than 1 year USD'000	1 to 2 years USD'000
31 December 2011				
Trade and other payables (excluding due to customers on contracts, advances received for contract work and dividend payable) (Note 33)	318,198	318,198	318,198	–
Borrowings (Note 34)	251,125	254,635	254,599	36
	569,323	572,833	572,797	36
31 December 2010				
Trade and other payables (excluding due to customers on contracts, advances received for contract work and dividend payable) (Note 33)	149,677	149,677	149,677	–

3.2 Capital risk management

As a result of the borrowings during the year, the Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

	2011 USD'000	2010 USD'000
Total borrowings	**251,125**	–
Less: cash and bank balances (Note 26)	**(149,377)**	(210,223)
Net debt	**101,748**	n/a
Total equity	**534,213**	283,968
Total capital	**635,961**	n/a
Gearing ratio	**16%**	n/a

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).

Notes to the financial statements
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3 Financial risk management (continued)

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

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Assets				
Financial assets at fair value through profit or loss (Note 24)	–	–	8,172	8,172
Derivative financial instruments (Note 32)	–	699	–	699
Total assets	–	699	8,172	8,871
Liabilities				
Derivative financial instruments (Note 32)	–	1,449	–	1,449
Total liabilities	–	1,449	–	1,449

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Assets				
Financial assets at fair value through profit or loss (Note 24)	–	–	2,500	2,500
Derivative financial instruments (Note 32)	–	2,517	–	2,517
	–	2,517	2,500	5,017
Liability				
Derivative financial instruments (Note 32)	–	2,651	–	2,651

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

Specific valuation techniques used to value financial instruments include:

a. Quoted market prices or dealer quotes for similar instruments; and
b. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its contract revenue. Use of the percentage-of-completion method requires the Group to estimate the stage of completion of the contract to date as a proportion of the total contract work to be performed in accordance with the accounting policy set out in Note 2.2. As a result, the Group is required to estimate the total cost to completion of all outstanding projects at each period end. The application of a 10% sensitivity to management estimates of the total costs to completion of all outstanding projects at the year end would result in the revenue and profit increasing by USD 32.9m (2010: USD 12.1m) if the total costs to complete are decreased by 10% and the revenue and profit decreasing by USD 24.3m (2010: USD 10.7m) if the total costs to complete are increased by 10%.

4 Critical accounting estimates and judgements (continued)

Employees' end of service benefits

The rate used for discounting the employees' post-employment defined benefit obligation should be based on market yields on high quality corporate bonds. In countries where there is no deep market for such bonds, the market yields on government bonds should be used. In the UAE, there is no deep market either for corporate or government bonds and therefore, the discount rate has been estimated using the US AA-rated corporate bond market as a proxy. On this basis, the discount rate applied was 4.25% (2010: 5.25%). If the discount rate used was to differ by 0.5 points from management's estimates, the carrying amount of the employee's end of the service benefits provision at the balance sheet date would be an estimated USD 1.4m (2010: USD 0.6m) lower or USD 1.5m (2010: USD 0.7m) higher.

5 Segment information

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

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

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

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

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

During the year, the Company through its wholly-owned subsidiary, LIH, acquired MIS (Note 35). The revenue of MIS is mainly derived from the upgrade and refurbishment of offshore jackup rigs; fabrication, assembly and new build construction for the offshore oil and gas sector, engineering and construction. The Executive Directors consider these services to be similar to the services provided by Lamprell from SHJ, HAM, JBA and LRS and hence been considered under the reporting segment (Segment A). Additionally, MIS also provides safety and training services and other Operating and Maintenance services ("O&M"). As services provided by Sunbelt and O&M do not meet the quantitative thresholds required by IFRS 8, the results of these operations are included in the "all other segments" column.

	Segment A USD'000	All other segments USD'000	Total USD'000
Year ended 31 December 2011			
Total segment revenue	1,101,741	53,357	1,155,098
Inter-segment revenue	–	(7,245)	(7,245)
Revenue from external customers	1,101,741	46,112	1,147,853
Gross operating profit	138,113	13,959	152,072
Year ended 31 December 2010			
Total segment revenue	490,349	15,947	506,296
Inter-segment revenue	–	(2,476)	(2,476)
Revenue from external customers	490,349	13,471	503,820
Gross operating profit	93,643	2,176	95,819

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.

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for the year ended 31 December 2011

5 Segment information (continued)

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

	2011 USD'000	2010 USD'000
Gross operating profit for the reportable segment as reported to the Executive Directors	138,113	93,643
Gross operating profit for all other segments as reported to the Executive Directors	13,959	2,176
Unallocated:		
Finance costs absorbed in reportable segments	5,968	3,850
Under-absorbed employee and equipment costs	(9,157)	(5,768)
Repairs and maintenance	(12,524)	(7,844)
Yard rent	(3,357)	(3,129)
Others	(62)	(3,220)
Gross profit	132,940	79,708

	2011 USD'000	2010 USD'000
Gross profit	132,940	79,708
Other operating income (Note 7)	–	23,925
Selling and distribution expenses (Note 8)	(2,358)	(1,183)
General and administrative expenses (Note 10)	(62,863)	(32,527)
Other gains/(losses) – net (Note 13)	11,928	(1,801)
Finance costs (Note 12)	(17,965)	(5,088)
Finance income (Note 12)	1,804	2,193
Others	(196)	–
Profit for the year	63,290	65,227

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

The breakdown of revenue from all services is as follows:

	2011 USD'000	2010 USD'000
New build activities – oil and gas	500,618	137,436
New build activities – renewables	289,105	69,153
Upgrade and refurbishment activities	191,009	163,598
Offshore construction	52,507	117,120
Others	114,614	16,513
	1,147,853	503,820

The entity is domiciled in the UAE. The total revenue from external customers in respect of services performed in the UAE is USD 1,139.3m (2010: USD 495m), and the total revenue from external customers for work performed in other countries is USD 8.6m (2010: USD 9m).

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

	2011 USD'000	2010 USD'000
External customer A	193,972	110,316
External customer B	158,576	76,627
External customer C	137,374	50,493
External customer D	119,284	–
	609,206	237,436

The revenue from these customers is attributable to Segment A. The above customers in 2011 are not necessarily the same customers in 2010.

6 Cost of sales

	2011 USD'000	2010 USD'000
Materials and related costs	**482,726**	152,652
Sub-contract costs	**257,563**	129,296
Staff costs (Note 11)	**136,221**	86,950
Sub-contract labour	**63,509**	10,666
Repairs and maintenance	**17,566**	8,323
Equipment hire	**16,356**	6,361
Depreciation (Note 17)	**14,982**	10,160
Yard rent	**4,248**	3,204
Others	**21,742**	16,500
	1,014,913	424,112

7 Other operating income

Other operating income in 2010 of USD 23.9m represents a gain on the cancellation of a contract with a customer during the prior year.

8 Selling and distribution expenses

	2011 USD'000	2010 USD'000
Advertising and marketing	**1,965**	524
Entertainment	**114**	112
Travel	**173**	376
Others	**106**	171
	2,358	1,183

9 Share-based payments

Group

	2011 USD'000	2010 USD'000
Proportionate amount of share-based charge:		
– relating to free share plan	**626**	1,592
– relating to executive share option plan	**62**	92
– relating to performance share plan	**751**	376
	1,439	2,060

Company

	2011 USD'000	2010 USD'000
Proportionate amount of share-based charge:		
– relating to free share plan	**83**	155
– relating to executive share option plan	**62**	73
– relating to performance share plan	**398**	215
	543	443

Notes to the financial statements
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9 Share-based payments (continued)

Free share plan

The Company awarded shares to selected Directors, key management personnel and employees under the free share plan that provides an entitlement to receive these shares at no cost. These free shares are conditional on the Directors/key management personnel/employee completing a specified period of service (the "vesting period"). The award does not have any performance conditions and does not entitle participants to dividend equivalents during the vesting period. The fair value of the share awards made under this plan is based on the share price at the date of the grant less the value of the dividends foregone during the vesting period. The details of the shares granted under this scheme are as follows:

Grant date	Number of shares	Vesting period	Fair value per share	Expected withdrawal rate
2008				
10 January 2008	99,337	24 months	£ 4.00	5%
7 April 2008	25,301	24 months	£ 3.96	5%
27 April 2008	123,620	18 months	£ 4.28	5%
20 May 2008	70,000	36 months	£ 5.08	5%
	318,258			
2009				
22 January 2009	600,000	24 months	£ 0.89	5%
15 April 2009	763,052	18 months	£ 0.94	5%
	1,363,052			
2010				
21 March 2010	299,000	18 months	£ 2.49	5%

A charge of USD 626,000 (2010: USD 1,592,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 83,000 (2010: USD 155,000).

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

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

	Number of shares
Shares expected to vest in future periods at 1 January 2010	1,517,148
Shares gifted under free share plan	299,000
Shares vested and issued out of treasury shares (Note 27)	(781,574)
Shares lapsed during the year due to non-satisfaction of vesting conditions	(92,574)
Shares expected to vest in future periods at 31 December 2010	942,000
Shares adjustment for rights issue	26,716
Shares vested and issued out of treasury shares	(963,716)
Shares lapsed during the year due to non-satisfaction of vesting conditions	(5,000)
Shares expected to vest in future periods at 31 December 2011	–

Executive share option plan

Share options are granted by the Company to certain employees under the executive share option plan. This option plan does not entitle the employees to dividends. These options are conditional on the employee completing three years of service (the vesting period) and hence the options are exercisable starting three years from the grant date and have a contracted option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

9 Share-based payments (continued)

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

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

The weighted average fair value of options granted during 2009 determined using a binomial valuation model was £0.28 per option. The significant inputs into the model were an average share price for a period of one year immediately preceding the grant date of £2.91, an exercise price of £0.57, volatility of 50%, dividend yield of 3.31%, an expected option term of 10 years, an annual risk-free interest rate of 3.28% and a withdrawal rate of 5% per annum. The risk-free rate is derived from the yield on United Kingdom (UK) Government Bonds as detailed by the Bank of England, using a 10 year maturity in line with the life of the option. The volatility assumption is based on an analysis of the historic daily share price volatility of the Company since its listing date, capped at 50%. A charge of USD 62,000 (2010: USD 92,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 62,000 (2010: USD 73,000).

Performance share plan

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

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

Accordingly, a charge of USD 751,000 (2010: USD 376,000) is recognised in the consolidated income statement for the year with a corresponding credit to the consolidated retained earnings. This includes a charge recognised in the income statement of the Company with a corresponding credit to retained earnings of USD 398,000 (2010: USD 215,000).

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

As part of the acquisition of MIS (Note 35), the Company extended a cash cancellation offer of NOK 38 per share to the option holders of MIS. The offer was accepted by all the option holders and was settled by the Company for a total value of USD 5.4m. The fair value of the vested options as at the acquisition date amounting to USD 3.5m was considered as part of the purchase consideration (Note 35) and the fair value of the unvested options as at the acquisition date amounting to USD 1.9m was considered as an expense in the post-combination financial statements.

Notes to the financial statements
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10 General and administrative expenses

	2011 USD'000	2010 USD'000
Staff costs (Note 11)	**34,200**	20,224
Legal, professional and consultancy fees	**10,516**	1,457
Depreciation (Note 17)	**4,301**	3,534
Amortisation of intangible assets (Note 18)	**3,887**	88
Utilities and communication	**3,706**	2,356
Others	**6,253**	4,868
	62,863	32,527

During 2010, the Group incurred total expenditure of USD 1.4m for the closure of the LAL operations in Thailand, of which USD 0.8m is included in "General and administrative expenses" and USD 0.6m in "Other gains/(losses)" (Note 13).

Exceptional items

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

An analysis of the amounts presented as exceptional items in these financial statements which relates to costs incurred in relation to the acquisition of MIS (Note 35) is given below:

	2011 USD'000	2010 USD'000
Financial advisory fees	**5,024**	–
Legal fees	**1,781**	–
Professional fees	**1,220**	–
Post-acquisition charge of cash cancellation of MIS share options (Note 9)	**1,919**	–
Other expenses	**600**	–
	10,544	–

11 Staff costs

	2011 USD'000	2010 USD'000
Wages and salaries	**100,214**	61,077
Employees' end of service benefits (Note 31)	**8,508**	4,446
Share-based payments – value of services provided (Note 9)	**1,439**	2,060
Other benefits	**60,260**	39,591
	170,421	107,174
Staff costs are included in:		
Cost of sales (Note 6)	**136,221**	86,950
General and administrative expenses (Note 10)	**34,200**	20,224
	170,421	107,174
Number of employees at 31 December	**9,496**	4,476

11 Staff costs (continued)

Directors' remuneration comprises:

	Salary 2011 USD'000	Fees 2011 USD'000	Allowances & benefits 2011 USD'000	Bonus 2011 USD'000	Share-based payments value of services provided 2011 USD'000	Post employ-ment benefits 2011 USD'000	Total 2011 USD'000	Total 2010 USD'000
Executive Directors								
Nigel McCue	801	–	195	580	414	65	2,055	2,199
Christopher Hand*	369	–	259	247	90	142	1,107	–
Scott Doak^	394	–	180	255	118	43	990	1,295
Jonathan Cooper^^	68	–	24	45	4	4	145	–
Non-Executive Directors								
Jonathan Silver	–	215	–	–	–	–	215	156
Colin Goodall	–	128	–	–	–	–	128	119
Richard Raynaut	–	76	–	–	–	–	76	71
Brian Fredrick	–	76	–	–	–	–	76	70
	1,632	495	658	1,127	626	254	4,792	3,910

The emoluments of the highest paid Director were USD 2.1m (2010: USD 2.2m) and these principally comprised salary, benefits, bonus and share-based payments.

* Appointed as a Director on 26 January 2011.
^ Resigned as Chief Financial Officer and Director with effect from 30 October 2011.
^^ Appointed as Chief Financial Officer and Director on 30 October 2011.

12 Finance costs – net

Finance costs

	2011 USD'000	2010 USD'000
Bank guarantee charges	6,157	3,696
Interest on bank borrowings	5,392	204
Facility fees	4,441	893
Commitment fees	1,200	–
Others	775	295
	17,965	5,088

Finance income

Finance income mainly comprises interest income on bank deposits (USD 1.5m) and interest accretion on loan to KSAM 2 (USD 0.3m).

13 Other gains/(losses) – net

	2011 USD'000	2010 USD'000
Fair value gain on financial asset carried at fair value through profit or loss (Note 24)	8,262	–
Profit/(loss) on disposal of property, plant and equipment	281	(562)
Exchange gain/(loss) – net	3,102	(1,359)
Others	283	120
	11,928	(1,801)

Notes to the financial statements
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14 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares (Note 27).

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the free share awards, options under executive share option plan and performance share plan, a calculation is done 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.

	2011 USD'000	2010 USD'000
The calculations of earnings per share are based on the following profit and numbers of shares:		
Profit for the year	**63,290**	65,227
Weighted average number of shares for basic earnings per share	**238,329,508**	215,901,261
Adjustments for:		
Assumed exercise of free share awards	**–**	763,842
Assumed vesting of executive share options	**445,443**	411,526
Assumed vesting of performance share plan	**361,723**	140,844
Weighted average number of shares for diluted earnings per share	**239,136,674**	217,217,473
Weighted average number of shares for basic earnings per share (previously reported)	**–**	198,987,337
Impact of bonus element of the rights issue	**–**	16,913,924
Weighted average number of shares for basic earnings per share (revised)	**–**	215,901,261
Earnings per share:		
Basic	**26.56c**	30.21c
Diluted	**26.47c**	30.03c

On 19 May 2011, the Company announced a rights issue of three shares for every 10 shares held at a discounted price of 232 pence per share resulting in the issue of 60,083,792 new ordinary shares. The calculation of the weighted average number of ordinary shares for the current year was affected by the issue of the new ordinary shares. The Group has treated the discount element of the rights issue as if it was a bonus issue, using the theoretical ex-rights price of 324 pence per share. The effect of this is to increase the weighted average number of shares reported in the prior year, with a resulting reduction in the reported basic and diluted earnings per share for the previous year. The adjustment factor, to effect the increase in the weighted average number of shares, has been calculated by dividing the share price immediately before the shares were quoted ex-rights (351.3 pence) with the theoretical ex-rights price (323.77 pence), giving an adjustment factor of 1.085. These adjustments to the comparative earnings per share calculations do not impact the previously reported consolidated income statement or consolidated balance sheet.

15 Operating profit

Operating profit is stated after charging/recognising:

	2011 USD'000	2010 USD'000
Depreciation (Note 17)	**19,283**	13,694
Auditor's remuneration – audit services	**620**	345
Auditor's remuneration – taxation services	**22**	3
Auditor's remuneration – other services re rights issue and MIS acquisition	**1,004**	–
Operating lease rentals – land and buildings	**15,197**	15,482
Gain on cancellation of a contract (Note 7)	**–**	23,925
Provision for impairment of trade receivables (Note 23)	**484**	202

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

	Loans and receivables USD'000	Assets at fair value through profit or loss USD'000	Held-to-maturity investment USD'000	Derivatives used for hedging USD'000	Total USD'000
31 December 2011					
Derivative financial instruments (Note 32)	**–**	**272**	**–**	**427**	**699**
Held-to-maturity investment (Note 21)	**–**	**–**	**6,879**	**–**	**6,879**
Financial asset at fair value through profit or loss (Note 24)	**–**	**8,172**	**–**	**–**	**8,172**
Trade receivables – net of provision (Note 23)	**118,613**	**–**	**–**	**–**	**118,613**
Other receivables excluding prepayments	**9,915**	**–**	**–**	**–**	**9,915**
Due from related parties (Note 25)	**7,509**	**–**	**–**	**–**	**7,509**
Cash and bank balances (Note 26)	**149,377**	**–**	**–**	**–**	**149,377**
Total	**285,414**	**8,444**	**6,879**	**427**	**301,164**
31 December 2010					
Derivative financial instruments (Note 32)	–	–	–	2,517	2,517
Held-to-maturity investment (Note 21)	–	–	6,875	–	6,875
Financial asset at fair value through profit or loss (Note 24)	–	2,500	–	–	2,500
Trade receivables – net of provision (Note 23)	51,669	–	–	–	51,669
Other receivables excluding prepayments	5,660	–	–	–	5,660
Cash and bank balances (Note 26)	210,223	–	–	–	210,223
Total	267,552	2,500	6,875	2,517	279,444

Liabilities as per balance sheet

	Derivatives used for hedging USD'000	Liabilities at amortised cost USD'000	Total USD'000
31 December 2011			
Derivative financial instruments (Note 32)	**1,449**	**–**	**1,449**
Trade payables (Note 33)	**–**	**79,974**	**79,974**
Other payables and accruals (Note 33)	**–**	**238,151**	**238,151**
Borrowings (Note 34)	**–**	**251,125**	**251,125**
Total	**1,449**	**569,250**	**570,699**
31 December 2010			
Derivative financial instruments (Note 32)	2,651	–	2,651
Trade payables (Note 33)	–	57,791	57,791
Other payables and accruals (Note 33)	–	91,886	91,886
Total	2,651	149,677	152,328

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for the year ended 31 December 2011

16 Financial instruments by category (continued)

Company

	Loans and receivables	
	2011 USD'000	2010 USD'000
Cash at bank	**298**	189
Due from related parties (Note 25)	**209,939**	22,619
Total	**210,237**	22,808

	Liabilities at amortised cost	
	2011 USD'000	2010 USD'000
Other payables and accruals	**521**	1,451

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:

	2011 USD'000	2010 USD'000
Trade receivables		
Group A	**11,173**	7,681
Group B	**10,755**	15,933
Group C	**23,056**	2,959
	44,984	26,573

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

Derivative financial instruments

The credit quality of derivative financial instruments in disclosed in Note 32.

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

	2011 USD'000	2010 USD'000
Cash at bank and short-term bank deposits		
Standard & Poor's/Fitch ratings		
AA	**–**	64,973
AA-	**78,122**	109
A+	**55,131**	144,854
A	**13,114**	–
A-	**441**	122
BBB+	**815**	15
BBB	**55**	–
BBB-	**2**	–
BB+	**467**	–
BB	**50**	–
B	**38**	–
Not rated	**629**	–
	148,864	210,073
Cash in hand	**513**	150
Cash at bank and in hand (Note 26)	**149,377**	210,223
Held-to-maturity investment		
AA	**–**	6,875
AA-	**6,879**	–

16 Financial instruments by category (continued)

Company

	2011 USD'000	2010 USD'000
Due from related parties	**209,939**	22,619

Due from related parties is neither past due nor impaired.

	2011 USD'000	2010 USD'000
Cash at bank		
Standard & Poor's ratings		
A+	**–**	189
A	**298**	–
	298	189

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 2010	21,179	71,729	9,720	3,928	38,534	145,090
Additions	6,348	8,598	486	406	13,886	29,724
Exchange differences	94	172	42	–	–	308
Transfers	22,383	–	130	1	(22,514)	–
Disposals	(750)	(276)	–	(136)	(11)	(1,173)
At 31 December 2010	49,254	80,223	10,378	4,199	29,895	173,949
Additions	11,893	9,887	2,584	859	30,260	55,483
Acquired through a business combination (Note 35)	9,585	14,332	978	517	598	26,010
Transfers	24,309	1,351	131	–	(25,791)	–
Disposals	(26)	(136)	(33)	(650)	–	(845)
At 31 December 2011	**95,015**	**105,657**	**14,038**	**4,925**	**34,962**	**254,597**
Depreciation						
At 1 January 2010	7,884	30,766	6,737	2,013	–	47,400
Charge for the year	2,404	9,264	1,287	739	–	13,694
Exchange differences	12	45	16	–	–	73
Disposals	(159)	(247)	–	(116)	–	(522)
At 31 December 2010	10,141	39,828	8,040	2,636	–	60,645
Charge for the year	5,297	11,329	1,846	811	–	19,283
Disposals	(26)	(136)	(33)	(492)	–	(687)
At 31 December 2011	**15,412**	**51,021**	**9,853**	**2,955**	**–**	**79,241**
Net book amount						
At 31 December 2011	**79,603**	**54,636**	**4,185**	**1,970**	**34,962**	**175,356**
At 31 December 2010	39,113	40,395	2,338	1,563	29,895	113,304

Buildings have been constructed on land, leased on a renewable basis, from various Government Authorities. The remaining lives of the leases range between three and 23 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.

A depreciation expense of USD 14,982,000 (2010: USD 10,160,000) has been charged to cost of sales and USD 4,301,000 (2010: USD 3,534,000) to general and administrative expenses (Notes 6 and 10).

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18 Intangible assets

	Goodwill USD'000	Trade name USD'000	Customer relationships USD'000	Leasehold rights USD'000	Work-in-progress USD'000	Total USD'000
Cost						
At 1 January 2010 and 31 December 2010	–	–	–	1,534	1,191	2,725
Acquired through a business combination (Note 35)	180,539	22,335	19,323	8,338	–	230,535
Additions	–	–	–	–	1,800	1,800
At 31 December 2011	**180,539**	**22,335**	**19,323**	**9,872**	**2,991**	**235,060**
Amortisation						
At 1 January 2010	–	–	–	224	–	224
Charge for the year	–	–	–	88	–	88
At 31 December 2010	–	–	–	312	–	312
Charge for the year (Note 10)	–	1,303	2,214	370	–	3,887
At 31 December 2011	**–**	**1,303**	**2,214**	**682**	**–**	**4,199**
Net book value						
At 31 December 2011	**180,539**	**21,032**	**17,109**	**9,190**	**2,991**	**230,861**
At 31 December 2010	–	–	–	1,222	1,191	2,413

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

Customer relationships represent the expected future economic benefits to be derived from the existing relationship with key customers resulting in recurring revenue from these customers in the future.

Leasehold right represents a favourable operating right acquired upon the acquisition of JIL and LE FZCO in 2008. This also includes the leasehold rights acquired on acquisition of MIS and existing lease hold rights in the books of MIS on acquisition of Rig Metals LLC in 2008. The value of the intangible assets have been determined by calculating the present value of the expected future economic benefits to arise from the favourable lease terms (five to 17 years).

Work-in-progress represents the cost incurred towards the implementation of an Enterprise Resource Planning software.

Management reviews the business performance based on the type of business (Note 5). Goodwill is monitored by the management at the operating segment level. Goodwill of USD 180.5m arising due to the acquisition of MIS (Note 35) has been allocated to the CGU within Segment A.

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

19 Investment in subsidiaries

	2011 USD'000	2010 USD'000
Balance at 1 January	**750,018**	748,401
Effect of share-based payments to employees of subsidiaries in accordance with IFRIC 11	**899**	1,617
	750,917	750,018

The Company granted free shares/share options to employees of its subsidiaries under various plans (Note 9). These shares and options have a vesting period of 18 to 36 months. Accordingly, the proportionate share-based charge for the year of USD 0.9m (2010: USD 1.6m) has been recorded as an increase in investment in subsidiaries with a corresponding credit to retained earnings.

20 Investment in joint ventures

	2011 USD'000	2010 USD'000
Acquired through a business combination (Note 35)	**4,638**	–
Dividend received during the period	**(760)**	–
Share of loss during the period from 14 July 2011 to 31 December 2011	**(8)**	–
	3,870	–

The Group through its acquisition of MIS has gained joint control over the existing joint ventures of MIS (Note 35). Details of the Group's joint ventures at the balance sheet date are as follows:

Name of the joint venture	Place of incorporation and operation	Proportion of ownership	Principal activities
MIS Arabia Co. Ltd.	Jubail, Kingdom of Saudi Arabia	30%	*
KSAM2 Petrodrill Offshore Islands Inc. ("KSAM2")	British Virgin Islands	10%	Building and operation of an oil rig.

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

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

MIS Arabia Co Ltd

	2011 USD'000	2010 USD'000
Total current assets	**19,298**	–
Total non-current assets	**9,764**	–
Total current liabilities	**(12,809)**	–
Total non-current liabilities	**(3,354)**	–
Net assets	**12,899**	–
Group's share of joint venture's net assets	**3,870**	–

	2011 USD'000	2010 USD'000
Revenue for the period from 14 July 2011 to 31 December 2011	**12,409**	–
Expenses for the period from 14 July 2011 to 31 December 2011	**(12,436)**	–
Loss for the period from 14 July 2011 to 31 December 2011	**(27)**	–
Group's share of joint venture's net loss	**(8)**	–

KSAM2

	2011 USD'000	2010 USD'000
Total current assets	**10,071**	–
Total non-current assets	**161,895**	–
Total current liabilities	**(14,575)**	–
Total non-current liabilities	**(174,326)**	–
Net liabilities	**(16,935)**	–
Group's share of joint venture's net liabilities*	**(1,694)**	–

Notes to the financial statements
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20 Investment in joint ventures (continued)

	2011 USD'000	2010 USD'000
Revenue for the period from 14 July 2011 to 31 December 2011	**8,562**	–
Expenses for the period from 14 July 2011 to 31 December 2011	**(8,330)**	–
Profit for the period from 14 July 2011 to 31 December 2011	**232**	–
Group's share of joint venture's net profit*	**23**	–

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

21 Held-to-maturity investment

	2011 USD'000	2010 USD'000
Deposit with a fixed interest rate of 1.75% and a maturity date of 3 October 2012	**6,879**	6,875

The held-to-maturity investment represents a structured deposit with 100% capital protection, a guaranteed return of 1.75% and a variable return, which is linked to the performance of an underlying equity basket, which consists of 10 equally weighted shares. The capital protected status of the investment is valid only if the investment is held to maturity. The variable component is considered as an embedded derivative, the fair value of which at the balance sheet date was Nil.

There is no provision for impairment against the held-to-maturity investment.

At 31 December 2011, the fair value of the held-to-maturity investment is USD 6.75m (2010: USD 6.75m).

The held-to-maturity investment is denominated in UAE Dirhams.

The maximum exposure to credit risk at the reporting date is the carrying amount of the held-to-maturity investment.

The held-to-maturity investment is held by the bank as a lien against a guarantee issued by the bank in the ordinary course of business.

22 Inventories

	2011 USD'000	2010 USD'000
Raw materials and consumables	**14,313**	10,889
Less: Provision for slow moving and obsolete inventories	**(2,257)**	(1,431)
	12,056	9,458

23 Trade and other receivables

	2011 USD'000	2010 USD'000
Trade receivables	**121,722**	54,666
Other receivables and prepayments	**18,577**	13,936
Advances to suppliers	**6,641**	1,563
Receivables from a related party (Note 25)	**484**	–
	147,424	70,165
Less: Provision for impairment of trade receivables	**(3,109)**	(2,997)
	144,315	67,168
Amounts due from customers on contracts	**386,171**	58,013
Contract work in progress (Note 2.2)	**138,267**	125,943
	668,753	251,124

Amounts due from customers on contracts comprise:

	2011 USD'000	2010 USD'000
Costs incurred to date	**1,088,265**	241,300
Attributable profits	**115,552**	47,640
	1,203,817	288,940
Less: Progress billings	**(817,646)**	(230,927)
	386,171	58,013

An analysis of trade receivables is as follows:

	2011 USD'000	2010 USD'000
Fully performing	**44,984**	26,573
Past due but not impaired	**73,629**	25,096
Impaired	**3,109**	2,997
	121,722	54,666

Trade receivables that are less than three months past due are generally not considered impaired. As of 31 December 2011, trade receivables of USD 73.6m (2010: USD 25.1m) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 USD'000	2010 USD'000
Up to 3 months	**52,319**	19,713
3 to 6 months	**9,154**	2,375
Over 6 months	**12,156**	3,008
	73,629	25,096

At 31 December 2011, trade receivables of USD 3.1m (2010: USD 3m) were impaired and provided for. The individually impaired receivables are over six months (2010: over six months) old and mainly relate to customers who are in a difficult economic situation.

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

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23 Trade and other receivables (continued)

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

	2011 USD'000	2010 USD'000
At 1 January	**2,997**	2,795
Provision for receivables impairment (Note 15)	**484**	202
Receivables written off during the year as uncollectible	**(56)**	–
Amounts recovered	**(316)**	–
At 31 December	**3,109**	2,997

The creation and release of the provision for impaired receivables 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.

24 Financial asset at fair value through profit or loss

	2011 USD'000	2010 USD'000
Unlisted equity security	**8,172**	2,500

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

During 2011, a fair value gain of USD 8.2m was recorded in "other gains/(losses) – net" (Note 13) in the consolidated income statement based on management's estimate of the carrying value which represents the amounts expected to be received from MEJU upon winding up its operations.

On 27 November 2009, LEL subscribed for 28,000,000 shares in BassDrill Alpha Limited ("BassDrill") amounting to USD 5m at the subscription price of USD 0.1786 per share. LEL entered into an option agreement with certain shareholders of BassDrill granting LEL the option to sell the BassDrill shares after 12 months at an option price of USD 0.0893 plus three month LIBOR + 3% per annum. Further, LEL also granted certain shareholders of BassDrill the option to purchase the BassDrill shares held by LEL in the period starting from the date of issuance and ending after 24 months at an option price of USD 0.1786 plus three month LIBOR + 3% per annum.

During 2009, a fair value loss of USD 2.5m was recorded in "other gains/(losses) – net" in the consolidated income statement based on management's estimate of the carrying value. In January 2011, LEL exercised the put option and realised USD 2.6m in respect of this investment.

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

25 Related party balances and transactions

Related parties comprise LHL (which owns 33% of the issued share capital of the Company), certain legal shareholders of the Group companies, Directors and key management personnel of the Group. Key Management includes Directors (Executive and Non-Executive) and members of the executive committee. Related parties for the purpose of the parent company financial statements also include subsidiaries owned directly or indirectly and joint ventures. Other than disclosed elsewhere in the financial statements, the Group entered into the following significant transactions during the year with related parties at prices and on terms agreed between the related parties:

	2011 USD'000	2010 USD'000
Key Management compensation	**7,465**	9,506
Legal and professional services	**804**	140
Sales to joint ventures	**224**	–
Purchases from joint ventures	**73**	–
Sponsorship fees and commissions paid to legal shareholders of subsidiaries (Note 1)	**205**	143

Key Management compensation comprises:

	2011 USD'000	2010 USD'000
Salaries and other short-term employee benefits	**6,246**	7,988
Share-based payments – value of services provided	**829**	965
Post-employment benefits	**390**	553
	7,465	9,506

The terms of the employment contracts of Key Management include reciprocal notice period of between six to 12 months.

Due from related parties

	2011 USD'000	2010 USD'000
Group		
MIS Arabia Co Ltd (current) (Note 23)	**484**	–
KSAM2 (non-current)	**7,025**	–

The balance receivable from KSAM2 represents an interest-free loan amounting to USD 13.2m with no fixed repayment terms. The amortised cost of this loan using an effective interest rate of 9% per annum on the date of business combination amounted to USD 6.6m. During the post-combination period, the Group recognised an interest accretion on this loan amounting to USD 0.3m which is included as part of finance income (Note 12).

Company

	2011 USD'000	2010 USD'000
LIH^	**201,865**	–
LEL*	**6,442**	19,144
EBT**	**1,388**	3,475
Inspec*	**244**	–
	209,939	22,619

^ Represents funds provided in relation with the acquisition of MIS. This amount is repayable on demand and carries an interest at 6% per annum.
* Primarily comprises a receivable in respect of management fees charged by the Company.
** Includes USD 1,193,319 (2010: USD 3,388,744) due in respect of payments made for treasury shares acquired by EBT on behalf of the Group.

Further, the Company has provided performance guarantees on behalf of its subsidiary. These guarantees, issued in the normal course of business, are outstanding at the year end and no outflow of resources embodying economic benefits in relation to these guarantees is expected by the Company.

Dividends paid by the Company include an amount of USD 10m (2010: USD 5.2m) in respect of shares held by Key Management personnel (including those held by the EBT in respect of shares gifted) of which USD 9.7m (2010: USD 5m) was paid to LHL, a company controlled by Steven Lamprell who is a member of Key Management.

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26 Cash and bank balances
Group

	2011 USD'000	2010 USD'000
Cash at bank and on hand	**43,897**	36,916
Short-term and margin deposits	**105,480**	173,307
Cash and bank balances	**149,377**	210,223
Less: Margin deposits	**(18,127)**	(5,973)
Less: Deposits with an original maturity of more than three months	**(87,353)**	(67,446)
Less: Bank overdraft	**(392)**	–
Cash and cash equivalents (for purpose of cash flow statement)	**43,505**	136,804

At 31 December 2011, the cash at bank and short-term deposits were held with 12 (2010: eight) banks. The effective interest rate on short-term deposits was 1.04% (2010: 2.08%) per annum. Margin deposits of USD 18.1m (2010: USD 6m) and deposits with an original maturity of more than three months amounting to USD 76.8m (2010: USD 42m) are held under lien against guarantees issued by the banks (Note 39).

Company
Cash at bank comprises cash held with one bank.

27 Share capital
Issued and fully paid ordinary shares
Company

	Equity share capital	
	Number	USD'000
At 1 January 2010, 31 December 2010	200,279,309	18,682
Rights issue 29 June 2011	60,083,792	4,870
	260,363,101	23,552

The total authorised number of ordinary shares is 400m shares (2010: 400m shares) with a par value of 5 pence per share (2010: 5 pence per share).

During 2011, EBT acquired 171,565 shares (2010: 722,453 shares) of the Company. The total amount paid to acquire the shares was USD 0.46m (2010: USD 3.5m) and has been deducted from the consolidated retained earnings. During the year, 998,969 shares (2010: 781,574 shares) amounting to USD 2.5m (2010: USD 1.9m) were issued to employees on vesting of the free shares and 449,734 shares (2010: 1,277,138 shares) are held as treasury shares at 31 December 2011. The Company has the right to reissue these shares at a later date. These shares will be issued on the vesting of the awards granted under free shares/share options/performance share plan to certain employees of the Group (Note 9).

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

28 Legal reserve
The Legal reserve relates to subsidiaries (other than the subsidiaries incorporated in free zones) in the UAE and Sultanate of Oman. 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% (Sultanate of Oman) of the issued share capital of such companies. The legal reserve is not available for distribution.

	2011 USD'000	2010 USD'000
At 1 January	**33**	31
Transfers during the year	**2**	2
At 31 December	**35**	33

29 Other reserve

The amount of USD 708,852,000 represents the difference between the cost of the investment in LEL (USD 727,506,000) and the nominal value of share capital issued by the Company to acquire LEL (USD 18,654,000). The Other reserve is not available for distribution.

30 Merger reserve

	2011 USD'000	2010 USD'000
Nominal value of shares of the Company	**18,654**	18,654
Share capital of LEL	**(82)**	(82)
Merger reserve on acquisition of LEL	**18,572**	18,572
Purchase consideration relating to acquisition of Inspec	**4,000**	4,000
Share capital of Inspec	**(150)**	(150)
Merger reserve on acquisition of Inspec	**3,850**	3,850
Total	**22,422**	22,422

On 11 September 2006, LEL acquired 100% of the legal and beneficial ownership of Inspec from LHL for a consideration of USD 4m. This acquisition has been accounted for using the uniting of interests method and the difference between the purchase consideration (USD 4m) and the share capital of Inspec (USD 150,000) has been recorded in the Merger reserve.

On 25 September 2006, the Company entered into a share for share exchange agreement with LEL and LHL under which it acquired 100% of the 49,003 shares of LEL from LHL in consideration for the issue to LHL of 200,000,000 shares of the Company. This acquisition has been accounted for using the uniting of interests method and the difference between the nominal value of shares issued by the Company (USD 18,654,000) and the nominal value of LEL shares acquired (USD 82,000) has been recorded in the Merger reserve.

31 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 2011 and 2010, using the projected unit credit method, in respect of employees' end of service benefits payable under the labour laws of the countries in which the Group operates. Under this method, an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. The obligation for end of service benefit is not funded.

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

Group

	2011 USD'000	2010 USD'000
At 1 January	**18,524**	15,150
Acquired through a business combination (Note 35)	**16,400**	–
Current service cost	**4,298**	2,297
Interest cost	**1,039**	958
Actuarial losses	**3,171**	1,191
Benefits paid	**(3,835)**	(1,072)
At 31 December	**39,597**	18,524

Company

	2011 USD'000	2010 USD'000
At 1 January	**808**	592
Current service cost	**77**	35
Interest cost	**32**	22
Actuarial losses	**150**	159
Benefits paid	**(246)**	–
At 31 December	**821**	808

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31 Provision for employees' end of service benefits (continued)

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

Group

	2011 USD'000	2010 USD'000
Current service cost	**4,298**	2,297
Interest cost	**1,039**	958
Actuarial losses	**3,171**	1,191
Total (included in staff costs) (Note 11)	**8,508**	4,446

Of the total charge, USD 6.6m (2010: USD 3.2m) and USD 1.9m (2010: USD 1.2m) are included in "Cost of sales" and "General and administrative expenses" (Note 6 and 10).

Company

	2011 USD'000	2010 USD'000
Current service cost	**77**	35
Interest cost	**32**	22
Actuarial losses	**150**	159
Total (included in staff costs)	**259**	216

The above charge of USD 0.3m (2010: USD 0.2m) is included in "General and administrative expenses".

The principal actuarial assumptions used were as follows:

	2011	2010
Discount rate	**4.25%**	5.25%
Future salary increase:		
Management and administrative employees	**5.00%**	5.00%
Yard employees	**3.50%**	3.50%

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

	Percentage of employees at each age exiting the plan per year	
Age	2011	2010
Management, yard and administrative employees:		
Below 20 years	**0%**	0%
20 – 29 years	**15%**	15%
30 – 44 years	**10%**	10%
45 – 54 years	**7%**	7%
55 – 59 years	**2%**	2%
60 years and above	**100%**	100%
Executive Directors:		
35 – 39 years	**10%**	10%
40 – 64 years	**7%**	7%
65 years and above	**100%**	100%

32 Derivative financial instruments

	Credit rating	2011 Notional contract amount USD'000	2011 Assets USD'000	2011 Liabilities USD'000	2010 Notional contract amount USD'000	2010 Assets USD'000	2010 Liabilities USD'000
Derivatives designated as hedging instruments in cash flow hedges							
– Forward foreign exchange contracts	A+	**8,457**	**427**	**–**	36,310	2,517	–
– Forward foreign exchange contracts	AA, A+	**23,018**	**–**	**1,449**	85,301	–	2,651
Derivatives held at fair value through profit or loss		**2,862**	**272**	**–**	–	–	–
Total		**34,337**	**699**	**1,449**	121,611	2,517	2,651

During 2010, the Group entered into three forward contracts to hedge its foreign currency exposure with respect to certain supplier commitments in Euros. The notional principal amount at the date of inception of these contracts was Euro 142m. These contracts mature in 2012.

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next six months. Gains and losses recognised in the hedging reserve in the consolidated statement of changes in equity on forward foreign exchange contracts as of 31 December 2011 are recognised in the consolidated income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement.

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

A profit of USD 13,083,000 (2010: loss of USD 304,000) was recorded in equity and a profit of USD 3,963,000 (2010: loss of USD 170,000) was recycled from equity to consolidated income statement. A profit of USD 10,166,000 (2010: USD Nil), representing the gain in relation to the three forward contracts to hedge its foreign currency exposure with respect to NOK payments made to the shareholders of MIS was recorded as a basis adjustment to the purchase consideration (Note 35). The net movement in the fair value reserve during the year was a loss of USD 1,046,000 (2010: loss of USD 134,000).

During 2011, prior to being acquired by the Group (Note 35), MIS entered into a forward contract to sell Euros for AED. This derivative did not qualify for hedge accounting and is carried at fair value through profit or loss. The fair value at the 31 December 2011 was USD 272,000.

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

The derivative financial instruments are gross settled and the maturity profile based on the year end rates of the expected undiscounted amounts payable and receivable at 31 December 2011 is as follows:

	2011 USD'000	2010 USD'000
Receivable		
Within one year	**34,337**	89,061
After one year but not more than two years	**–**	32,550
	34,337	121,611
Payable		
Within one year	**35,154**	88,683
After one year but not more than two years	**–**	32,562
	35,154	121,245

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33 Trade and other payables

	2011 USD'000	2010 USD'000
Trade payables	**79,974**	57,791
Other payables and accruals	**238,151**	91,886
Amounts due to customers on contracts	**118,701**	99,986
Advances received for contract work	**–**	43,557
Dividend payable++ (Note 37)	**12**	51
Payable to related parties	**73**	–
	436,911	293,271

Amounts due to customers on contracts comprise:

	2011 USD'000	2010 USD'000
Progress billings	**427,359**	252,521
Less: Cost incurred to date	**(271,926)**	(133,894)
Less: Recognised profits	**(36,732)**	(18,641)
	118,701	99,986

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

34 Borrowings

	2011 USD'000	2010 USD'000
Bank overdrafts	**392**	–
Bank term loans	**247,396**	–
Trust receipts	**3,337**	–
	251,125	–

The bank borrowings are repayable as follows:

	2011 USD'000	2010 USD'000
On demand or within one year (current)	**251,089**	–
In the second year (non-current)	**36**	–
	251,125	–

As of 31 December 2011, the Group has banking facilities in the amount of approximately USD 1,372m (2010: USD 796m) with commercial banks. The banks' facilities include bank overdrafts, letters of guarantees, letters of credit and short-term loans.

Bank facilities are secured by lien over term deposits in the amount of USD 75m (2010: USD Nil), the Group's counter indemnities for guarantees issued on their behalf, the Group's corporate guarantee, letter of undertaking, letter of credit payment guarantee, cash margin held against letters of guarantee, assignment of insurance policies over property, plant and equipment and over inventories, leasehold rights for land and certain contract receivables.

The bank facilities relating to overdrafts and revolving facilities carry interest at three/six months LIBOR/EIBOR + 2.5% to 4.0% (2010: LIBOR/EIBOR + 1.5% to 4.0%).

The borrowings at 31 December 2011 are stated net of the unamortised arrangement fees and other transaction costs of USD 3.5m.

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

35 Business combinations

Acquisition of MIS

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

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

Control of MIS transferred to LIH on 13 July 2011. The consideration for transfer of shares of MIS and cancellation of options (Note 9) amounted to approximately USD 337.9m. Management has completed the purchase price allocation in accordance with IFRS 3 (revised) “Business Combinations”.

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

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

Cash flow on business acquisition:

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

* Net of basis adjustment of USD 10.2m with respect to three foreign currency forward contracts to hedge the NOK exposure (Note 32).

	USD'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment (Note 17)	26,010
Investment in joint ventures (Note 20)	4,638
Trade name (included in intangible assets) (Note 18)	22,335
Customer relationship (included in intangible assets) (Note 18)	19,323
Leasehold right (included in intangible assets) (Note 18)	8,338
Inventories	113,997
Trade and other receivables (net of provision for impairment of USD 4,967,000)	105,048
Loan to a related party (Note 25)	6,606
Derivative financial instruments (Note 32)	72
Cash and cash equivalents	15,647
Borrowings	(51,328)
Trade and other payables	(96,961)
Provision for employees' end of service benefits (Note 31)	(16,400)
	157,325
Goodwill on acquisition	180,539
Total purchase consideration	337,864

Notes to the financial statements
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35 Business combinations (continued)

Acquisition-related costs of USD 10.5m have been charged to general and administrative expenses (Note 10) in the consolidated income statement for the year ended 31 December 2011.

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

36 Profit of the Company

The profit of USD 3m (2010: USD 19m) in respect of the Company has been included in these consolidated financial statements.

37 Dividends

During the year (on 25 March 2011 and 26 August 2011), the Board of Directors of the Company approved dividends of USD 29.3m comprising USD 19m (post-rights issue US cents 8.7 per share: pre-rights issue US cents 9.5 per share relating to 2010) and an interim dividend of USD 10.3m for 2011 relating to 2011 (US cents 4 per share). At 31 December 2011, unpaid dividends amounted to USD 12,000 (Note 33) and were in relation to the shares held by EBT.

During 2010 (on 26 March 2010 and 20 August 2010), the Board of Directors of the Company approved dividends of USD 15.2m comprising USD 7.6m (US cents 3.8 per share) relating to 2009 and an interim dividend of USD 7.6m (US cents 3.8 per share) for 2010. At 31 December 2010, unpaid dividends amounted to USD 51,000 (Note 33) and were in relation to the shares held by EBT.

38 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 six and 23 years and are renewable at mutually agreed terms. The future minimum lease payments payable under operating leases are as follows:

	2011 USD'000	2010 USD'000
Not later than one year	**10,239**	6,886
Later than one year but not later than five years	**13,986**	10,816
Later than five years	**46,580**	31,108
	70,805	48,810

(b) Other commitments

	2011	2010
Letters of credit for purchase of materials and operating equipment	**11,902**	3,433
Capital commitments for construction of facilities	**18,730**	13,555
Capital commitments for purchase of operating equipment and computer software	**4,165**	2,416

39 Bank guarantees

	2011 USD'000	2010 USD'000
Performance/bid bonds	**206,964**	126,284
Advance payment, labour visa and payment guarantees	**542,071**	292,126
	749,035	418,410

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

40 Cash generated from operating activities

	Notes	Year ended 31 December 2011 USD'000	2010 USD'000
Operating activities			
Profit before income tax		**63,478**	65,227
Adjustments for:			
Share-based payments – value of services provided	9	**1,439**	2,060
Depreciation	17	**19,283**	13,694
Amortisation of intangible assets	18	**3,887**	88
Share of loss from investment in joint ventures	20	**8**	–
Loss/(profit) on disposal of property, plant and equipment	13	**(281)**	562
Gain on cancellation of a contract	7	**–**	(23,925)
Fair value gain on financial asset at fair value through profit or loss	24	**(8,262)**	–
Provision for slow moving and obsolete inventories	22	**826**	682
Provision for impairment of trade receivables, net of amounts recovered	23	**168**	202
Provision for employees' end of service benefits	31	**8,508**	4,446
Finance costs	12	**17,965**	5,088
Finance income	12	**(1,804)**	(2,193)
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**105,215**	65,931
Payment of employees' end of service benefits	31	**(3,835)**	(1,072)
Changes in working capital:			
Inventories before movement in provision	22,35	**110,573**	32,920
Due from a related party	25,35	**(146)**	–
Trade and other receivables before movement in provision for impairment of trade receivables	23,35	**(312,749)**	(37,908)
Trade and other payables, excluding movement in dividend payable	33	**46,718**	172,927
Derivative financial instruments		**(358)**	–
Net cash (used in)/generated from operating activities		**(54,582)**	232,798

41 Events after balance sheet date

(a) Fire incident

Hull 107, a rig built by MIS and delivered to KSAM2 in 2010, suffered a major incident in January 2012 involving a fire and explosion whilst operating offshore in West Africa resulting in a total loss. The cause of the incident is currently under investigation. The Company, through MIS, holds a 10% equity interest in KSAM2, the owner of the rig. At the time of the incident the rig was on a bareboat charter by KSAM2 to a third party. KSAM2 carries hull and machinery insurance for the full market value of the rig and the Company is confident that recovery will be made pursuant to this insurance.

(b) Dividend

The Board of Directors of LEL has proposed a dividend of USD 425 per share amounting to USD 20.8m at a meeting held on 23 March 2012. In accordance with the accounting policy under IFRS set out at Note 2.16, this dividend has not been accrued at 31 December 2011. This is in accordance with the Isle of Man Companies (Amendment) Act 2010 which required that such proposed dividends should not be recognised until paid or approved by the shareholders.

Following the dividend from LEL, the Board of Directors of the Company has proposed a dividend of 8.0 US cents per share amounting to USD 20.8m at a meeting held on 23 March 2012. In accordance with the accounting policy under IFRS set out at Note 2.16, this dividend has not been accrued at 31 December 2011 (2010: 9.5 US cents per share amounting to USD 19m declared on 25 March 2011 was not accrued at 31 December 2010). This is in accordance with the Isle of Man Companies (Amendment) Act 2010 which required that such proposed dividends should not be recognised until paid or approved by the shareholders.