Registered Number 00908371

Hunting Energy Services (UK) Limited

Annual Report

For the Year Ended 31 December 2011

Contents

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the group for the year ended 31 December 2011

Principal Activities

The Group and Company operate in the offshore oil and gas industry as part of the Hunting Energy Services (International) Limited Group The majority of the business is conducted in the new pipe joints, accessory equipment manufacture and general repair sections of the oil industry with operations concentrated on the North Sea

Business Review

Revenue has increased due to improved trading with our customers based in the UKCS, primarily from large sales made to contract customers in quarter four The first half of 2011 saw activity levels lower than anticipated levels and as a result we by the end of quarter three, our revenue and profit before taxation were behind budget and management expectations However in quarter four, large orders were in place from many of our contract customers and during this period we were able to generate 33% of our 2011 revenue which enabled us to recover the deficit

The Group profit before tax for the period increased in comparison to 2010 by £1,066,000 This is due to increased revenue achieved in 2011 Average margins were at a similar level to those reported in 2010

As the Company makes up the majority of the results for the Group the factors outlined above are the same factors that impacted on the Company sales, margins and profit before tax The Company profit before tax increased in comparison to 2010 by £234,000 However, dividends received during the year were £341,000 less than the prior year Excluding this, the company profit before tax was £575,000 higher than 2010

Overall the Directors of the Group and the Company are satisfied with the performance during 2011 as the profitability remains at historically high levels

Future Developments

There are currently no plans to change the business model or operations of the Group and the Company

Key Risks and Uncertainties

The key risks and uncertainties facing the business include the uncertainties over how our customers will react to future oil and gas prices as well as the risks associated with operating in foreign territories including foreign exchange risk The risk management objectives and policies have been included in note 15 Although 2012 has begun positively the potential of a "double dip" recession is continually being monitored to ensure no surprises emerge

A new Enterprise Resource Planning System will be implemented in 2012 However, a project plan is in place to ensure that any disruption experienced is minimised Efficiencies will stem from this project upon completion

Key Performance Indicators (KPIs)

The following KPIs are relevant to an understanding of the performance of the business and are used by management in reviewing the results and operations of the business

(i) Profit Before Tax (PBT)
This is the key measure for management as it allows them to assess how effectively the Group and Company is being managed

Report of the Directors (continued)

Group

PBT as a percentage of revenue was 9% dunng the year, which is consistent with 2010

Company

PBT as a percentage of revenue was 9% dunng the year, which is consistent with 2010

(ii) Cashflow

The cash position of the Group and Company is constantly reviewed to ensure there are adequate cash balances in place to service customer requirements

Group

The Group had a free Cashflow (calculated as cashflow from operating activities less purchases of property, plant and equipment of £3,052,000 (2010 - £3,448,000) dunng the year The lower amount for 2011 compared to 2010 is a result of larger purchases of plant and equipment dunng 2011

Company

The Company had a free Cashflow (calculated as cashflow from operating activities less purchases of property, plant and equipment) of £2,417,000 (2010 - £2,637,000) dunng the year The working capital cycle absorbed cash in 2011 as we paid for large amounts of stock in 2011 to take advantage of prices before increases were implemented This has impacted cash generation for the year It is expected that in 2012 we will continue to absorb cash as we aim to increase our inventory levels in order to take advantage of market opportunities

Results

The results of the Group and Company are set out in their respective Income Statements on pages 12 and 13

Dividends

The Directors recommended and paid a dividend amounting to £3,034,000 (2010 - £3,728,000) dunng the year

Directors

The Directors who held office dunng the year and up to the date of this report were

D L Proctor	
S McClements	
T J Jackson	
B H Ferguson	
W Reith	
T Kanaya	(resigned 9 May 2011)
S Sakai	(resigned 16 May 2012)
T Baloa	(appointed 9 May 2011)
N Watanabe	(appointed 16 May 2012)

No Director dunng the year had any interest in the share capital of the Company or a material interest in any contract of significance

Property, Plant and Equipment

Details of movements in property, plant and equipment are shown in note 7 to the financial statements

Report of the Directors (continued)

Employee Policy

Full and fair consideration is given to applications for employment for disabled persons and in their training, career development and promotion Every effort is made to retain in employment those who become disabled The employment policies, degree of involvement by employees and the provision of information to them will vary However, management encourages a common awareness of the financial and economic factors affecting the performance

Policy on Payment of Creditors

The Group and Company policy is to pay all creditors in accordance with agreed terms of business The calculations below are adjusted to reflect agreed contract terms with principal suppliers, Marubeni-Itochu, Mitsui and Sumitomo

Group
The total amount of trade payables falling due within one year at 31 December 2011 represents 30 days worth (2010 – 20 days), as a proportion of the total amount invoiced by suppliers during the year ended on that date

Company
The total amount of trade payables falling due within one year at 31 December 2011 represents 20 days worth (2010 – 23 days), as a proportion of the total amount invoiced by suppliers during the year ended on that date

Environment

The Company operates to the Hunting PLC Group's environmental policy The Hunting PLC Group's environmental policy is to look for opportunities and adopt practices that create a safer and cleaner environment It is particularly sensitive to the challenges for the industry in which it operates The Group has programmes in place to monitor environmental impact from its operational activities and remains focused on ensuring environmental consideration is at the forefront of its business practices

The environmental policies aim to ensure that

- Policies, procedures and practices are in place so that any adverse effects on the environment are reduced to a practicable minimum
- The Group encourages the reduction of waste and emissions and promotes awareness of recycled materials and use of renewable resources
- Each operating unit develops and implements its own procedures and conducts structured reviews to ensure that they are maintained and refined
- Employees are encouraged to pay special regard to environmental concerns in the communities in which the Group operates

Statement of Directors' Responsibilities

The Directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable law and regulations

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

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements,

Report of the Directors (continued)

- prepare the financial statements on the going concern basis unless it is inappropnate to presume that the company will continue in business

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of Information to Auditors

In accordance with Companies Act 2006 requirements, all Directors in office, as at the date of this report have confirmed, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all reasonable steps necessary in order to make himself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information

Going Concern

The Directors, after making enquiries and on the basis of current financial projections and the facilities available, believe that the Group has adequate financial resources to continue in operation for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors A resolution to reappoint them as auditors to the Company will be proposed at the Annual General Meeting

On behalf of the Board

Tom Jackson - Director

26th September 2012

Independent Auditors' Report to the Members of Hunting Energy Services (UK) Limited

We have audited the Group and Parent Company financial statements of Hunting Energy Services (UK) Limited for the year ended 31 December 2011 which comprise the Group and Parent Company's Income Statements, the Group and Parent Company's Statements of Comprehensive Income, the Group and Parent Company's Balance Sheet, the Group and Parent Company's Statements of Changes in Equity, the Group and Parent Company's Statements of Cash flows, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' Responsibilities set out on pages 3-4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company company's affairs as at 31 December 2011 and of the group's and parent company's profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditors' Report to the Members of Hunting Energy Services (UK) Limited (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
26 September 2012

Principal Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS) and those IFRS as adopted by the European Union and IFRIC Interpretations, which are effective as at 31 December 2011 The financial statements have been prepared on a going concern basis under the historical cost convention and the accounting policies as disclosed below which have been consistently applied

Adoption of new standards, amendments and interpretations

The following new standards, amendments and interpretations became effective for and were adopted during the year ended 31 December 2011

- IAS 24 (revised) Related party disclosures
- Amendment to IFRS 7 Financial instruments Disclosures
- Amendment to IFRS 1 on hyperinflation and fixed dates*
- Annual improvements 2010
- Amendment to IFRIC 14, *'Pre-payments of a Minimum Funding Requirement'*
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

Although the adoption of the other standards, amendments and interpretations represents a change in accounting policy, comparative figures for 2010 have not been restated for these, as these changes do not impact the financial performance or position of the Company

Standards, amendments and interpretations effective subsequent to the year end

- Amendment to IAS 12 *Income taxes on deferred tax**
- Amendment to IAS 1 *'Presentation of financial statements' on OCI*

* Not yet endorsed by the European Union

While these pronouncements have not been adopted for these financial statements, it is anticipated that the requirements will not significantly impact the Company's results or financial position

Basis of consolidation

i) Subsidiaries

The consolidated Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings Subsidiaries are entities over which the Group has the power to govern the financial and operating policies and generally accompanies a shareholding of more than one half of its voting rights

ii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other external parties undertake an economic activity that is subject to joint control Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities

The results and assets and liabilities of joint ventures are incorporated in the financial statements using the equity method of accounting Investments in joint ventures are carried in the consolidated balance sheet at cost as adjusted by post acquisition change in the Group's share of the net assets of the joint venture Losses of the joint venture, in excess of the Group's interest in the joint venture, are not recognised

Principal Accounting Policies (continued)

Investments

The Company's fixed asset investments are carried at the lower of cost and net realisable value Any impairment in carrying value which is deemed as being permanent is taken immediately as a cost to the Income Statement

Revenue

Revenues represent the invoiced amount, excluding sales related taxes of goods sold and services provided, and are recognised when title passes to the customer or when the service has been rendered

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, which is provided in equal annual instalments over their estimated useful lives by using the following rates

Freehold land and buildings	2%
Leasehold buildings	Life of lease
Plant and equipment	14-33%

Items of property, plant and equipment are impaired if their recoverable amount falls below their carrying value Impairment losses are charged to the income statement immediately unless they arise on previously re-valued assets, in which case they are recognised in the statement of comprehensive income up to the amount of the revaluation and thereafter in the income statement

Foreign currencies

The financial statements for each of the Group's subsidiaries are prepared using their functional currency The functional currency is the currency of the primary economic environment in which an entity operates The presentation currency of the Group and functional currency of the Group is GBP Sterling

Assets and liabilities of overseas subsidiaries are translated into GBP Sterling at the market rates ruling at the Balance Sheet date Trading results are translated at the average rates for the period Exchange differences arising on the consolidation of the net assets of overseas subsidiaries are dealt with through the foreign currency translation reserve, whilst those arising from trading transactions are dealt with in the income statement The year end exchange rates of GBP Sterling to US Dollar and to Euro are 1 55 (2010 1 57) and 1 20 (2010 1 17)

Taxation

The tax charge on the profit for the year comprises current and deferred tax

Current tax is the expected net tax payable on the current year's net profits, using tax rates enacted or substantively enacted at the balance sheet date, plus adjustments to net tax payable in respect of prior years' net profits

The company surrenders the benefit of any tax losses to other group companies in the form of group relief Consideration for the full amount of the tax loss surrendered is payable by the claimant company and the company recognises this as group relief within its balance sheet

Full provision is made for deferred taxation on all taxable temporary differences Deferred tax assets and liabilities are recognised on a net basis on the balance sheet Deferred tax assets are recognised only to the extent that they are expected to be recoverable

Principal Accounting Policies (continued)

Inventories

Inventories, including work in progress, are stated at the lower of cost and net realisable value Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of sale in the ordinary course of business The cost of work in progress includes direct labour, material costs and production overheads

Consignment Stock

The Company have consignment stock agreements with Marubeni-Itochu Tubulars Europe PLC and Mitsui & Co Europe PLC These are a mix of open-ended and closed-end consignment agreements which allow the Company to defer recognising the stock in their inventory until it is either used or meets the conditions of the consignment deal

The Closed-end Consignment agreements work on the basis of a twelve month period As the stock is used, the value of the stock used is due for payment 30 days after being taken out of consignment However, if the Company has not used the stock within twelve months of the goods being delivered into the Company's yard, then it automatically transfers to Company stock and is due for payment 30 days later

The Open-ended Consignment agreement has no date limit and is invoiced to the Company when it is used It is also due for payment 30 days after use

Funding Agreement

The Company has an agreement with Marubeni-Itochu Tubulars Europe PLC and Mistui & Co Europe PLC to defer payment of the amounts becoming due under the Consignment Stock Agreements in place between the parties Interest is payable by the Company for the period that the invoice is not settled

Retirement benefits

The Group makes contributions to a defined benefit and defined contribution retirement scheme The scheme is run on a basis that does not enable individual companies within the Group to identify their share of the underlying assets and liabilities The IAS 19 "Employee Benefits" disclosures for the scheme are provided in the financial statements of Hunting PLC The charge to the Income Statement is the amount of contributions payable to the scheme in the year

Share-based payments

The derived cost of these instruments is spread evenly over the vesting period The fair value of share options granted has been calculated in accordance with the methodology set out in note 21

Leases

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee Assets acquired under finance leases are recorded in the balance sheet as property, plant and equipment at their fair value and depreciated over the shorter of their estimated useful lives and their lease terms All other leases are operating leases and the rental of these is charged to the Income Statement on a straight-line basis over the life of the lease

Cash and cash equivalents

For the purposes of the statements of cashflows, cash and cash equivalents includes bank overdrafts

Principal Accounting Policies (continued)

Financial assets and financial liabilities

Financial assets and liabilities are loans and receivables which are non-derivative financial assets and liabilities with fixed or determinable payments that are not quoted in an active market Financial assets and liabilities include Amounts Owed by and Owing to Associated Undertakings All financial assets and liabilities are carried at amortised cost using the effective interest rate methodology

Capital Management

The Company's objective when managing capital is to provide sufficient resources to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance

The capital structure of the Company consists of debt (which includes loans from group undertakings, trade and other payables and accruals), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and retained earnings

Gearing Ratio

The management of the group reviews the capital structure regularly As part of this review, the group considers the cost of capital and the risks associated with the capital The group will balance its overall capital structure through the issues of new shares as well as the utilisation of bank borrowings

The gearing ratio at the year end was as follows -

Group

	2011 £'000	2010 £'000
Debts	**(4,387)**	1,944
Cash and cash equivalents	**1,166**	1,145
Net debt	**(3,221)**	3,089
Equity	**40,444**	36,782
Net debt to equity	**8%**	(8)%

Company

	2011 £'000	2010 £'000
Debts	**(4,387)**	1,944
Cash and cash equivalents	**19**	42
Net debt	**(4,368)**	1,986
Equity	**33,001**	29,886
Net debt to equity	13%	(7)%

Principal Accounting Policies (continued)

Derivatives and financial instruments

Derivatives are initially recognised as net proceeds received or consideration paid at the trade date and are subsequently re-measured at their fair value at each balance sheet date Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged

Changes in the fair value of derivatives that have not been designated in a hedge relationship are recognised immediately in the income statement

Cash flow hedge
Hedges of highly probable forecast transactions are cash flow hedges The effective portion of changes in fair value of these derivatives is recognised in equity The gains and losses relating to the ineffective portion are recognised immediately in the income statement Amounts accumulated in equity are dealt with in the income statement at the same time as the gains and losses on the hedged items When a forecast transaction is no longer expected to occur, the cumulative gains and losses that were reported in equity are immediately transferred to the income statement

All of the Group's hedges to which hedge accounting is applied, are tested for effectiveness prospectively and retrospectively and are fully documented as hedges at the point of inception of the hedge relationship

Embedded derivatives
An embedded derivative is a feature in a sales contract or purchase contract that causes the cash flows of the contract to change whenever there is a change in a specified variable The Group regularly reviews its sales and purchase contracts in order to determine the existence of embedded derivatives within them

The Groups derivatives that are embedded within a host contract are separated from that contract and measured at fair value unless (1) the host contract is measured at fair value, in which case the fair value of the derivative is subsumed within the fair value of the entire contract, or (2) the derivative is closely related to the host contract, in which case the derivative is measured at cost An embedded derivative is regarded as not closely related to its host contract when the cash flows it modifies are associated with risks that are not inherent in the contract itself

Impairment

On an annual basis the Group considers whether there is any indication that assets, including investments, property, plant and equipment, inventory, trade receivables and other receivables, have been impaired Where an indication of impairment is identified, the Group conducts an impairment review and where impairment is determined, the asset is written down to the lower of value in use and fair value less costs to sell

Dividend Distributions

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the year that they are approved by the Company's shareholders

Group Income Statement

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	1	**108,599**	98,467
Cost of sales	3	**(90,914)**	(83,372)
Gross profit		**17,685**	15,095
Other income	2	**418**	358
Administrative expenses	3	**(8,561)**	(6,979)
Operating profit		**9,542**	8,474
Finance income	5	**248**	88
Finance costs	5	**(317)**	(186)
Share of (loss) / profit of joint venture	8	**(2)**	29
Profit before taxation		**9,471**	8,405
Taxation	6	**(2,698)**	(2,301)
Profit for the year	19	**6,773**	6,104

The current and prior year results have been derived wholly from continuing activities

There are no material differences between the profit before taxation and the retained profit for the year above and their historical cost equivalents

Company Income Statement

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	1	**94,396**	87,693
Cost of sales	3	**(80,439)**	(75,781)
Gross profit		**13,957**	11,912
Other income	2	**1,003**	1,284
Administrative expenses	3	**(6,578)**	(5,035)
Operating profit		**8,382**	8,161
Finance income	5	**232**	82
Finance costs	5	**(317)**	(180)
Profit before taxation		**8,297**	8,063
Taxation	6	**(2,253)**	(1,991)
Profit for the year	18	**6,044**	6,072

The current and prior year results have been derived wholly from continuing activities

There are no material differences between the profit before taxation and the retained profit for the year above and their historical cost equivalents

Statements of Other Comprehensive Income

For the year ended 31 December 2011

	Note	Group		Company	
		2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Profit for the year		**6,773**	6,104	**6,044**	6,072
Exchange rate adjustments		**(182)**	(284)	**-**	-
Cash payments in respect of share options		**(348)**	(142)	**(348)**	(142)
Cost of share based payments		**453**	348	**453**	348
Undistributable Reserve		**-**	22	**-**	22
Total other comprehensive expense / (income) for the year, net of tax		**(77)**	(56)	**105**	228
Total comprehensive income for the year		**6,696**	6,048	**6,149**	6,300

Items in the statement above are disclosed net of tax

Group Balance Sheet

At 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	7	**6,284**	4,690
Investment in joint venture	8	**10**	121
Deferred tax assets	13	**146**	13
		6,440	4,824
Current assets			
Inventories	9	**39,364**	36,748
Trade and other receivables	10	**45,702**	28,412
Cash and cash equivalents		**1,166**	1,145
		86,232	66,305
Liabilities			
Current liabilities			
Trade and other payables	11	**(50,116)**	(32,465)
Current tax liabilities	12	**(2,112)**	(1,882)
		(52,228)	(34,347)
Net current assets		**34,004**	31,958
Net assets		**40,444**	36,782
Shareholders' equity			
Ordinary shares	17	**1,000**	1,000
Retained earnings	18	**38,646**	34,802
Undistributable reserve	18	**22**	22
Foreign exchange reserve	18	**776**	958
Total shareholders' equity		**40,444**	36,782

The financial statements on pages 7 to 45 were approved by the Board of Directors on 26th September 2012 and were signed on its behalf by

Tom Jackson - Director

Director Hunting Energy Services (UK) Limited **Registered number 00908371**

Company Balance Sheet
At 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	7	**3,588**	1,865
Investments	8	**38**	38
Deferred tax assets	13	**146**	13
		3,772	1,916
Current assets			
Inventories	9	**35,300**	34,654
Trade and other receivables	10	**42,865**	26,142
Cash and cash equivalents		**19**	42
		78,184	60,838
Liabilities			
Current liabilities			
Trade and other payables	11	**(46,606)**	(30,769)
Current tax liabilities	12	**(2,349)**	(2,099)
		(48,955)	(32,868)
Net current assets		**29,229**	27,970
Net assets		**33,001**	29,886
Shareholders' equity			
Ordinary shares	17	**1,000**	1,000
Retained earnings	18	**31,979**	28,864
Undistributable reserve	18	**22**	22
Total shareholders' equity		**33,001**	29,886

The financial statements on pages 7 to 45 were approved by the board of Directors on 27th September 2012 and were signed on its behalf by

Tom Jackson - Director

Hunting Energy Services (UK) Limited **Registered number 00908371**

Group Statement of Changes in Equity

For the year ending 31 December 2011

	Note	Ordinary shares	Retained earnings	Other reserves	Total
		£'000	£'000	£'000	£'000
Balance at 1 January		1,000	34,802	980	36,782
Comprehensive income					
Profit for the year		-	6,773	-	6,773
Other comprehensive income					
Exchange rate adjustments	18	-	-	(182)	(182)
Cash payment in respect of share options	18	-	(348)	-	(348)
Cost of share based payments	18	-	453	-	453
Total other comprehensive income/(expense)		-	105	(182)	(77)
Total comprehensive income/(expense)		-	**6,878**	**(182)**	**6,696**
Transactions with owners					
Dividend paid	19	-	(3,034)	-	(3,034)
Total transactions with owners		-	(3,034)	-	(3,034)
Balance at 31 December		**1,000**	**38,646**	**798**	**40,444**

	Note	Ordinary shares	Retained earnings	Other reserves	Total
Year ended 31 December 2010					
Balance at 1 January		1,000	32,220	1,242	34,462
Comprehensive income					
Profit for the year		-	6,104	-	6,104
Other comprehensive income					
Exchange rate adjustments	18	-	-	(284)	(284)
Cash payment in respect of share options	18	-	(142)	-	(142)
Cost of share based payments	18	-	348	-	348
Undistributable reserve	18	-	-	22	22
Total other comprehensive income/(expense)		-	206	(262)	(56)
Total comprehensive income/(expense)		-	**6,310**	**(262)**	**6,048**
Transactions with owners					
Dividend paid	19	-	(3,728)	-	(3,728)
Total transaction with owners		-	(3,728)	-	(3,728)
Balance at 31 December		**1,000**	**34,802**	**980**	**36,782**

Company Statement of Changes in Equity
For the year ended 31 December 2011

	Note	Ordinary shares	Retained earnings	Other reserves	Total
		£'000	£'000	£'000	£'000
Balance at 1 January		1,000	28,864	22	29,886
Comprehensive income					
Profit for the year		-	6,044	-	6,044
Other comprehensive income					
Cash payment in respect of share options	18	-	(348)	-	(348)
Cost of share based payments	18	-	453	-	453
Total other comprehensive income/(expense)		-	105	-	105
Total comprehensive income/(expense)		-	**6,149**	-	**6,149**
Transactions with owners					
Dividend paid	19	-	(3,034)	-	(3,034)
Total transactions with owners		-	(3,034)	-	(3,034)
Balance at 31 December		**1,000**	**31,979**	**22**	**33,001**
Year ended 31 December 2010					
Balance at 1 January		1,000	26,314	-	34,462
Comprehensive income					
Profit for the year		-	6,072	-	6,104
Other comprehensive income					
Cash payment in respect of share options	18	-	(142)	-	(142)
Cost of share based payments	18	-	348	-	348
Undistributable reserve	18	-	-	22	22
Total other comprehensive income /		-	206	22	(56)
Total comprehensive income / (expense)		-	**6,278**	**22**	**6,048**
Transactions with owners					
Dividend paid	19	-	(3,728)	-	(3,728)
Total transaction with owners		-	(3,728)	-	(3,728)
Balance at 31 December		**1,000**	**28,864**	**22**	**29,886**

Group Statement of Cashflow
For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Operating activities			
Cash generated from continuing operations	24	**8,519**	7,462
Interest paid		**(317)**	(256)
Tax paid		**(2,601)**	(2,840)
Net cash inflow from operating activities		**5,601**	4,366
Investing activities			
Purchase of property, plant and equipment	7	**(2,798)**	(992)
Proceeds collected from sale of property, plant and equipment		**10**	-
Repayment of share capital from Subsidiary		**-**	62
Dividend received from subsidiary	8	**109**	-
Undistributable Reserve		**-**	22
Interest received		**248**	74
Net cash outflow from investing activities		**(2,431)**	(834)
Financing activities			
Dividends paid	19	**(3,034)**	(3,728)
Net cash outflow from financing activities		**(3,034)**	(3,728)
Net increase/(decrease) in cash and cash equivalents		**136**	(196)
Cash and cash equivalents at beginning of year		**1,145**	1,512
Effect of foreign exchange rate changes		**(115)**	(171)
Cash and cash equivalents at the end of the year		**1,166**	1,145

Company Statement of Cashflow

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Operating activities			
Cash generated from continuing operations	24	**7,182**	5,576
Interest paid		**(317)**	(180)
Tax paid		**(2,136)**	(2,386)
Net cash inflow from operating activities		**4,729**	3,010
Investing activities			
Purchase of property, plant and equipment	7	**(2,545)**	(455)
Proceeds from sale of property, plant and equipment		**10**	-
Repayment of share capital from subsidiary		**-**	62
Dividend received from joint venture		**109**	-
Dividend received from subsidiary undertaking		**476**	926
Interest received		**232**	82
Undistributable reserve		**-**	22
Net cash (outflow) / inflow from investing activities		**(1,718)**	637
Financing activities			
Intra-group dividend paid	19	**(3,034)**	(3,728)
Net cash outflow from financing activities		**(3,034)**	(3,728)
Net (decrease) in cash and cash equivalents		**(23)**	(81)
Cash and cash equivalents at beginning of year		**42**	123
Cash and cash equivalents at the end of the year		**19**	42

Notes to the Financial Statements

1 Revenue

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Sale of goods	**106,229**	95,628	**92,026**	84,854
Services	**2,370**	2,839	**2,370**	2,839
	108,599	98,467	**94,396**	87,693

2 Other income

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Royalty income	**99**	160	**99**	160
Recharges	**279**	137	**279**	137
Gain on non-hedging derivatives	**30**	61	**30**	61
Gain on sale of property, plant, and equipment	**10**	-	**10**	-
Dividend income	**-**	-	**585**	926
	418	358	**1,003**	1,284

Gain on Non-Hedging Derivatives
The Group review their foreign currency debtors and creditors to establish if any revaluation is necessary due to Embedded Derivatives At the end of the year the review resulted in a gain to be booked through the results

Notes to the Financial Statements (continued)

3 Nature of expenses

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Depreciation	**1,139**	1,051	**822**	759
Auditors' remuneration				
Audit services	**80**	98	**44**	62
Tax services	**10**	60	**(1)**	49
Other services	**-**	-	**-**	-
Employee costs and directors' emoluments	**13,463**	11,139	**11,116**	9,094
Operating lease payments				
Plant and machinery	**315**	261	**243**	182
Property	**292**	1,050	**83**	844
Cost of inventories recognised as an expense	**78,101**	71,927	**70,786**	67,781

4 Employee costs and directors' emoluments

Employee costs, including Directors, are analysed as follows

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Wages and salaries	**9,965**	8,951	**7,905**	7,159
Social security costs	**1,173**	990	**886**	738
Other pensions costs	**1,340**	824	**1,340**	823
Share based payments and long term incentive plan	**985**	374	**985**	374
	13,463	11,139	**11,116**	9,094

The above table includes costs in respect of other Group companies that are recharged to the respective Companies

Notes to the Financial Statements (continued)

4. Employee costs and directors' emoluments (contınued)

The average number of persons employed dunng the year was

	Group		Company	
	2011	2010	**2011**	2010
UK	**182**	179	**182**	179
Other	**52**	50	-	-
	234	229	**182**	179

Key Management

Key management compnses the Dırectors and Senıor Management of the Company only The Dırectors and Senıor Management of the Company control the entıre Group operatıons Theır compensatıon ıs

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Salanes and short term employment benefits	**1,367**	1,322	**1,367**	1,322
Post-employment benefits	**297**	214	**297**	214
Share based payments and long term ıncentıve plan	**985**	374	**985**	374
	2,651	1,910	**2,651**	1,910

Dırectors

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Salanes and short term employment benefits	**701**	700	**701**	700
Company contnbutıons to pensıon scheme	**154**	83	**154**	83
Share based payments and long term ıncentıve plan	**532**	26	**532**	26
	1,387	809	**1,387**	809

Two (2010 – three) Dırectors have retırement benefits accruıng under a defined benefit pensıon scheme

Notes to the Financial Statements (continued)

4. Employee costs and directors' emoluments (continued)

Highest Paid Director

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Salaries and short term employment benefits	**294**	362	**294**	362
Company contributions to pension scheme	**-**	1	**-**	1
Share based payments and long term incentive plan	**266**	13	**266**	13
	560	376	**560**	376

5 Net finance costs

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Finance Income				
Bank interest receivable	**16**	6	**-**	-
Parent undertaking - loans	**82**	61	**82**	61
Foreign exchange gains	**150**	13	**150**	13
Others	**-**	8	**-**	8
	248	88	**232**	82
Finance Costs				
Bank interest payable	**-**	(6)	**-**	-
Parent undertaking - loans	**(189)**	(96)	**(189)**	(96)
Funding interest	**(128)**	(84)	**(128)**	(84)
	(317)	(186)	**(317)**	(180)
Net Finance Costs	**(69)**	(98)	**(85)**	(98)

Notes to the Financial Statements (continued)

6 Taxation

The tax charge in the Income Statements comprised

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Current tax – continuing operations				
Current year	**2,798**	2,489	**2,353**	2,179
Adjustment in respect of previous years	**33**	(130)	**33**	(130)
Double tax relief	**-**	(2)	**-**	(2)
Foreign tax – continuing operations				
Current year	**-**	2	**-**	2
	2,831	2,359	**2,386**	2,049
Deferred tax – continuing operations				
Origination and reversal of temporary difference	**(133)**	(58)	**(133)**	(58)
Total tax charged to the Income Statement	**2,698**	2,301	**2,253**	1,991

The Group tax assessment for the year is higher (2010 - lower) than the standard rate of corporation tax in the UK The Company tax assessment for the year is higher (2010 lower) than the standard rate of corporation tax in the UK The reasons are highlighted in the table below

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Profit before tax	**9,471**	8,405	**8,297**	8,063
Tax at 26 5% (2010 – 28%)	**2,510**	2,353	**2,199**	2,257
Adjustment in respect of previous years	**33**	(130)	**33**	(130)
Expenses not deductible for tax purposes	**-**	152	**-**	(137)
Adjustments in respect of foreign tax rates	**(21)**	(75)	**-**	-
Tax at marginal rates	**21**	-	**21**	-
Group relief surrendered not paid	**155**	-	**-**	-
Rate adjustment for deferred tax	**-**	1	**-**	1
Total tax charge for the year	**2,698**	2,301	**2,253**	1,991

Notes to the Financial Statements (continued)

6 Taxation (continued)

Factors affecting current and future tax charges

The UK substantively enacted on 29 March 2011 an amendment to the corporation tax rate from 28% to 26% effective from 1 April 2011 In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement The changes propose to reduce the main rate of corporation tax rate from 26% to 24% from 1 April 2012 which is in addition to the decrease to 25% enacted in Finance Act 2011 The reduction of the main corporation tax rate to 24% was substantively enacted on 26 March 2012 The budget also proposes to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 to 22% by 1 April 2014 None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

7 Property, Plant, and Equipment

Year ended 31 December 2011

Group	Freehold land and buildings £'000	Short leasehold buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January	2,338	194	13,341	15,873
Exchange adjustments	(53)	-	(94)	(147)
Additions	-	-	2,798	2,798
Disposals	-	-	(588)	(588)
At 31 December	**2,285**	**194**	**15,457**	**17,936**
Accumulated Depreciation				
At 1 January	711	185	10,287	11,183
Exchange adjustments	(16)	-	(66)	(82)
Disposals	-	-	(588)	(588)
Charge for the financial year	37	2	1,100	1,139
At 31 December	**732**	**187**	**10,733**	**11,652**
Net book amount	**1,553**	**7**	**4,724**	**6,284**

Notes to the Financial Statements (continued)

7. Property, plant and equipment (continued)

Year ended 31 December 2010

Group	Freehold land and buildings £'000	Short leasehold buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January	2,405	189	12,496	15,090
Exchange adjustments	(82)	-	(127)	(209)
Additions	15	5	972	992
At 31 December	**2,338**	**194**	**12,753**	**15,285**
Accumulated Depreciation				
At 1 January	698	184	9,368	10,250
Exchange adjustments	(24)	-	(94)	(118)
Charge for the financial year	37	1	1,013	1,051
At 31 December	**711**	**185**	**9,699**	**10,595**
Net book amount	**1,627**	**9**	**3,054**	**4,690**

Year ended 31 December 2011

Company	Short leasehold buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January	194	9,070	9,264
Additions	-	2,545	2,545
Disposals	-	(588)	(588)
At 31 December	**194**	**11,027**	**11,221**
Accumulated Depreciation			
At 1 January	185	7,214	7,399
Disposals	-	(588)	(588)
Charge for the financial year	2	820	822
At 31 December	**187**	**7,446**	**7,633**
Net book amount	**7**	**3,581**	**3,588**

Notes to the Financial Statements (continued)

7. Property, plant and equipment (continued)

Year ended 31 December 2010

Company	Short leasehold buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January	189	8,620	8,809
Additions	5	450	455
At 31 December	**194**	**9,070**	**9,264**
Accumulated Depreciation			
At 1 January	184	6,456	6,640
Charge for the financial year	1	758	759
At 31 December	**185**	**7,214**	**7,399**
Net book amount	**9**	**1,856**	**1,865**

Notes to the Financial Statements (continued)

8 Investments

Group – Investment in Joint Venture	**2011**	**2010**
	£'000	**£'000**
At 1 January	**121**	92
Share of (decrease) / increase in net assets	**(2)**	29
Dividends received from joint venture investment	**(109)**	-
At 31 December	**10**	121

Aggregated amounts relating to interests in Joint Venture	**2011**	**2010**
	£'000	**£'000**
Share of balance sheet		
Total assets	**21**	211
Total liabilities	**(11)**	(90)
	10	121
Share of results		
Revenues	**-**	731
Profit before tax	**(2)**	38
Taxation	**-**	(9)
Profit after tax	**(2)**	29

Company – investment in subsidiary undertakings	**2011**	**2010**
	£'000	**£'000**
Cost and net book amount		
At 1 January	**38**	100
Less disposal of investment in Hunting Energy Holdings	**-**	(100)
Additional investment in Hunting Energy Services B V	**-**	38
At 31 December	**38**	38

Notes to the Financial Statements (continued)

8 Investments (Continued)

The Company also has an investment in a Joint Venture that is carried at a cost of £2 (2010 - £2)

In the opinion of the Directors the value of the Company's investments, which relate to shares held in its subsidiary and joint venture undertakings, is not less than the amount at which it is included in the Company's balance sheet

A list of the key investments, including the name, country of residence, country of incorporation and proportion of ownership interest are provided in note 24

9 Inventories

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Raw materials	**6,839**	8,343	**6,211**	7,610
Work in progress	**2,414**	1,747	**509**	1,087
Finished goods	**30,681**	27,311	**29,039**	26,489
Less provision for potential write downs	**(570)**	(653)	**(459)**	(532)
	39,364	36,748	**35,300**	34,654

10 Trade and other receivables

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade receivables	**35,364**	17,804	**31,964**	15,634
Less provision for impairment of receivables	**(27)**	(31)	**(27)**	(31)
Net trade receivables	**35,337**	17,773	**31,937**	15,603
Amounts owed by group undertakings	**9,110**	9,095	**9,829**	9,095
Other receivables	**533**	1,100	**525**	1,083
Prepayments and accrued income	**722**	444	**574**	361
	45,702	28,412	**42,865**	26,142

Notes to the Financial Statements (continued)

10 Trade and other receivables (continued)

Trade receivables that are neither past due nor impaired are expected to be fully recovered as there is no recent history of default or any indications that the debtors will not meet their payment obligations At the year end there are no trade receivables (2010 – none) whose terms have been renegotiated and would otherwise be past due or impaired

Amounts owed by group undertakings amounting to £7,489,710 (2010 - £8,305,079) for both the company and the group, which are interest bearing and the interest rate is 2 5% Amounts owed by group undertakings are unsecured and are repayable on demand "Group" companies are those that are part of the Hunting PLC group

The ageing of the overdue trade receivables is as follows

No of days overdue	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
1 – 30 days	**1,284**	3,412	**623**	2,704
31 – 60 days	**1,082**	2,676	**689**	2,458
61 – 90 days	**670**	216	**636**	197
91 - 120 days	**132**	284	**132**	283
More than 120 days	**-**	-	**-**	-
	3,168	6,588	**2,080**	5,642

All of these balances relate to customers for whom there is no recent history of default

Movements on the provision for impairment of trade receivables are shown below

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
At 1 January	**31**	286	**31**	286
Provision for receivables impairment	**22**	45	**22**	45
Unused amounts reversed	**(26)**	(300)	**(26)**	(300)
At 31 December	**27**	31	**27**	31

Notes to the Financial Statements (continued)

11. Trade and other payables

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade payables	**7,432**	9,898	**4,688**	8,513
Accruals and deferred income	**14,851**	9,439	**14,086**	9,022
Amounts owed to group undertakings	**12,929**	6,873	**12,928**	6,979
Amounts owed to associated undertakings	**12,096**	6,255	**12,096**	6,255
Other payables	**2,808**	-	**2,808**	-
	50,116	32,465	**46,606**	30,769

Amounts owed to group undertakings amounting to £11,876,467 (2010 - £6,360,847) for both the company and the group, which are interest bearing and the interest rate is between 2 25% - 3 5% Amounts owed to group and associated undertakings are unsecured and are repayable on demand "Group" companies are those that are part of the Hunting PLC group

12 Current tax liabilities

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Corporation tax	**2,112**	1,882	**2,349**	2,099

13 Deferred tax

Deferred Tax Liabilities

The movement in the deferred tax liability is as follows

	2011	2010
	£'000	**£'000**
At 1 January	-	(45)
Credit to income statement	-	45
At 31 December	-	-

The above balances relate entirely to accelerated capital allowances

Notes to the Financial Statements (continued)

13 Deferred tax (continued)

Deferred Tax Assets

	2011 £'000	2010 £'000
At 1 January	**13**	-
Credit to income statement	**133**	13
At 31 December	**146**	13

Deferred tax is calculated on temporary differences under the liability method using a tax rate of 25% (2010 27%) Deferred tax assets are expected to be recovered after more than 12 months and are due to timing differences on claiming capital allowances

14 Derivatives and financial instruments

Currency derivatives

When necessary the Group uses forward foreign exchange contracts to hedge its exposure to exchange rate movements There was no requirement to have forward foreign exchange contracts in place at 31 December 2011 (2010 - nil)

Fair values of financial assets and financial liabilities

The carrying value of each measurement category of the Group's financial assets and liabilities are stated below, together with a comparison of fair value and carrying amount for each class of financial asset and financial liability

Group

2011	Loans and receivables	Financial liabilities measured at amortised cost	Total carrying amount	Total Fair value
	£'000	£'000	£'000	£'000
Current Assets				
Net trade receivables (Note10)	35,337		35 337	35 337
Amounts owed by group undertakings (Note 10)	9 110		9,110	9,110
Other receivables (Note 10)	533		533	533
Prepayments (Note 10)	722		722	722
Cash and cash equivalents	1,166		1,166	1,166
Current Liabilities				
Trade payables (Note 11)		(7,432)	(7,432)	(7 432)
Accruals and other payables (Note 11)		(17,659)	(17 659)	(17,659)
Amounts owed to associated undertakings (Note 11)		(12 096)	(12 096)	(12,096)
Amounts owed to group undertakings (Note 11)		(12,929)	(12,929)	(12 929)
	46,868	**(50,116)**	**(3,248)**	**(3,248)**

Notes to the Financial Statements (continued)

14 Derivatives and financial instruments (continued)

Group

2010	Loans and receivables	Financial liabilities measured at amortised cost	Total carrying amount	Total Fair value
	£'000	£'000	£'000	£'000
Current Assets				
Net trade receivables (Note10)	17,773		17,773	17,773
Amounts owed by group undertakings (Note 10)	9 095		9 095	9,095
Other receivables (Note 10)	1,100		1,100	1 100
Prepayments (Note 10)	444		444	444
Cash and cash equivalents	1,145		1,145	1,145
Current Liabilities				
Trade payables (Note 11)		(9 898)	(9,898)	(9,898)
Accruals and other payables (Note 11)		(9 439)	(9,439)	(9,439)
Amounts owed to associated undertakings (Note 11)		(6,255)	(6,255)	(6,255)
Amounts owed to group undertakings (Note 11)		(6,873)	(6 873)	(6,873)
	29,557	**(32,465)**	**(2,908)**	**(2,908)**

Notes to the Financial Statements (continued)

14. Derivatives and financial instruments (continued)

Company

2011	Loans and receivables	Financial liabilities measured at amortised cost	Total carrying amount	Total Fair value
	£'000	£'000	£'000	£'000
Current Assets				
Net trade receivables (Note10)	31,937		31,937	31,937
Amounts owed by group undertakings (Note 10)	9,829		9 829	9,829
Other receivables (Note 10)	525		525	525
Prepayments (Note 10)	574		574	574
Cash and cash equivalents	19		19	19
Current Liabilities				
Trade payables (Note 11)		(4,688)	(4,688)	(4,688)
Accruals and other payables (Note 11)		(16,894)	(16 894)	(16,894)
Amounts owed to associated undertakings (Note 11)		(12,096)	(12 096)	(12,096)
Amounts owed to group undertakings (Note 11)		(12 928)	(12,928)	(12,928)
	42,884	**(46,606)**	**(3,722)**	**(3,722)**

Notes to the Financial Statements (continued)

14 Financial instruments (continued)

Company

2010	Loans and receivables	Financial liabilities measured at amortised cost	Total carrying amount	Total Fair value
	£'000	£'000	£'000	£'000
Current Assets				
Net trade receivables (Note10)	15,603		15,603	15 603
Amounts owed by group undertakings (Note10)	9,095		9,095	9,095
Other receivables (Note10)	1 083		1 083	1 083
Prepayments (Note10)	361		361	361
Cash and cash equivalents	42		42	42
Current Liabilities				
Trade payables (Note11)		(8,513)	(8,513)	(8 513)
Accruals and other payables (Note11)		(9,022)	(9 022)	(9 022)
Amounts owed to associated undertakings (Note11)		(6,255)	(6,255)	(6,255)
Amounts owed to group undertakings (Note 11)		(6,979)	(6,979)	(6,979)
	26,184	**(30,769)**	**(4,585)**	**(4,585)**

15 Financial risk factors

The activities of the Group expose it to certain financial risks, namely currency risk, credit risk and liquidity risk The Group's risk management strategy seeks to minimise potential adverse effects on its financial performance As part of its strategy derivative financial instruments are used to hedge its risk exposures

There are clearly defined objectives and principles for managing financial risk established by the Board of Directors, with policies, parameters and procedures covering foreign currency and cash management

The Group works closely with the treasury function of Hunting PLC to ensure proper implementation of the policies for foreign currency and cash management

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk from its operating activities carried out in its foreign branches Foreign exchange risks arise from future transactions and cash flows and from recognised monetary assets and liabilities that are not denominated in the functional currency of the Group's local operations

Notes to the Financial Statements (continued)

15 Financial risk factors (continued)

(i) Transactional risk

The exposure to exchange rate movements in significant future transactions and cash flows is hedged using forward foreign exchange contracts Certain forward foreign exchange contracts have been designated as hedging instruments of highly probable forecast transactions The Group prepares quarterly rolling twelve month cash flow forecasts on a monthly basis to enable working capital currency exposures to be identified Action is then taken to eliminate any potential exposures that are arising No speculative positions are entered into by the Group

(ii) Translational risk

Foreign exchange risk arises from the Company's investment in its foreign subsidiary However, it is deemed that the risk is not material and as a result no hedging instruments are required

(b) Credit risk

The Group's credit risk arises on its outstanding receivables which are continuously monitored Credit account limits are primarily based on the credit quality of the customer and past experience through trading relationships To reduce credit risk exposure from outstanding receivables, the Group has a credit insurance policy taken out with an external insurer, subject to certain conditions

(c) Liquidity risk

Surplus funds are lent to the Group's parent company with interest paid at the Bank of England base rate + 1% prevailing during the loan for GBP Sterling balances and US Prime Rate for US Dollar balances

All of the Group's financial liabilities are payable on demand or within one year (2010 – on demand or within one year)

(d) Sensitivity analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group and Company financial instruments and show the impact on profit or loss and shareholders' equity Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments The sensitivity analysis relates to the position as at 31 December 2011

The following assumptions have been made in calculating the sensitivity analysis

- Foreign exchange rate and interest rate sensitivities have an asymmetric impact on the Group and Company results, that is, an increase in rates does not result in the same amount of movement as a decrease in rates
- The carrying value of financial assets and liabilities carried at amortised cost do not change as interest rates change

(i) Interest rate sensitivity

At 31 December, if UK interest rates had been 0 5% higher or lower, with all other variables held constant, the post-tax effects for the year would have been as follows

Notes to the Financial Statements (continued)

15 Financial risk factors (continued)

Group	2011		2010	
	Income Statement	Equity	Income Statement	Equity
	£'000	£'000	£'000	£'000
UK Interest Rates +0 5%	(52)	-	42	-
UK Interest Rates -0 5%	52	-	(42)	-

These movements arise from the GBP Sterling floating rate on the bank balances and the loans to Hunting PLC treasury

Company	2011		2010	
	Income Statement	Equity	Income Statement	Equity
	£'000	£'000	£'000	£'000
UK Interest Rates +0 5%	(52)	-	42	-
UK Interest Rates -0 5%	52	-	(42)	-

These movements arise from the GBP Sterling floating rate on the bank balances and the loans to Hunting PLC treasury

(ii) Foreign exchange rate sensitivity
At 31 December, if the US dollar had strengthened or weakened by 15% against Sterling, with all other variables held constant, the impact on post-tax profit and equity for the year would have been as follows

Group	2011		2010	
	Income Statement	Equity	Income Statement	Equity
	£'000	£'000	£'000	£'000
US dollar exchange rates +15%	(254)	-	(515)	-
US dollar exchange rates -15%	292	-	593	-

Company	2011		2010	
	Income Statement	Equity	Income Statement	Equity
	£'000	£'000	£'000	£'000
US dollar exchange rates +15%	(342)	-	(511)	-
US dollar exchange rates -15%	393	-	587	-

The movement on the post-tax profit is primarily due to a change in the value of the inter-company loans The equity movement relates to fair value movements on the derivatives outstanding at the end of the prior year

Notes to the Financial Statements (continued)

16. Post retirement benefits

Pensions

The company contributes to a defined contribution scheme, in addition to the defined benefit scheme managed by Hunting PLC The Company contributed £1,186,000 (2010 £597,000) to the defined benefit scheme and £302,000 (2010 £227,000) to the defined contribution scheme in 2011, which are charged to the profit and loss account as they fall due Full details of the Pension schemes on offer are detailed in the Annual Report & Accounts of Hunting PLC Copies can be obtained from the Hunting PLC Company Secretary

17 Ordinary shares

	2011 £'000	2010 £'000
Authorised, Allotted, Called up and Fully Paid		
1,000,000 (2010 1,000,000) ordinary shares of £1 each	**1,000**	1,000

Hunting Energy Services (UK) Limited is a private limited company domiciled and incorporated in England and Wales

18 Retained earnings and other reserves

Group

	Foreign Exchange Reserve		Undistributable Reserve		Retained Earnings		Total	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
At 1 January	**958**	1,242	**22**	-	**34,802**	32,220	**35,782**	33,462
Profit for the year	-	-	-	-	**6,773**	6,104	**6,773**	6,104
Cost of share based payments	-	-	-	-	**453**	348	**453**	348
Cash payments in respect of share options	-	-	-	-	**(348)**	(142)	**(348)**	(142)
Dividends paid	-	-	-	-	**(3,034)**	(3,728)	**(3,034)**	(3,728)
Translation adjustment	**(182)**	(284)	-	-	-	-	**(182)**	(284)
Undistributable reserve	-	-	-	22	-	-	-	22
At 31 December	**776**	958	**22**	22	**38,646**	34,802	**39,444**	35,782

There are no cash flow hedges in place at 31 December 2011 (2010 – none)

Notes to the Financial Statements (continued)

18 Retained earnings and other reserves (continued)

Company

	Undistributable Reserve		Retained Earnings		Total	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
At 1 January	**22**	-	**28,864**	26,314	**28,886**	26,314
Profit for the year	-	-	**6,044**	6,072	**6,044**	6,072
Cost of share based payments	-	-	**453**	348	**453**	348
Cash payments in respect of share options	-	-	**(348)**	(142)	**(348)**	(142)
Dividends paid	-	-	**(3,034)**	(3,728)	**(3,034)**	(3,728)
Undistributable reserve	-	22	-	-	-	22
At 31 December	**22**	22	**31,979**	28,864	**32,001**	28,886

19. Dividends paid

	2011 £'000	2010 £'000
Declared and paid during the year		
Final dividend for the year ended 31 December	**3,034**	3,728

Dividend per share in the year 303 4 p (2010 372 80 p)

20 Share based payments

Executive Share Options

The Company operates an executive share option scheme which grants options to eligible employees Vesting of options granted is subject to the achievement of performance targets, as described in the Remuneration Committee's Report over a three year period Thereafter the employee, subject to continued employment, has seven years in which to exercise the option

Options are valued using an option pricing model based on the binomial model, but adjusted to model the particular features of the options The assumptions used in calculating the charge to the income statement, which only relates to options granted after November 2002 as permitted by IFRS 2, are as follows

Notes to the Financial Statements (continued)

20 Share based payments (continued)

Date of grant	04 03 2008	06 03 2007
Exercise price (p)	784 5	640 0
Share price at grant (p)	784 5	640 0
Expected volatility (% pa)	32	36
Dividend yield (% pa)	1 1	1 17
Risk-free interest rate (% pa)	4 3	4 9
Turnover rates (% pa)	5	5
Fair value at grant (p)	294 9	248 4
Fair value adjusted for rights issue (p)	n/a	n/a
Assumed likelihood of satisfying performance conditions at		
31st December 2010	**75%**	100%
31st December 2011	**100%**	100%

The assumption for early exercise is 50% when options are 20% in the money

The expected volatility is calculated as the historic volatility of the Hunting PLC share return over the 5 years prior to each grant date

The charge to the income statement attributable to Executive Share Options is £453,000 (2010 - £348,000)

Share options movements during the year

	2011		2010	
	No of options	**Weighted average exercise price (p)**	No of options	Weighted average exercise price (p)
Outstanding at beginning of the year	263,814	322	296,362	321
Exercised during the year	(26,362)	233	(32,548)	259
Lapsed during the year	-	703	-	714
Outstanding at the end of the year	237,452	338	263,814	322
Exercisable at the end of the year	237,452	338	203,902	269

Options are granted with an exercise period equal to the average closing mid-market price of the company's share price for the three trading days prior to the grant

The weighted average share price at the date of the exercise was 755 0p (2010 – 676 6p)

Notes to the Financial Statements (Continued)

20. Share based payments (continued)

	2011 No of options	2010 No of options	Exercise price range (p)	Exercise period
Executive Share Options 2005	63,440	63,440	220 7	09 03 08 - 08 03 15
Executive Share Options 2006	59,008	82,245	383 0	08 03 09 –07 03 16
Executive Share Options 2007	55,092	58,217	640 0	06 03 10 –05 03 17
Executive Share Options 2008	59,912	59,912	784 5	04 03 11 -03 03 18
	237,452	263,814		

Long Term Incentive Plan
The Company participates in the Hunting PLC Long Term Incentive Plan ("LTIP") for key executives LTIP awards may be settled in shares or cash The charge to the income statement attributable to the LTIP is £532,161 (2010 - £25,928)

21. Operating leases

The Group and Company are committed to the following minimum lease payments in respect of operating leases

Group	2011 £'000		2010 £'000	
	Land and buildings	**Other**	Land and buildings	Other
Within one year	**267**	**266**	292	194
Between two to five years	**67**	**487**	18	330
After five years	-	-	-	-

Company	2011 £'000		2010 £'000	
	Land and buildings	**Other**	Land and buildings	Other
Within one year	**58**	**187**	102	125
Between one to five years	**67**	**369**	14	169
Later than five years	-	-	-	-

Notes to the Financial Statements (continued)

22 Parent company and related parties

Hunting Energy Services (International) Limited, a Company registered in England and Wales, is the immediate parent undertaking of the company

Hunting PLC is the ultimate parent Company Copies of the Group financial statements of Hunting PLC may be obtained from the Company Secretary, Hunting PLC, 3 Cockspur Street, London, SW1Y 5BQ Hunting PLC is the only group to consolidate the company's financial statements

Hunting Energy Services (UK) Limited is a 60% subsidiary of Hunting Energy Services (International) Limited Additionally 20% of the remaining ordinary share capital is held by Marubeni-Itochu Tubulars Europe PLC, and 20% by Marubeni-Itochu Steel Inc Transactions with these related parties comprise

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Transactions with associated undertakings				
Trade sales to				
- Marubeni-Itochu Tubulars Europe PLC	**(1,486)**	(2,576)	**(1,486)**	(2,360)
Trade purchases from				
- Marubeni-Itochu Tubulars Europe PLC	**20,191**	12,822	**20,191**	12,818
Interest paid to				
- Marubeni-Itochu Tubulars Europe PLC	**(128)**	(96)	**(128)**	(96)
Dividends paid to				
- Marubeni-Itochu Tubulars Europe PLC	**(1,214)**	(1,492)	**(1,214)**	(1,492)
Amounts owed to				
- Marubeni-Itochu Tubulars Europe PLC	**(12,096)**	(6,255)	**(12,096)**	(6,255)
Transactions with Companies in the Hunting PLC Group				
Trade Sales to				
- Hunting Energy Services US Pipe	**1,958**	705	**206**	705
- Hunting Energy Services US Connection	**19**	8	**19**	8
- Hunting Energy Services Trenchless	**7**	-	**7**	-
- Hunting Energy Services (Pte) Limited	**176**	7	**176**	-
- Hunting Welltonic Limited	**15**	2	**11**	2
- Hunting Energy Services (Well Intervention Limited	**456**	114	**395**	98

Notes to the Financial Statements (Continued)

22. Parent company and related parties (continued)

	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade Sales to: (continued)				
- Hunting Energy Services US Manufacturing	132	1	132	1
- Hunting Energy Services BV	-	-	2,541	431
Trade Purchases from				
- Hunting Energy Services US Pipe	291	-	291	50
- Hunting Energy Services Trenchless	5	-	-	-
- Hunting Welltonic Limited	-	-	-	2
- Hunting Energy Services Pte	-	390	-	-
- Hunting Energy Services US Connection	263	543	226	446
- Hunting Energy Services (Well Intervention Limited	456	-	395	18
- Hunting Energy Services US Manufacturing	-	5	-	-
- Hunting Energy Services BV	-	-	414	930
Amounts owed by related parties at 31 December				
- Hunting Energy Services Trenchless	10	12	10	12
- Hunting Energy Services BV	-	-	1,605	-
- Hunting Energy Services (Pte) Limited	2	7	2	7
- JFETC	39	-	39	-
- Hunting Energy Services US Manufacturing	9	1	9	1
- Hunting Energy Services Limited	98	164	98	164
- Hunting Energy Services (International) Limited	59	-	59	-
- Hunting Energy Services (Well Intervention) Limited	342	441	312	441
- Hunting Welltonic Limited	193	140	193	140
- Hunting Energy Services (Wuxi) Co Ltd	12	3	12	3

Notes to the Financial Statements (Continued)

22 Parent company and related parties (continued)

Amounts owed by related parties at 31 December (continued)				
- Hunting Knightsbridge Holdings (long term loan)	**7,490**	8,306	**7,490**	8,306
- Hunting Energy Services US Connections	**-**	5	**-**	5
- Hunting Energy Services US Pipe	**856**	-	**-**	-
- Badentoy Tubular Services Limited	**-**	8	**-**	8
- Hunting Energy Asia (Indonesia)	**-**	8	**-**	8
Amounts owed to related parties at 31 December				
- Hunting Knightsbridge Holdings (long term loan)	**11,876**	6,361	**11,876**	6,361
- Hunting Energy Services Limited	**875**	-	**875**	-
- Hunting Energy Services BV	**-**	-	**-**	162
- Hunting Energy Services (International) Limited	**-**	456	**-**	456
- Hunting Energy Services US Manufacturing	**-**	5	**-**	-
- Hunting Energy Services US Connections	**36**	51	**35**	-
- Hunting Energy Services US Pipe	**142**	-	**142**	-
Payments made to Directors	**1,387**	809	**1,387**	809

23. Principal subsidiaries and associates

		Holding	Percentage interest in ordinary shares and proportion of voting rights held	Country of Incorporation / Registration / Residence
Badentoy Tubular Services Limited	Joint Venture	Direct	33	Scotland
Hunting Energy Services BV	Subsidiary	Indirect	100	Netherlands

Liquidation

The voluntary liquidation of Badentoy Tubular Services was completed in May 2012

Notes to the Financial Statements (Continued)

24. Cash generated from operations

Reconciliation of net profit to net cash inflow from operating activities

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Net profit before tax	**9,471**	8,405	**8,297**	8,063
Adjustments for				
Depreciation	**1,139**	1,051	**822**	759
Finance income	**(248)**	(88)	**(232)**	(82)
Finance costs	**317**	186	**317**	180
Profit on disposal of property, plant and equipment	**(10)**	-	**(10)**	-
Share of results in joint venture	-	(30)	-	-
Dividend received from subsidiaries	-	-	**(476)**	(926)
Dividend received from joint venture	-	-	**(109)**	-
Net of share based payments	**105**	206	**105**	206
Changes in working capital				
(Increase) / Decrease in inventories	**(2,616)**	451	**(646)**	156
(Increase) / Decrease in trade and other receivables	**(17,290)**	368	**(16,723)**	(380)
Increase / (Decrease) in trade and other payables	**17,651**	(3,087)	**15,837**	(2,400)
Cash generated from continuing operations	**8,519**	7,462	**7,182**	5,576