HUNTING

Hunting PLC Annual Report 2012

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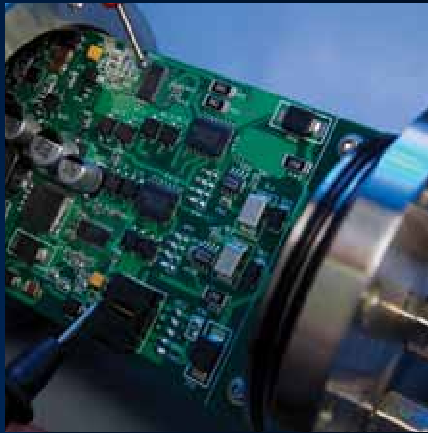
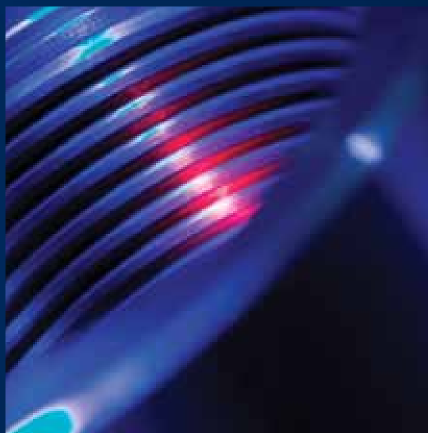
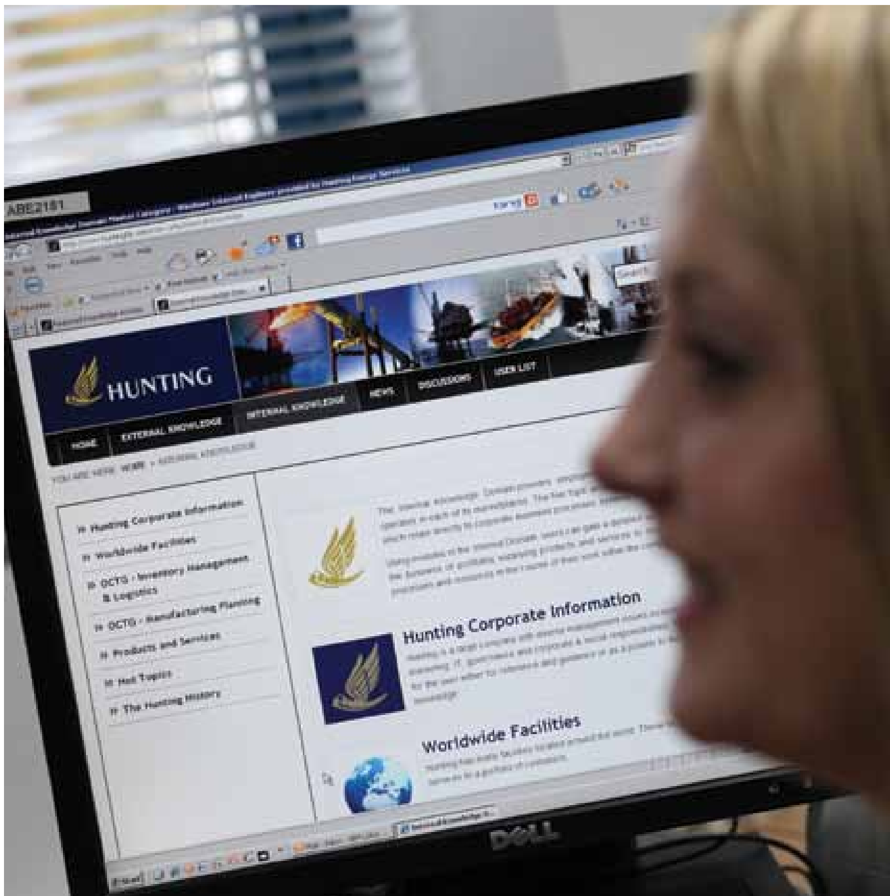




Welcome to Hunting

"The management team and assets are fit for purpose and set for growth."

Dennis Proctor, Chief Executive



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For more information please visit:
www.huntingplc.com

Strength in Numbers

3,866
Employees
+12%

Diluted EPS
57.5p
+49%

PBT
£123.6m
+55%

8.44m
Hunting Energy Services Hours Worked

14.4m
Parts Produced

Operational Highlights

- Record operational performance. Revenue increasing 36% to £825.8m (2011 – £608.8m).
- Successful integration of recent acquisitions.
- Further international expansion into the US, UK and China.
- Facilities footprint now exceeding 2.7m square feet.
- New WEDGE-LOCK™ and SEAL-LOCK™ connection products introduced in the year.
- Sale of Field Aviation completed in the year.
- Planned strategic investment into South Africa to capture new geographic market share.

Financial Highlights*

- Further record year of profits:
  - Underlying profit from continuing operations £128.8m (2011 – £81.0m).
  - Reported profit from continuing operations £85.9m (2011 – £41.0m).
  - Underlying diluted earnings per share from continuing operations 57.5p (2011 – 38.7p).
  - Reported diluted earnings per share from continuing operations 40.0p (2011 – 20.3p).
- Strong cash flows generated in year with gearing reducing to 20% (2011 – 30%).
- Capital expenditure across global operations increasing to £61.6m (2011 – £58.0m).
- 27% increase in final dividend proposed of 14.0p (2011 – 11.0p), subject to approval by shareholders.

* Underlying – results for the year, as reported under IFRS, adjusted for amortisation and exceptional items.
Reported – results for the year under IFRS.

Revenue

£825.8m

+36%

350

Patents

Hunting at a Glance

Hunting's three main manufacturing divisions cover the entire wellbore, from surface equipment to fracturing, from the beginning of the well's life cycle to the end, with its Well Construction, Well Completion and Well Intervention business units.

Casing & Connection Technologies

Meeting market demand

Our Clients
We work with the international and national oil companies in all the major producing regions of the world as well as with all the major energy service companies and independent operators in the principal producing regions.

Well Construction
We provide products and services related to the initial drilling and construction phase of the wellbore. This division includes Hunting's new Advanced Manufacturing Group comprised of Hunting Innova, Hunting Dearborn and Hunting Doffing. The division also includes casing connection technologies with premium proprietary threads; annular pressure release systems; MWD/LWD components; roller reamer, non-magnetic drill collars; vibration dampening units and mud motors.

The Group's Premium Connection business manufactures a range of connections including the Group's in house designed SEAL-LOCK™ and WEDGE-LOCK™. These proprietary premium connections and associated technologies are well suited to challenging offshore environments and onshore shale plays.

Hunting's Drilling Tools business provides mud motors, shock tools, non-magnetic drill collars and other technologies that assist in the efficient drilling of oil and gas wells. Demand for these products is being driven by shale drilling activities in North America and through international sales in the Middle East and Asia Pacific.

Hunting Equipment Management Services ("HEMS") provides downhole rental tools and equipment into the European market and is pursuing additional market opportunities in the Middle East/North Africa region.

Hunting's Oil Country Tubular Goods ("OCTG") business includes casing products and management services. The Group has key relationships with steel manufacturers to facilitate just-in-time logistics and inventory. Hunting has the technology, resources, established mill relationships and experience to supply all tubular needs on time, anywhere in the world.

Well Completion

This division is a global manufacturer of accessories, premium tubing, connections and OCTG-related products and services that are manufactured at 41 centres around the world for the completion phase of the wellbore. The division provides products, proprietary technologies, engineering expertise and services below the wellhead. The acquisition of Hunting Titan puts the Group into the design, manufacture and distribution of perforating systems, energetics, associated tools and MWD/ LWD wireline logging equipment. It also provides a network of distribution centres to satisfy the short order demand that characterise onshore field operations.

Premium tubing is supplied into the energy industry for both conventional and unconventional extraction from the shale plays of North America to the established offshore arenas and emerging regions, including East Africa and the Middle East.

Hunting's Well Completion division also includes a thread protection group that provides protection solutions including SealLube™ thread compound, Preserve-A-Thread corrosion protection and CLEAR-RUN™ an environmentally safe advanced tubular solution for use in zero emission environments.

Well Intervention

This division manufactures equipment for the maintenance and restoration of producing wells to ensure the optimum flow of oil or gas throughout the well life cycle.

Organic growth and acquisition has allowed for the integration of our extensive range of pressure control equipment technologies and wireline and slickline products coupled with the Group's expertise and experience.

The Group is widely regarded within the oil and gas industry as one of the leading providers of Thru-Tubing services for downhole solutions for the coiled tubing business. Thru-Tubing technology aligns with the suite of well intervention tools that are now packaged and deployed to operating customers throughout the world.

The Subsea technologies capability includes chemical injection systems, hydraulic valves and couplings.

OEM

Perforating

MWD/LWD Tools & Logging Equipment

Mud Motors

Chairman's Statement

"Despite the world economic uncertainty, global demand for energy continued to grow."

The Group has had another successful year of further expansion as management integrate the activities of the companies acquired in 2011 and continue to invest substantial capital in new facilities.

Underlying profit before tax from continuing operations in 2012 was £123.6m (2011 – £79.8m), a 55% increase. Reported profit before tax from continuing operations was £80.7m (2011 – £38.8m).

Despite the world economic uncertainty, global demand for energy continued to grow in the year. The industry we serve needs not only to provide for that growth but also to replace rapidly depleting reserves, leading to increasing demand for our sophisticated and highly engineered products.

Within that general picture, the great success of new methods of extracting unconventional oil and gas ('the shale revolution') has had extraordinary effects, particularly in the US. The resulting excess supply of natural gas has led to low US prices for that commodity, but similar drilling and production methods are being applied to 'shale oil'. The result is that crude oil production in the US is rising after many years of decline.

The Group is well placed in the shale revolution, particularly following the 2011 acquisition of Hunting Titan, and is actively exporting their technology to other areas of shale potential such as Europe and the Far East.

Activity in the Gulf of Mexico has fully returned to the levels it enjoyed prior to the tragic Macondo incident of 2010. Our facilities serving that market are stretched, with further expansion under way. In Europe, the North Sea is busy and, once again, several of our recently expanded facilities are experiencing high utilisation. Similarly, our activities in South-East Asia and in China are moving ahead strongly.

Within Hunting Energy Services, Well Construction activities had another highly successful year – emphasising the deep strength of several of the core activities we have been developing over many years. Well Completion, the largest contributor, had a satisfactory year with profits well ahead of 2011. The smaller Well Intervention activity reported continued volatility in the year, however activity levels are anticipated to improve across the coming year.

Captions L-R:
Precision machining.

Multiple part assembly.

Design engineering are features of Hunting products.

For over 70 years, the Group has had a small oil exploration and production business in the southern US. We have decided to produce from existing wells but not to invest further in new exploration and production projects, except as contractually committed.

Gibson Shipbrokers, a world leader in its industry, did well to produce fine results in difficult and highly volatile markets.

Shareholders of longer standing will know that the Group once had many aviation-related activities in its stable. The last of these, the Canadian company Field Aviation, was sold during the year to the management. We wish the company every success in the future.

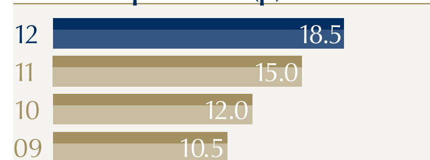
Capital expenditure on new and replacement facilities in 2012 was even greater than in the previous year. Despite this, the Group generated more than £54.6m of cash with the result that net debt reduced by a similar amount. The balance sheet is in excellent shape, with financial gearing reduced during the year from 30% to 20%.

Underlying diluted earnings per share from continuing operations were 57.5p (2011 – 38.7p), an increase of 49% on the previous year. Reported diluted earnings per share from continuing operations were 40.0p (2011 – 20.3p).

"Capital expenditure on new and replacement facilities was even greater in 2012 than in the previous year."

We are recommending a final dividend for 2012 of 14.0p per share, payable on 1 July 2013 to shareholders on the register on 14 June 2013, giving a total of 18.5p for the year, a 23% increase.

Dividend per share (p)



Year	Dividend (p)
12	18.5
11	15.0
10	12.0
09	10.5

18.5p +23%

Your Company has once again had a good year in strong markets and I am confident we will be able to take advantage of further developments in this exciting industry.

I thank all our staff throughout the world for our continued success.

Richard Hunting C.B.E.
Chairman
7 March 2013

Growing our Global Presence

North America
The engineering hub for the development and testing of new technologies and techniques such as those used to access the shale plays. Leveraging the benefits of an extensive field network through the cross selling of products and the concentration of manufacturing services for both onshore and offshore energy industries.

25
service and distribution points

Extending and integrating our reach

66
facilities

"We aim to grow market share through our expanding manufacturing and distribution network around the world where new demand has been identified."

Dennis Proctor, Chief Executive

Hunting Energy Services has significantly broadened its product offering and developed its international manufacturing presence through regional hubs.

Europe and Central Asia
Engineering services and manufacturing brought together to provide a focused presence for high specification machining. State of the art pipe management facility with high volume threading capability servicing the expanded deep sea and continental footprints.

Asia Pacific
Expansion of regional manufacturing base to incorporate new products and underpin existing capability with continued enlargement of existing facilities and development of new opportunities to meet local demand. Co-location of central services in a regional hub.

Middle East and North Africa
A regrouping of business streams into one area with a regional focus for high end services brought together in a single regional facility. This brings a new impetus to bring products to mature and frontier projects.

41
manufacturing centres

As new products are added to the inventory, steps have been taken to integrate and expand the local presence in a tailored and targeted fashion. Perforating products are now manufactured at facilities in Canada while regional warehousing has been established throughout the Group's existing global presence. This allows for an immediate response to market needs.

Coiled tubing tools and pressure control equipment have been integrated beyond their original acquisition sites to be replicated in regional centres within North America and Asia Pacific. Improved manufacturing efficiencies have been made and Lean Manufacturing principles embedded across our facilities to enhance the Group's competitive position.

These actions will facilitate new revenue opportunities and cost efficiencies as the Group develops its offering from established to new growth markets. Underpinning these strategic objectives is the commitment to manufacture and deliver quality assured products with a reputation for total customer satisfaction under the Hunting brand.

Chief Executive's Review

Introduction

Hunting has again reported a record set of financial results in a year where the Group has progressed its strategy to internationalise its product portfolio enhanced by the businesses acquired in recent years. 2012 has been a year of integration, consolidation and further organic expansion aimed at maximising the enlarged Group's profit and margin potential. Plans to further grow the manufacturing footprint are also under way as expansion opportunities in new geographic territories are considered.

The Group has reported an annual increase in revenue of 36% to £825.8m. The increase in business momentum seen in the first quarter of the year, and generally consistent demand for our products throughout 2012, led to underlying profit from continuing operations increasing 59% to £128.8m (2011 – £81.0m). Underlying diluted earnings per share from continuing operations increased by 49% to 57.5p (2011 – 38.7p).

Reported profit from continuing operations was £85.9m (2011 – £41.0m) and reported diluted earnings per share from continuing operations was 40.0p (2011 – 20.3p).

Our results have been delivered against a market backdrop where the energy industry in North America has seen a shift in focus from onshore natural gas drilling to liquids-focused targets, resulting in a 13% decline in the number of active onshore rig units in the year. This has been partially offset by a 19% increase in the number of offshore active units drilling in the Gulf of Mexico, further supported by a 6% increase in other regions where Hunting operates internationally. The WTI crude oil price has also been relatively stable throughout the year ensuring that capital expenditure by the major energy exploration and services companies has been sustained. These factors have enabled many of Hunting's businesses to achieve outstanding operating results.

In the year Hunting Titan products and components began to be manufactured at a number of Hunting's North American locations to maximise cost benefits and plans are in place to commence manufacturing in China during 2013. Hunting Titan's sales reach has been extended to Europe, the Middle East and Asia Pacific, with personnel being appointed at our key regional facilities, extending sales opportunities for perforating systems and accessories into a wider international customer base.

Hunting's efforts to further extend its Well Construction, Well Completion and Well Intervention product offering throughout all of its international operating hubs is also producing results. This includes combining sales and manufacturing capabilities of the new acquisitions into our Canadian, European and Asia Pacific markets and also broadening the existing product and service lines offered by our UK operations into larger North American markets where new demand has been identified.

Group Income Statement

	Underlying			Reported		
	2012 £m	2011 £m	Change %	**2012 £m**	2011 £m	Change %
Continuing operations:						
Revenue	825.8	608.8	36	825.8	608.8	36
EBITDA	154.3	102.5	51	144.7	77.2	87
Profit from operations	128.8	81.0	59	85.9	41.0	110
Profit before tax	123.6	79.8	55	80.7	38.8	108
Profit for the year	89.0	57.3	55	62.8	31.5	99
Discontinued operations:						
Profit for the year	–	0.7		69.2	50.7	
Total profit for the year	**89.0**	**58.0**	**53**	**132.0**	**82.2**	**61**
Diluted EPS – continuing operations	**57.5p**	**38.7p**	**49**	**40.0p**	**20.3p**	**97**

In parallel to these integration initiatives, Hunting continues to increase its international presence. Hunting Specialty has broadened its manufacturing and sales reach into Canada and the Advanced Manufacturing Group is planning international expansion with new markets being developed in Asia Pacific over the coming year.

Our European and Middle East operations continued strong recruitment efforts during the year, supporting the opening of our expanded facility at Badentoy, Scotland and relocation of our Middle East operations to new enlarged facilities allowing service and repair functions to be undertaken. Hunting has also commenced a greenfield initiative in sub-Sahara Africa, driven by increasing sales into West Africa and strong oil and gas exploration activities in East Africa. In November 2012, a new management team based in South Africa joined the Group and were tasked to develop further sales across the continent and to develop plans for establishing a manufacturing presence in the region. While this initiative will take time to develop, it marks a further step in the Group's strategy to further expand its international manufacturing capabilities into new geographic territories.

In a globally tighter regulatory environment and with an increasingly diverse operating landscape Hunting continues to focus on new product innovation and development. In the year, the Group integrated its global engineering operations, with centres of excellence being focused at our Aberdeen and Houston facilities. The engineering group has a clear pipeline of new connection products under development with new WEDGE-LOCK™ and SEAL-LOCK™ designs either continuing or completing testing in the year. As part of the coordinated drive to be the independent supplier of choice for premium connection product lines, the Group has sanctioned the construction of a new development and testing facility in Houston. This is targeted at accelerating approval timescales for new product lines and reducing reliance on third party laboratory testing.

Elsewhere in the Group, in April 2012 we concluded the sale of Field Aviation Company Inc, for a total consideration of £7.5m.

With this disposal, the last of its aviation entities, Hunting is now a more focused energy services group.

The Group continues to recruit key personnel in all of its major business units, strengthening its core manufacturing, sales, human resources and finance functions, with the global workforce increasing 12% to 3,866 by year-end (2011 – 3,453).

With these encouraging initiatives and achievements, Hunting is well positioned as an integrated global energy service group driven by innovation for our international customer base.

Health, Safety and Environment

During 2012 Hunting Energy Services recorded 8.44m personnel hours, with 82 recordable incidents arising in the year. There were no fatalities in the year (2011 – nil).

Outlook

Our view for 2013 is a slow start with an improving second half. This conclusion is derived from discussions with major oil and gas companies, independents and OEM clients about their capital spend forecasts. Further, order intake in Q4 2012, current backlogs, facility expansions, product introductions and inquiry levels are blended to conclude that 2013 will be a year of progress.

Activity levels within our three core reporting divisions, Well Completion, Well Construction and Well Intervention will be driven by factors within each of the geographic regions they operate in:

North America

The current rig count for the US and Canada is 11% below this period in 2012. Forecasts are evenly split between a rising versus a falling rig count for the year. Our belief is, with strong oil prices prevailing, it will improve modestly onshore and remain strong offshore. Further improvements in drilling and completions will provide increasing activity and product usage despite a lagging rig count.

Premium Connections will benefit from the offshore demand. Accordingly, new capacity will be added throughout the year. Mud motor usage will lag in some regions, climb in others but will offer little growth due to slower natural gas development.

Within the Advanced Manufacturing Group a number of product lines still retain an 11 to 12 month backlog resulting in expansion plans for the second half of the year.

The Subsea division will return to expected profitability following a year of "re-certification". Its backlog has grown significantly with major call off from clients expected Q2 2013 onward.

Our manufacturing and accessories activity will benefit from a new facility in Houma, Louisiana and the offshore growth.

UK and Europe

A doubling of rig activity in offshore UK combined with renewed and new supply contracts, Hunting is optimistic about year-over-year growth in this region. New facilities for fracking equipment and explosives bunkering are in place with steady inquiries resulting. Again, some product demand exceeds our ability to supply and efforts are underway to solve the issue.

Middle East and Asia Pacific

Both regions expect growth in rig count and both regions will be providing a larger complement of Hunting products. Fracking equipment and explosives distribution will be in place with manufacturing in China. Additional capacity has been placed in Singapore with new sales efforts in Australia, Indonesia, Pakistan and India.

The Board is mindful of the geopolitical and economic issues which can negatively impact our markets. Further, the ability to hire/train key personnel remains a difficult task inherent to all in the oil and gas industry. Clients change plans, projects are delayed and competition can become hungrier. Against a backdrop which is robust and where timings remain unclear, the Group is well positioned for further international expansion and business growth.

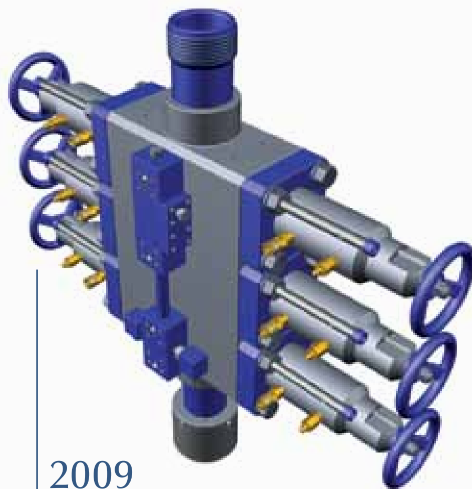
Five Years of Progress

Over the past five years, Hunting PLC has been transformed from a group of companies trading in diverse segments of the energy sector with local geographies and various brands. Following a programme of targeted divestment, acquisition and expansion, the Group has become a focused leader in the provision of equipment to the upstream energy industry, united under the Hunting brand.

2008

Sale of Gibson Energy

This was the single biggest step on the road to becoming a pure upstream energy services Group. The disposal marked the exit from the mid and downstream sectors that spanned trucking, pipeline, refining and retail operations in Canada.



2009

Acquisition of Welltonic, PT SMB Industri and National Coupling Company

The European, Asian and North American operations were bolstered by purchases which added depth to the manufacturing base and broadened its technical offering within the wellbore. With these purchases, entry was gained into the coiled tubing market to reinforce the existing well intervention business and advanced manufacturing techniques for the subsea arena.

Sale of Hunting Energy France

A group of regional companies that provided a range of equipment to the French mid and downstream markets.

2010

Acquisition of Innova Extel

The related diversification into electronics and volume component manufacturing at the heart of MWD/LWD tools used in directional drilling. This allowed for the backward integration of printed circuit boards into existing tools and systems.

£710m

Acquisitions

2011
Acquisition of Dearborn, W.L. Doffing and Specialty Supply

A deep strengthening of the Group's core capability in precision machining of critical tolerance components used in crucial MWD/LWD applications. Hunting Innova, Hunting Dearborn and Hunting Doffing form the businesses within the Advanced Manufacturing Group.

2011
Acquisition of the Titan Group

The largest acquisition in Hunting's history has allowed the Group to become an industry leader in perforating systems, energetics and well logging equipment. It broadens the product range and simplifies the single source offering of equipment essential to the successful development of the wellbore. Manufacturing of subcomponents has been optimised with existing facilities and taken to a global stage, while the field distribution network has benefited existing Hunting products.

2012
Sale of Field Aviation

This historic event marks the completion of the Group's journey from mini conglomerate at the turn of the Millennium to an energy services provider today.

£130m

Expansion capital expenditure

"I am confident we will be able to take advantage of further development in this exciting industry."

Richard Hunting C.B.E., Chairman

Operating Review

Business Strategy

The key elements of the Group's business strategy to deliver long-term shareholder value remain:

- To deliver both acquisitive and organic growth across all of the Group's core operations.
- To invest and develop the business platforms to augment:
  - Proprietary products and services;
  - Increased market share strength;
  - Enlarged global footprint; and
  - Capture of synergies from the opportunities thus created.

Underpinning these strategic objectives is a commitment to manufacture and deliver the highest quality products and services with a reputation for reliability and on time delivery under the Hunting brand.

Business Model

The key features of the Group's business model which seeks to deliver its strategic objectives are:

- A decentralised management structure allowing local management to identify and react to customer or local market requirements.
- Close monitoring, support and direction from the centre.
- Short chains of command allowing for faster decision making.
- Framework of controls with discretionary limits and powers for local management.
- Flexible cost structures which can adapt to market conditions.
- Common standards for quality, health and safety across global operations.

Maintaining high operational standards across all of the Group's activities is viewed as one of the building blocks in delivering a strong financial performance.

Hunting Energy Services

Hunting Energy Services manufactures and distributes high quality precision engineered products and components that enable the extraction of oil and gas. Our customers include international energy companies, national oil companies and mid to large oil services groups. Hunting continues to position its technical expertise and operating footprint to meet the requirements of these customers who are developing increasingly complex energy resources and operating in ever increasingly challenging conditions and locations.

During 2012 Hunting Energy Services reported a 38% increase in revenue to £793.4m (2011 – £574.6m) and a 63% increase in underlying profit from continuing operations to £126.7m (2011 – £77.6m). Reported profit from continuing operations was £91.0m (2011 – £49.4m).

This growth has been driven by a full year contribution from the acquisitions made in 2011, sustained onshore drilling activity in North America, increased drilling in the Gulf of Mexico where rig counts have now returned to pre-2010 levels, and a general improvement in international rig counts particularly in the North Sea where rigs have recovered from the historic lows seen in 2011.

Well Construction

Hunting's Well Construction division includes businesses that are positioned in the initial drilling and construction phase of the wellbore. This division reported revenue of £279.3m (2011 – £194.5m), with underlying profit from continuing operations increasing in the year to £45.7m (2011 – £28.5m). Reported profit from continuing operations was £40.6m (2011 – £20.7m).

The division operates globally and comprises six business areas: Premium Connections, Drilling Tools, Oil Country Tubular Goods ("OCTG"), Trenchless, Advanced Manufacturing Group and Hunting Specialty.

Premium Connections

Hunting's Premium Connections business has delivered an excellent result in the year, with demand supported by shale related activity and increasing global offshore drilling. Natural gas programmes in North America slowed during the year impacting demand in the Marcellus, Haynesville and East Texas gas-prone shale basins. The switch to liquids-focused drilling by many operators helped offset some of the decline in momentum, as projects continued within the Bakken, Eagle Ford and Williston shale areas. Further to this onshore activity, renewed drilling in the Gulf of Mexico also supported demand for Hunting's connections product lines. In the year, sales of Hunting's proprietary 'Annular Pressure Release Systems' increased compared to 2011, with sales to customers globally.

Segmental Results

The Group reports through a divisional structure arranged into the following operating segments:

	2012			2011		
	Revenue £m	Profit from operations £m	Margin	Revenue £m	Profit from operations £m	Margin
Hunting Energy Services						
Well Construction	279.3	45.7	16%	194.5	28.5	15%
Well Completion	457.4	74.1	16%	327.2	41.2	13%
Well Intervention	56.7	6.9	12%	52.9	7.9	15%
	793.4	126.7	16%	574.6	77.6	14%
Other Activities						
Exploration and Production	4.9	0.5	10%	8.2	1.7	21%
Gibson Shipbrokers	27.5	1.6	6%	26.0	1.7	7%
Group	**825.8**	**128.8**	**16%**	**608.8**	**81.0**	**13%**
Amortisation and exceptional items		(42.9)			(40.0)	
Group profit from continuing operations		**85.9**			**41.0**	

Product Excellence

Hunting undertakes high precision machining to extremely close tolerances for components in the global MWD/LWD industry.

Critical service applications include prototype, first pass specialist production and delivery of products to exacting requirements. This requires dedication, innovation and exemplary quality assurance.

Hole drilling, trepanning and boring diameters vary from 0.05in to 12in in lengths up to 32ft. This frequently involves exotic and expensive nickel or titanium alloys.

Quality assurance of the highest calibre

Creative Solutions

The Group provides an innovative and complete service throughout the tubular cycle. Sales, management of pipe and stock inventory are combined with full capability for threading premium connections and accessories.

State of the art handling facilities have been built to operate 24/7 to fulfill exacting customers just-in-time needs.

Hunting Energy's world leading pipe management facility in Fordoun, Scotland.

Operating Review continued

Extreme close tolerance machining.

Drilling Tools

While the Group's Drilling Tools business has delivered its best result since 2008, the unit has experienced a volatile year, as the industry moved from gas to liquids-focused shale regions. As the effects of this shift across North America were realised, management responded by redeploying people and its mud motor fleet to the busier regions, which included the opening of a new facility in Williston, North Dakota, to service the demand from the Bakken oil shale play. Management have also initiated Lean Manufacturing protocols across a number of the unit's facilities which will contribute to further efficiencies going forward. Hunting's Drilling Tools are now recognised as industry leaders with equipment regularly being utilised to drill lateral sections of a wellbore in excess of 10,000 feet during a single drilling cycle.

OCTG

Hunting's OCTG business includes casing products and management services for customers. The Group has key relationships with steel manufacturers to facilitate just-in-time logistics.

Trenchless

Hunting's Trenchless business delivered a good result in the year, as sales benefited from a wider distribution network driving growth in demand for the unit's drill stems. The business is now planning further international expansion with South America and Africa identified as regions offering good sales opportunities for its products which includes drill stems, premium tubing threads and mud motor drilling components.

Advanced Manufacturing Group

The businesses within the Advanced Manufacturing Group have reported excellent results during 2012, with Hunting Dearborn and Hunting Innova both delivering record results driven by strong demand for MWD/LWD tools.

Hunting Innova manufactures and assembles printed circuit boards which are utilised in MWD/LWD measuring tools. In the year, Hunting Innova continued to attract new customers which helped deliver record revenues and income. Plans to develop new markets for the unit's MWD/LWD tools include the establishing of a sales and manufacturing presence in Asia Pacific in the coming year.

Hunting Dearborn manufactures the precision engineered housings for MWD/LWD tools. A programme to expand the facility was completed in the first half of the year which will see improved lead times for its specialist product lines.

In the year, the Advanced Manufacturing Group made good progress with its 'sole supplier' concept, combining the capabilities of Hunting Innova, Hunting Dearborn and Hunting Doffing. The concept has been well received by a number of major international service groups.

Hunting Specialty

Hunting Specialty manufactures precision machined MWD parts used in directional drilling markets, including steering tools and gyro systems and delivered an excellent result in the year, with the business operating at near-capacity. Hunting Specialty has focused its expansion plans on increasing sales in Canada during the year. In the future the business will be driving further international growth through Hunting's regional manufacturing hubs.

In-house training and development.

Operating Review
continued

Control panels and switchgear designed for harsh field conditions.

Well Completion
Hunting's Well Completion division provides products to customers during the completion phase of an oil and gas well. The division reported revenue of £457.4m in 2012 (2011 – £327.2m) with underlying profit from operations totalling £74.1m (2011 – £41.2m). Reported profit from continuing operations was £44.1m (2011 – £21.4m).

The division operates globally and comprises four business areas: Hunting Titan, Premium Tubing, Manufacturing and Accessories and Thread Protection.

Hunting Titan
Hunting Titan manufactures perforating gun systems, shaped charges and associated instrumentation for the global hydraulic fracturing market and operates through three business lines, Perforating, Energetics and Instrumentation. During 2012, the unit's results were impacted by the switch from natural gas to liquids drilling in North America and increased competition in the short perforating gun segment of its markets. While drilling in the oil focused regions offset some of this reduced demand, management adapted by shifting inventory to the busier shale regions. This strategy included the opening of two new distribution centres in the US, with a further two planned in Canada in the short-term. During 2012, Lean Manufacturing initiatives were introduced at a number of the unit's facilities, which has improved production efficiencies. Development of Hunting Titan's international markets made excellent progress in the year, as sales personnel were added throughout the Group's international manufacturing hubs, and plans to produce key Hunting Titan products were progressed in Mexico, Canada and China. In 2012, Hunting Titan sold products to 52 countries around the world, with management confident of generating additional sales from these regions going forward.

Premium Tubing
Hunting's Premium Tubing unit, which machines and sells premium alloy pipe, reported a good result for 2012, despite increased volatility due to the shift from natural gas to liquids drilling. While the short-term outlook for the unit is softer when compared to 2012, with increased levels of inventory being held across the industry, Hunting remains a key just-in-time supplier of premium pipe product lines supporting increased activity in the Gulf of Mexico and the liquids-focused shales.

Manufacturing and Accessories
Hunting's Manufacturing and Accessories unit has seen a record performance during 2012, with the majority of the unit's facilities operating at capacity driven by the increase in offshore drilling in the Gulf of Mexico and other international drilling markets, including an improving North Sea. In the final quarter of the year, our deepwater-focused facility in Houma, Louisiana was commissioned which will primarily service clients in the Gulf of Mexico and warehouse a number of Hunting Titan product lines.

Thread Protection
Hunting's thread protection platform provides protection solutions including SealLube™ thread compound, Preserve-A-Thread corrosion protection and CLEAR-RUN™, its environmentally friendly advanced tubular solution. The unit reported a good result in the year, driven by new product lines being introduced and qualified for use with a number of key customers.

Well Intervention
Hunting's Well Intervention division supplies a range of products and services required throughout the life of a well to enhance and maintain production and in 2012 reported an underlying profit from operations of £6.9m (2011 – £7.9m). Reported profit from continuing operations was £6.3m (2011 – £7.3m).

The division operates globally and comprises two business areas: Hunting Subsea and Hunting Welltonic.

Hunting Subsea
Hunting Subsea manufactures and distributes precision engineered subsea valves, couplings and chemical injector systems. In 2012, the Subsea business continued to report mixed trading, as efforts to complete the recertification of the valves and chemical injector product lines for use in the Gulf of Mexico extended throughout the year. Looking forward, the Subsea business is poised for a year of good growth driven by increased offshore global rig counts.

Hunting Welltonic
Hunting Welltonic provides well intervention technologies, services and pressure control systems, to maintain and enhance the productivity of an oil and gas well. During 2012, the unit continued to grow its international revenue streams as North Sea drilling activity decreased in the early part of the year. The business has successfully entered markets in the US, where demand for Thru-Tubing and pressure control products has been identified across the various shale regions in the country. The business has established a presence at Hunting's Conroe, Texas facility in the US and is now exploring sales growth opportunities in the Canadian market.

Other Operating Divisions

Exploration and Production

Hunting's Exploration and Production division has interests in the southern US and offshore Gulf of Mexico, holding equity interests in over 50 production properties. On a Net Equivalent Barrel ("NEB") basis, production in the year was 131,000 NEB (2011 – 252,000 NEB), with proven reserves at year end being 1.1m NEB (2011 – 1.2m NEB). Due to disruptions in the region's gas pipeline system, primarily as a result of inspection and maintenance work, production volumes in the year were significantly reduced, leading to lower revenues and income. Additionally, the continuing depressed natural gas price in the US contributed to lower revenues. Based on these operating conditions, the business reported an underlying profit from operations of £0.5m (2011 – £1.7m). The reported loss from continuing operations was £6.7m (2011 – £0.7m profit).

During 2012, the business participated in 12 onshore wells and three offshore wells, with eight of the onshore wells and one offshore well finding reserves, contributing to the reserve base at year end. Costs of £2.0m associated with wells deemed to be uncommercial have been written off as dry hole costs.

Following a year end valuation of reserves, which requires individual oil and gas properties to be impaired when the realisable value is less than the book value based on future production and commodity prices, the business has taken an impairment charge of £5.2m reflecting lower gas prices.

The Board of Hunting has reviewed the strategic rationale of the Exploration and Production division and from 2013 will not be making any new capital investment, beyond where the division has contractual commitments. The division will in future focus on producing out its remaining reserves, with a view to winding down the operation. As a result, Exploration and Production is now presented within other operating divisions.

Gibson Shipbrokers

Gibson continues to be one of the foremost global shipbroking businesses and now employs 165 personnel in the UK, Norway, Singapore and Hong Kong, an increase of 11% compared to 2011. During the year, despite continuing hostile trading conditions, good progress has been made across the business with fixing volumes increasing 18% year on year leading to an increase in revenue of 6% to £27.5m (2011 – £26.0m). Underlying profit from operations decreased 6% to £1.6m (2011 – £1.7m).

The business continues to be a leading broker in crude oil, fuel oil and clean petroleum products. The gas division covers LNG and LPG broking. The specialised division focuses on smaller shipments of chemicals, biofuels, vegoil, palm oil and lubes. The dry bulk division focuses on Panamax and Cape liftings of iron ore, grain and coal.

The offshore division has also grown its subsea, seismic and renewable energy broking activities and the sale and purchase division remains active covering newbuilds, resales, scrap and valuations. A world class consultancy department works closely with all the divisions and undertakes commission work for existing and new clients.

Exploration and Production – Oil and Gas Reserves (NEB 000's)

	1 January 2012	Reserve Movement	Production	**31 December 2012**
Oil	579	73	(58)	**594**
Gas	642	(70)	(73)	**499**
Oil and Gas	**1,221**	**3**	**(131)**	**1,093**

Operating Review continued

Performance Measures

A number of performance measures are used to compare the development, underlying business performance and position of the Group and its business segments. These are used collectively and periodically reviewed to ensure they remain appropriate and meaningful monitors of the Group's performance.

Key Performance Indicators	2012	2011
Revenue	**£825.8m**	£608.8m
EBITDA*	**£154.3m**	£102.5m
Profit from operations*	**£128.8m**	£81.0m
Diluted earnings per share ("EPS")*	**57.5p**	38.7p
Dividend per share ("DPS")	**18.5p**	15.0p
Return on average capital employed ("ROCE")*	**14%**	15%
Gearing ratio	**20%**	30%
Free cash flow	**£86.5m**	£38.9m
Capital expenditure	**£61.6m**	£58.0m
Inventory and WIP days	**107 days**	112 days
Trade receivable days	**64 days**	73 days

* These performance measures are based on underlying results for the year.

Other Performance Measures	2012	2011
Number of employees – year end	**3,866**	3,453
Number of recordable incidents	**82**	26†

† This does not include recordable incidents from the acquisitions made in 2011.

Indicators of future Group performance closely monitored by management include:

Key Market Indicators	2012	2011
Drilling rig activity (North America) – year end	**2,137**	2,432
Drilling rig activity (International) – year end	**1,253**	1,180
WTI Oil price (per barrel) – year end	**US$91.80**	US$98.83
Henry Hub Natural gas price (mcf) – year end	**US$3.44**	US$2.96
Exchange rates US$/£ – average	**1.59**	1.60
Exchange rates US$/£ – year end	**1.63**	1.55

Hunting Advanced Manufacturing Group

The Advanced Manufacturing Group is the strategic combination of Hunting Dearborn, Hunting Doffing and Hunting Innova capabilities under the one Hunting brand.

This customer defined platform is targeted to provide a single source MWD/LWD capability to the global oil and gas industry. It features a single part or whole tool capability that unites precision machining, electrical manufacturing with product assembly.

Precision machined sections of various logging tools.

Financial Review

Overview

The 2012 annual report reflects another year of strong earnings growth and improving margins underpinned by a full year contribution from the acquisitions completed during 2011.

The Group's balance sheet continues to strengthen, net assets are now in excess of £800m, providing a sound financial base from which to support further expansion through organic and acquisitive growth. Resolution of a legacy tax dispute during the year is of particular note providing a release of provisions and an inflow of cash which together with strong free cash flow from the Group's global operations results in net debt improving to £163.8m from £218.4m at 31 December 2011. The Group's gearing has improved as a consequence and is now 20%.

Given the increased scale and geographic footprint of the Group and the ongoing programme of growth, the framework of internal and financial controls continues to be enhanced with appropriate investment in IT and central management resource.

Revenue

Group revenues increased 36%, or £217.0m, to £825.8m in 2012 (2011 – £608.8m). The year on year effect of the acquisitions made in the latter part of 2011 added £155.2m to revenue. The remaining £61.8m of revenue growth from existing businesses resulted from like-for-like growth of 11%.

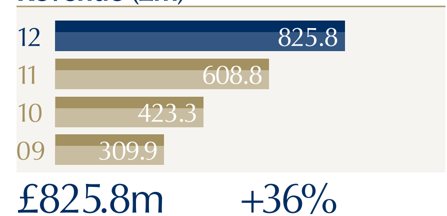
Well Construction was the strongest performing division, with revenue up 44% to £279.3m (2011 – £194.5m). This division has benefited from a full year contribution from the Hunting Dearborn, Hunting Doffing and Hunting Specialty acquisitions which collectively added £49.1m of revenue growth. Like-for-like growth in the division was 20%. Despite volatile conditions caused by the change in focus for onshore drilling from gas to oil, the Drilling Tools business performed very well supported by the opening of new facilities. The Premium Connections business faced similar challenges onshore, but was supported by increasing global offshore activity. The other key strong performer in this division was Hunting Innova which forms part of the Advanced Manufacturing Group.

Well Completion revenue was up 40% to £457.4m (2011 – £327.2m) with the full year impact of the Hunting Titan acquisition adding £106.1m of revenue. The base businesses also performed well with like-for-like revenue up 9%. The Manufacturing and Accessories unit set a record performance driven by improving global offshore markets.

The Well Intervention division has recovered to some extent after recent declines post-Macondo. Revenue grew by 7% to £56.7m (2011 – £52.9m). Our Subsea business experienced modest year on year revenue growth in 2012 with an improved outlook for 2013 as the sector recovers and we benefit from the extension of our Stafford facility. The Hunting Welltonic businesses increased revenues by developing new markets in the US.

Revenue from other divisions fell by a net £1.8m. Exploration and Production revenues fell by £3.3m due to pricing and lower production volumes. This was partly offset by a £1.5m improvement from Gibson Shipbrokers on higher trading volumes.

Revenue (£m)

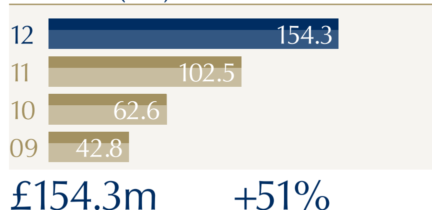


£825.8m +36%

EBITDA from Continuing Operations

Underlying EBITDA increased to £154.3m for 2012 and was £51.8m ahead of 2011 largely driven by the full year contribution from businesses acquired in 2011.

EBITDA* (£m)



£154.3m +51%

* Continuing operations before amortisation and exceptional items.

Profit from Continuing Operations

Underlying profit from continuing operations increased by £47.8m, from £81.0m in 2011 to £128.8m in 2012 with £35.2m resulting from the year on year effect of acquisitions made in 2011. Operating margins also increased from 13% to 16% as a result of the improved product mix following the 2011 acquisitions.

Well Construction's underlying profit from operations was up 60% to £45.7m (2011 – £28.5m) driven by the benefit of acquisitions and improved trading in Premium Connections, Drilling Tools and at Hunting Innova. The division's operating margin also improved from 15% in 2011 to 16%.

In Well Completion, underlying profit from operations increased by 80% to £74.1m (2011 – £41.2m) predominantly due to the full year contribution from Hunting Titan, which was acquired in September 2011, with the division's margin improving from 13% in 2011 to 16% in 2012 as a result of this.

In Well Intervention, whilst there was a modest increase in revenue, underlying profit fell by £1.0m following the previously reported issues associated with the tighter regulations in the Gulf of Mexico which adversely affected the results of our Subsea operation.

Amortisation and Exceptional Items

Intangible asset amortisation charges increased from £12.2m in 2011 to £28.1m in 2012 due to the full year effect of the acquisitions made in 2011.

The following exceptional charges arose in the year:

- Unwinding of the fair value uplift applied to inventory taken on with the 2011 acquisitions has resulted in a £7.6m charge reflecting acquired stock sold in the period. The remaining uplift of £2.6m is expected to be charged in 2013.
- The final charges under employee retention schemes put in place as part of the 2011 acquisitions were incurred in 2012 and totalled £1.1m.
- The Exploration and Production division incurred charges of £7.2m as a result of £5.2m of impairments to its oil and gas capitalised expenditures largely due to future commodity price expectations and dry hole costs of £2.0m.
- £1.1m has been credited to the income statement reflecting the release of amounts provided on the Hunting Doffing acquisition for profit related earn-outs.

Reported profit from operations in 2012 for the Group was £85.9m which was £44.9m better than 2011. This increase was similar to the underlying improvement with amortisation and exceptional items relatively consistent year on year.

Taxation

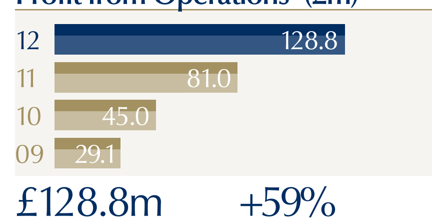
The Group's underlying tax rate for 2012 has remained at 28% (2011 – 28%), resulting in an underlying tax charge of £34.6m (2011 – £22.5m). The tax rate reflects the weighting of profits in lower tax jurisdictions, together with a reduced UK corporate tax rate. The underlying tax rate for 2013 is currently expected to reduce to 27% as a result of reductions in global corporate tax rates in the countries where we operate, however, the actual rate will be dependent on the regional mix of profits.

Amortisation and exceptional items in the year attracted tax credits of £16.7m to give a net tax charge on continuing operations in 2012 of £17.9m (2011 – £7.3m).

Net Finance Costs

Net reported finance costs in 2012 were £6.2m (2011 – £3.2m) increasing in line with higher average levels of debt following the 2011 acquisition programme.

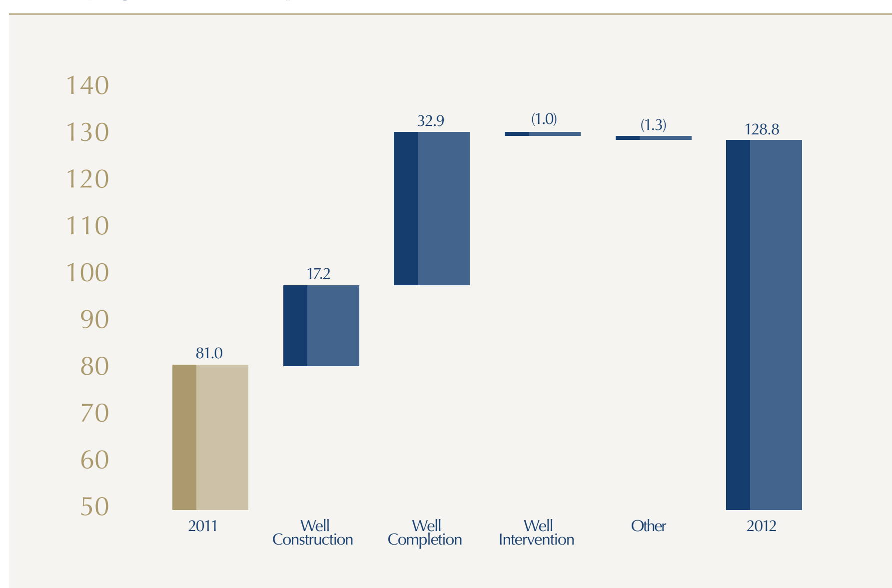
Profit from Operations* (£m)



£128.8m +59%

* Continuing operations before amortisation and exceptional items.

Underlying Profit from Operations 2011 to 2012 (£m)



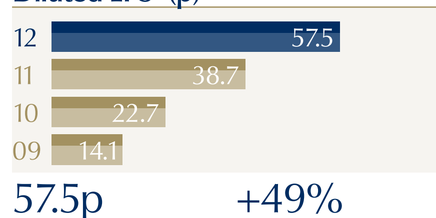
Financial Review continued

Earnings per Share

Underlying diluted earnings per share for continuing operations increased 49% or 18.8p over 2011 to 57.5p in 2012. Reported diluted earnings per share for continuing operations at 40.0p was 19.7p above 2011.

The weighted average number of shares used in calculating the diluted earnings per share in 2012 was 149.5m compared to 140.1m in 2011, with the increase mainly due to the full year effect of the 13.2m share placing completed in August 2011.

Diluted EPS* (p)



57.5p +49%

* Continuing operations before amortisation and exceptional items.

Discontinued Operations

The reported profit for the year from discontinued operations was £69.2m (2011 – £50.7m) and was entirely exceptional. The main feature of the profit was a £56.9m gain relating to the resolution of a legacy tax dispute in Canada. Following the sale of Gibson Energy in 2008, Hunting established provisions for tax indemnities given to the purchaser in respect of two tax disputes with the Canadian tax authorities. The larger of the two disputes has been settled resulting in the gain which comprises:

- The refund of tax payments from the tax authority totalling £17.2m received in December 2012.
- The refund of related tax payments from provincial authorities totalling £8.7m, which was received on 28 February 2013.
- The release of provisions totalling £30.7m (see note 13).
- Movements on other Gibson related provisions totalling £0.3m.

Provisions totalling £7.7m have been retained relating to the smaller dispute.

In addition a £1.4m gain was realised on the sale of Field Aviation Company Inc. in April 2012 (see note 13).

Cash Flow

The free cash flow generated in 2012 was £86.5m compared to £38.9m in 2011. The underlying improvement in EBITDA from £102.5m to £154.3m was the key driver of this. Working capital movements absorbed £18.6m, with finance costs and taxation paid absorbing £5.2m and £15.1m respectively.

Replacement capital spend increased from £12.8m to £27.0m largely due to equipment replacement in the Drilling Tools business, general machine replacement projects across the Group, together with £5.5m (2011 – £2.3m) spend within the Exploration and Production division.

Expansion capital expenditure in the year was £34.6m (2011 – £45.2m). Facility expansion projects across the Group absorbed £15.7m, including key projects at Stafford, Houma and Hunting Dearborn. Total capital expenditure for 2012 was £61.6m compared to £58.0m in 2011.

Payments of £2.2m were made in respect of final price adjustments and earn-out arrangements related to the acquisitions made in 2011. Further payments of £1.2m are expected in 2013 after which the potential liabilities will be extinguished.

As described above, a £17.2m repayment of tax was received from the Canadian tax authorities on the resolution of a legacy tax dispute relating to our former subsidiary Gibson Energy.

Total dividends paid during the year were £24.1m (2011 – £18.0m). Dividends paid to equity shareholders of £22.6m were 35% ahead of 2011 and reflects the Board's confidence in the strength of the Group.

Movements in foreign exchange rates, particularly the US$ against £-sterling, which moved from 1.55 at 31 December 2011 to 1.63 at 31 December 2012, benefited the cash flow by £9.4m (2011 – £4.0m outflow). This is mainly attributable to the retranslation of the Group's US$ borrowings at the year end.

Cash Flow

	2012 £m	2011 £m
EBITDA before amortisation and exceptional items	154.3	102.5
Working capital movements	(18.6)	(33.2)
Interest paid and bank fees	(5.2)	(7.6)
Tax paid	(15.1)	(15.5)
Replacement capital expenditure	(27.0)	(12.8)
Other operating cash and non-cash movements	(1.9)	5.5
Free cash flow	86.5	38.9
Expansion capital expenditure	(34.6)	(45.2)
Purchase of subsidiaries	(2.2)	(572.5)
Acquisition costs	–	(8.6)
Equity placing	–	83.5
Gibson Energy	17.2	85.3
Dividends to equity holders and non-controlling interests	(24.1)	(18.0)
Foreign exchange	9.4	(4.0)
Other	4.3	7.8
Cash flows related to discontinued operations	(1.9)	2.2
Movement in net debt in the year	**54.6**	**(430.6)**

Financial Capital Management

2012 was a year of integrating the acquisitions made in 2011 into the Group and in making our final strategic disposal, being that of the Field Aviation business. This combined with the decision to cease investing in the Exploration and Production business leaves the Group a more focused supplier of products and services to the energy sector.

The Group's financial position remains robust, with total credit facilities of £416.2m in place (2011 – £423.6m) of which £375.0m (2011 – £375.0m) is committed. The committed facility is a £375.0m multi-currency revolving credit facility from a syndicate of 10 banks which extends to August 2016. Further details regarding the facility can be found in note 30.

Net debt has reduced significantly in the year with gearing falling to 20% at 31 December 2012 (2011 – 30%) with an adequate level of headroom remaining compared to the Group's committed credit facilities providing management with ongoing financial flexibility. Our bank facility covenants (note 36) require EBITDA to cover relevant finance charges by a minimum of 4 times and net debt to adjusted EBITDA has a current maximum of 3.5 times. Both key bank covenant metrics at year end were well covered.

The maximum net debt to EBITDA permitted will reduce to 3 times in June 2013 and will remain at that level until the facility expires in 2016.

Return on average capital employed is a KPI management use to assess business unit performance. The Group's return on average capital employed has fallen from the 15% reported in 2011 to 14% for 2012 due to the year on year impact of the 2011 acquisitions.

The Board considers each ordinary dividend proposed based on the merits of the information available to it at the time. Consideration is given to the financial projections of business performance and capital investment needs, together with feedback from shareholder discussions.

The Group operates a centralised treasury function with policies and procedures approved by the Board. These cover funding, banking relationships, foreign currency, interest rate exposures, cash management and the investment of surplus cash. Further detail on financial risks is provided within note 30.

The Group has significant foreign operations and hence results originate in a number of currencies, particularly in US dollars. As a result, the Group's financial statements, which are reported in sterling, are subject to the effects of foreign exchange rate fluctuations with respect to currency conversions.

Currency exposure on the balance sheet is, where practical, reduced by financing assets with borrowings in the same currency. Spot and forward foreign exchange contracts are used to cover the net exposure of purchases and sales in non-domestic currencies.

Balance Sheet

Whilst foreign exchange rates used in the translation of results have remained very similar between 2011 and 2012, there has been a more significant change in the closing rates used for US dollar denominated assets and liabilities with 2011 at US$1.55 and 2012 at US$1.63 to £1.

Foreign exchange is the only reason for the movement in goodwill. Other intangible assets have also been impacted by foreign exchange but the principal movement is the amortisation charge of £28.1m reflected in the year (2011 – £12.2m).

Property, plant and equipment has increased by £17.3m with £63.4m of additions, offset by £25.5m of depreciation, disposals of £6.8m, impairment of £5.2m in Exploration and Production assets and foreign exchange of £8.6m.

Working capital has increased by £10.6m reflecting increased activity levels including a year on year increase in the number of Group operational facilities – now at 66. Inventories at the year end include £2.6m of fair value uplift expected to be charged to the income statement in 2013.

Balance Sheet

	2012 £m	2011 £m
Goodwill	304.5	317.9
Other intangible assets	185.2	220.8
Property, plant and equipment	248.5	231.2
Working capital	271.8	261.2
Taxation (current and deferred)	(22.8)	(33.7)
Provisions	(29.6)	(60.5)
Other net assets	20.0	13.5
Capital employed	977.6	950.4
Net debt	(163.8)	(218.4)
Net assets	813.8	732.0
Non-controlling interests	(18.3)	(16.8)
Equity attributable to owners of the parent	**795.5**	**715.2**
Gearing	**20%**	**30%**

Financial Review continued

Provisions have reduced by £30.9m during the year following resolution of a Canadian tax dispute as described above. This settlement is also the major contributory factor to the increase in other net assets of £6.5m, which includes the £8.7m further tax repayments due from Canadian provincial authorities, received on 28 February 2013.

Overall, capital employed in the Group has remained steady at £977.6m (2011 – £950.4m).

Thanks to strong free cash generation, the overall cash inflow in 2012 of £54.6m has reduced net debt to £163.8m at 31 December 2012.

Net assets at 31 December 2012 were £813.8m which, after non-controlling interests of £18.3m, result in equity shareholders' funds of £795.5m. This is an increase of £80.3m over 31 December 2011, which reflects the retained result for the year of £128.9m, exchange losses of £27.3m, offset by £22.6m dividend payments together with other gains of £1.3m.

Critical Accounting Policies

The Group accounts are prepared using accounting policies in accordance with IFRS. The principal accounting policies are set out in note 45.

The preparation of these accounts requires the use of estimates, judgements and assumptions that affect the reported amount of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. Directors' estimates are based on historical experience, consultation with experts and other methods that they believe are reasonable and appropriate.

Amortisation and Exceptional Items

In addition to presenting reported IFRS GAAP results in its income statement, the Group discloses results on an underlying basis i.e. before amortisation and exceptional items. This is the basis on which the Directors assess the business in internal reporting. In the Directors' view this is necessary to obtain a clear understanding of the underlying performance of the business. More details on amortisation and exceptional items can be found in note 7.

Goodwill

The carrying value of goodwill held on the balance sheet is reviewed for impairment at least annually. The review compares the carrying value with the estimated future cash flows from the cash generating unit to which the goodwill relates. The cash flows are based on management's view of future trading prospects. Any shortfall identified is treated as an impairment and written off.

Property, Plant and Equipment and Other Intangible Assets

The Group's property, plant and equipment and other intangible assets are subject to annual rates of depreciation intended to spread the cost of the assets over their estimated service life. These rates are regularly reviewed. The rates currently in use are set out on page 112. In addition if, in management's judgement, events or circumstances indicate a potential impairment may have occurred, then a review of the carrying value of the asset will be carried out.

Provisions

Provisions amounting to £29.6m are held on balance sheet at the year end. These are based on Directors' estimates of the future cost of current obligations. The main element of provisions is in respect of onerous lease obligations on premises not occupied by Group entities where assessments have been made as to the period properties are likely to remain vacant and what market rents can be achieved upon occupancy.

Taxation

The effective tax rate for the full year is 28% and is the combined rate arising from the regional mix of Group results. The rate takes into account the estimated future utilisation of tax losses and the agreements with regional tax authorities of corporate tax computations.

Deferred Tax

Deferred tax assets and liabilities are recorded within the financial statements at 31 December 2012 at £7.2m and £25.7m respectively. These balances are derived from assumptions which include the future utilisation of trading losses and provisions at assumed tax rates and eligibility for offset within a tax jurisdiction.

Share-based Payments

The estimated cost of grants and awards of equity instruments to Group employees is spread evenly over the vesting period. The actuarial assumptions used in determining the charge to income are set out in note 38.

Retirement Benefits

The Group operates a defined benefit pension scheme in the UK, which was closed to new entrants with effect from 31 December 2002, as well as a number of defined contribution schemes within the Group. The defined benefit scheme is accounted for under IAS 19 and the main actuarial assumptions used are shown within note 32 and in the table below.

Actuarial Assumptions:

	2012	2011
Rate of inflation	3.1%	3.2%
Discount rate	4.3%	4.7%
Expected future lifetime (years) – male	24.5	24.3
Expected future lifetime (years) – female	25.9	25.8

Expected future lifetime is the number of years a 65 year old is expected to live based on current mortality tables.

Review of Principal Risks and Uncertainties

The Group has an established risk management monitoring and review process described in the Corporate Governance Report on pages 40 to 43. The process requires all businesses to identify, evaluate and monitor risks and take steps to reduce, eliminate or manage the risk. Group risks are formally reviewed by the Board at least three times a year and are discussed at every Board meeting. The principal risks identified through this process that Hunting is exposed to, which could have a material adverse impact are listed below, together with the steps the Group has taken to mitigate against these risks. Some arise from the specific activities undertaken by the Group whereas others are common to many international manufacturing companies.

Risks Specific to the Nature of Hunting Group Businesses

Shale Drilling

The Group provides products to the oil and gas shale drilling industry. There may be considerable future resistance to further oil and gas shale exploration and development from significant sections of the public, and a drilling moratorium or new laws and regulations may unfavourably impact the industry.

The Board monitors public and political opinion and maintains an awareness of the potential for changes to legislation especially with regard to the US where the Group is mainly exposed.

Raw Material Commodity Prices

Although not under the Group's control, a material movement in oil or gas commodity prices could impact demand for the Group's products and services.

Working capital and in particular inventory levels are closely managed to mitigate against exposure to commodity price movement.

Acquisitions and Capital Investment

Acquisitions are an integral part of the continuing Group's recent strategy of expansion and development. While recent acquisitions made by the Group have integrated well, the Board is conscious of the potential disruption to both the Group and acquiree, of an acquisition process and subsequent integration.

The Board is actively involved in monitoring, approving and assessing acquisitions through post acquisition appraisals to mitigate the risk of poor investment decisions. All acquisitions require Board approval prior to commitment.

The Group continues to seek opportunities for organic growth and maintains an active capital investment programme. The programme encompasses investments in new territories, buildings, production equipment, rental equipment and IT systems. There is a range of risks involved in such programmes, including poor financial returns, management distraction, facility disruption and risk of IT systems failure.

The Board and senior management follow a rigorous process of approving, managing and monitoring capital investments along with planning for contingencies. All capital expenditure above discretionary limits requires Board approval prior to commitment.

Relationships with Key Customers

The Group's success is defined by relationships with its key customers. A material reduction in orders from a major customer, whether through competitive action, contractual dispute, business consolidation or change in strategy could impact the Group's financial performance and prospects. The Group is also reliant upon the conduct of its customers, given its products are exported by those customers across the world and used in a range of environments, including deep sea exploration and production. Senior management maintains close relationships with key customers and seeks to maintain the highest level of service to preserve Hunting's reputation for quality.

Product Quality and Reliability

Product quality and reliability is critical to the Group's reputation with its customers.

Quality assurance standards are monitored, measured and regulated within the Group under the authority of a Quality Assurance Director, who reports directly to the Chief Executive.

Review of Principal Risks and Uncertainties continued

Other Risks Common to International Manufacturing Businesses

Economics and Geopolitics

The economic and political environment in the geographic areas in which the Group operates impacts demand for energy and therefore the Group's range of products and services.

Management and the Board closely monitor trading results, forecasts, political developments and projected economic trends in order to match capacity to demand and, where possible, minimise the impact of adverse trends on the Group. In addition overheads are monitored regularly to ensure the cost base is actively managed.

Key Executives

The Group is highly reliant on the continued service of its key executives and senior management, who possess commercial, engineering, technical and financial skills that are critical to the success of the Group. Remuneration packages are regularly reviewed to ensure they are remunerated in line with market rates. External consultants are engaged to provide guidance on best practice.

Failure to retain suitably qualified individuals, or to attract and retain strong management and technical staff in the future, could have an adverse effect upon the Group and the results of its operations. Senior management regularly review the availability of the necessary skills within the Group and seeks to find suitable staff where they feel there is vulnerability.

Health, Safety and Environmental ("HS&E")

The Group is subject to a number of HS&E laws and regulations that affect its operations, facilities and products in each of the jurisdictions in which it operates. The Group is committed to operating in compliance with all HS&E laws and regulations relating to its products, operations and business activities. However, there is a risk that it may have to incur unforeseen expenditures to cover HS&E liabilities, to maintain compliance with current or future HS&E laws and regulations or to undertake any necessary remediation.

It is difficult to estimate with any reasonable certainty the future impact of HS&E matters, including potential liabilities, due to a number of factors and especially the lengthy time intervals often involved in resolving them. There is regular HS&E compliance reporting to the Board.

Effective Control Over Subsidiaries

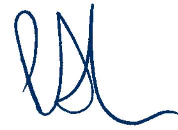
Group subsidiaries operate within a control framework with a degree of autonomy vested in local management. The control framework has been enhanced with additional central staff in areas such as finance and taxation, the introduction of new IT systems and stronger co-ordination of IT activities. The operations of subsidiaries are subject to regular checking by management through board and management meetings, regular reporting and contact together with external and internal audit.

Fluctuation in Currency Exchange Rates

The Group has significant overseas operations, hence results are denominated in a variety of currencies. As a result, the Group's financial statements, which are reported in sterling, are subject to the effects of foreign exchange rate fluctuations with respect to currency conversions.

The Group maintains a strategy of financial hedging to mitigate such risk, subject to the availability of suitable products at the right cost.

Dennis Proctor
Chief Executive



Peter Rose
Finance Director
7 March 2013

Corporate Social Responsibility Report

"Our commitment to shareholders, employees and other key stakeholders is to create a sustainable organisation capable of delivering long-term positive returns."

Aberdeen staff raised £12,000 for the Scottish Community Foundation through various activities including a 54 mile highland hike.

Introduction

Hunting is an international energy services company, which manufactures and supplies products and services to the global energy industry.

The Group operates from 66 facilities in the key energy producing regions of the world. Being at the forefront of delivering energy solutions to many customers, Hunting is committed to developing relationships with key stakeholders – employees, shareholders, customers, suppliers and communities within the areas we operate.

This report describes the policies and responsibilities which the Group has adopted as a responsible global corporate citizen.

Financial Metrics

Hunting is committed to a business strategy which targets long-term growth in the value of the Group's assets. We are committed to investing capital to maintain our organic growth profile, while acquiring complementary businesses which deliver similar growth.

Selected key performance indicators include:

- Revenue
- Profit from operations
- Diluted earnings per share
- Free cash flow
- Return on capital employed
- Gearing
- Dividends per share

The Business Strategy and Business Model are outlined on page 14 of this Annual Report. The strategy of the Group is to provide value added products and services, focusing on proprietary technologies and know-how, incorporating product lines which capture market share within each product segment in which we invest.

Our commitment to shareholders, employees and other key stakeholders is to create a sustainable organisation, capable of delivering long-term positive returns and providing stability to our employees.

Shareholders

Communicating with the Company's shareholders is of key importance to the Directors. The methods of communication to our shareholders and employees include press releases issued to the London Stock Exchange, institutional investor presentations, which are published on the Group's website and other communications including the in-house corporate publication, the Hunting Review, which is published twice a year.

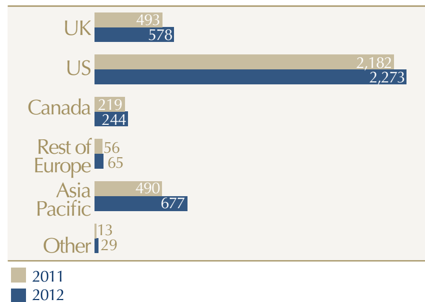
The Chief Executive and Finance Director meet with major shareholders at least twice a year, following the announcement of the Group's half and full year results, and whenever requested by a shareholder. The Chairman and the Senior Independent Director also meet with major shareholders annually to discuss strategy, governance and other matters.

The Company is listed on the London Stock Exchange and is subject to regulation by the Financial Services Authority in the United Kingdom as well as compliance with UK Company Law. The Group is also subject to the laws and regulations of the jurisdictions in which it operates.

Corporate Social Responsibility Report continued

> "The Group is committed to mutually developing an environment of honesty, integrity and respect."

Geographic split of employees 2011–2012



Above and left: Hunting PLC and Texas staff have entered into a two year commitment to support New Danville, a self sustaining community to help adults with limiting disabilities. Over $100,000 was donated in 2012.

Employees

Our people are our most valuable asset and the Group recognises that its success and reputation depends upon their efforts, integrity and commitment. Our people create Hunting's competitive edge and we aim to ensure that our customers' expectations are met and exceeded. Responsibility for employees lies with local management, which allows local cultural issues to be appropriately managed and the necessary development programmes to be structured accordingly.

The location of our employees reflects the global nature of the oil and gas industry and the geographic diversity of the Group's activities.

At 31 December 2012, the Group has 3,866 employees (2011 – 3,453) with the geographical split shown in the chart above.

The Group seeks to adhere to all relevant local and jurisdictional laws about employment equality and minimum wage legislation.

As a responsible employer, full and fair consideration is given to applications for positions from disabled persons and to their training and career advancement. Every effort is made to retain in employment those who become disabled while employed by the Group.

It is important for the Group to retain key employees, as well as attracting high quality individuals. This remains a major challenge for the oil and gas industry. Hunting has developed a supportive work environment that promotes development, learning and advancement to ensure that its employees realise their potential. Long service is a feature of the Group's employees and recognition is given through service award programmes across the Group. Forty years' service is not an uncommon attribute.

Hunting believes that employing the right people is only the start of the relationship between an employee and employer. The Group is committed to mutually developing an environment of honesty, integrity and respect for its staff and for those people and companies we work with daily. The Group is also committed to abiding by all international and local laws and regulations on employment and has a no child labour policy.

The Group encourages and promotes an awareness of the financial and economic factors affecting the performance of the Group and shares information on current activities through regular communication and consultation.

Through the Group's Code of Conduct, published on the Company's website, the Group sets out its equal opportunities policies and zero tolerance approach to harassment within the workplace. The Group's gender diversity policy, which also seeks to promote fair and equal opportunities, is also published on the Company's website.

The Group believes that providing additional benefits to staff encourages the best performance from our people. Therefore, most employees are offered participation in schemes which provide healthcare and post-retirement benefits and, in certain instances, participation in bonus arrangements when outperformance in terms of operational excellence has been achieved. Hunting has share award schemes in place as a longer term incentive whereby staff can participate in the ownership of the Company.

The Board has an established "whistle-blowing" procedure in place for any employee wishing to raise, in confidence, any concerns they may have about possible financial improprieties, or other matters, with the Senior Independent Director. Details of the procedure are regularly communicated to all employees.

Health and Safety

The Group is committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public. Hunting has a proven culture of aiming for best practice and employs rigorous health and safety practices.

Health and Safety policies include:

- Regular audit and maintenance reviews of facilities, equipment, practices and procedures to ensure compliance with prevailing standards and legislation and a safe environment for all those who work within and around our facilities.
- Seeking accreditation and aligning long standing company programmes and procedures to internationally recognised Quality Assurance standards.
- Monitoring, which is a management task, is documented and reported at each Board meeting.
- Appropriate training and education of all staff.

The Group has published its combined policy on health, safety and environmental matters, which can be found on the Group's website.

Hunting's Director of Health, Safety and Environment reports directly to the Chief Executive and a report is considered by the Board of Directors at each meeting.

The Group's target is to achieve zero recordable incidents. Each local business is required to develop tailored policies to reflect its daily business. These incorporate the Group's approach to putting safety first and, at a minimum, to comply with local regulatory requirements. Training is given to every employee, whether they are on the shop floor or working from a desk.

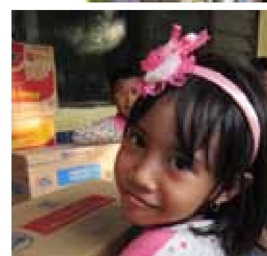
During the year, there were no fatalities across the Group's operations with 82 recordable incidents.

In 2012, the Group continued its programme to introduce Lean Manufacturing processes into global operations. This resulted in efficiency gains in a number of key business units.

Environment

The Group is committed to the protection of the environment and developing manufacturing processes and procedures, which ensure that any adverse effects on the environment are kept to a practicable minimum. We take the view that sustainable development is in the interests of all our stakeholders and include environmental issues in our planning and decision-making.

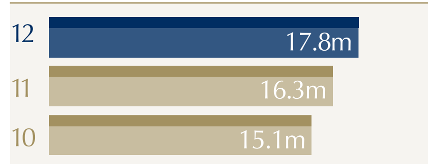
The Group's environmental policy is to look for opportunities and adopt practices that create a safer and cleaner environment. It is particularly sensitive to the challenges for the industry in which it operates. The Group has programmes in place to monitor the environmental impact from its operational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



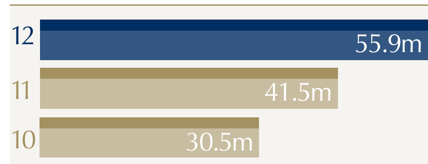
Staff and management volunteers have teamed up to raise funds for two local orphanages in Indonesia.

Corporate Social Responsibility Report continued

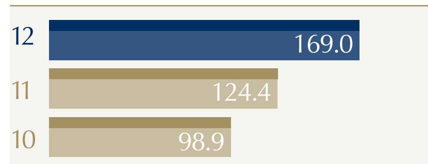
Natural Gas Usage (kwh)



Electricity Usage (kwh)



Mains Water Usage ('000m³)



The winner of the $50,000 Hunting Art Prize, Michael Bise.

Key aspects of our environmental policies include:

- Keeping any adverse effects on the environment to a practicable minimum.
- Encouraging the reduction of waste and emissions and promoting awareness of recycled materials and use of renewable resources.
- Each operating unit developing and implementing their own procedures while conducting regular reviews to ensure that they are maintained and refined.
- Encouraging employees to pay special regard to environmental issues and requirements in the communities in which the Group operates.
- Incorporating health, safety and environment considerations into the design of new facilities.

With the aim of maintaining standards a number of the Group's operating facilities are ISO or API registered or subject to other similar registrations or industry qualifications. In 2012, 7 facilities (2011 – 6) within the Group were ISO 14001 compliant indicating a recognised environmental management system being in place and 2 facilities being ISO 18001 compliant (2011 – 1), indicating that health and safety systems have been reviewed and formally certified. More facilities across the Group are working towards these accreditations, continuing the Group's commitment to monitoring and reducing the environmental impact of its operations and increasing HSE standards.

The Group continues to monitor and collect data relating to its carbon emissions from across its operations. For 2012, each business unit across the Group has reported scope 1 and 2 emissions to provide a consolidated total of each source of greenhouse gas emissions. Total emissions are then converted to a carbon dioxide equivalent figure, using conversion factors published by DEFRA at www.defra.gov.uk. The following table details Hunting's scope 1 and 2 emissions, excluding vehicle mileage and fuel consumption.

CO_2 equivalent emissions (tonnes)

	2012	2011	% change
Scope 1	3,644	3,064	12
Scope 2	36,149	22,636	60
Total gross controlled emissions	39,793	25,700	54

The increase in carbon dioxide emissions between 2011 and 2012 is primarily attributed to the acquisitions completed in 2011, where the operational scale of the Group materially increased. Including vehicle mileage and fuel consumption data, Hunting's 2012 scope 1 emissions would be 9,061 tonnes of carbon dioxide, leading to a scope 1 and 2 total of 45,210 tonnes of carbon dioxide emissions.

Natural gas, electricity and mains water usage across the Group's facilities are shown in the chart above.

A number of Group facilities in the US are supplied by on-site wells – water sourced from these wells is not included in the data presented.

Operational Excellence and Research

The Group continues to develop its relationships with academic institutions and during 2012 Hunting collaborated with the University of Plymouth in the UK to research ways of improving safety and reliability during oil and gas extraction.

The Group continuously strives to gain leadership in areas of technology relevant to the Group's products and at the year-end had 350 active patents (2011 – 316).

In order to promote its engagement within its industry sector, Group companies hold membership of the following organisations:

- American Petroleum Institute
- Society of Petroleum Engineers
- The Intervention and Coiled Tubing Association
- Leading Oil and Gas Industry Competitiveness
- Investors in People

Community and Charitable Donations
Hunting's commitment to the communities in which it operates extends on many fronts. The Group participates in a number of initiatives and in events which raise money for charities around the world. In 2012, Hunting employees participated in local charitable events, including corporate support through sponsorship of a number of events.

The Group's major charitable event, the Hunting Art Prize is an annual event which supports and recognises the local community in Houston, Texas. In 2012, the Art Prize supported the charity New Danville, a self-sustaining, master-planned community dedicated to providing adults with intellectual and developmental disabilities an opportunity to live, work, and grow with their non-disabled peers. In Aberdeen, employees from Hunting Energy Services participated in the Caledonian Challenge, raising funds for the Scottish Community Foundation, an organisation which distributes funds to small charities and community projects in Scotland.

The Group also makes donations to charities through the Chairman's charitable trust committee, which comprises the Chairman and former Hunting employees. In 2012, assistance was granted to 32 charities.

During 2012, the Group donated £182,000 (2011 – £162,000) to charities. In accordance with Group policy, no political donations were made in the year (2011 – £nil).

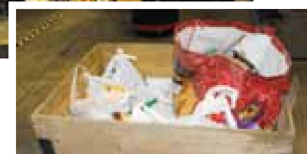
Business Ethics
The Group's Directors and employees promote high standards of honesty and integrity in the way it goes about its business, recognising that the Group's reputation is of critical importance in the industry in which we operate.

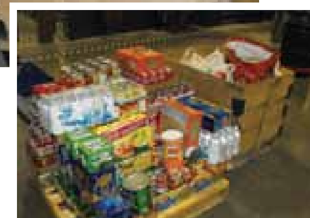
Through the Group's Code of Conduct and compliance with the UK Bribery Act, the Group has policies and controls in place detailing procedures on how the Group interacts with customers, suppliers and governments around the world.

Customers and Suppliers
The Group's Code of Conduct has been circulated to all of the Group's employees, key customers and suppliers and agents. The principles in the Code of Conduct lay out our responsibilities to all external associates and also incorporates anti-bribery and corruption policies addressed by the UK Bribery Act.

Dennis Proctor
Chief Executive
7 March 2013

"The Group continuously strives to gain leadership in areas of technology relevant to the Group's products."





In the US, employees led a food drive in support of the Wyoming Food Bank of the Rockies.

Company Overview
Business Review
Governance
Financial Statements
Other Information

Board of Directors

L-R John Nicholas, Peter Rose, Dennis Proctor, Richard Hunting, John Hofmeister and Andrew Szescila.

Board Subcommittee Membership

	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors			
Dennis Proctor	–	✔	–
Peter Rose	–	–	–
Non-executive Directors			
Richard Hunting	–	✔	–
John Hofmeister	✔	✔	✔
John Nicholas	✔	✔	✔
Andrew Szescila	✔	✔	✔

Richard Hunting C.B.E.
Non-executive Chairman
Was elected an executive Director and Deputy Chairman on the formation of Hunting PLC in 1989 and has been Chairman of the Board since 1991. In 2011, Mr Hunting moved from an executive to a non-executive role. Chairman of the Nomination Committee. He is a non-executive director of the Royal Brompton & Harefield NHS Foundation Trust.

Dennis Proctor
Chief Executive
Was appointed a Director in 2000 and Chief Executive in 2001. He was chief executive of Hunting Energy Services from March 2000 after joining the Group in 1993. He is a US citizen based in Houston, Texas and has held senior positions in the oil services industry in Europe, Middle East and North America.

Peter Rose
Finance Director
Was appointed to the Board as Finance Director in 2008. A Chartered Accountant, he joined Hunting PLC in 1997 prior to which he held senior financial positions with Babcock International.

John Hofmeister
Non-executive Director
Was appointed a non-executive Director in 2009 and appointed the senior independent director of the Company in 2010. A US citizen resident in Houston, Texas. He is the founder and chief executive officer of the Washington D.C. registered not-for-profit Citizens for Affordable Energy Inc, and a non-executive director of US quoted Lufkin Industries Inc and Camac Energy Inc. He is the former President of Shell Oil Company and a former Group Director of Royal Dutch Shell PLC in The Hague, Netherlands.

John Nicholas
Non-executive Director
Was appointed a non-executive Director in 2009 and is chairman of the Audit Committee. He is a Fellow of the Association of Chartered Certified Accountants and is a member of the UK Financial Reporting Review Panel. He is currently a non-executive director of Rotork PLC and Mondi plc. He was formerly the Group Finance Director of Tate & Lyle plc and prior to that Group Finance Director of Kidde plc.

Andrew Szescila
Non-executive Director
Was appointed a non-executive Director in 2011 and is chairman of the Remuneration Committee. A US citizen resident in Destin, Florida. He is currently a non-executive director of UK quoted Frontera Resources Corporation. He was formerly the Chief Operating Officer of Baker Hughes Inc.

Report of the Directors

The Directors present their report, together with the audited financial statements for the year ended 31 December 2012.

Principal Activities and Business Review

Hunting PLC is a holding company whose subsidiaries are primarily involved in the manufacture and distribution of products that enable the extraction of oil and gas for the world's leading energy companies.

The Company is UK domiciled and incorporated in England and Wales. Details of the Company's principal subsidiaries and associated undertakings are set out in note 44.

The Business Review, encompassing the Chief Executive's Review, Operating Review, the Financial Review and Review of Principal Risks and Uncertainties on pages 10 to 33, together with the Chairman's Statement on pages 6 and 7, reports on the principal activities of the Group and its performance during the year ended 31 December 2012, along with likely future developments in its operations. This information, together with a description of financial capital management (page 25), details of the Group's policies on employment, health, safety and the environment, which are contained within the Corporate Social Responsibility Report on pages 29 to 33, and the Corporate Governance Report on pages 40 to 43, are incorporated into this report by reference.

Results and Dividends

The results of the Group are set out in the Consolidated Income Statement on page 55.

The Directors, subject to approval by shareholders at the Annual General Meeting of the Company to be held on 17 April 2013, recommend a final dividend of 14.0p per share (2011 – 11.0p), which together with the interim dividend of 4.5p (2011 – 4.0p), takes the total dividend for the year to 18.5p per share (2011 – 15.0p), an increase of 23%. The final dividend will be paid on 1 July 2013 to shareholders on the register at the close of business on 14 June 2013.

Changes in the Group and its Interests During the Financial Year

On 27 April 2012, the Group disposed of Hunting Canadian Airport Holdings Ltd. and its subsidiaries, including Field Aviation Company Inc. Further details can be found in note 43.

Post Balance Sheet Events

There have been no disclosable post balance sheet events.

Directors

The biographies of the Directors of the Company as at 31 December 2012 are set out on page 35 of this report. As recommended by the UK Corporate Governance Code, all Directors will submit themselves for re-election at the Company's Annual General Meeting.

On 29 August 2012, both John Hofmeister and John Nicholas were reappointed as non-executive Directors for a second three year term. Mr Hofmeister will continue as the Senior Independent Director of the Company and Mr Nicholas will continue as Chairman of the Audit Committee.

No Director during the year had a material interest in any contract of significance to which either the Company or any of its subsidiaries were a party. Directors' interests in the shares of the Company are shown on page 49. As at 31 December 2012, no Director of the Company had any beneficial interest in the shares of subsidiary companies.

Directors' and Officers' Liability Insurance

The Company maintains insurance against certain liabilities, which could arise from a negligent act or a breach of duty by its Directors and officers in the discharge of their duties. This is a qualifying third party indemnity provision, which was in force throughout the financial year.

Annual General Meeting

The Annual General Meeting of the Company will take place on Wednesday 17 April 2013 at The Royal Automobile Club, 89 Pall Mall, London, SW1Y 5HS, commencing at 10.30am. At the meeting, as well as routine matters, members will be asked to receive the Report of the Directors and Accounts, to approve the 2012 Remuneration Committee Report and to give authority to the Directors to reappoint the Group's external auditors and determine their remuneration.

Further details of the resolutions are set out in the letter concerning the Annual General Meeting, which accompanies the Notice of the Annual General Meeting.

Powers of the Directors

Subject to the Company's Articles of Association, UK legislation and any directions prescribed by resolution of the Company in general meeting, the business of the Company is managed by the Board. The Directors have been authorised to allot and issue Ordinary shares and to make market purchases of the Company's Ordinary shares. These powers are exercised under authority of resolutions of the Company passed at its Annual General Meeting.

During the financial year ended 31 December 2012 733,055 Ordinary shares were issued pursuant to the Company's various share plans.

Share Capital

The Company's issued share capital comprises a single class, which is divided into Ordinary shares of 25p each, details of which are set out in note 33 of the financial statements. As at 31 December 2012, there were 147,049,241 Ordinary shares in issue. The rights and obligations attached to these shares are summarised on page 37 and are detailed in the Articles of Association of the Company, copies of which can be obtained from Companies House in the UK, or by writing to the Company Secretary at the registered office of the Company. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may, by ordinary resolution, decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. The movements in share capital during the year are detailed in note 33 of this report.

The Directors have the authority to allot shares and to disapply statutory pre-emption rights. This authority is renewed annually at the Annual General Meeting. The Company has

authority, renewed annually, to purchase up to 14.99% of the issued share capital, equating to 22,042,681 shares at 31 December 2012. Any shares purchased will either be cancelled, and the number of Ordinary shares in issue reduced accordingly, or held in Treasury. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the Annual General Meeting.

The Company holds 986,731 shares in Treasury (2011 – 1,072,186), used to satisfy a proportion of the shares under award to employees who participate in the share-based incentive schemes currently run by the Company. This number of shares is deducted from the Company's equity. The Company has a policy to purchase shares in the market or issue new shares to meet future requirements of these incentive schemes. During the year, the Company, through the Employee Share Trust, purchased 85,558 Treasury shares with an aggregate nominal value of £21,390. The total consideration was £797,016. Details of the employee share schemes can be found in the Remuneration Committee Report on pages 45 and 46 and in note 38.

The rights to such shares are restricted in accordance with the Companies Act 2006 and, in particular, the voting and dividend rights attaching to these shares are automatically suspended.

Voting Rights and Restrictions on Transfer of Shares

On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy, and entitled to vote, has one vote, and, on a poll, every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. None of the Ordinary shares carry any special rights with regard to control of the Company. Proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

Shareholders may submit votes electronically at www.sharevote.co.uk. A Voting ID, Task ID and Shareholder Reference Number will be required to complete this method of voting; these details are included on shareholders' voting proxy cards. To be valid, an electronic proxy must be received by no later than 48 hours before a general meeting. Any shareholder having difficulty submitting their voting instructions electronically should contact the Company's Registrars immediately.

A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. Shareholders rights to transfer shares are subject to the Company's Articles of Association.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no restrictions on the transfer of Ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations, for example insider trading laws;
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval to deal in the Company's shares; and
- where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of Ordinary shares or on voting rights.

Research and Development

Group subsidiaries undertake, where appropriate, research and development to meet particular market and product needs. The amount incurred and written off by the Group during the year was £1.7m (2011 – £0.6m).

Charitable and Political Contributions

During the year, the Group donated £57,000 (2011 – £48,000) to UK charitable organisations and £125,000 (2011 – £114,000) to overseas charities. It is the Group's policy not to make political donations, accordingly there were no political donations made during the year (2011 – £nil).

Property, Plant and Equipment

Details of movements in property, plant and equipment are shown in note 15 to the financial statements. The Directors are of the opinion that the net book value of Hunting's properties at 31 December 2012 exceeded their market value by approximately £5.3m. No impairment has been recorded as the Directors are of the opinion that the expected future profits and cash flows generated from the properties support the net book values as at 31 December 2012.

Registrar

The address and contact details of Equiniti Limited, the Company's Registrar, are listed on the inside back cover of this report. Equiniti is the Company's single alternative inspection location, whereby individuals can inspect the register of members. Individual shareholders may view their personal shareholder information online, through the www.shareview.co.uk website.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of share separately.

Report of the Directors continued

Significant Agreements
The Company is a party to a revolving credit facility in which the counterparties can determine whether or not to cancel the agreement where there has been a change of control of the Company.

The service agreements of the executive Directors include provisions for compensation for loss of office or employment as a result of a change of control. Further details of the Directors' service contracts can be found in the Remuneration Committee Report on pages 47 and 48.

Policy on the Payment of Creditors
The Company's and Group's policy is to pay all creditors in accordance with agreed terms of business. The Company itself has no substantial trade payables. The total amount of Group trade payables falling due within one year at 31 December 2012 represents 41 days' worth (2011 – 45 days), as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Statement of Disclosure of Information to Auditors
In accordance with the Companies Act 2006, 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 Group'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 Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Going Concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review and the Operating Review on pages 10 to 21. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial capital management are described on pages 24 to 26 and the principal risks and uncertainties facing the business are described on pages 27 and 28. The notes to the financial statements include the Group's objectives, policies and processes for managing its capital (note 36), its financial risk management objectives (note 30), details of its financial instruments (note 29), hedging activities (note 28) and sensitivity analysis (note 31) and its exposures to credit risk and liquidity risk (note 30).

The Group has access to considerable financial resources including a £375m committed bank facility. The main financial covenants (note 36) attached to this facility are (1) EBITDA should not be less than four times net finance

Substantial Interests
As at 31 December 2012, pursuant to the Disclosure and Transparency Directive, issued by the Financial Services Authority, the major shareholders of the Company are as follows:

	Notes	Number of Ordinary shares	Percentage of issued Ordinary shares
AXA group of companies	(v)	15,002,781	10.2
Hunting Investments Limited	(i)/(iv)	10,884,743	7.4
Threadneedle Asset Management		8,985,167	6.1
M&G Investment Management	(vi)	8,944,131	6.1
Mirabaud Investment Management		8,123,430	5.5
BlackRock group of companies	(vii)	6,745,747	4.6
Slaley Investments Limited		6,411,679	4.4
F Godson – as trustee	(ii)/(viii)	5,861,575	4.0
Legal & General Investment Management		4,852,848	3.3
Standard Life Investments		3,877,605	2.6
JA Trafford – as trustee	(ii)/(viii)	3,680,686	2.5
Norges Bank Investment Managers		3,457,059	2.4
Cooperative Insurance Society		3,319,647	2.3
Royal London Asset Management		3,071,984	2.1
David RL Hunting		199,910	0.1
– as trustee	(ii)	2,549,117	1.7
– other beneficial	(iii)	2,484,583	1.7

Notes
i. Included in this holding are 9,437,743 Ordinary shares held by Huntridge Limited, a wholly-owned subsidiary of Hunting Investments Limited. Neither of these companies is owned by Hunting PLC either directly or indirectly.
ii. After elimination of duplicate holdings, the total Hunting family trustee interests shown above amount to 6,165,269 Ordinary shares.
iii. Arise because David RL Hunting and his children are or could become beneficiaries under the relevant family trusts of which David RL Hunting is a trustee.
iv. Richard H Hunting and David RL Hunting are both directors of Hunting Investments Limited.
v. On 21 February 2013, AXA group of companies notified the Company that it had increased its shareholding to 17,016,457 Ordinary shares, representing 11.6% of the issued share capital.
vi. On 7 February 2013, M&G Investment Management disclosed to the Company that its total shareholding had decreased to 8,388,201 Ordinary shares representing 5.7% of the issued share capital. On 21 February 2013, M&G Investment Management informed the Company that their holding had reduced to below 5% of the issued share capital.
vii. On 22 February 2013, BlackRock group of companies disclosed to the Company that its total shareholding had increased to 7,875,629, representing 5.4% of the issued share capital.
viii. On 5 March 2013, the Company was informed that, in their roles as trustees, Messrs Godson's and Trafford's interest in the Company's Ordinary shares had reduced by 18,900 shares.

charges, and (2) net debt should be no more than three-and-a-half times adjusted EBITDA. In accordance with the terms of the facility agreement, the net debt covenant ratio changes to three times EBITDA in 2013. EBITDA, for covenant test purposes, is based on the previous rolling twelve month period, measured twice yearly at 30 June and 31 December.

The Group has a broad range of products and services and a diverse, global customer and supplier base and meets its day-to-day working capital requirements through its cash and debt facilities.

The Group continues to have limited exposure to the Euro zone or other regions that are perceived as high risk or exposed to the direct impact of austerity measures. The Group also retains limited exposure to credit risk as it has strong, well-developed relationships with its major customers and maintains insurance cover for 95% of its trade receivables.

The Group's results are exposed to currency risk, as a major portion of earnings is generated in several currencies, in particular the US dollar, prior to translation into sterling at the period's average exchange rate. Movements in these rates do affect the Group's results and in response to this the currency impact on forecast results is monitored closely and certain derivatives are purchased to mitigate this risk.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is well placed to manage its business successfully in the current economic climate. Accordingly, the Directors, having made appropriate enquiries, are satisfied that the Group has adequate resources to meet the Group's operational requirements for the foreseeable future and consequently continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue in office as auditors. A resolution to reappoint them as auditors to the Group will be proposed at the Annual General Meeting to be held on 17 April 2013.

By Order of the Board

Peter Rose
Company Secretary
7 March 2013

Corporate Governance Report

"It is with great pleasure that I introduce to you our Corporate Governance Report for 2012. During the year the Board appointed external facilitators to undertake its annual performance evaluation and in the final quarter of the year completed the exercise, with the feedback being considered by the Board at its December meeting.

"Hunting continues to comply with the UK Corporate Governance Code and wherever possible seeks to enhance its governance practices and disclosures. As part of this ongoing development, I am pleased to highlight a report from the Audit Committee as recommended by the new Code."

Richard Hunting C.B.E., Chairman

UK Corporate Governance Code

This statement, which has been approved by the Board, reports on the Company's compliance with the UK Corporate Governance Code ("the Code") as issued by the Financial Reporting Council ("FRC") in 2010 and how the principles of the Code have been applied during the year.

The Company was fully compliant with the Code's provisions throughout the year.

Compliance with the principles relating to Directors' remuneration is reported within the Remuneration Committee Report on pages 44 to 51 and the activities of the Audit Committee are reported on pages 52 and 53.

Board Composition and Committee Membership

The Board of Directors currently comprises the non-executive Chairman, Chief Executive, Finance Director and three independent non-executive Directors. All independent non-executive Directors are appointed to the Company's Nomination, Audit and Remuneration Committees.

This composition, with a separate Chairman and Chief Executive, ensures a balance of responsibilities and authorities. Non-executive Directors' letters of appointment include details of their duties and expected time commitments required. The Directors, together with brief biographical details, are identified on pages 34 and 35.

Excluding the Chairman, 60% of the Board is currently comprised of independent non-executive Directors.

Mr Hunting, the Company's non-executive Chairman, is not regarded as independent, given his former executive position since joining the Company in 1989.

The Company has procedures in place to deal with potential conflicts of interest whereby actual and potential conflicts of interest are reviewed, and appropriate authorisation sought, prior to the appointment of any new Director or if a new conflict arises. In accordance with the Articles of Association, only non-conflicted Directors are involved in the authorisation process. The Board is of the view that these procedures operated effectively throughout the year. The Group operates a decentralised management structure to allow for rapid responses to business matters. A framework of controls with discretionary limits and powers for local management is contained within a group manual.

Appointment and Replacement of Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Company by ordinary resolution at a general meeting of Ordinary shareholders or by the Board on the recommendation of the Nomination Committee. The Company may also remove a Director. Additional details of the workings of the Nomination Committee are set out on pages 42 and 43.

Following the Code's guidance on the election of Directors, all members of the Board submit themselves for re-election at each Annual General Meeting of the Company.

The non-executive Directors are initially appointed for a three year term with subsequent reappointment conditional upon an appraisal and review process. Letters of appointment for each of the independent non-executive Directors are available from the Company upon request and their terms of appointment are summarised on pages 47 and 48. Details of the executive Directors' service contracts are set out on page 47.

Prior to the appointment of a non-executive Director, the Nomination Committee undertakes an evaluation of the Board's requirements to ensure the balance of skill and experience is maintained to fulfil the Group's strategy. In the case of a non-executive Director being reappointed, the Code recommends a particularly rigorous evaluation with particular consideration being given to the need to regularly refresh the Board and to continued independence. On 29 August 2012 John Hofmeister and John Nicholas were both reappointed as non-executive Directors of the Company for a second three year term of office, following an evaluation exercise and recommendation by the Nomination Committee. Neither Mr Hofmeister or Mr Nicholas participated in the evaluation or decision to propose their respective appointments to the Board. Both Mr Hofmeister and Mr Nicholas continue to remain independent in judgement and free from any conflicts of interest. Mr Hofmeister also continues his role as the Company's Senior Independent Director and Mr Nicholas continues as Chairman of the Audit Committee.

On appointment to the Board, each Director receives comprehensive induction tailored to their experience and needs. All Directors have access to the Company Secretary and to independent professional advice, at the Company's expense, in the furtherance of their duties. Directors are encouraged to maintain their skills and knowledge to best practice standards and, where appropriate, attend update training courses on relevant topics. During the year, the Chairman held meetings with the non-executive Directors without the executive Directors being present and also met each individual Director to discuss training and development requirements. The Company Secretary, through the Chairman, is responsible for keeping the Board informed of Corporate Governance developments and maintaining corporate awareness of legislative and regulatory changes. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Annual Performance Evaluation

During 2012, the Board appointed IDDAS (www.iddas.com), a specialist advisory practice as external facilitators to complete a performance evaluation exercise as recommended by the UK Corporate Governance Code. As part of the evaluation process, each individual Director completed a detailed governance and evaluation questionnaire and were interviewed by IDDAS, covering Board and subcommittee procedures.

IDDAS briefed the Chairman on the results of the evaluation who in turn provided feedback to the Board and to the individual Directors. IDDAS also submitted a final report on the process which was presented to the Board at the Meeting of Directors on 5 March 2013.

IDDAS has no connection with the Company other than being engaged to undertake this exercise.

This externally facilitated evaluation will be undertaken every three years with the exercise being conducted internally for the intervening years.

Separately to the above process, the performance of the Chairman was evaluated by the non-executive Directors in March 2013 as recommended by the UK Corporate Governance Code.

Board and Committee Meetings

The Board normally holds six formal meetings each year, of which one is held in North America. Meeting dates are set a year in advance. Attendance by each of the Directors at Board or committee meetings is detailed below.

The duties and responsibilities of the Board and its subcommittees are formally agreed by the Board in writing. In addition, the division of responsibilities between the Chairman and Chief Executive is set out in writing and agreed by the Board. Matters specifically reserved for the Board include, but are not limited to, the following:

- compliance with UK Company Law and the UKLA's Listing Rules;
- review of the Group's system of risk management, internal control and assess its effectiveness;
- approve all Stock Exchange announcements;
- approve the full and half year financial statements, including the declaration of dividends;

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held in 2012	6	4	1	4
Number of meetings attended:				
Richard Hunting	6	–	1	–
Dennis Proctor	6	–	1	–
Peter Rose	6	–	–	–
John Hofmeister	6	4	1	4
John Nicholas	6	4	1	4
Andrew Szescila	6	4	1	4

Board papers are always circulated in advance of meetings. These include detailed financial reports on the Group's activities, reports on each operating division, health and safety, risk management and investor relations reports. In addition, the meetings held in March and August focus on the full and half year results respectively and the meeting in December focuses on the budget for the following financial year.

Corporate Governance Report continued

- consider the Group's commercial strategy and approval of the annual budget;
- consider recommendations of the Board subcommittees including Board remuneration, appointments and their terms of reference.

Institutional Shareholders

The Company uses a number of processes for communicating with shareholders, including stock exchange announcements, the annual and half year reports, interim management statements issued twice a year, and the Annual General Meeting to which all shareholders are invited. In addition, the Chief Executive and Finance Director meet on a one-to-one basis with all principal shareholders at least twice a year, following the Group's half and full year results, or when requested to update them on Group performance and strategy. The Board is in turn briefed by the Chief Executive, when appropriate, on matters raised by shareholders.

During the year, the Chairman and Senior Independent Director met with a number of shareholders to discuss strategy, governance and other matters. Their comments were passed on to the Board by the Chairman. The non-executive Directors are also available to meet shareholders.

The Company's major shareholders are listed, together with the information required under the Disclosure and Transparency Rules 7.2.6, within the Report of the Directors on page 38.

Internal Control

The Board acknowledges its responsibility for monitoring the Group's system of internal control, for reviewing its effectiveness and for compliance with the Turnbull guidance. The internal control system, which has been in place throughout 2012 and up to the date of approval of these accounts, is an on-going evolutionary process designed to identify, evaluate and manage the significant risks to which the Group is exposed. These systems of internal control are designed to manage rather than eliminate risks, therefore they only provide reasonable, but not absolute assurance against material misstatement or loss in the financial statements and of meeting internal control objectives.

The Directors have reviewed the effectiveness of the Group's system of internal control for the period covered by these financial statements, the key features of which are as follows:

Management Structure – within operational parameters set by the Board, management is delegated to the executive Directors. Subsidiaries operate within clearly defined policies and authorities contained within a group manual under a decentralised management structure. All senior management changes require the prior approval of the Chief Executive.

Reporting and Consolidation – all subsidiaries submit detailed financial information in accordance with a pre-set reporting timetable. This includes weekly, bi-monthly and quarterly treasury reports, monthly management accounts, annual budgets and two-year plans, together with half year and annual statutory reporting. The Group's consolidation process is maintained and updated with regular communication, including distribution of a group manual to all reporting units.

The Group monitors and reviews new UK Listing Rules, Disclosure and Transparency Rules, accounting standards, interpretations and amendments and legislation and other statutory requirements. Subsidiary reporting entities are supported by instruction from Group and structured training. All data is subject to review and assessment by management through the monitoring of key performance ratios and comparison to targets and budgets. The content and format of reporting is kept under review and periodically amended to ensure appropriate information is available.

Strategic Planning and Budgeting – strategic plans and annual budgets containing comprehensive financial projections are formally presented to the Board for adoption and approval and form the basis for monitoring performance. Clearly defined procedures exist for capital expenditure proposals and authorisation.

Quality Assurance – most of the business sectors within which the Group operates are highly regulated and subsidiaries are invariably required to be accredited, by the customer or an industry regulator, to national or international quality organisations. These organisations undertake regular audits and checks on subsidiary procedures and practices ensuring compliance with regulatory requirements.

Board Committees

The Board has three main committees to which it delegates responsibility and authority:

Nomination Committee

Members of the committee are Richard Hunting (committee chairman), Dennis Proctor and the independent non-executive Directors. The committee convened once during the year and has written terms of reference approved by the Board, which are published on the Group's website. The role of the committee includes leading the process for Board appointments and determining the terms of new appointments. The committee also considers succession planning which takes into account the experience and skills required of Board members.

On 28 August 2012 the committee met to consider the reappointment of John Hofmeister and John Nicholas and to approve new committee terms of reference. Following an evaluation exercise, both Mr Hofmeister and Mr Nicholas were each reappointed from 29 August 2012 for a second three year term of office.

The Board has considered the recommendations of the Davies Report (Women on Boards) and in 2012 issued its gender diversity policy for Board appointments. Given the current size and balance of experience of Hunting's Board and the recent refreshing of the Board's independent non-executive Directors it is unlikely that Hunting will be compliant with the recommendations of the Davies Report in the short term. However, in line with the Davies Report's recommendations, Hunting's diversity policy commits the Group to:

- An embedded culture of equal opportunities for all employees, regardless of gender;
- Require external recruitment consultants to submit their diversity policies to the Group prior to appointment;

- Ensure that external consultants appointed by Hunting submit candidate shortlists comprising of an appropriate gender balance for consideration by the Nomination Committee;
- A target of at least one female Director of the Company when practicable;
- An annual review by the Nomination Committee of its progress complying with the Davies Report's recommendations.

Remuneration Committee

The Remuneration Committee ("the Committee") comprises solely the independent non-executive Directors of the Company and is chaired by Andrew Szescila. Details of the Remuneration Committee's activities are contained within its report on pages 44 to 51.

The Committee convened four times during the year and has written terms of reference approved by the Board which are published on the Group's website. During the year, the Committee reviewed its effectiveness and the Chairman reported these findings to the Board.

Audit Committee

The Audit Committee comprises exclusively of the independent non-executive Directors of the Company and is chaired by John Nicholas. Details of the Audit Committee's activities are contained within its report on pages 52 and 53.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Committee Report and the financial statements in accordance with applicable laws and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements and the Remuneration Committee Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Group and the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Group's website, www.huntingplc.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Pursuant to the Financial Service Authority's Listing Rules, Disclosure and Transparency Rules and the UK Corporate Governance Code, each of the Directors, whose names and responsibilities are listed on pages 34 and 35, confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company;
- the Business Review on pages 10 to 33 includes a fair review of the development and performance of the Group's operations and the position of the Group and the Company, together with a description of the principal risks and uncertainties they face.

By Order of the Board

Peter Rose
Company Secretary
7 March 2013

Remuneration Committee Report

> "The work of the Remuneration Committee during 2012 included reviewing the remuneration structures within the Group; approving base salaries, cash bonuses and long-term incentive awards for the executive Directors; and determining awards to executives under the Performance Share Plan."

Andrew Szescila, Remuneration Committee Chairman

Introduction

Hunting operates in the international energy arena, supplying to global companies. Recruiting, retaining and appropriately incentivising our senior management remains a clear focus for the work of the Remuneration Committee. The following report summarises the Committee's work and outlines forward policies for remuneration.

Compliance

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) 2008 and the relevant provisions of the Companies Act 2006. The report also satisfies the relevant requirements of the UKLA's Listing Rules and describes how the Board has applied the principles relating to Directors' remuneration in the UK Corporate Governance Code. It has been approved by the Board and will be presented to shareholders for approval at the Annual General Meeting on 17 April 2013.

Remuneration Committee

Role and Composition

The Remuneration Committee (the "Committee") is responsible for determining the remuneration of the non-executive Chairman and the executive Directors, including the setting of competitive salaries, annual performance targets and participation in the Company's executive share-based incentive plans. The Committee also takes account of remuneration policy for the Group's senior executives generally.

The constitution and operation of the Committee during the year has complied with the UK Corporate Governance Code's guidance on Directors' remuneration. The terms of reference of the Committee are published on the Group's website and are available from the Company on request.

The Committee comprises the independent non-executive Directors of the Company Andrew Szescila (Committee Chairman), John Hofmeister and John Nicholas.

The Committee met four times in 2012 with all members attending all meetings.

Work During the Year

The Committee's principal activities during 2012 included:
- review of the remuneration structure vis-à-vis business needs;
- consideration and approval of executive Directors' salaries, bonuses and awards under the Performance Share Plan ("PSP");
- measurement of the performance conditions and determination of vesting levels in respect of awards under the Long-Term Incentive Plan ("LTIP") and the PSP;
- approval of grants under the PSP; and
- approval of the Remuneration Committee Report.

Advice

During the year, New Bridge Street (a trading name of AON Hewitt Limited), Pearl Meyer & Partners and Towers Watson provided advice and assistance on remuneration for Hunting's Directors, executive incentive plans and share scheme matters. None of these advisers provided any other service to the Group during 2012.

The Committee also consulted with and received information from the executive Directors during the year but not in respect of their own remuneration.

Remuneration Policy

The Group aims to ensure that remuneration, generally, and incentives in particular, provide a clear link between individual performance and shareholder interests. The policy is to provide competitive remuneration packages enabling the Group to attract, motivate and retain executives of high ability, experience and commitment.

The Committee's on-going approach is to set base salaries within competitive market ranges, combined with realistic reward potential for performance that is outstanding. Executive Directors' remuneration packages consist of an annual salary, health cover, car and fuel benefits, life and disability insurance, an annual performance-linked cash bonus plan, pension contributions, participation in performance linked share plans and a long-term incentive plan. Performance-related elements should form a significant proportion of total remuneration packages and performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between long and short-term goals.

In setting the remuneration of individual Directors, the Committee takes account of their role, responsibilities, skills, performance and references credible and established market pay studies. The Committee reviews such studies with caution in view of the risk of an upward ratchet in remuneration levels. The Committee also has the discretion to take account of social and corporate governance issues when setting the remuneration of the executive Directors.

Consistent with policy on service contracts, executive Directors' service contracts are subject to termination on one year's notice by the Company or the executive.

The Committee believes an appropriate balance should be maintained between fixed and variable performance-related remuneration, with the current balance approximately 26% deriving from salary and benefits and 74% from variable incentives.

Set out below are the key elements of the policy, which will apply in 2013 and subsequent financial years. Whilst no major changes to policy are being implemented, the Committee considers that an effective policy needs to be kept under review in order to reflect future changes to business needs and the environment in which the Company operates and, therefore, the policy may be amended in future.

Base Salaries

Base salaries are reviewed annually. In considering appropriate salary levels, the Committee takes into account the remuneration paid by comparable companies in terms of asset size, revenues, profits, the number of employees, market capitalisation and the complexity and international spread of the Group's operations, as well as applicable rates of inflation. The Company's practice is to target base salaries at the mid-market level in the appropriate market for an executive position. In determining executive salaries, consideration is given to their experience and general personal performance.

The Committee is also mindful of pay and conditions for the wider employee population when determining executive remuneration.

Annual Bonus

An annual performance-linked cash bonus plan is in place for the executive Directors. The plan, which is not pensionable, is designed to provide an incentive reward for performance and reflects the competitive markets in which the Group conducts its business.

Dennis Proctor and Peter Rose are eligible for a bonus under the scheme when 80% of the Group's underlying budgeted profit before tax and budgeted return on capital employed is achieved. Below this level no bonus is payable. Further, the bonus is weighted with 70% to achieving the budgeted profit before tax and 30% to the budgeted return on capital employed.

The amount payable under the scheme, when these budgeted targets are achieved, is 100% of base salary for Dennis Proctor and 75% of base salary for Peter Rose. When actual results achieve 120% of these performance targets Dennis Proctor and Peter Rose are entitled to a maximum cash bonus of 200% and 150% of base salary respectively. The amount of bonus payable accrues on a straight-line basis when actual results achieved are between 80% and 120% of performance targets.

Bonus schemes are in place for the majority of the Group's employees with the choice of performance metrics dependent on the individual roles.

Long-Term Performance Related Incentives

The Group operates three long-term plans all of which target to align the incentive package of executives with that of the long-term interests of shareholders.

1. Performance Share Plan ("PSP")

Awards under the PSP are granted annually and only vest if demanding performance conditions based on returns to shareholders are met. Awards granted under the PSP, which are subject to a three year vesting period, are based on the Group's total shareholder return performance relative to the constituent members of the Dow Jones US Oil Equipment and Services and the DJ STOXX TM Oil Equipment and Services sector indices and if the Committee determines the Group's financial performance to be satisfactory. These indices are considered by the Committee to be appropriate as they compare the Group's performance against other companies in the oil and gas services sector.

Awards vest subject to the schedule outlined below:

Group's Total Shareholder Return ("TSR") against the TSR of the members of the Comparator Group

	% of the award that vests
Upper quartile	100%
Between upper quartile and median	On a straight-line basis between 40% and 100%
Median	40%
Below median	0%

Remuneration Committee Report continued

The plan allows for a maximum of share-based awards with a face value at grant equal to 200% of annual salary. In 2012, awards to the value of 100% and 80% of base salary were granted to Dennis Proctor and Peter Rose respectively.

The PSP awards granted in 2009 were measured by Towers Watson against the performance target up to 28 April 2012. The results were a below median performance and accordingly none of the 2009 awards vested.

The PSP awards granted in 2010, were measured by New Bridge Street on 25 February 2013 and resulted in a partial vesting of 65.9% of the 2010 share awards granted.

2. Long-Term Incentive Plan ("LTIP")

The LTIP is intended to link key executives' remuneration to the long-term success and performance of the Group.

The LTIP is a performance-linked plan with an incentive pool, which is calculated using the sum of the Group's after tax operating income after deducting a charge for the after tax cost of capital, which for 2012 is a rate of 7% on average shareholders' funds. Determination of the incentive pool incorporates two components, the first being 2% of the absolute value added, and the second being 5% of the incremental value added. These performance conditions align the interests of the executives with those of the Group and its shareholders and will only produce value to the participants if value is created for the Group.

Awards are determined for each participant at the beginning of a three year performance cycle and are settled at the end of each cycle either in shares or in cash. The award for each participant is calculated as a percentage of the incentive pool resulting from the performance of the business over the performance cycle, as determined by the Committee.

The pool available for distribution was £5.7m at 31 December 2012 compared to £1.4m at 31 December 2011. The aggregate amount of the pool distributable to participants for 2012 was £3.8m (2011 – £1.3m).

Following vesting, the amount payable under any single award may not exceed a certain multiple of the base annual salary of each participant. The maximum award levels under the LTIP rules as a multiple of base salaries are 3.5 times annual salary for Dennis Proctor and 1.75 times annual salary for Peter Rose.

3. Executive Share Option Plan

The Group operated an Executive Share Option Plan ("ESOP") between 2001 and 2008 to provide long-term incentives for executive Directors and executives of the Group. From 2009, executive Directors are granted share-based awards under the PSP in place of grants under the ESOP. No further grants will be made under the ESOP.

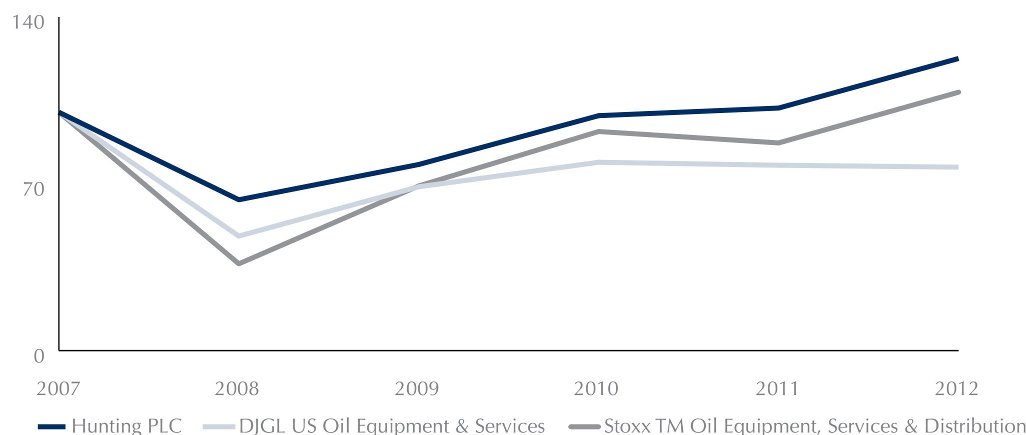
Directors' Shareholding Requirements

In order to align the interests of the executive Directors with that of shareholders, each executive Director is required to build up and maintain a holding in the Company's shares with a market value equivalent to not less than one times their annual salary.

Performance Graph

The graph below compares the total shareholder return for an investment in Hunting PLC Ordinary shares, with the return for the same investment in the Dow Jones US Oil Equipment and Services and DJ Stoxx TM Oil Equipment, Services and Distribution indices commencing on 31 December 2007.

Total shareholder return performance of Hunting PLC vs. DJGL US Oil Equipment & Services and Stoxx TM Oil Equipment, Services & Distribution Indices
(TSR rebased to 100 at December 2007 and measured on a 3-month average basis in Local Currency)



Source: Datastream

In the opinion of the Directors, the Dow Jones US Oil Equipment and Services and DJ Stoxx TM Oil Equipment, Services and Distribution indices are the most appropriate indices against which the shareholder return of the Company's shares should be compared because they comprise other companies in the oil and gas services sector, in addition to being the comparator group for the Group's Performance Share Plan.

Director Service Contracts

Executive Directors

The Company's policy on executive Directors' contracts is to comply with guidance contained in the UK Corporate Governance Code.

All Directors' Service Contracts are rolling one year agreements and contain standard provisions allowing the Company to terminate summarily for cause, such as gross misconduct.

Dennis Proctor entered into an Employment Agreement with Hunting Energy Services Inc., a wholly-owned subsidiary of the Group, on 7 February 2001. This Agreement is governed by the laws of the US State of Delaware. Under the terms of the Agreement both Hunting Energy Services Inc. and Dennis Proctor are required to give one year's notice of termination.

The Agreement contains a pay in lieu of notice clause, which provides for payment of base salary, performance bonus and vacation pay based on an annual entitlement of four weeks. There are special provisions on a change of control. These provide for payment of one year's base salary together with an amount equal to the average performance bonus paid of the previous two years. In addition, Dennis Proctor would be entitled to continue to participate in the Group insurance programmes for one year following the change of control and, unless otherwise provided in the relevant option agreement, all share-based awards granted to him will vest at the date of the change of control.

Peter Rose entered into a Service Agreement with the Company on 23 April 2008. Under the terms of the Service Agreement both the Company and the Director are required to give one year's notice of termination. The Company reserves the right to pay Peter Rose in lieu of notice (whether given by the Company or by him) which comprises his salary and bonus. The Company also has the option to put Peter Rose on paid leave of absence following payment of a sum equivalent to salary and bonus (based on the previous twelve month period), subject to him complying with the terms of his Service Agreement. These conditions also apply on termination following a change of control. In addition, Peter Rose would be entitled to an acceleration of all share-based awards which would immediately vest at the date of the change of control.

The Company has authorised the executive Directors to undertake non-executive directorships outside of the Group provided these do not interfere with their primary duties. During the year neither Dennis Proctor nor Peter Rose held any external positions.

Non-executive Directors

Non-executive Directors are initially appointed for a fixed term of three years and thereafter, subject to approval of the Board, for a further three year term. On 29 August 2012 John Hofmeister and John Nicholas were both reappointed for a second three year term, following a recommendation from the Nomination Committee.

In the event of early termination by the Company, the independent non-executive Directors are not entitled to receive compensation for loss of office. Their letters of appointment are available for inspection by shareholders during normal business hours at the Company's registered office or at the Annual General Meeting.

Non-executive Director	Date of first appointment or subsequent reappointment	Term of appointment	Unexpired term from 7 March 2013
John Hofmeister	29 August 2012	Three years	30 months
John Nicholas	29 August 2012	Three years	30 months
Andrew Szescila	16 September 2011	Three years	18 months

Non-executive Director fees are determined by the Board as a whole on recommendation of the executive Directors following receipt of external salary information and an assessment of the time commitment and responsibilities involved. Fees are reviewed annually in December each year. The non-executive Directors do not participate in the Group's share plans or receive any other benefits.

The table below shows fees payable to non-executive Directors for the year to 31 December 2012 as well as fees applying from 1 January 2013.

	2012	2013
Annual fee	£60,000	£60,000
Additional fees per annum		
Senior Independent Director	£10,000	£10,000
Committee Chairman (Audit and Remuneration)	£10,000	£10,000

Remuneration Committee Report continued

In 2011, Richard Hunting, the Company's Chairman, moved from an executive to a non-executive Director role. Mr Hunting was appointed for a fixed term of three years and his letter of appointment contains details of his remuneration and expected time commitments. As at 7 March 2013, Mr Hunting's unexpired term was 17 months. The appointment can be terminated by the Company or Mr Hunting with either party giving three months' notice. Mr Hunting's remuneration was reviewed by the Board in December 2012 and, following advice from New Bridge Street, his annual fee from 1 January 2013 was unchanged at £193,500. The advice received included benchmarked data on fees and benefits comparing companies of a similar size and profile to Hunting PLC.

Emoluments (audited)

Emoluments received by each Director during the year were as follows:

	Salary and Fees £000	Annual Bonus £000	Benefits £000	**2012 Total £000**	2011 Total £000
Non-executive Chairman					
Richard Hunting*	194	–	–	194	224
Executives					
Dennis Proctor	468	702	37	1,207	1,355
Peter Rose	233	300	21	554	511
Non-executives					
David Barr (to 8 April 2011)	–	–	–	–	14
George Helland (to 30 September 2011)	–	–	–	–	42
John Hofmeister	70	–	–	70	53
John Nicholas	70	–	–	70	56
Andrew Szescila (from 16 September 2011)	70	–	–	70	16
Total remuneration	**1,105**	**1,002**	**58**	**2,165**	**2,271**

* Richard Hunting's 2011 emoluments included salary of £112,895 and benefits of £29,642 relating to the period 1 January 2011 to 31 July 2011 as executive Chairman and fees of £80,625 from 1 August 2011 to 31 December 2011 as non-executive Chairman.

Analysed as:	Salary and fees £000	Annual bonus £000	Benefits £000	**2012 Total £000**	2011 Total £000
Executive Directors	701	1,002	58	1,761	2,009
Non-executive Directors	404	–	–	404	262
Total remuneration	**1,105**	**1,002**	**58**	**2,165**	**2,271**

Dennis Proctor's remuneration is paid in US dollars as follows:

Analysed as:	Salary US$000	Annual bonus US$000	Benefits US$000	Total US$000
2012	742	1,113	57	1,912
2011	710	1,420	42	2,172

Benefits include the provision of a company car and fuel benefits, subscriptions, health cover, life and disability insurance.

The emoluments for George Helland shown in the table above are to the date of his retirement from the Board. In the case of David Barr, his emoluments are from the date of his appointment on 1 January 2011 up to the date of his resignation from the Board on 8 April 2011.

Directors' Share Interests (audited)

The interests of the Directors in the issued Ordinary shares in the Company are as follows:

	At 31 December 2012 (or cessation date)	At 31 December 2011 (or cessation date)
Non-executive Chairman		
Richard Hunting	678,306	743,306
as trustee	1,105,339	1,105,339
as director of Hunting Investments Limited	10,884,743	10,884,743
Executives		
Dennis Proctor	1,220,472	1,075,144
Peter Rose	43,196	38,196
Non-executives		
George Helland (as at 30 September 2011)	–	18,750
John Hofmeister	5,000	5,000
John Nicholas	5,000	5,000
Andrew Szescila	5,000	–

On 5 March 2013, the Company was notified that Richard Hunting's interest as trustee had reduced to 1,086,439 Ordinary shares. The market price of the Ordinary shares at 31 December 2012 was 790.5p. The highest and lowest mid-market prices during the year were 968.0p and 688.0p respectively.

Directors' Options and Awards over Ordinary Shares (audited)

The interests of executive Directors over Ordinary shares of the Company under the Executive Share Option Plan ("ESOP") and the Performance Share Plan ("PSP") are set out below:

The vesting of options and awards are subject to performance conditions set out within the remuneration policy statement on pages 45 and 46.

	Interests at 1 January 2012	Options/ awards granted in year	Options/ awards exercised in year	Options/ awards lapsed in year	Interests at 31 December 2012	Exercise price p	Date from which exercisable/ vesting	Expiry date	Scheme
Dennis Proctor	181,622	–	(181,622)	–	–	167.4	15.04.05	14.04.12	ESOP
	309,705	–	–	–	309,705+	116.9	31.03.07	30.03.14	ESOP
	171,742	–	–	–	171,742+	220.7	09.03.08	08.03.15	ESOP
	104,178	–	–	–	104,178+	383.0	08.03.09	07.03.16	ESOP
	64,688	–	–	–	64,688+	640.0	06.03.10	05.03.17	ESOP
	55,449	–	–	–	55,449+	784.5	04.03.11	03.03.18	ESOP
	38,863	–	–	(38,863)	–	nil	28.04.12	–	PSP
	70,751	–	–	–	70,751^	nil	26.02.13	–	PSP
	57,295	–	–	–	57,295^	nil	25.02.14	–	PSP
	–	52,103	–	–	52,103^	nil	17.04.15	–	PSP
Peter Rose	29,454	–	–	–	29,454+	220.7	09.03.08	08.03.15	ESOP
	18,277	–	–	–	18,277+	383.0	08.03.09	07.03.16	ESOP
	15,000	–	–	–	15,000+	640.0	06.03.10	05.03.17	ESOP
	21,670	–	–	–	21,670+	784.5	04.03.11	03.03.18	ESOP
	15,000	–	–	(15,000)	–	nil	28.04.12	–	PSP
	29,129	–	–	–	29,129^	nil	26.02.13	–	PSP
	23,241	–	–	–	23,241^	nil	25.02.14	24.02.21	PSP
	–	20,953	–	–	20,953^	nil	17.04.15	16.04.22	PSP

\+ Vested and currently exercisable.
^ Not yet vested/exercisable.

Remuneration Committee Report continued

Under the PSP scheme rules, awards may be granted as share awards or share options. In 2012, Dennis Proctor was granted 52,103 nil cost share awards and Peter Rose was granted 20,953 nil cost options.

Dennis Proctor exercised 181,622 options on 8 March 2012. The share price on the date of exercise was 856p, representing a notional gain of £1,250,649.

In 2012 the awards under the PSP made to the executive Directors in 2009 failed to pass the plans' performance conditions. Accordingly none of the 2009 PSP awards vested.

The measurement of the performance conditions for the PSP awards granted in 2010 resulted in a 65.9% partial vesting. On 7 March 2013, 46,625 shares vested to Dennis Proctor and 19,196 shares vested to Peter Rose from the awards granted in 2010.

Directors' Awards Under the Long-Term Incentive Plan (audited)

	Interest in three year performance cycle awarded February 2010 and vesting 31 December 2012 (at 1 January 2012)	Interest in three year performance cycle awarded February 2011 and vesting 31 December 2013 (at 1 January 2012)	Interest in three year performance cycle awarded March 2012 and vesting 31 December 2014 (at 1 January 2012)	Value of award in respect of three year performance cycle vested 31 December 2012
Dennis Proctor	35%	35%	35%	£1,638,272
Peter Rose	15%	15%	15%	£407,925

Executive Directors and some senior executives are invited to participate in the Company's LTIP, with all awards subject to the performance conditions outlined on page 46. Awards are settled at the end of each performance cycle in cash or shares. The determination of whether to deliver benefits under the LTIP in cash or shares is not made until after the awards vest. This applied to the performance cycle that vested on 31 December 2011 with Dennis Proctor receiving 63,706 shares and Peter Rose receiving 27,302 shares.

The mid-market price of an Ordinary share on 25 February 2010, the date of the award, for the cycle vested 31 December 2012 was 579.5p and the price on the date of vesting, 31 December 2012, was 790.5p.

The mid-market price of an Ordinary share on the date of the most recent LTIP award, 8 March 2012, was 856.0p.

Pensions (audited)

Peter Rose and Richard Hunting are members of the Hunting Pension Scheme (the "Scheme"), which is a defined benefit pension scheme. The retirement age for the Directors under the Scheme is 60 and they are entitled to, subject to certain limits, a pension of up to two thirds of final salary. Pensionable salary is the annual salary less an amount equal to the State Lower Earnings Limit.

Richard Hunting contributed 8.5% of his pensionable salary up until his Scheme retirement date of 31 July 2006. Peter Rose contributes a similar proportion of his salary to the Scheme. The Scheme provides all members a lump sum death in service benefit of four times base salary and a spouse's pension of two thirds of the member's pension on the member's death. Bonuses and benefits do not qualify as pensionable salary.

Dennis Proctor is a member of a deferred compensation scheme in the US, which is a defined benefit pension scheme. In 2012, the Company contributed £110,866 (2011 – £91,622). He also participates in a US 401K Tax Deferred Savings Plan and in 2012 the Company contributed £9,463 (2011 – £9,162).

Directors' Pension Benefits (audited)

Set out below are details of the pension benefits to which each of the Directors is entitled.

Name of Director	Pensionable service at 31 December 2012	Normal retirement age	Accrual rate	Total accrued pension at 31 December 2011 £000 pa	Increase in accrued pension during 2012 including inflation £000 pa	Increase in accrued pension during 2012 excluding inflation £000 pa	Transfer value of increase less Directors' contributions £000	**Total accrued pension at 31 December 2012 £000 pa**
Richard Hunting	35 years	60	1/50th	132	nil	nil	nil	127
Peter Rose	19.9 years	60	1/50th	81	nil	4	214	85

Name of Director	**Transfer value at 31 December 2012 £000**	Transfer value at 31 December 2011 £000	Difference in transfer values less Directors' contributions £000
Richard Hunting	3,618	3,746	(128)
Peter Rose	2,566	2,628	(82)

Notes
i. The total accrued pension shown is that which would be paid annually on retirement for life based on service to 31 December 2012. Peter Rose's accrued pension at 31 December 2012 includes a temporary pension of just over £5,000 per annum.
ii. The transfer values at 31 December 2012 have been based on estimated insurance company pricing terms, reflecting the fact that most of the benefits are covered by insurance policies.
iii. Richard Hunting's normal retirement date was 31 July 2006. No further benefits have accrued to him since that date. The pension figure at 31 December 2012 shown above is his pension in payment. The year-end transfer value reflects only the value of the pension shown above and does not include the value of any benefits he received during the year.

The information starting on page 44 and ending on page 48 of this report is not audited and the information starting on page 48 and ending on page 51 is audited.

By Order of the Board

Andrew Szescila
Chairman of the Remuneration Committee
7 March 2013

Audit Committee Report

> "The work of Hunting's Audit Committee follows best practice guidelines issued by the Financial Reporting Council and adopts an annual programme of work covering the recommended aspects of monitoring and review. During the year, the committee met four times, received and reviewed reports from management, met with the Company's external and internal auditors, reviewing detailed reports on their respective activities and monitored the internal controls active across the Group."

John Nicholas, Audit Committee Chairman

Composition and Frequency of Meetings

The committee comprises the independent non-executive Directors of the Company: John Nicholas (committee chairman), John Hofmeister and Andrew Szescila. Mr Nicholas has recent and relevant financial experience, details of which can be found in his biographical summary set out on page 35.

The committee met four times during the year and operates under written terms of reference approved by the Board, which are published on the Company's website. The committee normally meets in March, April (to coincide with the Annual General Meeting of the Company), August and December and the attendance of committee members during the year is noted on page 41. The Chairman, Chief Executive, Finance Director, internal and the external auditors are normally invited to attend meetings. During the year, the committee reviewed its effectiveness and the committee Chairman reported these findings to the Board.

Responsibilities

The responsibilities of the Audit Committee include to:

- monitor and review reports from the executive Directors, including the Group's financial statements and Stock Exchange announcements;
- monitor and review the Group's systems of internal control;
- review reports from the Group's external auditors;
- review reports from the Group's internal auditors including details of the internal audit programme and its scope;
- monitor any corporate governance and accounting developments;
- monitor the Group's bribery act compliance procedures;
- consider and recommend to the Board the reappointment of the external auditor;
- agree the scope and fees of the external audit;
- monitor and approve engagements of the external auditor to provide non-audit services to the Group;
- review of the external auditor's independence and effectiveness of the audit process and assess the level and quality of service in relation to fees paid.

Training

During the year, the committee received presentations on accounting and governance developments pertinent to the Company's listed status.

External Audit

The external auditors present reports at the March, April, August and December meetings for consideration by the committee. In March, a full year report is considered ahead of the publication of the Company's annual results; in April an internal control report is presented following the year end audit; and in August an interim report is presented which includes the proposed full year audit scope and fee. The Audit Committee considers the reappointment of the auditors annually in August and makes a recommendation to the Board. The committee normally meets with the auditors without executive Directors present at the end of each formal meeting.

The external auditors' full year report includes a statement on their independence, their ability to remain objective and to undertake an effective audit. The committee considers and assesses this independence statement on behalf of the Board taking into account the level of fees paid particularly for non-audit services. The committee considers the effectiveness of the audit by reviewing and taking account of Financial Reporting Council reports on the auditors; input from executive management; consideration of responses to questions from the audit committee and the audit findings reported to the committee.

PricewaterhouseCoopers LLP and its predecessor firms have been the Group's auditors for many years. The Audit Committee is satisfied with their effectiveness and their independence and has not considered it necessary to require an independent tender process.

During the year, the Company engaged the services of Deloitte, KPMG and Ernst and Young to undertake non-audit assignments in order to reduce reliance on PricewaterhouseCoopers LLP for the provision of non-audit services.

The committee closely monitors fees paid to the auditors in respect of non-audit services, which are analysed within note 8 on page 70. In 2012, fees for non-audit services totalled £1.1m and included taxation services amounting to £0.9m and other services £0.2m. The scope and extent of non-audit work undertaken by the external auditor is monitored by, and, above certain thresholds, requires prior approval from the committee to ensure that the provision of such services does not impair their independence or objectivity.

The Board received copies of all reports submitted to the Audit Committee.

Internal Audit

The Audit Committee receives reports from the Internal Audit department and reviews the internal audit process and effectiveness, as part of the Group's internal audit and risk assessment programme. An annual programme of internal audit assignments is reviewed by the Audit Committee, in addition to progress on improving the control environment across the Group.

Internal Controls

The Group has established an internal control environment which was in operation throughout the year. The Audit Committee monitors these arrangements on behalf of the Board, which includes a report submitted three times a year on the principal risks facing the Group and the mitigating controls against those identified key risks. The Group level report is based on submissions from all subsidiaries of the Company.

All subsidiaries undertake formal self-assessment risk reviews a minimum of three times a year on their internal control environment. These reviews are available to the Audit Committee and encompass the identification of the key business, financial, compliance and operational risks facing each unit, together with an assessment of the controls in place for managing and mitigating these risks. Additionally, risks are evaluated for their potential impact on the business.

Bribery Act Compliance

In compliance with the UK Bribery Act, Hunting has procedures in place including the publication of Bribery and Corruption policies and detailed guidelines on interacting with customers, suppliers and agents, including specific policies for gifts, entertainment and hospitality. Senior managers across the Group are required to report their compliance activities including an evaluation of risk areas. The Group has completed a screening exercise to determine relevant employees who face a heightened risk of bribery with all relevant personnel completing a formal training and compliance course, in line with the Group's procedures. The Audit Committee reviews the compliance procedures related to the Bribery Act at its April and December meetings, which incorporate a risk assessment completed by each business unit and gifts and entertainment disclosures made during the reporting period. The Group's internal audit function reviews local compliance to the Bribery Act and provides recommendations to the Audit Committee where appropriate.

Code of Conduct

The Group's Code of Conduct contains policies and procedures covering how the Group conducts business and maintains its relationships with business partners. The Code of Conduct is available on the Group's website.

Whistleblowing

The Senior Independent Director, John Hofmeister, is the primary point of contact for staff of the Company to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise. All employees have been notified of this arrangement through the corporate magazine, Group notice boards and the Group's website.

John Nicholas
Chairman of the Audit Committee
7 March 2013

Report of the Auditors

Independent Auditors' Report to the Members of Hunting PLC

We have audited the financial statements of Hunting PLC for the year ended 31 December 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated and Company Statement 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 43, 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 the 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 of the parent Company's affairs as at 31 December 2012 and of the Group's profit and Group's and parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs, as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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 and the part of the Remuneration Committee Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 38 and 39, in relation to going concern;
- the parts of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Charles van den Arend
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2013

Consolidated Income Statement

For the Year ended 31 December 2012

	Notes	2012 Before amortisation and exceptional items £m	2012 Amortisation and exceptional items (note 7) £m	2012 Total £m	2011 Before amortisation and exceptional items £m	2011 Amortisation and exceptional items (note 7) £m	2011 Total £m
Revenue	4	825.8	–	825.8	608.8	–	608.8
Cost of sales		(562.2)	(14.8)	(577.0)	(428.2)	(13.9)	(442.1)
Gross profit		263.6	(14.8)	248.8	180.6	(13.9)	166.7
Other operating income	5	4.0	1.1	5.1	3.3	–	3.3
Operating expenses	6	(138.8)	(29.2)	(168.0)	(102.9)	(26.1)	(129.0)
Profit from continuing operations	8	128.8	(42.9)	85.9	81.0	(40.0)	41.0
Finance income	11	1.7	–	1.7	3.5	–	3.5
Finance expense	11	(7.9)	–	(7.9)	(5.7)	(1.0)	(6.7)
Share of associates' post-tax profits		1.0	–	1.0	1.0	–	1.0
Profit before tax from continuing operations		123.6	(42.9)	80.7	79.8	(41.0)	38.8
Taxation	12	(34.6)	16.7	(17.9)	(22.5)	15.2	(7.3)
Profit for the year from continuing operations		89.0	(26.2)	62.8	57.3	(25.8)	31.5
Profit for the year from discontinued operations	13	–	69.2	69.2	0.7	50.0	50.7
Profit for the year		**89.0**	**43.0**	**132.0**	**58.0**	**24.2**	**82.2**
Profit attributable to:							
Owners of the parent	35	85.9	43.0	128.9	54.9	24.2	79.1
Non-controlling interests		3.1	–	3.1	3.1	–	3.1
		89.0	**43.0**	**132.0**	**58.0**	**24.2**	**82.2**
Earnings per share							
Basic – from continuing operations	14	58.9p		40.9p	39.6p		20.7p
– from discontinued operations	14	–		47.5p	0.5p		37.0p
Group total		**58.9p**		**88.4p**	**40.1p**		**57.7p**
Diluted – from continuing operations	14	57.5p		40.0p	38.7p		20.3p
– from discontinued operations	14	–		46.3p	0.5p		36.2p
Group total		**57.5p**		**86.3p**	**39.2p**		**56.5p**

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2012

	Notes	2012 £m	2011 £m
Comprehensive income:			
Profit for the year		132.0	82.2
Components of other comprehensive income after tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange adjustments		(27.4)	6.6
Fair value gains and losses:			
– gain on available for sale financial investment arising during the year	34	–	35.3
– gains transferred to income statement on redemption of available for sale financial investment	34	–	(53.2)
– gains originating on cash flow hedges arising during the year	34	0.4	4.0
– losses transferred to income statement on disposal of cash flow hedges		–	0.8
– gains transferred to goodwill on disposal of cash flow hedges		–	(5.5)
		(27.0)	(12.0)
Items that have been reclassified to profit or loss:			
Release of foreign exchange adjustments on disposal of subsidiary	34	(2.3)	–
Items that will not be reclassified to profit or loss:			
Actuarial losses on defined benefit pension schemes	35	(1.0)	(1.3)
Other comprehensive expense after tax		(30.3)	(13.3)
Total comprehensive income for the year		**101.7**	**68.9**
Total comprehensive income attributable to:			
Owners of the parent		98.7	65.1
Non-controlling interests		3.0	3.8
		101.7	**68.9**

Consolidated Balance Sheet

At 31 December 2012

	Notes	2012 £m	Restated 2011 £m
ASSETS			
Non-current assets			
Property, plant and equipment	15	248.5	231.2
Goodwill	16	304.5	317.9
Other intangible assets	17	185.2	220.8
Investments in associates		6.8	5.9
Investments	18	4.0	0.2
Retirement benefit assets	32	6.0	4.8
Trade and other receivables	20	3.7	2.2
Deferred tax assets	21	7.2	4.9
		765.9	787.9
Current assets			
Inventories	22	240.6	231.0
Trade and other receivables	20	171.0	174.2
Current tax assets		6.5	6.4
Investments	18	3.2	2.4
Cash and cash equivalents	23	101.7	68.8
Assets classified as held for sale		–	13.6
		523.0	496.4
LIABILITIES			
Current liabilities			
Trade and other payables	24	132.7	146.8
Current tax liabilities		10.8	25.3
Borrowings	25	81.3	43.2
Provisions	27	12.5	42.3
Liabilities classified as held for sale		–	8.5
		237.3	266.1
Net current assets		285.7	230.3
Non-current liabilities			
Borrowings	25	187.4	248.3
Deferred tax liabilities	21	25.7	19.7
Provisions	27	17.1	18.2
Other payables	24	7.6	–
		237.8	286.2
Net assets		**813.8**	**732.0**
Equity attributable to owners of the parent			
Share capital	33	36.8	36.6
Share premium	33	88.5	87.1
Other components of equity	34	12.7	41.1
Retained earnings	35	657.5	550.4
		795.5	715.2
Non-controlling interests		18.3	16.8
Total equity		**813.8**	**732.0**

The notes on pages 62 to 115 are an integral part of these consolidated financial statements. The financial statements on pages 55 to 115 were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

Dennis Proctor
Director

Peter Rose
Director

Registered number: 974568

Company Balance Sheet

At 31 December 2012

	Notes	2012 £m	2011 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	19	307.9	312.4
Other investments	18	0.2	–
Other receivables	20	11.9	26.6
		320.0	339.0
Current assets			
Other receivables	20	19.7	8.7
Current tax asset		5.0	7.3
Cash and cash equivalents	23	1.4	0.7
		26.1	16.7
LIABILITIES			
Current liabilities			
Other payables	24	7.4	9.3
Borrowings	25	3.0	0.1
Provisions		0.2	–
		10.6	9.4
Net current assets		15.5	7.3
Non-current liabilities			
Other payables	24	4.1	–
Borrowings	25	53.7	71.5
Deferred tax liabilities	21	0.1	1.1
Provisions		0.4	–
		58.3	72.6
Net assets		**277.2**	**273.7**
Equity attributable to owners of the parent			
Share capital	33	36.8	36.6
Share premium	33	88.5	87.1
Other components of equity	34	7.8	7.0
Retained earnings	35	144.1	143.0
Total equity		**277.2**	**273.7**

The notes on pages 62 to 115 are an integral part of these consolidated financial statements. The financial statements on pages 55 to 115 were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

Dennis Proctor
Director

Peter Rose
Director

Registered number: 974568

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Other components of equity £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
		Year ended 31 December 2012						
At 1 January		36.6	87.1	41.1	550.4	715.2	16.8	732.0
Profit for the year		–	–	–	128.9	128.9	3.1	132.0
Other comprehensive expense		–	–	(29.2)	(1.0)	(30.2)	(0.1)	(30.3)
Total comprehensive (expense) income		–	–	(29.2)	127.9	98.7	3.0	101.7
Transactions with owners								
Dividends		–	–	–	(22.6)	(22.6)	(1.5)	(24.1)
Shares issued								
– share option schemes and awards	33	0.2	1.4	–	–	1.6	–	1.6
Treasury shares								
– purchase of treasury shares	35	–	–	–	(0.8)	(0.8)	–	(0.8)
Share options and awards								
– value of employee services		–	–	2.5	–	2.5	–	2.5
– discharge		–	–	(1.7)	2.8	1.1	–	1.1
– taxation		–	–	–	(0.2)	(0.2)	–	(0.2)
Total transactions with owners		0.2	1.4	0.8	(20.8)	(18.4)	(1.5)	(19.9)
At 31 December		**36.8**	**88.5**	**12.7**	**657.5**	**795.5**	**18.3**	**813.8**

	Notes	Share capital £m	Share premium £m	Other components of equity £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
		Year ended 31 December 2011						
At 1 January		33.1	85.8	52.2	409.3	580.4	14.2	594.6
Profit for the year		–	–	–	79.1	79.1	3.1	82.2
Other comprehensive income (expense)		–	–	(12.7)	(1.3)	(14.0)	0.7	(13.3)
Total comprehensive (expense) income		–	–	(12.7)	77.8	65.1	3.8	68.9
Transactions with owners								
Dividends		–	–	–	(16.8)	(16.8)	(1.2)	(18.0)
Shares issued								
– share option schemes and awards	33	0.2	1.3	–	–	1.5	–	1.5
– share placing		3.3	–	82.1	–	85.4	–	85.4
– share placing costs		–	–	(1.9)	–	(1.9)	–	(1.9)
Treasury shares								
– purchase of treasury shares	35	–	–	–	(1.1)	(1.1)	–	(1.1)
– disposal of treasury shares	35	–	–	–	0.2	0.2	–	0.2
Share options and awards								
– value of employee services		–	–	2.2	–	2.2	–	2.2
– discharge		–	–	(0.6)	0.6	–	–	–
– taxation		–	–	–	0.2	0.2	–	0.2
Transfer between reserves		–	–	(80.2)	80.2	–	–	–
Total transactions with owners		3.5	1.3	1.6	63.3	69.7	(1.2)	68.5
At 31 December		**36.6**	**87.1**	**41.1**	**550.4**	**715.2**	**16.8**	**732.0**

Company Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Other components of equity £m	Retained earnings £m	Total £m
		Year ended 31 December 2012				
At 1 January		36.6	87.1	7.0	143.0	273.7
Profit for the year		–	–	–	21.7	21.7
Transactions with owners						
Dividends	37	–	–	–	(22.6)	(22.6)
Shares issued						
– share option schemes and awards	33	0.2	1.4	–	–	1.6
Treasury shares						
– purchase of treasury shares	35	–	–	–	(0.8)	(0.8)
Share options and awards						
– value of employee services		–	–	2.5	–	2.5
– discharge		–	–	(1.7)	2.8	1.1
Total transactions with owners		0.2	1.4	0.8	(20.6)	(18.2)
At 31 December		**36.8**	**88.5**	**7.8**	**144.1**	**277.2**

	Notes	Share capital £m	Share premium £m	Other components of equity £m	Retained earnings £m	Total £m
		Year ended 31 December 2011				
At 1 January		33.1	85.8	5.6	84.0	208.5
Loss for the year		–	–	–	(4.1)	(4.1)
Transactions with owners						
Dividends	37	–	–	–	(16.8)	(16.8)
Shares issued						
– share option schemes and awards	33	0.2	1.3	–	–	1.5
– share placing		3.3	–	82.1	–	85.4
– share placing costs		–	–	(1.9)	–	(1.9)
Treasury shares						
– purchase of treasury shares	35	–	–	–	(1.1)	(1.1)
– disposal of treasury shares	35	–	–	–	0.2	0.2
Share options and awards						
– value of employee services		–	–	2.2	–	2.2
– discharge		–	–	(0.6)	0.6	–
Other		–	–	(0.2)	–	(0.2)
Transfer between reserves		–	–	(80.2)	80.2	–
Total transactions with owners		3.5	1.3	1.4	63.1	69.3
At 31 December		**36.6**	**87.1**	**7.0**	**143.0**	**273.7**

Consolidated and Company Statement of Cash Flows

For the Year ended 31 December 2012

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Operating activities					
Continuing operations:					
Profit (loss) from operations		85.9	41.0	7.1	(5.1)
Depreciation, amortisation and impairment		58.8	36.2	3.8	–
Profit on disposal of subsidiaries		–	–	(3.5)	–
Loss on disposal of property, plant and equipment	8	3.0	1.4	–	–
Proceeds from disposal of property, plant and equipment held for rental		3.1	3.1	–	–
Purchase of property, plant and equipment held for rental		(17.0)	(20.2)	–	–
Increase in inventories		(17.4)	(14.1)	–	–
Decrease (increase) in receivables		7.6	(38.0)	(11.3)	(6.2)
(Decrease) increase in payables		(1.2)	33.4	2.7	7.5
Increase (decrease) in provisions		(2.2)	(0.1)	0.6	–
Taxation paid		(15.1)	(15.5)	(0.3)	(3.3)
Other non-cash flow items		(0.7)	1.1	2.8	2.7
Discontinued operations		–	2.0	–	–
Net cash inflow (outflow) from operating activities		104.8	30.3	1.9	(4.4)
Investing activities					
Continuing operations:					
Interest received		1.3	2.3	0.6	0.8
Dividends received from subsidiaries		–	–	16.7	0.4
Dividends received from associates	41	0.1	2.3	–	–
Purchase of subsidiaries	42	(2.2)	(593.6)	–	–
Net cash acquired with subsidiaries		–	26.9	–	–
Proceeds from disposal of subsidiaries	43	3.1	87.5	3.1	–
Indemnity receipts in respect of disposed subsidiaries	13	17.2	–	–	–
Net movement on loans to and from associates	41	(0.7)	(1.1)	–	–
Proceeds from disposal of property, plant and equipment		0.2	1.7	–	–
Purchase of property, plant and equipment		(44.6)	(37.8)	–	–
Purchase of intangibles		(1.5)	(0.3)	–	–
(Purchase) receipt of bank deposit investments		(0.8)	0.1	–	–
Discontinued operations		–	0.2	–	–
Net cash (outflow) inflow from investing activities		(27.9)	(511.8)	20.4	1.2
Financing activities					
Continuing operations:					
Interest and bank fees paid		(6.5)	(9.9)	(1.2)	(1.9)
Equity dividends paid	37	(22.6)	(16.8)	(22.6)	(16.8)
Non-controlling interest dividend paid		(1.5)	(1.2)	–	–
Share capital issued		1.6	86.8	1.6	86.8
Costs of share issue		–	(1.9)		(1.9)
Purchase of treasury shares		(0.8)	(1.1)	(0.8)	(1.1)
Loan issued		–	–	–	(16.4)
Loan issued repaid		–	–	16.4	–
Proceeds from new borrowings		4.5	266.7	–	16.4
Repayment of borrowings		(56.9)	(16.3)	(16.4)	(28.4)
Net cash (outflow) inflow from financing activities		(82.2)	306.3	(23.0)	36.7
Net cash (outflow) inflow in cash and cash equivalents		(5.3)	(175.2)	(0.7)	33.5
Cash and cash equivalents at the beginning of the year		35.1	212.0	0.6	(32.9)
Effect of foreign exchange rates		(0.8)	0.2	–	–
Classified as held for sale		–	(1.9)	–	–
Cash and cash equivalents at the end of the year		**29.0**	**35.1**	**(0.1)**	**0.6**
Cash and cash equivalents and bank overdrafts at the end of the year comprise:					
Cash and cash equivalents	23	101.7	68.8	1.4	0.7
Bank overdrafts included in borrowings	25	(72.7)	(33.7)	(1.5)	(0.1)
		29.0	**35.1**	**(0.1)**	**0.6**

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and those International Financial Reporting Standards ("IFRS") as adopted by the European Union and IFRIC Interpretations. The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of available for sale financial assets and those financial assets and financial liabilities held at fair value through profit or loss.

As permitted under IFRS 3, the balance sheet at 31 December 2011 has been restated to recognise additional goodwill of £1.4m and a reduction in inventories of £1.4m on the acquisition of Hunting Titan on 16 September 2011. The balance sheet at 1 January 2011 has not been presented, as there was no impact on the previous year's numbers from this adjustment.

The 2011 Consolidated Balance Sheet deferred tax assets and deferred tax liabilities have been restated to offset balances where there is a legally enforceable right to offset. The balance sheet at 1 January 2011 has not been presented as the figures previously reported for deferred tax assets and deferred tax liabilities do not require adjustment.

In addition, the current tax assets and current tax liabilities have been restated in the 2011 Consolidated Balance Sheet to reflect the underlying position within each tax jurisdiction. The balance sheet at 1 January 2011 has not been presented, as the figures previously reported for the current tax assets and current tax liabilities do not require adjustment.

Where a change in the presentational format between the prior year and current year financial statements has been made during the period, comparative figures have been restated accordingly.

The principal accounting policies applied in the preparation of these financial statements are set out in note 45. These policies have been consistently applied to all the years presented.

Adoption of New Standards, Amendments and Interpretations

There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2012 that have a material impact on the Group's financial performance or position.

The Group has early adopted the amendment to IAS 1 – Presentation of items of Other Comprehensive Income, issued June 2011. The presentation of items in the consolidated statement of comprehensive income has been altered to show items which will or might potentially be reclassified from other comprehensive income into profit or loss separately from those for which reclassification is not permitted.

Standards, Amendments and Interpretations Effective Subsequent to the Year End

- IFRS 9 Financial Instruments*
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures
- Amendment to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 19 Employee Benefits
- Improvements to IFRSs 2009-2011 (May 2012)*

* Not yet endorsed by the European Union.

New requirements contained within International Reporting Standards, referred to above, are not expected to significantly impact the Group's results or financial position.

2. Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements and assumptions about the future, resulting in the use of accounting estimates. These will, by definition, seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated, based on experience, consultation with experts and reasonable expectations of future events.

Accounting estimates are applied in determining the carrying amounts of the following significant assets and liabilities:

Asset/liability	Nature of Estimates
Goodwill	• The Group has capitalised goodwill of £304.5m at 31 December 2012 (2011 – £317.9m), as shown in note 16. • The Group uses the present value of future cash flows to determine value in use. In calculating the value in use, significant management judgement is required in forecasting relevant cash flows considering factors such as long-term growth rates, future margins, timing and quantum of future replacement capital expenditure, future tax rates and the selection of discount rates to reflect the risks involved. • Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to materially exceed its recoverable amount.
Other intangible assets	• Other intangible assets include the Group's aggregate amounts spent on the acquisition of customer relationships, patented and unpatented technology, trademarks and other intangibles. At 31 December 2012, intangible assets amounted to £185.2m (2011 – £220.8m), as shown in note 17, and represented 23% (2011 – 30%) of the Group's net assets. • These assets have principally arisen from the Group's acquisitions. • The relative size of the Group's other intangible assets makes the judgements regarding the initial recognition, useful economic lives and potential impairments significant to the Group's financial position and performance. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. The use of different assumptions for the expectations of future cash flows and the discount rate could change the valuation of the intangible assets. • Management also utilises judgement in estimating the lives of these assets and in considering whether any indicators of impairment have arisen.
Provisions	• The main components of the provisions relate to warranties, tax indemnities and onerous contracts, as shown in note 27. • On the sale of Gibson Energy in 2008, accounting estimates and judgements were applied in determining the amount of provisions held for tax indemnities. Following the favourable settlement of a legacy tax dispute by the relevant judicial and tax authorities in Canada, these provisions have significantly reduced during the year. The timing and amounts payable in respect of retained provisions remains uncertain. • The Group has commitments in respect of leasehold properties, some of which are not used for Group trading purposes and are vacant or sub-let to third parties. The provision for onerous contracts reflects the uncertainty of future conditions in the sub-letting market. • The Group uses the present value of future cash flows to determine the carrying value of provisions. Judgement is used in forecasting relevant cash flows.
Deferred tax	• Deferred tax balances are derived from assumptions, which include the future utilisation of trading losses and provisions at assumed tax rates.
Share-based payments	• A number of assumptions are made in determining the fair value of awards at the grant date and at each subsequent reporting date for LTIPs, as shown in note 38. • In making these estimates and assumptions, management considers advice provided by external advisers.
Post-employment benefits	• The Group's accounting policy for defined benefit pension schemes requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. The assumptions are shown in note 32. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity.

Notes to the Financial Statements continued

3. Segmental Reporting

Group

The Group reports on seven operating segments, two of which are discontinued operations, in its internal management reports, which are used to make strategic decisions. The Group's segments are strategic business units that offer different products and services to international oil and gas companies and the shipping sector.

The discontinued operations comprise Field Aviation, which was sold on 27 April 2012 and Gibson Energy, which was sold in 2008. Gibson Energy continues to generate accounting entries due to sale related transactions and is required for reconciliation purposes.

The Well Construction segment provides products and services used by customers for the drilling phase of oil and gas wells, along with associated equipment used by the underground construction industry for telecommunication infrastructure build-out and precision machining services for the energy, aviation and power generation sectors.

The Well Completion segment provides products and services used by customers for the completion phase of oil and gas wells.

The Well Intervention segment provides products and services used by customers for the production, maintenance and restoration of existing oil and gas wells.

The Exploration and Production segment includes the Group's oil and gas exploration and production activities in the Southern US and offshore Gulf of Mexico. The Board of Hunting has reviewed the strategic rationale of the Exploration and Production division and from 2013 will not be making any new capital investment, beyond where the division has contractual commitments. The division will in future focus on producing out its remaining reserves, with a view to winding down the operation. As a result, Exploration and Production is now presented within other operating divisions.

Gibson Shipbrokers is a global energy shipping broker headquartered in London. Crude oil, fuel oil and bio fuels are shipped along with dry bulk such as coal, iron ore and grain. Gibson Shipbrokers is also involved in the shipping of liquefied petroleum gas ("LPG"), petrochemicals and liquefied natural gas ("LNG").

The following tables present the results of the operating segments on the same basis as that used for internal reporting purposes to the Chief Operating Decision Maker.

The Group measures the performance of its operating segments based on revenue and profit from operations, before exceptional items and the amortisation of intangible assets. Accounting policies used for segment reporting reflect those used for the Group. Inter-segment sales are priced on an arm's length basis. Costs and overheads incurred centrally are apportioned to the continuing operating segments on the basis of time attributed to those operations by senior executives.

3. Segmental Reporting continued
Results from Operations

	Year ended 31 December 2012					
	Total gross revenue £m	Inter-segmental revenue £m	Total revenue £m	Profit from operations before amortisation and exceptional items £m	Amortisation and exceptional items £m	Total £m
Continuing operations:						
Hunting Energy Services						
Well Construction	284.1	(4.8)	279.3	45.7	(5.1)	40.6
Well Completion	468.6	(11.2)	457.4	74.1	(30.0)	44.1
Well Intervention	56.7	–	56.7	6.9	(0.6)	6.3
	809.4	(16.0)	793.4	126.7	(35.7)	91.0
Other Activities						
Exploration and Production	4.9	–	4.9	0.5	(7.2)	(6.7)
Gibson Shipbrokers	27.5	–	27.5	1.6	–	1.6
Total from continuing operations	**841.8**	**(16.0)**	**825.8**	**128.8**	**(42.9)**	**85.9**
Net finance expense				(6.2)	–	(6.2)
Share of associates' post-tax profits				1.0	–	1.0
Profit before tax from continuing operations				**123.6**	**(42.9)**	**80.7**
Discontinued operations:						
Gibson Energy	–	–	–	–	56.9	56.9
Field Aviation	10.1	–	10.1	–	1.2	1.2
Total from discontinued operations	**10.1**	**–**	**10.1**	**–**	**58.1**	**58.1**
Taxation				–	11.1	11.1
Profit from discontinued operations				**–**	**69.2**	**69.2**

Notes to the Financial Statements continued

3. Segmental Reporting continued

	Year ended 31 December 2011					
	Total gross revenue £m	Inter-segmental revenue £m	Total revenue £m	Profit from operations before amortisation and exceptional items £m	Amortisation and exceptional items £m	Total £m
Continuing operations:						
Hunting Energy Services						
Well Construction	200.8	(6.3)	194.5	28.5	(7.8)	20.7
Well Completion	340.9	(13.7)	327.2	41.2	(19.8)	21.4
Well Intervention	52.9	–	52.9	7.9	(0.6)	7.3
	594.6	(20.0)	574.6	77.6	(28.2)	49.4
Other Activities						
Exploration and Production	8.2	–	8.2	1.7	(1.0)	0.7
Gibson Shipbrokers	26.0	–	26.0	1.7	–	1.7
Total from continuing operations	**628.8**	**(20.0)**	**608.8**	**81.0**	**(29.2)**	**51.8**
Exceptional items not apportioned to business segments*				–	(10.8)	(10.8)
Profit from continuing operations				**81.0**	**(40.0)**	**41.0**
Net finance expense				(2.2)	(1.0)	(3.2)
Share of associates' post-tax profits				1.0	–	1.0
Profit before tax from continuing operations				**79.8**	**(41.0)**	**38.8**
Discontinued operations:						
Gibson Energy	–	–	–	–	55.0	55.0
Hunting Energy France	–	–	–	–	0.1	0.1
Field Aviation	25.9	–	25.9	0.8	–	0.8
Total from discontinued operations	**25.9**	**–**	**25.9**	**0.8**	**55.1**	**55.9**
Net finance income				0.2	–	0.2
Taxation				(0.3)	(5.1)	(5.4)
Profit from discontinued operations				**0.7**	**50.0**	**50.7**

* Exceptional items not apportioned to business segments include acquisition costs and head office property provisions.

3. Segmental Reporting continued

Other Segment Items

	2012			2011		
	Depreciation £m	Amortisation of intangible assets £m	Impairment £m	Depreciation £m	Amortisation of intangible assets £m	Impairment £m
Continuing operations:						
Hunting Energy Services						
Well Construction	10.9	5.4	–	7.7	5.2	–
Well Completion	9.8	22.1	–	7.8	6.4	1.5
Well Intervention	3.1	0.6	–	2.7	0.6	–
	23.8	28.1	–	18.2	12.2	1.5
Other Activities						
Exploration and Production	1.5	–	5.2	3.1	–	1.0
Gibson Shipbrokers	0.2	–	–	0.2	–	–
Continuing operations	**25.5**	**28.1**	**5.2**	**21.5**	**12.2**	**2.5**
Discontinued operations:						
Field Aviation	**–**	**–**	**–**	**0.2**	**–**	**–**

Geographical Information

The Group mainly operates in five geographical areas. The UK is the domicile of Hunting PLC. The table below shows revenues from external customers, which are attributed to individual countries on the basis of the location in which the sale originated. Information on the location of non-current assets is also presented below. Non-current assets exclude defined benefit assets and deferred tax assets.

	External revenue		Non-current assets	
	2012 £m	2011 £m	2012 £m	Restated 2011 £m
Continuing operations:				
UK	141.8	134.2	52.4	52.5
USA	500.2	314.8	641.8	675.6
Canada	61.0	53.1	24.9	21.8
Rest of Europe	17.8	15.2	2.8	2.7
Singapore	81.6	82.4	9.2	6.0
Other	23.4	9.1	21.6	19.6
	825.8	608.8	752.7	778.2
Discontinued operations:				
Canada	10.1	25.9	–	–
	835.9	**634.7**	**752.7**	**778.2**
Unallocated assets:				
Deferred tax assets			7.2	4.9
Retirement benefit assets			6.0	4.8
Total non-current assets			**765.9**	**787.9**

Non-current assets in 2011 have been restated for the additional goodwill of £1.4m recognised on the acquisition of Hunting Titan on 16 September 2011. The additional goodwill has been included within US non-current assets. The deferred tax asset in 2011 has been restated to take into account the offsetting of balances where there is a legally enforceable right to offset.

Major Customer Information

The Group had no customers (2011 – nil) who accounted for more than 10% of the Group's external revenue during the year.

Notes to the Financial Statements continued

4. Revenue
Group

	2012 £m	2011* £m
Sale of goods	724.7	526.5
Revenue from rental equipment	66.4	49.9
Revenue from services	34.7	32.4
Continuing operations	**825.8**	**608.8**

Revenue from rental equipment has now been shown as a separate category. Prior year comparatives have been reclassified as appropriate*. Sale of goods includes revenue derived from the Group's manufacturing processes. Revenue from services includes revenue from shipbroking activities of £27.5m (2011 – £26.0m).

5. Other Operating Income
Group

	2012 £m	2011 £m
Royalty income	1.9	1.2
Operating lease rental income	0.8	0.7
Gain on disposal of property, plant and equipment	0.4	0.7
Foreign exchange gains	0.5	0.5
Other income	0.4	0.2
Other operating income before exceptional items	4.0	3.3
Exceptional items included in other income (note 7)	1.1	–
Continuing operations	**5.1**	**3.3**

6. Operating Expenses
Group

	2012 £m	2011 £m
Administration expenses before amortisation and exceptional items	126.0	97.1
Distribution costs	12.8	5.8
Operating expenses before amortisation and exceptional items	138.8	102.9
Amortisation and exceptional items (note 7)	29.2	26.1
Continuing operations	**168.0**	**129.0**

	2012 £m	2011 £m
Administrative expenses include:		
Fair value loss on non-hedging derivatives	0.2	–
Foreign exchange losses	1.3	–

7. Amortisation and Exceptional Items

Group

	2012 £m	2011 £m
Fair value uplift to inventories charge	7.6	12.9
Impairment of property, plant and equipment	5.2	1.0
Dry hole costs	2.0	–
Charged to cost of sales	14.8	13.9
Amortisation of intangible assets (note 17)	28.1	12.2
Acquisition costs	–	8.6
Retention bonuses for key employees of acquired businesses	1.1	1.6
Impairment of goodwill (note 16)	–	1.5
Property provisions (note 27)	–	2.2
Charged to operating expenses	29.2	26.1
Release of contingent consideration liability – credited to operating income	(1.1)	–
Amortisation and exceptional items	42.9	40.0
Unamortised loan facility fees written off – charged to finance expense	–	1.0
Taxation on amortisation and exceptional items (note 12)	(16.7)	(15.2)
Continuing operations	**26.2**	**25.8**

Under IFRS, at acquisition, inventory values are adjusted from their carrying values (generally at cost of production) to a fair value, which includes profit attributable to the degree of completion of the inventory. This uplift is charged to the income statement as the inventory is sold, thereby reducing reported operating profits. In 2012, the charge was £7.6m relating to the four acquisitions completed in the second half of 2011.

The impairment charge of £5.2m (2011 – £1.0m) relates to the write down of oil and gas development expenditure, largely due to sustained low natural gas commodity prices during the year and forecast for the foreseeable future. The recoverable amount of oil and gas development expenditure is based on value in use. These calculations use discounted pre-tax cash flow projections based on estimated oil and gas reserves, future production and income attributable to such reserves. Cash flows are based on reserve production lives varying from one to fifteen years. Cash flows are discounted using a pre-tax rate of 10% (2011 – 10%). The prices of oil and natural gas are derived from published futures prices, with the long-term average oil price assumed to be US$98.13 bbl. (2011 – US$96.10 bbl.) and the long-term average gas price at US$4.35 mcf (2011 – US$4.07 mcf). Natural declines in well production rates, combined with low forecast product prices, materially decreased the present value of future cash flows and rendered development and production of certain older offshore wells uneconomical, resulting in the impairment charge of £5.2m.

Dry hole costs of £2.0m have been incurred during the year from our Exploration and Production activities.

A £1.1m charge for bonuses for key employee retention, relating to the 2011 acquisitions, has been recognised. All relevant employees have been paid their bonuses in the period and the liability has been discharged.

A credit of £1.1m has been recognised in the income statement for the Doffing contingent consideration arrangement, as the future payments are not likely to be required.

8. Profit from Continuing Operations

Group

The following items have been charged in arriving at profit from continuing operations:

	2012 £m	2011 £m
Staff costs (note 10)	175.9	134.9
Depreciation of property, plant and equipment	25.5	21.5
Amortisation of other intangible assets (included in operating expenses)	28.1	12.2
Impairment of goodwill (included in operating expenses)	–	1.5
Impairment of property, plant and equipment (included in cost of sales)	5.2	1.0
Impairment of trade and other receivables (note 20)	0.8	0.9
Cost of inventories recognised as expense (included in cost of sales)*	445.9	346.8
Write down in inventories	2.3	0.7
Net loss on disposal of property, plant and equipment	3.0	1.4
Operating lease payments	6.9	6.0
Research and development expenditure	1.7	0.6

* The cost of inventories recognised as an expense includes the release of the fair value uplift to inventories of £7.6m (2011 – £12.9m) included in exceptional items (note 7).

Notes to the Financial Statements continued

8. Profit from Continuing Operations continued

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

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Fees payable to the Company's auditor and its associates:				
Audit of the parent company and consolidated financial statements	1.3	1.3	0.4	0.3
Audit of the Company's subsidiaries	0.1	0.1	–	–
Total audit	1.4	1.4	0.4	0.3
Audit-related assurance services	0.1	0.1	–	–
Tax compliance services	0.6	0.7	0.1	0.3
Tax advisory services	0.3	0.3	0.1	–
Total services relating to taxation	0.9	1.0	0.2	0.3
Services relating to corporate finance transactions entered into by the Group	0.1	1.5	–	0.8
Other services	0.1	0.2	0.1	–
Total other non-audit services	0.2	1.7	0.1	0.8
Total fees	**2.6**	**4.2**	**0.7**	**1.4**

9. EBITDA

Group

	2012 £m	2011 £m
Total profit from continuing operations (page 55)	85.9	41.0
Add: Amortisation and exceptional items (note 7)	42.9	40.0
Add: Depreciation (note 15)	25.5	21.5
EBITDA	**154.3**	**102.5**

EBITDA is a non-GAAP measure and is defined as pre-exceptional profit from continuing operations before interest, tax, depreciation, amortisation and impairment to property, plant and equipment. EBITDA is used by the Board as a measure of performance of the Group.

EBITDA includes a £0.8m charge in respect of acquisition related costs incurred during the year.

10. Employees

Group

	2012			2011		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Staff costs during the year comprised:						
Wages and salaries	151.1	3.7	154.8	112.3	8.5	120.8
Social security costs	11.4	0.5	11.9	10.0	1.0	11.0
Share-based payments (note 38)	7.0	–	7.0	6.9	–	6.9
Pension costs						
– defined contribution schemes (note 32)	4.2	0.2	4.4	3.7	0.5	4.2
– defined benefit scheme (note 32)	2.2	–	2.2	2.0	–	2.0
	175.9	**4.4**	**180.3**	**134.9**	**10.0**	**144.9**

10. Employees continued

	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
The average monthly number of employees (including executive Directors) comprised:						
UK	552	–	552	499	–	499
Rest of Europe	65	–	65	54	–	54
Canada	232	73	305	202	183	385
USA	2,224	1	2,225	1,487	5	1,492
Asia Pacific	653	–	653	480	–	480
Other	23	–	23	–	–	–
	3,749	**74**	**3,823**	**2,722**	**188**	**2,910**

	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
The average monthly number of employees (including executive Directors) comprised:						
Well Construction	1,219	–	1,219	814	–	814
Well Completion	1,954	–	1,954	1,394	–	1,394
Well Intervention	359	–	359	314	–	314
Exploration and Production	4	–	4	4	–	4
Field Aviation	–	74	74	–	188	188
Gibson Shipbrokers	155	–	155	149	–	149
Central	58	–	58	47	–	47
	3,749	**74**	**3,823**	**2,722**	**188**	**2,910**

	2012			2011		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Actual number of employees at year end:						
Male	3,138	–	3,138	2,785	166	2,951
Female	728	–	728	668	37	705
	3,866	**–**	**3,866**	**3,453**	**203**	**3,656**

Key management comprises the executive and non-executive Directors only. Their compensation is:

	2012 £m	2011 £m
Salaries and short-term employee benefits	2.2	2.3
Social security costs	0.2	0.2
Post-employment benefits	0.3	0.3
Share-based payments	2.4	1.0
	5.1	**3.8**

Salaries and short-term benefits are included within Emoluments on page 48 of the Remuneration Committee's Report. Post-employment benefits comprise employer pension contributions. Share options exercised are disclosed on page 49 within Directors' Options and Awards over Ordinary shares in the Remuneration Committee's Report.

Company

The Company has no employees.

Notes to the Financial Statements continued

11. Net Finance Costs
Group

	2012 £m	2011 £m
Finance income:		
Bank balances and deposits	1.0	2.1
Foreign exchange gains	–	1.0
Other finance income	0.7	0.4
	1.7	3.5
Finance expense:		
Bank overdrafts	(0.9)	(1.2)
Bank borrowings	(4.2)	(1.6)
Bank fees and commissions	(2.1)	(1.8)
Other finance expense	(0.7)	(1.1)
Finance expense before exceptional items	(7.9)	(5.7)
Unamortised loan facility fees written off – exceptional item (note 7)	–	(1.0)
	(7.9)	(6.7)
Net finance expense – continuing operations	**(6.2)**	**(3.2)**

12. Taxation
Group

	2012			2011		
	Before amortisation and exceptional items £m	Amortisation and exceptional items £m	Total £m	Before amortisation and exceptional items £m	Amortisation and exceptional items £m	Total £m
Current tax						
– current year expense	33.5	(15.8)	17.7	26.9	(13.0)	13.9
– adjustment in respect of prior years	(5.9)	–	(5.9)	(3.3)	–	(3.3)
	27.6	(15.8)	11.8	23.6	(13.0)	10.6
Deferred tax						
– origination and reversal of temporary differences	6.8	(0.9)	5.9	(1.0)	(2.2)	(3.2)
– change in tax rate	0.3	–	0.3	(0.1)	–	(0.1)
– adjustment in respect of prior years	(0.1)	–	(0.1)	–	–	–
	7.0	(0.9)	6.1	(1.1)	(2.2)	(3.3)
Total tax charged to the income statement – continuing operations	**34.6**	**(16.7)**	**17.9**	**22.5**	**(15.2)**	**7.3**

The weighted average applicable tax rate for continuing operations before amortisation and exceptional items is 28% (2011 – 28%).

The tax credit in the income statement for amortisation and exceptional items principally comprises £10.8m (2011 – £3.8m) for amortisation, £1.9m (2011 – £0.3m) for the impairment of oil and gas development expenditure, £0.7m (2011 – £nil) for dry hole costs, £nil (2011 – £2.5m) for acquisition costs, £nil (2011 – £0.5m) for property provisions, £0.4m (2011 – £0.6m) for retention bonuses, £nil (2011 – £0.3m) for unamortised loan facility fees and £2.9m (2011 – £4.9m) for the fair value uplift to inventories charge.

12. Taxation continued

The total tax charge for the year is lower (2011 – lower) than the standard rate of UK corporation tax of 24.5% (2011 – 26.5%) for the following reasons:

	2012 £m	2011 £m
Profit before tax from continuing operations	**80.7**	**38.8**
Tax at 24.5% (2011 – 26.5%)	19.8	10.3
Permanent differences	1.8	1.6
Recognition of previously unrecognised deferred taxes	(0.7)	(2.0)
Non-tax deductible (untaxed) exceptional items	(0.2)	0.5
Higher rate of tax on overseas profits	2.9	0.3
Change in tax rates	0.3	(0.1)
Adjustments in respect of prior years	(6.0)	(3.3)
Tax charge for the year – continuing operations	**17.9**	**7.3**

Tax effects relating to each component of other comprehensive income:

	2012			2011		
	Before tax £m	Tax (charged) credited £m	After tax £m	Before tax £m	Tax (charged) credited £m	After tax £m
Exchange adjustments	(29.3)	1.9	(27.4)	9.1	(2.5)	6.6
Release of foreign exchange adjustments on disposal of subsidiary	(2.1)	(0.2)	(2.3)	–	–	–
Fair value gains and losses:						
– gain on available for sale financial investment arising during the year	–	–	–	40.4	(5.1)	35.3
– gains transferred to income statement on redemption of available for sale financial investment	–	–	–	(58.3)	5.1	(53.2)
– gains originating on cash flow hedges arising during the year	0.5	(0.1)	0.4	5.4	(1.4)	4.0
– (gains) losses transferred to income statement on disposal of cash flow hedges	–	–	–	(0.8)	1.6	0.8
– gains transferred to goodwill on disposal of cash flow hedges	–	–	–	(5.5)	–	(5.5)
Actuarial losses on defined benefit pension schemes	(1.3)	0.3	(1.0)	(1.9)	0.6	(1.3)
	(32.2)	**1.9**	**(30.3)**	**(11.6)**	**(1.7)**	**(13.3)**

Tax credited directly in equity:

	2012 £m	2011 £m
Share options and awards	**(0.2)**	**0.2**

A number of changes to the UK corporation tax system were announced in the March 2012 Budget Statement, whereby from 1 April 2012 the main rate of corporation tax was reduced to 24%. The impact of this change has been recognised in calculating the effective rate of tax for the year ended 31 December 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% is included in the Finance Act 2012, which received Royal Assent on 17 July 2012. Further reductions to the main rate are proposed to reduce the rate by 2% per annum to 21% by 1 April 2014. The changes are not expected to have a material impact on the Group's deferred tax balances.

Notes to the Financial Statements continued

13. Discontinued Operations

Group

The results from discontinued operations comprise the following:

	2012			2011			
	Field Aviation £m	Gibson Energy £m	Total £m	Field Aviation £m	Hunting Energy France £m	Gibson Energy £m	Total £m
Trading results:							
Revenue	10.1	–	10.1	25.9	–	–	25.9
Cost of sales	(9.6)	–	(9.6)	(23.9)	–	–	(23.9)
Gross profit	0.5	–	0.5	2.0	–	–	2.0
Other operating income	0.8	–	0.8	2.4	–	–	2.4
Operating expenses	(1.3)	–	(1.3)	(3.6)	–	–	(3.6)
Profit from operations	–	–	–	0.8	–	–	0.8
Finance income	–	–	–	0.2	–	–	0.2
Profit before tax	–	–	–	1.0	–	–	1.0
Taxation	–	–	–	(0.3)	–	–	(0.3)
Profit for the year	–	–	–	0.7	–	–	0.7
Gain on disposal:							
Gain on sale before tax	1.2	56.9	58.1	–	0.1	55.0	55.1
Taxation	0.2	10.9	11.1	–	–	(5.1)	(5.1)
Gain on sale after tax	1.4	67.8	69.2	–	0.1	49.9	50.0
Total profit from discontinued operations	**1.4**	**67.8**	**69.2**	**0.7**	**0.1**	**49.9**	**50.7**

Gibson Energy

The sale of Gibson Energy Inc., Hunting's midstream services operation, was completed on 12 December 2008.

Following the sale of Gibson Energy, Hunting established provisions for tax indemnities given in respect of two tax disputes with the Canadian Tax Authorities ("CRA"). The CRA have now ended their enquiry into the larger of the two tax disputes and have dropped their challenge resulting in a gain to the income statement of £56.9m, comprising of a release of £30.7m provisions held in respect of the dispute, a refund of approximately £25.9m in cash, for payments which were made in response to corporation tax reassessments issued by the CRA in respect of this tax dispute and other movements on Gibson Energy related provisions in the year giving rise to a net credit of £0.3m.

The refund of cash involves the Federal and Provincial tax authorities in Canada. Receipt of the Federal portion, amounting to £17.2m was received in December 2012 and receipt of the Provincial portion, approximately £8.7m, was received on 28 February 2013.

On the sale of Gibson Energy in 2008, part of the consideration was deferred and held as a warrant until its receipt in full in 2011. Upon receipt, the proceeds were treated as a taxable revenue item and taxed accordingly. In 2012, the UK tax authorities agreed that the underlying nature of the transaction is capital. The company has utilised capital tax losses to offset the capital gain arising on the warrant, resulting in a £nil tax charge on the warrant. The tax charge previously recognised, together with provisions, has been released.

Field Aviation

On 27 April 2012, the Group sold its aviation engineering services business, Hunting Canadian Airport Holdings Ltd and its subsidiaries, including Field Aviation Company Inc. (together referred to as "Field Aviation"). Field Aviation is considered to be a major operation of Hunting and as such the results have been presented as a discontinued operation.

Hunting Energy France

On 22 December 2009, the Group sold Hunting Energy France SA, its French-based business.

14. Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of outstanding Ordinary shares is adjusted to assume conversion of all dilutive potential Ordinary shares. The dilution in respect of share options applies where the exercise price is less than the average market price of the Company's Ordinary shares during the year and the possible issue of shares under the Group's long-term incentive plans.

Reconciliations of the earnings and weighted average number of Ordinary shares used in the calculations are set out below:

	2012 £m	2011 £m
Basic and diluted earnings attributable to Ordinary shareholders:		
From continuing operations	59.7	28.4
From discontinued operations	69.2	50.7
Total	**128.9**	**79.1**
Basic and diluted earnings attributable to Ordinary shareholders before amortisation and exceptional items:		
From continuing operations	59.7	28.4
Add: amortisation and exceptional items after taxation (note 7)	26.2	25.8
Total for continuing operations	**85.9**	**54.2**
From discontinued operations	69.2	50.7
Add: exceptional items after tax	(69.2)	(50.0)
Total for discontinued operations	**–**	**0.7**

	millions	millions
Basic weighted average number of Ordinary shares	145.9	137.1
Dilutive outstanding share options	1.2	1.4
Long-term incentive plans	2.4	1.6
Adjusted weighted average number of Ordinary shares	**149.5**	**140.1**

	pence	pence
Basic EPS		
From continuing operations	40.9	20.7
From discontinued operations	47.5	37.0
	88.4	**57.7**
Diluted EPS		
From continuing operations	40.0	20.3
From discontinued operations	46.3	36.2
	86.3	**56.5**
Earnings per share before amortisation and exceptional items:		
Basic EPS		
From continuing operations	58.9	39.6
From discontinued operations	–	0.5
	58.9	**40.1**
Diluted EPS		
From continuing operations	57.5	38.7
From discontinued operations	–	0.5
	57.5	**39.2**

Notes to the Financial Statements continued

15. Property, Plant and Equipment

Group

	Year ended 31 December 2012				
	Land and buildings				
	Freehold £m	Short leasehold £m	Oil and gas exploration and development £m	Plant, machinery and motor vehicles £m	Total £m
Cost:					
At 1 January	89.6	1.4	98.2	208.8	398.0
Exchange adjustments	(2.6)	(0.1)	(4.5)	(6.4)	(13.6)
Additions	15.4	0.2	6.1	41.7	63.4
Disposals	–	(0.1)	–	(11.2)	(11.3)
Reclassification	0.1	2.3	–	(2.4)	–
At 31 December	102.5	3.7	99.8	230.5	436.5
Accumulated depreciation and impairment:					
At 1 January	6.7	0.8	81.5	77.8	166.8
Exchange adjustments	0.1	(0.1)	(3.8)	(1.2)	(5.0)
Charge for the year	1.8	0.4	1.5	21.8	25.5
Impairment of assets (note 7)	–	–	5.2	–	5.2
Disposals	–	(0.1)	–	(4.4)	(4.5)
Reclassification	–	1.6	–	(1.6)	–
At 31 December	8.6	2.6	84.4	92.4	188.0
Net book amount	**93.9**	**1.1**	**15.4**	**138.1**	**248.5**

Oil and gas exploration and development includes expenditure on the exploration for and evaluation of mineral resources, which is recognised at cost and is not depreciated until production commences, or is impaired if the exploration of the mineral resources is not commercially viable. The amount recognised in cost at 31 December 2012 is £0.2m (2011 – £0.1m), including additions during the year of £0.2m (2011 – £0.1m) and an impairment loss of £nil (2011 – £nil).

Included in the net book amount is expenditure relating to assets in the course of construction of £0.3m (2011 – £6.4m) for freehold land and buildings, £2.1m (2011 – £2.6m) for oil and gas exploration and development and £6.3m (2011 – £4.2m) for plant and machinery.

Group capital expenditure committed, for the purchase of property, plant and equipment, but not provided for in these financial statements amounted to £7.9m (2011 – £10.9m).

15. Property, Plant and Equipment continued

	Year ended 31 December 2011				
	Land and buildings				
	Freehold £m	Short leasehold £m	Oil and gas exploration and development £m	Plant, machinery and motor vehicles £m	Total £m
Cost:					
At 1 January	55.9	6.6	93.7	155.4	311.6
Exchange adjustments	0.9	0.1	1.1	2.4	4.5
Additions	18.0	–	3.4	38.2	59.6
Acquisitions	18.7	–	–	26.7	45.4
Disposals	(2.1)	–	–	(9.5)	(11.6)
Classified as held for sale	–	(5.4)	–	(6.1)	(11.5)
Reclassification	(1.8)	0.1	–	1.7	–
At 31 December	89.6	1.4	98.2	208.8	398.0
Accumulated depreciation and impairment:					
At 1 January	6.0	4.8	76.5	70.2	157.5
Exchange adjustments	–	–	0.9	0.3	1.2
Charge for the year*	1.5	0.2	3.1	16.9	21.7
Impairment of assets	–	–	1.0	–	1.0
Disposals	(0.8)	–	–	(4.4)	(5.2)
Classified as held for sale	–	(4.6)	–	(4.8)	(9.4)
Reclassification	–	0.4	–	(0.4)	–
At 31 December	6.7	0.8	81.5	77.8	166.8
Net book amount	**82.9**	**0.6**	**16.7**	**131.0**	**231.2**

* Included in the charge for the year is £0.2m for discontinued operations.

The net book amount of property, plant and equipment at 1 January 2011 was £154.1m.

Notes to the Financial Statements continued

16. Goodwill
Group

	2012 £m	Restated 2011 £m
Cost:		
At 1 January	339.3	120.3
Exchange adjustments	(13.6)	5.1
Additions	–	213.9
At 31 December	325.7	339.3
Accumulated impairment:		
At 1 January	21.4	19.7
Exchange adjustments	(0.2)	0.2
Charge for the year	–	1.5
At 31 December	21.2	21.4
Net book amount	**304.5**	**317.9**

As permitted under IFRS 3, goodwill for 2011 has been restated to recognise additional goodwill of £1.4m on the acquisition of Hunting Titan on 16 September 2011.

The net book amount at 1 January 2011 was £100.6m.

Impairment tests for goodwill
Goodwill is allocated to the Group's cash-generating units ("CGUs"), the individual business operations, as follows:

	2012 £m	Restated 2011 £m
Innova	42.3	44.2
Dearborn	15.7	16.4
Titan	176.6	185.0
Welltonic	11.6	11.6
Hunting Stafford (formerly National Coupling Company)	20.1	21.0
Other cash generating units	38.2	39.7
At 31 December	**304.5**	**317.9**

The recoverable amount of a CGU is determined based on value in use calculations. The key assumptions for the value in use calculations are long-term growth rates and pre-tax discount rates. The calculations use discounted pre-tax cash flow projections based on the most recent financial budgets approved by management covering a two year period and are based on past experience and order books. Cash flows beyond the two year period are extrapolated using estimated nominal long-term growth rates of 6.8% and 8.0% and terminal growth rates of 2.7% and 3.0% for 2012 and 2011 respectively. The growth rate reflects the products, industries and countries in which the relevant CGU operates and will incorporate, where relevant, projected rig counts and the expected profile of drilling.

Cash flows are discounted using nominal pre-tax rates between 10% and 15% (2011 – 11% and 15%). The cash flows for the Titan CGU have been discounted using a nominal pre-tax rate of 11% (2011 – 11%). The discount rate best reflects current market assessments of the time value of money, the risks associated with the cash flows and the likely external rate of borrowing of the CGU. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

The operations of Well Intervention have been combined with the operations of Welltonic and so goodwill relating to Well Intervention, which was previously disclosed separately, has been reallocated to the Welltonic CGU.

Sensitivities
Having performed a sensitivity analysis on the value in use calculations, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to materially exceed its recoverable amount.

17. Other Intangible Assets
Group

	2012					
	Customer relationships £m	Unpatented technology £m	Patents £m	Trademarks £m	Other £m	Total £m
Cost:						
At 1 January	159.3	34.4	13.0	19.4	11.3	237.4
Exchange adjustments	(6.9)	(1.5)	(0.6)	(0.9)	(0.5)	(10.4)
Additions	–	–	0.1	–	1.4	1.5
At 31 December	152.4	32.9	12.5	18.5	12.2	228.5
Accumulated amortisation:						
At 1 January	8.9	1.0	1.1	2.3	3.3	16.6
Exchange adjustments	(0.7)	(0.1)	(0.1)	(0.2)	(0.3)	(1.4)
Charge for the year	16.5	3.4	1.3	4.0	2.9	28.1
At 31 December	24.7	4.3	2.3	6.1	5.9	43.3
Net book amount	**127.7**	**28.6**	**10.2**	**12.4**	**6.3**	**185.2**

	2011					
	Customer relationships £m	Unpatented technology £m	Patents £m	Trademarks £m	Other £m	Total £m
Cost:						
At 1 January	19.6	–	3.1	0.9	3.0	26.6
Exchange adjustments	2.9	0.6	0.1	0.5	0.2	4.3
Additions	–	–	–	–	0.3	0.3
Acquisitions	136.8	33.8	9.8	18.0	7.8	206.2
At 31 December	159.3	34.4	13.0	19.4	11.3	237.4
Accumulated amortisation:						
At 1 January	2.2	–	0.5	0.5	0.8	4.0
Exchange adjustments	0.1	–	–	0.1	0.2	0.4
Charge for the year	6.6	1.0	0.6	1.7	2.3	12.2
At 31 December	8.9	1.0	1.1	2.3	3.3	16.6
Net book amount	**150.4**	**33.4**	**11.9**	**17.1**	**8.0**	**220.8**

The net book amount of total other intangible assets at 1 January 2011 was £22.6m.

None of the Group's intangible assets have been internally generated.

All amortisation charges relating to intangible assets have been charged to operating expenses.

All intangible assets are regarded as having a finite life and are amortised accordingly.

Notes to the Financial Statements continued

17. Other Intangible Assets continued

Individual Material Intangible Assets

Included in the table above are the following individual material intangible assets:

	2012	
	Customer relationships – Innova £m	Customer relationships – Titan £m
Cost:		
At 1 January	17.4	122.3
Exchange adjustments	(0.8)	(5.4)
At 31 December	16.6	116.9
Accumulated amortisation:		
At 1 January	2.9	3.6
Exchange adjustments	(0.2)	(0.5)
Charge for the year	2.1	12.0
At 31 December	4.8	15.1
Net book amount	**11.8**	**101.8**
Remaining amortisation period at 31 December – years	**5.7**	**8.8**

18. Investments

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Non-current:				
At 1 January	0.2	45.1	–	–
Exchange adjustments	(0.1)	–	–	–
Additions	3.9	–	0.2	–
Fair value gain transferred to equity	–	40.4	–	–
Redemption of warrant	–	(85.3)	–	–
	4.0	**0.2**	**0.2**	**–**

The financial assets comprise:

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Unlisted equity investments	0.3	0.2	–	–
Listed equity investments and mutual funds	3.5	–	–	–
Environmental escrow	0.2	–	0.2	–
	4.0	**0.2**	**0.2**	**–**

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Current:				
Bank deposits maturing after more than three months	**3.2**	**2.4**	**–**	**–**

The maximum exposure to credit risk at 31 December 2012 is the fair value of the financial assets of £7.2m (2011 – £2.6m), see note 29.

19. Investments in Subsidiaries

Company

	2012 £m	2011 £m
Cost:		
At 1 January	314.4	314.4
Disposals	(0.7)	–
At 31 December	313.7	314.4
Impairment:		
At 1 January	2.0	1.4
Charge for the year	3.8	0.6
At 31 December	5.8	2.0
Net book amount	**307.9**	**312.4**

The principal subsidiaries are detailed in note 44.

The impairment charge of £3.8m (2011 – £0.6m) relates to a non-trading subsidiary that has incurred losses and which the directors do not expect to be recovered in the foreseeable future. The investment has therefore been written down to the subsidiary's net asset value, being the directors' estimate of the recoverable amount.

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid, less impairment. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

20. Trade and Other Receivables

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Non-current:				
Receivables from subsidiaries	–	–	10.3	26.6
Other receivables	1.6	–	1.6	–
Prepayments	2.1	2.2	–	–
	3.7	**2.2**	**11.9**	**26.6**
Current:				
Trade receivables	146.0	154.8	–	–
Less: provision for impairment of receivables	(2.3)	(2.2)	–	–
Net trade receivables	143.7	152.6	–	–
Receivables from subsidiaries	–	–	19.2	8.5
Receivable due from Canadian tax authority	8.7	–	–	–
Prepayments	6.6	5.0	0.2	0.1
Accrued revenue	3.7	4.0	–	–
Other receivables	8.3	12.6	0.3	0.1
	171.0	**174.2**	**19.7**	**8.7**

The amount receivable from the Canadian tax authorities was received on 28 February 2013.

Notes to the Financial Statements continued

20. Trade and Other Receivables continued

Group

Trade receivables that are not overdue and not impaired are expected to be fully recovered as there is no recent history of default or any indications that the customers will not meet their payment obligations. At the year-end there are no trade receivables (2011 – none) whose terms have been renegotiated and would otherwise be past due or impaired.

At 31 December 2012, trade receivables of £61.6m (2011 – £52.0m) were overdue but not impaired. The ageing of these receivables at the year-end is as follows:

Number of days overdue:

	2012 £m	2011 £m
1–30 days	33.9	29.0
31–60 days	15.6	12.5
61–90 days	6.3	7.0
91–120 days	4.6	2.5
more than 120 days	1.2	1.0
Receivables overdue not impaired	61.6	52.0
Receivables not overdue and not impaired	82.1	100.6
Receivables not overdue and impaired	1.1	1.0
Receivables overdue and impaired	1.2	1.2
Impairment	(2.3)	(2.2)
Net trade receivables	**143.7**	**152.6**

Receivables that are overdue but not impaired relate to customers for whom there is no recent history of default.

Impaired receivables mainly relate to debtors in financial difficulty where defaults in payments have occurred or concerns have been raised about the customer's liquidity. Trade receivables are impaired when there is evidence that the Group will not be able to collect all amounts due according to the original terms of sale.

During the year, a provision of £1.4m (2011 – £1.3m) for the impairment of receivables was recognised, £0.6m (2011 – £0.3m) receivables were written off and £0.6m (2011 – £0.4m) unused provisions were released. After recognising foreign exchange gains of £0.1m (2011 – £0.1m gains), the provision for the impairment of trade receivables at the year end was £2.3m (2011 – £2.2m).

The other classes of financial assets within trade and other receivables do not contain impaired assets.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's wide and unrelated customer base.

The maximum exposure to credit risk is the fair value of each class of receivable, as shown in note 29.

The Group does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held.

Company

None (2011 – none) of the Company's trade and other receivables were past due at the year end and the Company does not consider it necessary to provide for any impairments. The Company's maximum exposure to credit risk is the fair value of each class of receivable, as shown in note 29. The Company does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held.

Non-current receivables due from subsidiaries have no fixed term for repayment and are unsecured. Interest charged is 1% above UK Base Rate on sterling loans. Current receivables due from subsidiaries are unsecured, interest free and payable on demand.

21. Deferred Tax

Deferred income tax assets and liabilities are only offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same fiscal authority and there is an intention to settle the balance net. The offset amounts are as follows:

	Group		Company	
	2012 £m	Restated 2011 £m	**2012 £m**	2011 £m
Deferred tax assets	7.2	4.9	–	–
Deferred tax liabilities	(25.7)	(19.7)	(0.1)	(1.1)
	(18.5)	**(14.8)**	**(0.1)**	**(1.1)**

The 2011 balance sheet deferred tax assets and liabilities have been restated to offset balances where there is a legally enforceable right to offset.

The movement in the net deferred tax liability is as follows:

	Group		Company	
	2012 £m	Restated 2011 £m	**2012 £m**	2011 £m
At 1 January	(14.8)	(17.0)	(1.1)	(1.1)
Exchange adjustments	0.7	(0.1)	–	–
(Charge) credit to income statement*	(4.0)	1.4	0.9	–
Taken direct to equity	–	1.0	–	–
Transfers to current tax	–	(0.3)	–	–
Classified as held for sale	–	0.1	–	–
Change in tax rate**	(0.4)	0.1	0.1	–
At 31 December	**(18.5)**	**(14.8)**	**(0.1)**	**(1.1)**

* Included in the credit to the income statement is a £1.8m credit (2011 – £1.8m charge) relating to discontinued operations.

** Included in the change in tax rate is a £0.1m charge (2011 – £nil) relating to discontinued operations.

Deferred tax assets of £0.3m (2011 – £0.6m) have not been recognised as realisation of the tax benefit is not probable. The tax losses do not have an expiry date.

Deferred tax assets of £2.0m (2011 – £2.0m) have been recognised as the Group has assessed that the realisation of the benefit is probable. Deferred tax assets of £7.2m (2011 – £4.9m) are expected to be recovered after more than twelve months. Deferred tax liabilities of £25.7m (2011 – £19.7m) are expected to be released after more than twelve months.

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdictions, are shown below:

Group

	At 1 January 2012 £m	Exchange adjustments £m	(Charge) credit to income statement £m	Taken direct to equity £m	Change in tax rates £m	At 31 December 2012 £m	Net deferred tax assets £m	Net deferred tax liabilities £m
Tax losses	3.9	(0.2)	(2.3)	–	(0.1)	1.3	1.3	–
Inventory	4.5	(0.2)	(1.4)	–	0.1	3.0	–	3.0
Goodwill and Intangibles	(6.6)	0.3	(1.1)	–	–	(7.4)	–	(7.4)
Post retirement benefits	(0.6)	–	0.1	0.3	–	(0.2)	(1.4)	1.2
Asset decommissioning provision	1.0	(0.1)	0.2	–	–	1.1	–	1.1
Accummulated tax depreciation	(20.5)	0.9	(3.0)	–	(0.5)	(23.1)	0.8	(23.9)
Share-based payments	5.3	–	1.4	(0.2)	–	6.5	6.5	–
Unremitted earnings	(1.1)	–	0.9	–	0.1	(0.1)	–	(0.1)
Other	(0.7)	–	1.2	(0.1)	–	0.4	–	0.4
	(14.8)	**0.7**	**(4.0)**	**–**	**(0.4)**	**(18.5)**	**7.2**	**(25.7)**

Notes to the Financial Statements continued

21. Deferred Tax continued

	At 1 January 2011 £m	Exchange adjustments £m	(Charge) credit to income statement £m	Taken direct to equity £m	Transfer to current tax £m	Change in tax rates £m	Classified as held for sale £m	At 31 December 2011 £m	Net deferred tax assets £m	Net deferred tax liabilities £m
Tax losses	1.8	0.1	2.0	–	–	–	–	3.9	–	3.9
Inventory	1.6	0.1	2.8	–	–	–	–	4.5	–	4.5
Goodwill and Intangibles	(7.4)	–	1.1	–	(0.3)	–	–	(6.6)	–	(6.6)
Post retirement benefits	(1.5)	–	0.3	0.6	–	–	–	(0.6)	(1.2)	0.6
Asset decommissioning provision	–	0.1	0.9	–	–	–	–	1.0	–	1.0
Accummulated tax depreciation	(11.8)	(0.4)	(8.4)	–	–	–	0.1	(20.5)	0.7	(21.2)
Share-based payments	3.1	–	2.0	0.2	–	–	–	5.3	5.3	–
Unremitted earnings	(1.2)	–	–	–	–	0.1	–	(1.1)	–	(1.1)
Other	(1.6)	–	0.7	0.2	–	–	–	(0.7)	0.1	(0.8)
	(17.0)	**(0.1)**	**1.4**	**1.0**	**(0.3)**	**0.1**	**0.1**	**(14.8)**	**4.9**	**(19.7)**

Deferred income tax credited (charged) to equity during the year comprised:

	Group	
	2012 £m	2011 £m
Actuarial losses on defined benefit pension schemes	0.3	0.6
Losses originating on cash flow hedges arising during the year	(0.1)	(1.4)
Gains transferred to income statement on disposal of cash flow hedges	–	1.6
Share options and awards	(0.2)	0.2
	–	**1.0**

Company
The Company had £0.1m (2011 – £1.1m) of deferred tax liabilities relating to unremitted earnings at the year end.

22. Inventories
Group

	2012 £m	Restated 2011 £m
Raw materials	67.3	71.3
Work in progress	42.9	43.4
Finished goods	137.2	122.3
Less: provisions for impairment	(6.8)	(6.0)
	240.6	**231.0**

As permitted under IFRS 3, inventories for 2011 have been restated to reflect a reduction of £1.4m on the acquisition of Hunting Titan on 16 September 2011.

Inventories are stated at the lower of cost and fair value less selling costs. The carrying amount of inventories stated at fair value less selling costs is £4.5m (2011 – £6.0m).

The Group reversed £1.3m (2011 – £2.2m) of a previous inventory impairment as the goods were sold during the year for an amount greater than their carrying value. The amount reversed has been included in cost of sales in the income statement.

23. Cash and Cash Equivalents

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Cash at bank and in hand	**101.7**	**68.8**	**1.4**	**0.7**

24. Trade and Other Payables

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Non-current:				
Accruals	4.1	–	4.1	–
Other payables	3.5	–	–	–
	7.6	**–**	**4.1**	**–**
Current:				
Trade payables	66.2	57.5	–	–
Payables to subsidiaries	–	–	0.6	3.2
Social security and other taxes	5.1	3.5	–	–
Accruals	51.1	70.6	6.4	5.7
Other payables	10.3	15.2	0.4	0.4
	132.7	**146.8**	**7.4**	**9.3**

Company
Current payables due to subsidiaries are unsecured, interest free and payable on demand.

25. Borrowings

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Non-current:				
Secured bank loans	–	0.2	–	–
Unsecured bank loans	183.7	243.0	–	–
Other unsecured loans	3.7	5.1	–	–
Amounts due to subsidiaries	–	–	53.7	71.5
	187.4	248.3	53.7	71.5
Current:				
Bank overdrafts	72.7	33.7	1.5	0.1
Secured bank loans	0.2	0.2	–	–
Unsecured bank loans	7.2	8.0	–	–
Other unsecured loans	1.2	1.3	–	–
Amounts due to subsidiaries	–	–	1.5	–
	81.3	43.2	3.0	0.1
Total borrowings	**268.7**	**291.5**	**56.7**	**71.6**

Analysis of Borrowings by Currency
Group
The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Sterling £m	**US dollars £m**	**Euro £m**	**Total £m**
Secured bank loans	–	0.2	–	0.2
Unsecured bank loans	–	190.9	–	190.9
Other unsecured loans	–	4.9	–	4.9
Bank overdrafts	65.9	6.5	0.3	72.7
At 31 December 2012	**65.9**	**202.5**	**0.3**	**268.7**

Notes to the Financial Statements continued

25. Borrowings continued

	Sterling £m	US dollars £m	Chinese RMB £m	Total £m
Secured bank loans	–	0.4	–	0.4
Unsecured bank loans	–	247.4	3.6	251.0
Other unsecured loans	–	6.4	–	6.4
Bank overdrafts	29.5	4.2	–	33.7
At 31 December 2011	**29.5**	**258.4**	**3.6**	**291.5**

Company

The Company has borrowings of £56.7m (2011 – £71.6m) at the year end, of which £56.7m (2011 – £55.3m) are denominated in sterling and £nil (2011 – £16.3m) are denominated in Canadian dollars.

Non-current borrowings due to subsidiaries have no fixed term for repayment and are unsecured. Interest charged is 1% above UK Base Rate on sterling loans.

26. Changes in Net Debt

Group

The analysis below is provided in order to reconcile the movement in borrowings (note 25) and cash and cash equivalents (note 23) during the year.

	At 1 January 2012 £m	Cash flow £m	Exchange movements £m	Disposal of subsidiaries £m	Amortisation of loan facility fees £m	At 31 December 2012 £m
Cash and cash equivalents	68.8	33.8	(0.9)	–	–	101.7
Bank overdrafts	(33.7)	(39.1)	0.1	–	–	(72.7)
	35.1	(5.3)	(0.8)	–	–	29.0
Current investments	2.4	0.8	–	–	–	3.2
Non-current borrowings	(248.3)	51.9	9.8	–	(0.8)	(187.4)
Current borrowings	(9.5)	0.5	0.4	–	–	(8.6)
Classified as held for sale	1.9	(0.7)	–	(1.2)	–	–
Total net debt	**(218.4)**	**47.2**	**9.4**	**(1.2)**	**(0.8)**	**(163.8)**

27. Provisions

Group

	Onerous contracts £m	Asset decom-missioning and remediation obligations £m	Warranties and tax indemnities £m	Other £m	Total £m
At 1 January 2012	17.8	2.9	39.8	–	60.5
Exchange adjustments	–	(0.2)	(0.8)	–	(1.0)
Charged to income statement	2.0	–	2.7	0.8	5.5
Charged to property, plant and equipment	–	0.7	–	–	0.7
Provisions utilised	(2.4)	–	–	–	(2.4)
Unutilised amounts reversed	(2.4)	–	(32.9)	(0.4)	(35.7)
Unwinding of discount	0.1	0.1	–	–	0.2
Change in discount rate	0.2	–	–	–	0.2
Reclassification from accruals	–	–	–	1.6	1.6
At 31 December 2012	**15.3**	**3.5**	**8.8**	**2.0**	**29.6**

27. Provisions continued

Provisions are due as follows:

	2012 £m	2011 £m
Current	12.5	42.3
Non-current	17.1	18.2
	29.6	**60.5**

The Group has commitments in respect of leasehold properties, some of which are not used for Group trading purposes and are vacant or sub-let to third parties. The provision for onerous contracts reflects the uncertainty of future conditions in the sub-letting market. It is expected that £2.1m of the provision will be utilised in 2013, £1.9m in 2014 and the remaining balance of £11.3m utilised from 2015 to 2023. Provision is made on a discounted basis, at a risk-free rate of between 0.25% and 1.8% pa, for the net rental deficit on these properties to the end of the lease term.

Asset decommissioning and remediation obligations relate to the Group's obligation to dismantle, remove and restore items of property, plant and equipment. The provision reflects uncertainty in the timing and amounts of the costs expected to arise in meeting this obligation. Provision is made on a discounted basis and is expected to be utilised over a period of one to eighteen years.

Following the sale of Gibson Energy in 2008, Hunting established provisions for tax indemnities given in respect of two tax disputes with the Canadian Tax Authorities ("CRA"). The CRA have now ended their enquiry into the larger of the two tax disputes and have dropped their challenge resulting in the release of £30.7m provisions held in respect of the dispute. Other tax warranty provisions of £2.2m have also been released. This has been shown as part of discontinued operations (note 13). Provisions of £7.7m continue to be retained in respect of the smaller tax dispute and are expected to be utilised in 2013.

28. Derivatives and Hedging

Group

(a) Currency Derivatives

The Group has used spot and forward foreign exchange contracts and average rate options to hedge its exposure to exchange rate movements during the year.

At 31 December 2012, the total notional amount of the Group's outstanding forward foreign exchange contracts is £3.7m (2011 – £15.9m).

Gains and losses on contracts that are not designated in a hedge relationship are taken directly to the income statement. Changes in the fair value of currency derivatives not designated in a hedge relationship amounting to a £0.2m loss (2011 – £0.1m) have been recognised in the income statement during the year for continuing operations.

Certain highly probable forecast transactions have been designated in a cash flow hedge relationship and hedged using forward foreign exchange contracts. These forecast transactions are expected to occur at various dates during the next six months. Gains and losses recognised in the hedging reserve on forward foreign exchange contracts at 31 December 2012 will be recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

Losses of £0.5m (2011 – £5.4m gain) were recognised in the hedging reserve (note 34) during the year. No gains or losses (2011 – £6.3m gains) were removed from equity during the year, with no gains or losses (2011 – £0.8m gains included in revenue) included in the income statement. Ineffectiveness of £nil (2011 – £nil) arose on the cash flow hedges during the year.

Fair values of derivative financial instruments

	2012		2011
	Total assets £m	Total liabilities £m	Total liabilities £m
Forward foreign exchange – in cash flow hedges	0.1	–	(0.4)
Forward foreign exchange – not in a hedge	–	(0.1)	–
	0.1	**(0.1)**	**(0.4)**

(b) Hedge of Net Investments in Foreign Operations

The Group has US dollar denominated borrowings, which it has designated as a hedge of the net investment in its US subsidiaries. At 31 December 2012, the carrying amount of net US dollar borrowings was £215.7m (2011 – £244.1m).

At 31 December 2012, foreign exchange gains of £10.1m (2011 – £4.7m losses) on translation of the borrowings into sterling has been recognised in the cumulative translation reserve.

Notes to the Financial Statements continued

29. Financial Instruments: Fair Values

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

Group

	Year ended 31 December 2012							
	Carrying amount							
	Loans and receivables £m	Available for sale financial assets £m	Financial asset at fair value through profit or loss £m	Financial liabilities measured at amortised cost £m	Financial liabilities held for trading £m	Derivatives at fair value through equity (cash flow hedges) £m	Total £m	Fair value total £m
Non-current assets								
Unlisted equity investments (note 18)	–	0.3	–	–	–	–	0.3	0.3
Listed equity investments and mutual funds (note 18)	–	–	3.5	–	–	–	3.5	3.5
Environmental escrow (note 18)	–	0.2	–	–	–	–	0.2	0.2
Other receivables (note 20)	1.6	–	–	–	–	–	1.6	1.6
Current assets								
Net trade receivables (note 20)	143.7	–	–	–	–	–	143.7	143.7
Receivable due from Canadian tax authority (note 20)	8.7	–	–	–	–	–	8.7	8.7
Accrued revenue (note 20)	3.7	–	–	–	–	–	3.7	3.7
Other receivables	3.0	–	–	–	–	0.1	3.1	3.1
Deposits maturing after more than three months (note 18)	3.2	–	–	–	–	–	3.2	3.2
Cash and cash equivalents (note 23)	101.7	–	–	–	–	–	101.7	101.7
Current liabilities								
Trade payables (note 24)	–	–	–	(66.2)	–	–	(66.2)	(66.2)
Accruals (note 24)	–	–	–	(50.6)	–	–	(50.6)	(50.6)
Other payables	–	–	–	(6.3)	(0.1)	–	(6.4)	(6.4)
Provisions	–	–	–	(12.5)	–	–	(12.5)	(12.5)
Current borrowings (note 25)								
Bank overdrafts	–	–	–	(72.7)	–	–	(72.7)	(72.7)
Secured bank loans	–	–	–	(0.2)	–	–	(0.2)	(0.2)
Unsecured bank loans	–	–	–	(7.2)	–	–	(7.2)	(7.2)
Other unsecured loans	–	–	–	(1.2)	–	–	(1.2)	(1.2)
Non-current borrowings (note 25)								
Unsecured bank loans	–	–	–	(183.7)	–	–	(183.7)	(183.7)
Other unsecured loans	–	–	–	(3.7)	–	–	(3.7)	(3.7)
Non-current liabilities								
Accruals (note 24)	–	–	–	(4.1)	–	–	(4.1)	(4.1)
Other payables (note 24)	–	–	–	(3.5)	–	–	(3.5)	(3.5)
Provisions	–	–	–	(13.6)	–	–	(13.6)	(13.6)
	265.6	**0.5**	**3.5**	**(425.5)**	**(0.1)**	**0.1**	**(155.9)**	**(155.9)**

The fair value of forward foreign exchange contracts is determined by the deviation in future expected cash flows calculated by reference to the movement in market quoted exchange rates. The carrying values of available for sale unlisted investments are based on the Directors' best estimate of fair value as there is no active market in which these are traded. The fair value of listed equities and mutual funds is based on their current bid prices in an active market. The fair values of the environmental escrow and the promissory note are determined by discounting the expected future cash flows. The fair values of non-sterling denominated financial instruments are translated into sterling using the year end exchange rate.

29. Financial Instruments: Fair Values continued

	Year ended 31 December 2011					
	Carrying amount					
	Loans and receivables £m	Available for sale financial assets £m	Financial liabilities measured at amortised cost £m	Derivatives at fair value through equity (cash flow hedges) £m	Total £m	Fair value total £m
Non-current assets						
Unlisted equity investments (note 18)	–	0.2	–	–	0.2	0.2
Current assets						
Net trade receivables (note 20)	152.6	–	–	–	152.6	152.6
Accrued revenue (note 20)	4.0	–	–	–	4.0	4.0
Other receivables	10.2	–	–	–	10.2	10.2
Investments (note 18)	2.4	–	–	–	2.4	2.4
Cash and cash equivalents (note 23)	68.8	–	–	–	68.8	68.8
Assets classified as held for sale	7.9	–	–	–	7.9	7.9
Current liabilities						
Trade payables (note 24)	–	–	(57.5)	–	(57.5)	(57.5)
Accruals (note 24)	–	–	(70.6)	–	(70.6)	(70.6)
Other payables	–	–	(10.4)	(0.4)	(10.8)	(10.8)
Provisions	–	–	(42.3)	–	(42.3)	(42.3)
Liabilities classified as held for sale	–	–	(5.3)	–	(5.3)	(5.3)
Current borrowings (note 25)						
Bank overdrafts	–	–	(33.7)	–	(33.7)	(33.7)
Secured bank loans	–	–	(0.2)	–	(0.2)	(0.2)
Unsecured bank loans	–	–	(8.0)	–	(8.0)	(8.0)
Other unsecured loans	–	–	(1.3)	–	(1.3)	(1.3)
Non-current borrowings (note 25)						
Secured bank loans	–	–	(0.2)	–	(0.2)	(0.2)
Unsecured bank loans	–	–	(243.0)	–	(243.0)	(243.0)
Other unsecured loans	–	–	(5.1)	–	(5.1)	(5.1)
Non-current liabilities						
Provisions	–	–	(15.3)	–	(15.3)	(15.3)
	245.9	**0.2**	**(492.9)**	**(0.4)**	**(247.2)**	**(247.2)**

The inputs used to determine the fair value of unlisted equity investments and the environmental escrow are not based on observable market data and therefore their fair value measurements can be categorised in Level 3 of the fair value hierarchy. The inputs used to determine the fair value of derivative financial instruments are inputs other than quoted prices that are observable and so the fair value measurement can be categorised in Level 2 of the fair value hierarchy. The fair value of listed equity investments and mutual funds is based on quoted market prices and so the fair value measurement can be categorised in Level 1 of the fair value hierarchy.

The table below shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets £m
At 1 January 2012	0.2
Additions	0.3
At 31 December 2012	**0.5**

Additions of £0.2m relate to the environmental escrow account recognised on disposal of Field Aviation (note 43).

Notes to the Financial Statements continued

29. Financial Instruments: Fair Values continued
Company

	Year ended 31 December 2012				
	Carrying amount				
	Loans and receivables £m	Available for sale financial assets £m	Financial liabilities measured at amortised cost £m	Total £m	Fair value total £m
Non-current assets					
Environmental escrow (note 18)	–	0.2	–	0.2	0.2
Receivables from subsidiaries (note 20)	10.3	–	–	10.3	10.3
Other receivables (note 20)	1.6	–	–	1.6	1.6
Current assets					
Receivables from subsidiaries (note 20)	19.2	–	–	19.2	19.2
Other receivables	0.2	–	–	0.2	0.2
Cash and cash equivalents (note 23)	1.4	–	–	1.4	1.4
Current liabilities (note 24)					
Payables to subsidiaries	–	–	(0.6)	(0.6)	(0.6)
Accruals	–	–	(6.4)	(6.4)	(6.4)
Other payables	–	–	(0.4)	(0.4)	(0.4)
Provisions	–	–	(0.2)	(0.2)	(0.2)
Current borrowings (note 25)					
Bank overdrafts	–	–	(1.5)	(1.5)	(1.5)
Amounts due to subsidiaries	–	–	(1.5)	(1.5)	(1.5)
Non-current borrowings (note 25)					
Amounts due to subsidiaries	–	–	(53.7)	(53.7)	(53.7)
Non-current liabilities					
Accruals (note 24)	–	–	(4.1)	(4.1)	(4.1)
Provisions	–	–	(0.4)	(0.4)	(0.4)
	32.7	**0.2**	**(68.8)**	**(35.9)**	**(35.9)**

The fair values of the environmental escrow and the promissory note are determined by discounting the expected future cash flows. The inputs used to determine the fair value of the environmental escrow are not based on observable data and therefore the fair value measurement can be categorised in Level 3 of the fair value hierarchy.

29. Financial Instruments: Fair Values continued

	Year ended 31 December 2011			
	Carrying amount			
	Loans and receivables £m	Financial liabilities measured at amortised cost £m	Total £m	Fair value total £m
Non-current assets				
Receivables from subsidiaries (note 20)	26.6	–	26.6	26.6
Current assets				
Receivables from subsidiaries (note 20)	8.5	–	8.5	8.5
Other receivables (note 20)	0.1	–	0.1	0.1
Cash and cash equivalents (note 23)	0.7	–	0.7	0.7
Current liabilities (note 24)				
Payables to subsidiaries	–	(3.2)	(3.2)	(3.2)
Accruals	–	(5.7)	(5.7)	(5.7)
Other payables	–	(0.4)	(0.4)	(0.4)
Current borrowings (note 25)				
Bank overdrafts	–	(0.1)	(0.1)	(0.1)
Non-current borrowings (note 25)				
Amounts due to subsidiaries	–	(71.5)	(71.5)	(71.5)
	35.9	**(80.9)**	**(45.0)**	**(45.0)**

30. Financial Risk Management

The Group's activities expose it to certain financial risks, namely market risk (including currency risk, fair value interest risk and cash flow interest risk), credit risk and liquidity risk. The Group's risk management strategy seeks to mitigate potential adverse effects on its financial performance. As part of its strategy, both primary and derivative financial instruments are used to hedge certain 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 the specific areas of funding, banking relationships, foreign currency and interest rate exposures and cash management.

The Group's treasury function is responsible for implementing the policies and providing a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk management. It is also responsible for identifying, evaluating and hedging financial risks in close co-operation with the Group's operating companies.

(a) Foreign Exchange Risk

The Group's international base is exposed to foreign exchange risk from its investing, financing and operating activities, particularly in respect of US dollars. 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.

The Group's material foreign exchange rates are:

	US dollar		Canadian dollar	
	2012	2011	**2012**	2011
Average exchange rate to sterling	1.59	1.60	1.58	1.59
Year-end exchange rate to sterling	1.63	1.55	1.62	1.58

Notes to the Financial Statements continued

30. Financial Risk Management continued

(i) Transactional Risk

The exposure to exchange rate movements in significant future transactions and cash flows is hedged by using forward foreign exchange contracts and currency options. Certain forward foreign exchange contracts have been designated as hedging instruments of highly probable forecast transactions. Operating companies prepare quarterly rolling twelve month cash flow forecasts to enable working capital currency exposures to be identified. Currency exposures arise where the cash flows are not in the functional currency of the entity. Exposures arising from committed long-term projects beyond a twelve month period are also identified. The currency flows to be hedged are committed foreign currency transactions greater than £250,000 equivalent per month and/or currency flows that in aggregate exceed £500,000 equivalent per annum.

No speculative positions are entered into by the Group.

The table below shows the carrying values of the Group's financial instruments at 31 December, including derivative financial instruments, on which exchange differences would potentially be recognised in the income statement in the following year. The table excludes available for sale financial assets, derivatives designated in a cash flow hedge, borrowings designated in a hedge of the net investment in its US subsidiaries and loans to subsidiaries that are considered to be part of the net investment in a foreign operation, as exchange differences arising on these are recognised in other comprehensive income.

At 31 December 2012

	Currency of denomination						
	Sterling £m	US dollars £m	Canadian dollars £m	Singapore dollars £m	Euro £m	Other currencies £m	Total £m
Functional currency of Group's entities:							
Sterling	–	31.9	3.6	(0.2)	0.5	(0.3)	35.5
US dollars	(0.3)	–	–	(0.5)	–	–	(0.8)
Canadian dollars	–	2.1	–	–	–	–	2.1
Singapore dollars	(0.1)	1.5	–	–	–	–	1.4
Euro	(0.5)	(0.2)	–	–	–	–	(0.7)
Chinese RMB	–	(7.4)	–	–	–	–	(7.4)
Other currencies	–	0.3	–	–	–	0.1	0.4
	(0.9)	**28.2**	**3.6**	**(0.7)**	**0.5**	**(0.2)**	**30.5**

The US dollar denominated financial instruments consist mainly of cash balances, trade receivables and inter-group loans. The Canadian dollar denominated financial instruments consist mainly of inter-group loans, warranty provisions, the refund due from the Canadian tax authority and the Field Aviation promissary note and environmental escrow.

At 31 December 2011

	Currency of denomination						
	Sterling £m	US dollars £m	Canadian dollars £m	Singapore dollars £m	Euro £m	Other currencies £m	Total £m
Functional currency of Group's entities:							
Sterling	–	11.1	(54.0)	(0.2)	0.8	(0.7)	(43.0)
US dollars	–	–	2.1	(0.7)	–	0.2	1.6
Canadian dollars	–	4.5	–	–	–	0.3	4.8
Singapore dollars	–	3.2	–	–	–	–	3.2
Euro	(2.1)	2.1	–	–	–	–	–
Chinese RMB	–	(11.5)	–	–	–	–	(11.5)
Other currencies	–	0.3	–	–	–	–	0.3
	(2.1)	**9.7**	**(51.9)**	**(0.9)**	**0.8**	**(0.2)**	**(44.6)**

The US dollar denominated financial instruments consist mainly of cash and cash equivalents and receivables and the Canadian dollar denominated financial instruments consists mainly of warranty provisions and inter-group loans.

30. Financial Risk Management continued

(ii) Translational Risk

Foreign exchange risk also arises from the Group's investments in foreign operations. Average rate options are used to reduce translation risk on the Group's consolidated profit before tax by hedging the translation of approximately 50% of budgeted US dollar earnings into sterling. These derivatives are not designated as a hedge.

The foreign exposure to net investments in foreign operations is managed using borrowings denominated in the same functional currency as that of the hedged assets. The borrowings are designated as a hedge of the net investment in foreign operations. The foreign exchange exposure primarily arises from US dollar denominated net investments.

(b) Interest Rate Risk

Variable interest rates on cash at bank, deposits, overdrafts and borrowings expose the Group to cash flow interest risk and fixed interest rates on loans and deposits expose the Group to fair value interest rate risk. The treasury function manages the Group's exposure to interest rate risk and has used interest rate swaps and caps, when considered appropriate.

(c) Credit Risk

The Group's credit risk arises from its available for sale financial assets, pension assets, cash and cash equivalents, investments, derivative financial instruments and outstanding receivables.

At the year end, the Group had credit risk exposures to a wide range of counterparties. Credit risk exposure is continually monitored and no individual exposure is considered to be significant in the context of the ordinary course of the Group's activities.

Exposure limits are set for each approved counterparty, as well as the types of transactions that may be entered into. Approved institutions that the treasury function can invest surplus cash with all must have a minimum of an A1, P1 or F1 short-term rating from Standard and Poor's, Moody's or Fitch rating agencies and AAA rating for Money Market Funds.

The majority of cash and cash equivalents, which total £101.7m (2011 – £68.8m) at the year end, and investments of £3.2m (2011 – £2.4m) have been deposited with banks with Fitch short-term ratings of F1 to F1+. All cash and cash equivalents and investments are expected to be fully recovered.

The credit risk of foreign exchange contracts is calculated before the contract is acquired and compared to the credit risk limit set for each counterparty. Credit risk is calculated as a fixed percentage of the nominal value of the instrument.

Trade and other receivables 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 taken out credit insurance with an external insurer, subject to certain conditions.

The Company operates a pension scheme in the UK, which includes a funded defined benefit section with pension plan net assets of £6.0m (2011 – £4.8m). The majority of the Scheme's defined benefits are now covered by insurance company annuity policies, meaning the pensions-related risks have largely been eliminated. The pension buy-in has been effected by using three insurers, so as to spread its credit risk. The credit rating of these insurers is monitored.

The Company also operates a defined benefit pension scheme in the US, which is unfunded. Contributions are paid into a separate investment vehicle and invested in a wide portfolio of US mutual funds that are recognised by the Company as non-current investments. Investments at the year end amounted to £3.5m (2011 – £2.9m) and are expected to be fully recovered.

(d) Liquidity Risk

The Group needs to ensure that it has sufficient liquid funds available to support its working capital and capital expenditure requirements. All subsidiaries submit weekly and bi-monthly treasury reports to the treasury function to enable them to monitor the Group's requirements.

The Group has sufficient credit facilities to meet both its long and short-term requirements.

The Group's credit facilities are provided by a variety of funding sources and total £416.2m (2011 – £423.6m) at the year end. The facilities comprise £375.0m (2011 – £375.0m) of committed facilities and £41.2m (2011 – £48.6m) of uncommitted facilities. Of the uncommitted facilities, £0.2m (2011 – £0.4m) is secured on the machinery that the loan was used to purchase and £41.0m (2011 – £48.2m) is unsecured. The £375.0m committed facility is unsecured.

The committed facilities comprise the £375.0m multi-currency loan facility from a syndicate of ten banks. This facility expires on 5 August 2016. A commitment fee is payable on the undrawn amount.

Notes to the Financial Statements continued

30. Financial Risk Management continued

The Group's treasury function maintains flexibility in funding by maintaining availability under committed credit facilities. The Group has the following undrawn committed borrowing facilities available at the year-end:

	2012 £m	2011 £m
Floating rate:		
Expiring between two and five years	**187.2**	**128.5**

Surplus funds are placed in short-term deposits with approved banks and with AAA rated Money Market Funds.

The Group also has a letter of credit facility for £1.3m, which is secured by funds held on deposit of £0.8m.

The tables below analyse the Group's and Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date of the financial liabilities. The amounts are the contractual, undiscounted cash flows. The carrying amounts in the balance sheet are the discounted amounts. Balances due within one year have been included in the maturity analysis at their carrying amounts, as the impact of discounting is not significant.

Group

	2012			
	On demand or within one year £m	Between two and five years £m	After five years £m	Total £m
Non-derivative financial liabilities:				
Trade payables	66.2	–	–	66.2
Accruals	50.6	4.1	–	54.7
Other payables	6.3	3.5	–	9.8
Provisions	12.5	12.4	6.1	31.0
Secured bank loans	0.2	–	–	0.2
Unsecured bank loans	10.9	197.3	–	208.2
Other unsecured loans	1.2	3.7	–	4.9
Bank overdrafts	72.7	–	–	72.7
	220.6	**221.0**	**6.1**	**447.7**

	2011			
	On demand or within one year £m	Between two and five years £m	After five years £m	Total £m
Non-derivative financial liabilities:				
Trade payables	57.5	–	–	57.5
Accruals	70.6	–	–	70.6
Other payables	10.4	–	–	10.4
Provisions	42.3	9.2	6.8	58.3
Secured bank loans	0.2	0.2	–	0.4
Unsecured bank loans	13.8	268.4	–	282.2
Other unsecured loans	1.3	2.6	2.5	6.4
Bank overdrafts	33.7	–	–	33.7
Liabilities held for sale	5.3	–	–	5.3
	235.1	**280.4**	**9.3**	**524.8**

The Group had no net-settled financial liabilities at the year end (2011 – none).

30. Financial Risk Management continued

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into maturity groupings based on the period remaining from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual, undiscounted cash flows.

	On demand or within one year	
	2012 £m	2011 £m
Currency derivatives – held for trading		
– inflows	30.2	37.3
– outflows	(30.1)	(37.5)

Company

	2012		
	On demand or within one year £m	**Between two and five years £m**	**Total £m**
Non-derivative financial liabilities:			
Payables to subsidiaries	2.1	53.7	55.8
Accruals	6.4	4.1	10.5
Other payables	0.4	–	0.4
Provisions	0.2	0.4	0.6
Bank overdrafts	1.5	–	1.5
	10.6	**58.2**	**68.8**

	2011		
	On demand or within one year £m	Between two and five years £m	Total £m
Non-derivative financial liabilities:			
Payables to subsidiaries	3.2	71.5	74.7
Accruals	5.7	–	5.7
Other payables	0.4	–	0.4
Bank overdrafts	0.1	–	0.1
	9.4	**71.5**	**80.9**

The Company did not have any derivative financial liabilities.

31. Financial Instruments: Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's and Company's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include cash and cash equivalents, borrowings, deposits and derivative financial instruments. The sensitivity analysis relates to the position as at 31 December 2012.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the cash and derivatives and the proportion of financial instruments in foreign currencies remain unchanged from the hedge designations in place at 31 December 2012.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of foreign operations.

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's results, that is, an increase in rates does not result in the same amount of movement as a decrease in rates.
- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to be outstanding for the whole year.
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.
- The carrying values of financial assets and liabilities carried at amortised cost do not change as interest rates change.

Positive figures represent an increase in profit or equity.

Notes to the Financial Statements continued

31. Financial Instruments: Sensitivity Analysis continued

(i) Interest Rate Sensitivity

The sensitivity rate of 0.25% (2011 – 0.5%) for US interest rates represents managements' assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future interest rates.

Group

The table below shows the post-tax impact for the year on the Group's profit for an increase and decrease in interest rates, with all other variables unchanged, at 31 December.

	2012 Income statement £m	2011 Income statement £m
US interest rates +0.25% (2011: +0.5%)	(0.3)	(0.9)
US interest rates –0.25% (2011: –0.5%)	0.3	0.9

The movements in the income statement are mainly attributable to US dollar denominated borrowings. There is no impact on equity for a change in interest rates.

Company

The post-tax impact on the income statement, with all other variables held constant, at 31 December, for an increase of 0.25% (2011 – 0.25%) in the UK interest rate, is to reduce profits by £0.1m (2011 – £0.1m). If the UK interest rate were to decrease by 0.25% (2011 – 0.25%), then the post-tax impact would be to increase profits by £0.1m (2011 – £0.1m). The movements arise on sterling loans from subsidiaries.

There is no impact on equity for a change in interest rates.

(ii) Foreign Exchange Rate Sensitivity

The sensitivity rate of 10% (2011 – 10%) for US dollar and Canadian dollar exchange rates represents managements' assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future foreign exchange rates.

Group

The table below shows the post-tax impact for the year of a reasonable change in foreign exchange rates, with all other variables held constant, at 31 December.

	2012		2011	
	Income statement £m	Equity £m	Income statement £m	Equity £m
US dollar exchange rates +10% (2011: +10%)	(3.4)	(11.0)	(1.2)	(8.4)
US dollar exchange rates –10% (2011: –10%)	4.0	13.7	1.5	10.3
Canadian dollar exchange rates +10% (2011: +10%)	(0.2)	(1.2)	2.6	(1.2)
Canadian dollar exchange rates –10% (2011: –10%)	0.3	1.4	(3.3)	1.5

The movements in the income statement arise from cash, borrowings, receivables and payables where the functional currency of the entity is different to the currency that the monetary items are denominated in.

The movements in equity arise from net US dollar borrowings designated in a hedge of net investments in US subsidiaries and Canadian and US dollar denominated loans that have been recognised as part of the Group's net investment in foreign subsidiaries.

31. Financial Instruments: Sensitivity Analysis continued

Company

The table below shows the post-tax impact for the year of a reasonably possible change in the US dollar exchange rate, with all other variables held constant, at 31 December.

	2012 Income statement £m	2011 Income statement £m
US dollar exchange rates +10% (2011: +10%)	(1.0)	(0.4)
US dollar exchange rates -10% (2011: –10%)	1.2	0.4
Canadian dollar exchange rates +10% (2011: +10%)	(0.1)	–
Canadian dollar exchange rates –10% (2011: –10%)	0.1	–

The movement arises from US dollar denominated receivables and borrowings and Canadian dollar denominated receivables.

There is no impact on equity from a change in the US dollar exchange rate.

32. Post-Employment Benefits

Pensions

Within the UK, the Group operates a funded pension scheme, which includes a defined benefit section with benefits linked to final salary and a defined contribution section with benefits dependent on future investment returns. With effect from 31 December 2002, the defined benefit section was closed to new UK employees who are offered membership of the defined contribution section. The majority of UK employees are members of one of these arrangements.

The majority of the Scheme's defined benefits are covered by insurance policies, meaning that pensions-related risks have largely been eliminated. This is demonstrated by the stability of the pension asset from year to year. However, the obligation ultimately rests with the Group. During the year, the Trustees paid additional funds into the existing insurance policies to secure further benefits for members.

A valuation of the defined benefit section of the Scheme was produced and updated to 31 December 2012 by independent qualified actuaries.

The main assumptions used for IAS 19 purposes at 31 December were:

	2012	2011
Annual rates		
Rate of increase in salaries	5.1%	5.2%
Rate of increase in pensions	3.1%	3.2%
Discount rate	4.3%	4.7%
Inflation (RPI)	3.1%	3.2%

The post-employment mortality assumptions allow for future improvements in mortality. The mortality table implies that a 65 year old male currently has an expected future lifetime of 24.5 years (2011 – 24.3 years) and an expected future lifetime of 27.6 years (2011 – 27.4 years) for a male reaching 65 in 20 years' time. The mortality table implies that a 65 year old female currently has an expected future lifetime of 25.9 years (2011 – 25.8 years) and an expected future lifetime of 27.8 years (2011 – 27.7 years) for a female reaching 65 in 20 years' time. Based upon past experience, pension increases have been assumed to be in line with RPI inflation.

The expected rate of return on assets for the year ending 31 December 2012 was 4.6% pa based on financial conditions as at 31 December 2011. The expected rate of return on pension plan assets is generally determined as management's best estimate of the long-term return on the major asset classes weighted by the actual allocation of assets at the measurement date. The expected rate of return on the insurance policies has been set equal to the discount rate.

Other Information

The defined contribution section of the Scheme held assets, equal to its liabilities, of £9.1m as at 31 December 2012 (2011 – £6.6m).

Notes to the Financial Statements continued

32. Post-Employment Benefits continued

Scheme Assets

The proportions of the total assets in the defined benefit section of the Scheme for each asset class and the contributions made were:

	2012	2011
Insurance annuity policies	100%	98%
Cash	–	2%
	100%	**100%**
Employer contributions made during the year to the defined benefit section of the Scheme (£m)	**4.0**	**3.2**

In accordance with IAS19, the insurance annuity policies held to match the obligations in respect of pensioners and deferred pensioners of the Scheme have been valued by placing a value on them equal to the related obligations. In accordance with IAS19 and IFRS13, the insurance policy held to meet the obligations in respect of active members of the Scheme has been valued by discounting the expected future payments from the policy using assumptions that are consistent with the assumptions used to value the obligations for active members.

During the year to 31 December 2012, contributions by the Group of £1.3m (2011 – £1.1m) were also made to the UK defined contribution section of the Scheme. For 2013, the Group will pay estimated contributions of £3.8m to the defined benefit section of the Scheme. Contributions to the defined contribution section of the Scheme are in addition.

Surplus in the Plan

The following amounts were measured in accordance with IAS 19:

	2012 £m	2011 £m
Total fair value of plan assets	254.8	238.0
Present value of obligations	(248.8)	(233.2)
Asset recognised in the balance sheet	**6.0**	**4.8**

Movements in the Present Value of the Defined Benefit Obligation

	2012 £m	2011 £m
Change in present value of obligation:		
Present value of obligation at the start of the year	233.2	218.4
Current service cost (employer)	2.0	2.1
Interest cost	10.8	11.6
Contributions by plan participants	0.4	0.4
Actuarial losses	13.2	11.2
Benefits paid	(10.8)	(10.5)
Present value of obligation at the end of the year	**248.8**	**233.2**

Movements in the Fair Value of Plan Assets

	2012 £m	2011 £m
Change in plan assets:		
Fair value of plan assets at the start of the year	238.0	223.9
Expected return on plan assets	10.8	11.7
Actuarial gain on plan assets	12.4	9.3
Contributions by plan participants	0.4	0.4
Contributions by employer	4.0	3.2
Benefits paid	(10.8)	(10.5)
Fair value of plan assets at the end of the year	**254.8**	**238.0**

For 2012, the actual return on the plan assets amounted to a gain of £23.2m (2011 – £21.0m). The gain arising as a result of the increase in the value placed on the insurance annuity policies is offset by a corresponding increase in the value placed on the corresponding liabilities. This effect is seen in the actuarial losses on the defined benefit obligations stated above.

32. Post-Employment Benefits continued

Total Expense Recognised in the Income Statement

	2012 £m	2011 £m
Interest cost	10.8	11.6
Expected return on assets	(10.8)	(11.7)
Net (income) recognised in net finance costs	–	(0.1)
Current service cost (employer) – recognised within operating expenses	2.0	2.1
Total expense included within staff costs (note 10)	**2.0**	**2.0**

In addition, employer contributions of £4.4m (2011 – £4.2m) for various Group defined contribution arrangements (including the UK defined contribution arrangement referred to on page 97) are recognised in the income statement.

Total Expense Recognised in the Statement of Comprehensive Income

	2012 £m	2011 £m
Actuarial losses before tax	**0.8**	**1.9**

The cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income at 31 December 2012 is a loss of £37.7m (2011 – £36.9m).

Amounts to be Shown for the Current and Previous Periods

	2012	2011	2010	2009	2008
Difference between the expected and actual return on plan assets:					
Amount (£m)	12.4	9.3	(2.3)	38.6	(35.3)
As a percentage of plan assets	5%	4%	1%	17%	(19)%
Experience (losses) and gains on obligations:					
Amount (£m)	(0.1)	(1.1)	7.0	(0.2)	(0.2)
As a percentage of the present value of the obligations	0%	0%	3%	0%	0%

	£m	£m	£m	£m	£m
Present value of defined benefit obligation	(248.8)	(233.2)	(218.4)	(214.5)	(175.0)
Fair value of plan assets	254.8	238.0	223.9	222.5	182.6
Surplus in the plan	**6.0**	**4.8**	**5.5**	**8.0**	**7.6**

Unfunded Defined Benefit Pension Scheme

The Group also operates a cash balance arrangement in the US for certain executives. Members build up benefits in this arrangement by way of notional contributions and notional investment returns. Actual contributions are paid into an entirely separate investment vehicle held by the Company, which is used to pay benefits due from the cash balance arrangement when the member retires.

Under IAS 19 the cash balance arrangement is accounted for as an unfunded defined benefit scheme. At 31 December 2012, total obligations arising from the scheme were £3.5m (2011 – £2.9m) and movements during the year comprised a service cost (equal to the notional contributions) of £0.1m (2011 – £0.1m), an interest cost of £0.1m (2011– £0.1m), an actuarial loss (representing the excess of notional investment returns over the interest cost) of £0.5m (2011 – £0.2m gain), benefits paid of £nil (2011 – £0.1m) and a foreign exchange gain of £0.1m (2011 – £0.1m loss).

Company

The Company has no employees and therefore does not participate in any of the above schemes, although it does guarantee the contributions due by the participating employers.

Notes to the Financial Statements continued

33. Share Capital and Share Premium

Group and Company

	2012		
	Number of Ordinary shares of 25p each Number	Ordinary shares of 25p each £m	Share premium £m
At 1 January	146,316,186	36.6	87.1
Shares issued – share option schemes and awards	733,055	0.2	1.4
At 31 December	**147,049,241**	**36.8**	**88.5**

	2011		
	Number of Ordinary shares of 25p each Number	Ordinary shares of 25p each £m	Share premium £m
At 1 January	132,519,924	33.1	85.8
Shares issued – share placing (note 34)	13,175,838	3.3	–
Shares issued – share option schemes	620,424	0.2	1.3
At 31 December	**146,316,186**	**36.6**	**87.1**

There are no restrictions attached to any of the Ordinary shares in issue and all Ordinary shares carry equal voting rights, except those shares which are held by the Company as Treasury shares. The rights attached to the Company's Ordinary shares are summarised on page 37. All of the Ordinary shares in issue are fully paid.

At 31 December 2012, the Group held 986,731 (2011 – 1,072,186) Treasury shares. Details of the carrying amount are set out in note 35.

34. Other Components of Equity

Year ended 31 December 2012

	Group				Company
	Other reserves £m	Cash flow hedge reserve £m	Foreign currency translation reserve £m	Total £m	Other reserves total £m
At 1 January	7.0	(0.3)	34.4	41.1	7.0
Exchange adjustments net of tax	–	–	(27.3)	(27.3)	–
Release of foreign exchange adjustments on disposal of subsidiary net of tax	–	–	(2.3)	(2.3)	–
Fair value gains and losses:					
– gains originating on cash flow hedges arising during the year net of tax	–	0.4	–	0.4	–
Share options					
– value of employee services	2.5	–	–	2.5	2.5
– discharge	(1.7)	–	–	(1.7)	(1.7)
At 31 December	**7.8**	**0.1**	**4.8**	**12.7**	**7.8**

34. Other Components of Equity continued

Year ended 31 December 2011

	Group					Company
	Other reserves £m	Merger reserve £m	Cash flow hedge reserve £m	Foreign currency translation reserve £m	Total £m	Other reserves total £m
At 1 January	23.3	–	0.4	28.5	52.2	5.6
Exchange adjustments net of tax	–	–	–	5.9	5.9	–
Fair value gains and losses:						
– gain on available for sale financial investment arising during the year net of tax	35.3	–	–	–	35.3	–
– gains transferred to income statement on redemption of available for sale financial investment net of tax	(53.2)	–	–	–	(53.2)	–
– gains originating on cash flow hedges arising during the year net of tax	–	–	4.0	–	4.0	–
– gains transferred to income statement on disposal of cash flow hedges net of tax	–	–	(0.6)	–	(0.6)	–
– gains transferred to goodwill on disposal of cash flow hedges net of tax	–	–	(4.1)	–	(4.1)	–
Shares issued						
– share premium on share placing	–	82.1	–	–	82.1	82.1
– share placing costs	–	(1.9)	–	–	(1.9)	(1.9)
Share options						
– value of employee services	2.2	–	–	–		2.2
– discharge	(0.6)	–	–	–	2.2	(0.6)
Transfer between reserves	–	(80.2)	–	–	(0.6)	(80.2)
Other	–	–	–	–	(80.2)	(0.2)
At 31 December	**7.0**	**–**	**(0.3)**	**34.4**	**41.1**	**7.0**

On 5 August 2011, a placing of 13,175,838 new Ordinary shares at a price of 648.0p took place, representing approximately 9.9% of Hunting's existing issued Ordinary share capital. In accordance with Section 612 of the Companies Act 2006, the premium from the placing of £82.1m, along with costs of £1.9m, were recognised in the merger reserve. The net proceeds of £83.5m were used to fund, in part, the acquisition of Titan. The merger reserve has been transferred to retained earnings as it has become distributable.

Other reserves include share option reserves, capital redemption reserves and available for sale financial assets reserves.

Company

The Company's other reserves comprise the merger and share option reserves.

35. Retained Earnings

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
At 1 January	550.4	409.3	143.0	84.0
Profit (loss) for the year	128.9	79.1	21.7	(4.1)
Actuarial loss on defined benefit pension schemes net of tax	(1.0)	(1.3)	–	–
Dividends paid	(22.6)	(16.8)	(22.6)	(16.8)
Treasury shares				
– purchase of treasury shares	(0.8)	(1.1)	(0.8)	(1.1)
– disposal of treasury shares	–	0.2	–	0.2
Share options and awards				
– discharge	2.8	0.6	2.8	0.6
– taxation	(0.2)	0.2	–	–
Transfer between reserves	–	80.2	–	80.2
At 31 December	**657.5**	**550.4**	**144.1**	**143.0**

In respect of the tax on the actuarial loss on defined benefit pension schemes, £0.2m (2011 – £0.5m) arises on the current year's movement and £0.1m (2011 – £0.1m) is due to a change in tax rates.

Notes to the Financial Statements continued

35. Retained Earnings continued

Retained earnings include the following amounts in respect of the carrying amount of Treasury shares:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Cost:				
At 1 January	(6.4)	(5.5)	(6.4)	(5.5)
Purchase of Treasury shares	(0.8)	(1.1)	(0.8)	(1.1)
Disposal of Treasury shares	1.0	0.2	1.0	0.2
At 31 December	**(6.2)**	**(6.4)**	**(6.2)**	**(6.4)**

The loss on disposal of Treasury shares during the year, which is recognised in retained earnings, was:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Loss on disposal	**(1.0)**	–	**(1.0)**	–

Company

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement and statement of comprehensive income. A profit of £21.7m (2011 – £4.1m loss) has been accounted for in the financial statements of the Company.

36. Capital Risk Management

The Group's capital consists of equity and net debt.

	2012 £m	2011 £m
Total equity	813.8	732.0
Net debt	163.8	218.4
Capital employed	**977.6**	**950.4**
Gearing	**20%**	**30%**

Capital employed is managed with the aim of maintaining an appropriate level of financing available for the Group's activities. The balance of debt and equity, as reflected in the gearing ratio, which is net debt expressed as a percentage of total equity, is managed having due regard to the respective cost of funds and their availability.

The Group's net debt is monitored on a daily basis and is managed by the control of working capital, dividend and capital expenditure payments and the purchase and disposal of assets and businesses. The level of net debt and related gearing ratio of 20% at 31 December 2012 is considered comfortable, with adequate headroom remaining, giving management ongoing flexibility.

For debt funding, the Group ensures that banking and other borrowing covenants are complied with, and that appropriate forecast headroom exists, to ensure that borrowing facilities remain in place. The main financial covenants attached to the £375m committed bank facility require EBITDA to cover net finance charges by a minimum of 4 times and net debt to be no more than 3.5 times adjusted EBITDA. The maximum net debt to EBITDA permitted will reduce to 3 times in June 2013 and will remain at that level until the facility expires in 2016. For bank covenant testing purposes, the Group's EBITDA is adjusted to include the share of associates' post-tax results and exclude the fair value charge for share awards. EBITDA, for covenant test purposes, is based on the previous rolling twelve month period, measured twice yearly at 30 June and 31 December. The covenants are monitored on a monthly basis and all external covenant requirements were met during the year. Both key bank covenant metrics at year end were well covered.

Return on average capital employed is a KPI management uses to assess business unit performance. The Group return on capital employed has fallen from 15% during 2011 to 14% in 2012 primarily due to the higher level of capital employed following the acquisition programme.

Changes in equity arise from the retention of earnings and, from time to time, issues of share capital. The Board considers each ordinary dividend proposed based on the merits of the information available to it at the time. Consideration is given to the financial projections of business performance and capital investment needs, together with feedback from shareholder discussions.

36. Capital Risk Management continued

The Group operates a centralised treasury function with policies and procedures approved by the Board. These cover funding, banking relationships, foreign currency, interest rate exposures, cash management and the investment of surplus cash. Further detail on financial risks is provided within note 30.

The Group has significant foreign operations and hence results originate in a number of currencies, particularly in US dollars. As a result, the Group's financial statements, which are reported in sterling, are subject to the effects of foreign exchange rate fluctuations with respect to currency conversions. Currency options are used to reduce currency risk movements on the Group's results, by hedging approximately 50% of each year's budgeted US dollar earnings into sterling. Currency exposure on the balance sheet is, where practical, reduced by financing assets with borrowings in the same currency. Spot and forward foreign exchange contracts are used to cover the net exposure of purchases and sales in non-domestic currencies.

37. Dividends Paid

Group and Company

	2012		2011	
	Pence per share	£m	Pence per share	£m
Ordinary dividends:				
2012 interim paid	4.5	6.6	–	–
2011 final paid	11.0	16.0	–	–
2011 interim paid	–	–	4.0	5.8
2010 final paid	–	–	8.3	11.0
	15.5	**22.6**	**12.3**	**16.8**

A final dividend of 14.0p per share has been proposed by the Board, amounting to an estimated distribution of £20.4m. The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting to be held on 17 April 2013 and has not been provided for in these financial statements.

38. Share-based Payments

Group and Company

(a) Executive Share Options

The Company used to operate an executive share option scheme, which granted options to eligible employees. Under this scheme, the final granting of options occurred on 4 March 2008 and the subsequent final vesting of options ocurred on 4 March 2011. Vesting of options was subject to the achievement of performance targets over a three year period. Thereafter the employee, subject to continued employment, has seven years in which to exercise the option.

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

Date of grant	04.03.2008
Exercise price (p)	784.5
Share price at grant (p)	784.5
Expected volatility (% pa)	32
Dividend yield (% pa)	1.1
Risk-free interest rate (% pa)	4.3
Turnover rates (% pa)	5
Fair value at grant (p)	294.9

The expected volatility was calculated as the historic volatility of the Hunting PLC share return over the five years prior to each grant date.

The charge to the income statement attributable to Executive Share Options is £nil (2011 – £0.2m, recognised as part of operating expenses).

Notes to the Financial Statements continued

38. Share-based Payments continued

Share Option Movements During the Year

	2012		2011	
	Number of options	Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)
Outstanding at beginning of the year	2,539,424	338	3,205,151	322
Exercised during the year	(524,918)	294	(626,145)	233
Lapsed during the year	(8,263)	785	(39,582)	703
Outstanding and exercisable at the year end	**2,006,243**	**348**	**2,539,424**	**338**

Options were granted with an exercise price equal to the average closing mid-market price of the Company's share price for the three trading days prior to the date of grant.

The weighted average share price at the date of exercise was 904.0p (2011 – 755.0p).

Share Options Outstanding at the Year End

	2012 Number of options	2011 Number of options	Exercise price range (p)	Exercise period
Executive Share Options 2002 – vested	–	189,389	167.4	15.04.05–14.04.12
Executive Share Options 2003 – vested	58,850	78,592	79.0	14.03.06–13.03.13
Executive Share Options 2004 – vested	562,964	637,728	116.9	31.03.07–30.03.14
Executive Share Options 2005 – vested	493,820	564,511	220.7	09.03.08–08.03.15
Executive Share Options 2006 – vested	350,168	420,142	383.0	08.03.09–07.03.16
Executive Share Options 2007 – vested	273,602	334,228	640.0	06.03.10–05.03.17
Executive Share Options 2008 – vested	266,839	314,834	784.5	04.03.11–03.03.18
	2,006,243	**2,539,424**		

(b) Performance Share Plan ("PSP")

The Company continues to operate and grant share awards and options under its performance share plan. Under the PSP, annual conditional awards of shares and options may be made to executive Directors and senior employees. Awards and options are subject to performance conditions and continued employment during the vesting period. The PSP is a share award scheme and as such there is no exercise price.

The PSP awards made in the year will vest subject to total shareholder return ("TSR") performance over a three year period from the date of grant, relative to comparator companies from the Dow Jones US Oil Equipment and Services sector index and the DJ STOXX TM Oil Equipment and Services sector index.

Details of the PSP awards and options movements during the year are set out below:

	2012 Number of awards	2011 Number of awards
Outstanding at beginning of the year	635,571	450,112
Granted during the year	309,924	249,323
Lapsed during the year	(233,439)	(63,864)
Outstanding at the end of the year	**712,056**	**635,571**

Details of PSP awards and options outstanding at 31 December 2012 are as follows:

	Number of shares 2012	Number of shares 2011	Normal vesting date
Date of grant:			
29 April 2009	–	155,541	28.04.12
26 February 2010	248,453	264,717	26.02.13
25 February 2011	202,214	215,313	25.02.14
17 April 2012	261,389	–	17.04.15
Outstanding at the end of the year	**712,056**	**635,571**	

38. Share-based Payments continued

The fair value of the PSP awards and options granted in 2012 was calculated using the Stochastic pricing model (also known as the “Monte Carlo” model), which incorporates the effect of the TSR performance condition.

The assumptions used in the model were as follows:

	2012	2011
Weighted average share price at grant	906.0p	774.5p
Expected volatility – Hunting PLC	35.3%	50.7%
Expected volatility – Comparator group (average)	44.2%	71.4%
Risk free rate	0.5%	1.9%
Expected life	3 years	3 years
Fair value	604.97p	525.89p

The expected volatility was calculated using historic weekly volatility over three years prior to grant, equal in length to the performance period at the date of grant. The expected volatilities of each constituent of the comparator group are calculated on the same basis and input into the model individually and the average of these figures is shown in the table above.

The expected life of the award has been calculated as three years, commensurate with the vesting period. The risk free rate is based on the UK gilt rate commensurate with the vesting period prevailing at the date of grant.

Participants are entitled to a dividend equivalent over the number of shares that make up their award. It is accumulated over the vesting period and released subject to the achievement of the performance condition. This is factored into the fair value calculation and as a result the dividend yield assumption is set to zero.

The initial accounting charge of the PSP incorporates an estimate of the number of shares that are expected to lapse for those participants who cease employment during the vesting period. The estimate of the expected forfeiture rate is 2.5% per annum. The subsequent accounting charge for 2012 includes an adjustment to the initial accounting charge to allow for actual lapses rather than estimated lapses.

The charge to the income statement attributable to the PSP is £1.0m (2011 – £0.8m), which is recognised in operating expenses.

(c) Restricted Share Plan (“RSP”)

The Company continues to operate and grant share awards and options under its restricted share plan. Under the RSP, annual conditional awards of shares and options may be made to employees subject to continued employment during the vesting period. There are no performance conditions attached to these awards and options. The RSP is a share award scheme and as such there is no exercise price.

Details of the RSP awards and options movements during the year are set out below:

	2012 Number of awards	2011 Number of awards
Outstanding at beginning of the year	618,570	432,419
Granted during the year	272,023	220,296
Vested during the year	(208,137)	(5,876)
Lapsed during the year	(78,755)	(28,269)
Outstanding at the end of the year	**603,701**	**618,570**

The weighted average share price at the date of vesting, for awards vesting during the year, was 951.0p (2011 – 700.3p).

Details of RSP awards and options outstanding at 31 December 2012 are as follows:

	Number of shares 2012	Number of shares 2011	Normal vesting date
Date of grant:			
29 April 2009	–	209,810	28.04.12
26 February 2010	171,470	195,405	26.02.13
25 February 2011	179,787	213,355	25.02.14
17 April 2012	252,444	–	17.04.15
Outstanding at the end of the year	**603,701**	**618,570**	

Notes to the Financial Statements continued

38. Share-based Payments continued

The fair value of the RSP award granted in 2012 was calculated using the Black-Scholes pricing model. The assumptions used in the model were as follows:

	2012	2011
Weighted average share price at grant	906.0p	774.5p
Expected volatility	35.3%	50.7%
Risk free rate	0.5%	1.9%
Expected life	3 years	3 years
Fair value	906.0p	774.5p

The expected volatility was calculated using historic weekly volatility over three years to grant, equal in length to the remaining portion of the performance period at the date of grant.

The expected life of the award has been calculated as three years, commensurate with the vesting period. The risk free rate is based on the UK gilt rate commensurate with the vesting period prevailing at the date of grant.

Participants are entitled to a dividend equivalent over the number of shares which make up their award. It is accumulated over the vesting period and released subject to the employee remaining in employment. This is factored into the fair value calculation and as a result the dividend yield assumption is set to zero.

The initial accounting charge of the RSP incorporates an estimate of the number of shares that are expected to lapse for those participants who cease employment during the vesting period. The estimate of the expected forfeiture rate is 2.5% per annum. The subsequent accounting charge for 2012 includes an adjustment to the initial accounting charge to allow for actual lapses rather than estimated lapses.

The charge to the income statement attributable to the RSP is £1.5m (2011 – £1.2m), which is recognised in operating expenses.

(d) Long-Term Incentive Plan

The Group operates a Long-Term Incentive Plan (“LTIP”) for key executives. LTIP awards may be settled in shares or cash. Details of awards made under this plan are contained within the Remuneration Committee Report on page 46.

The fair value charge to the income statement attributable to the LTIP is £4.5m (2011 – £4.7m) and the liability in relation to the LTIP at the year-end is £8.1m (2011 – £4.9m).

39. Operating Leases

The Group as Lessee

Operating lease payments mainly represent rentals payable by the Group for properties:

	2012			2011		
	Property £m	Others £m	Total £m	Property £m	Others £m	Total £m
Operating lease payments recognised in income statement:						
Lease and rental payments*	**6.8**	**0.7**	**7.5**	**6.9**	**0.6**	**7.5**

* Included in the charge for the year is £0.6m (2011 – £1.5m) for discontinued operations.

Total future aggregate minimum lease payments under non-cancellable operating leases expiring:

	2012			2011		
	Property £m	Others £m	Total £m	Property £m	Others £m	Total £m
Within one year	8.1	0.6	8.7	8.4	0.5	8.9
Between two and five years	20.3	0.9	21.2	24.7	1.1	25.8
After five years	7.2	–	7.2	14.1	–	14.1
Total lease payments	**35.6**	**1.5**	**37.1**	**47.2**	**1.6**	**48.8**

Included in the total future payments above, as at 31 December 2011, is £9.9m committed to by Field Aviation, which was sold on 27 April 2012. The Hunting Group’s obligation in relation to these leases ceased at this date.

39. Operating Leases continued

The Group as Lessor

Property rental earned during the year was £1.7m (2011 – £2.8m), of which £0.9m (2011 – £2.1m) relates to discontinued operations. A number of the Group's leasehold properties are sublet under existing lease agreements.

Total future minimum sublease income receivable under non-cancellable operating leases expiring:

	2012 Property £m	2011 Property £m
Within one year	0.7	0.6
Between two and five years	0.4	0.8
Total lease income receivable	**1.1**	**1.4**

40. Exploration and Evaluation Activities

The assets, liabilities, income, expense and cash flows arising on the Group's exploration for and evaluation of oil and gas resources are as follows:

The Group had £0.9m assets (2011 – £nil) and £2.2m liabilities (2011 – £3.2m) relating to the exploration for and evaluation of oil and gas reserves.

During the year income earned on exploration and evaluation activities was £nil (2011 – £nil) and expenses incurred for the year were £2.0m (2011 – £nil), with tax relief of £0.7m (2011 – £nil). Expenses comprise £2.0m (2011 – £nil) for dry hole costs.

Cash outflows from operating activities were £2.0m (2011 – £nil) and outflows from investing activities were £nil (2011 – £0.1m).

The Group is committed to £1.9m (2011 – £0.3m) for expected drilling costs, but these have not been provided for in the financial statements.

41. Related Party Transactions

Group

The following related party transactions took place between wholly-owned subsidiaries of the Group and associates during the year:

	2012 £m	2011 £m
Transactions:		
Sales of goods and services	2.5	2.4
Purchase of goods and services	(0.1)	(0.3)
Royalties receivable	0.6	0.5
Dividends received from associates	0.1	2.3
Movement on loans to and from associates:		
Loans from associates repaid	(0.9)	(0.6)
Loans from associates	–	0.1
Loans to associates	(0.1)	(0.6)
Loans to associates repaid	0.3	–
Year end balances:		
Interest bearing loans owed to associates	–	(0.9)
Receivables from associates	0.6	0.8
Payables from associates	(0.1)	(0.1)

The outstanding balances at the year-end are unsecured and have no fixed date for repayment. No expense has been recognised in the period for bad or doubtful debts in respect of amounts owed by associates.

All interests in associates are in the equity shares of those companies.

The key management of the Company comprises the executive and non-executive Directors only. The details of the Directors' compensation are disclosed in note 10. The Directors of the Company had no material transactions other than as a result of their service agreements.

Notes to the Financial Statements continued

41. Related Party Transactions continued

Company

The following related party transactions took place between the Company and wholly-owned subsidiaries of the Group during the year:

	2012 £m	2011 £m
Transactions:		
Royalties receivable	11.1	1.6
Management fees payable	(0.6)	(3.3)
Recharges:		
Share options and awards	2.5	1.7
LTIP recharges	6.1	4.7
Administrative expenses	1.3	2.3
Loans received from subsidiaries	–	22.0
Loan from subsidiary repaid	(16.4)	(28.4)
Loan to subsidiary	–	(16.4)
Loan to subsidiary repaid	16.4	–
Interest payable on inter-company loans	(0.9)	(1.3)
Interest receivable on inter-company loans	0.2	0.4
Dividends received from subsidiaries	16.7	0.4
Year end balances:		
Amounts owed to subsidiaries	(54.3)	(74.7)
Amounts owed by subsidiaries	29.5	35.1

All balances between the Company and its subsidiaries have no fixed term for repayment and are unsecured.

The Company also serves as the Group's intermediary for the provision of UK group tax relief, VAT and certain group insurances. At the year end, the outstanding balance receivable for these services was £6.8m (2011 – £6.1m).

42. Acquisitions

Titan

Titan was acquired on 16 September 2011. On 9 January 2012, £2.0m was paid for adjustments specified in the sale and purchase agreement.

Doffing

W. L. Doffing L.P. was acquired on 2 September 2011. On 30 January 2012, £0.2m was paid for working capital adjustments.

A credit of £1.1m has been recognised in the income statement for the contingent consideration arrangement, as the future payments are not likely to be required (note 7).

Acquisition costs

During the year, acquisition related costs of £0.8m were incurred. These have been charged to operating expenses and have not been presented as exceptional.

43. Business Disposals

On 27 April 2012, the Group sold Hunting Canadian Airport Holdings Ltd. and its subsidiaries, including Field Aviation Company Inc. (together referred to as "Field Aviation") to Amavco Inc., through its subsidiary 1650614 Alberta Ltd., a group of companies owned by a consortium of North American investors assembled by the current management team of Field Aviation. The agreed selling price was £7.5m (Can$12.0m), with £2.5m (Can$4.0m) placed into an environmental escrow account, £1.9m (Can$3.0m) deferred in the form of an interest-bearing promissory note and the remainder paid in cash. Following fair value adjustments, principally relating to amounts held in the environmental escrow, the fair value of the consideration was £5.0m.

Details of the net assets disposed and consideration at fair value are set out below:

	£m
Property, plant and equipment	2.1
Deferred tax assets	0.2
Inventories	3.9
Trade and other receivables	5.6
Cash and cash equivalents	1.2
Current tax assets	0.2
Trade and other payables	(7.7)
Provisions	(0.3)
Deferred tax liabilities	(0.1)
Net assets disposed	5.1
Release of foreign exchange adjustments	(2.1)
Costs of disposal	0.6
Profit on disposal	1.4
Fair value of consideration	**5.0**

The fair value of the consideration comprised the following:

Net cash proceeds	3.1
Promissory note	1.7
Environmental escrow	0.2
Fair value of consideration	**5.0**

Promissory note

As part of the consideration, the Group subscribed to a promissory note, which is carried as a receivable at amortised cost. The note is repayable by 31 December 2018, is unsecured and is subordinate to bank debt put in place by the purchaser. Interest is charged at an effective rate of 10.8% per annum on the note.

Environmental escrow

Under the terms of the sale of Field Aviation, Hunting and the purchaser have agreed to establish an environmental escrow account to pay for any potential environmental matters which may arise relating to Field Aviation's hangar facilities in Calgary. The escrow account will remain in place until the property lease expires in 2027 or until a time when such environmental matters have been satisfactorily resolved. The environmental escrow account was recognised at its fair value of £0.2m as an available for sale financial asset. No changes to the fair value have occurred since its initial recognition.

Notes to the Financial Statements continued

44. Principal Subsidiaries and Associates

Subsidiaries and associates	Country of incorporation and operations	Business
Oil and gas activities		
Hunting Energy Services Inc.	USA	Oilfield and trenchless drilling products and services
Hunting Energy Services (Drilling Tools), Inc.	USA	Drilling equipment
Hunting Energy Services (International) Limited	England and Scotland	Oilfield services
Hunting Energy Services (UK) Limited (60%)	Scotland and Netherlands	Oilfield services
Hunting Energy Services Limited	Scotland	Oilfield services
Hunting Energy Services (Well Intervention) Limited	Scotland, USA and Singapore	Oilfield services
Hunting Energy Services (Canada) Ltd.	Canada	Oilfield services
Hunting Energy Services (Drilling Tools) Ltd.	Canada	Drilling equipment
Hunting Energy Services (International) Pte Ltd	Singapore	Oilfield services
Hunting Energy Services Pte Ltd	Singapore	Oilfield services
Hunting Energy Services (Wuxi) Co. Ltd (70%)	China	Oilfield services
Hunting Welltonic Limited	Scotland	Oilfield services
National Coupling Company Inc.	USA	Oilfield services
Hunting Innova, Inc.	USA	Oilfield services electronic component manufacturer
Hunting Titan, Ltd	USA and Canada	Oil and gas industry perforating systems
Hunting Dearborn, Inc.	USA	Oilfield services – precision engineering
Hunting Specialty Supply, L.P.	USA	Oilfield services
Other activities		
E.A. Gibson Shipbrokers Limited	England, Hong Kong, Singapore and Norway	Shipbroking, LPG broking
Tenkay Resources, Inc.	USA	Oil and natural gas exploration
Corporate activities		
Hunting Energy Corporation	USA	Holding company
Hunting Energy Holdings Limited*	England	Holding company
Huntaven Properties Limited	England	Group properties
Hunting Knightsbridge Holdings Limited*	England	Finance
Hunting U.S. Holdings, Inc.	USA	Holding company
Hunting America Corporation	USA	Finance

Notes
1 Certain subsidiaries and associates have been excluded from the above where in the opinion of the Directors they do not have a material bearing on the profits or assets of the Group.
2 Except where otherwise stated companies are wholly-owned being incorporated and operating in the countries indicated.
3 Interests in companies marked * are held directly by Hunting PLC.
4 All interests in subsidiaries and associates are in the equity shares of those companies.

45. Principal Accounting Policies

The Group's principal accounting policies are described below.

(1) Consolidation

- The Group accounts include the results of the Company and its subsidiaries, together with its share of associates.
- Uniform accounting policies have been adopted across the Group.

(2) Subsidiaries

- Subsidiaries are entities over which the Group has the power to govern the financial and operating policies irrespective of the percentage of voting rights owned.
- Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date control ceases.
- The Group uses the acquisition method of accounting for business combinations. Consequently the consideration is determined as the fair value of the net assets transferred to the vendor and includes an estimate of any contingent consideration. The net assets acquired are also measured at their respective fair values for initial recognition purposes on the acquisition date.
- Acquisition-related costs are expensed to the income statement as incurred.

(3) Discontinued Operations

- A discontinued operation is a component of the Group that has either been disposed of or that is classified as held-for-sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.
- Discontinued operations are presented separately in the income statement and are shown net of tax.

(4) Revenue

- Revenue is measured as the fair value of the consideration received or receivable for the provision of goods or services in the ordinary course of business, taking into account trade discounts and volume rebates, and is stated net of sales taxes.
- Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customer, which is normally on delivery of the products.
- Revenue from the sale of services is recognised when the services are rendered.
- Revenue from the rental of plant and equipment is recognised as the income is earned.

(5) Exceptional Items

- Exceptional items are regarded as items of income and expense, which should be separately disclosed by virtue of their significant size, incidence or nature to enable a full understanding of the Group's financial performance. Exceptional items principally comprise profits or losses on the disposal of subsidiaries, the impairment of assets, dry hole costs, movements on provisions for warranties on the disposal of subsidiaries, refund from Canadian tax authorities, retention bonuses for management of acquired businesses, acquisition costs, unamortised loan facility fees written off on early termination of the facility, the charge to the income statement for the value uplift to inventories, provisions for onerous leases and the release of contingent consideration liabilities recognised on acquisition of subsidiaries.

(6) Interest

- Interest income and expense is recognised in the income statement using the effective interest method.

(7) Foreign Currencies

(a) Individual Subsidiaries' and Associates' Accounts

- The financial statements for each of the Group's subsidiaries and associates are prepared using their functional currency.
- The functional currency is the currency of the primary economic environment in which the entity operates.
- Transactions denoted in currencies other than the functional currency are translated into the functional currency at the exchange rate ruling at the date of the transaction.
- Monetary assets and liabilities, except borrowings designated as a hedging instrument in a net investment hedge, denoted in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken to the income statement.
- Borrowings designated as a hedging instrument in a net investment hedge are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken direct to equity.

(b) Group Consolidated Accounts

- The presentation currency of the Group is sterling.
- The net assets of non-sterling denominated subsidiaries and associates are translated into sterling at the exchange rates ruling at the balance sheet date.
- The income statements of subsidiaries and associates are translated into sterling at the average rates of exchange for the year.
- Exchange differences are recognised directly in equity in the foreign currency translation reserve, together with exchange differences arising on foreign currency loans used to finance foreign currency net investments.
- The foreign currency translation reserve commenced on 1 January 2004. Amounts arising prior to that date were re-set to zero.
- On the disposal of a business, the cumulative exchange differences previously recognised in the foreign currency translation reserve relating to that business are transferred to the income statement as part of the gain or loss on disposal.

Notes to the Financial Statements continued

45. Principal Accounting Policies continued

(8) Taxation

- The taxation charge in the income statement comprises current tax and deferred tax arising on the current year's profit before tax and adjustments to tax arising on prior years' profits.
- Current tax is the expected tax payable arising in the current year on the current year's profit before tax, using tax rates enacted or substantively enacted at the balance sheet date, plus adjustments to tax payable in respect of prior years' profits.
- Deferred tax is the expected tax payable on the current year's profit before tax arising in a future year, using tax rates enacted or substantively enacted at the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- Full provision is made for deferred taxation, using the liability method, on all taxable temporary differences. Deferred tax assets and liabilities are recognised separately on the balance sheet and are reported as non-current assets in line with IAS 1.
- Deferred tax assets are recognised only to the extent that they are expected to be recoverable. Deferred taxation on unremitted overseas earnings is provided for to the extent a tax charge is foreseeable.
- If items of income and expense are recognised in other comprehensive income, then the current and deferred tax relating to those items is also recognised in other comprehensive income.

(9) Segmental Reporting

- Financial information on operating segments that corresponds with information regularly reviewed by the Chief Operating Decision Maker is disclosed in the accounts.
- Operating segments are components of the Group that are engaged in providing related products.
- Geographical information is based on the location of where the sale *originated* and where the non-current assets are *located*.

(10) Property, Plant and Equipment and Depreciation

(a) General

- Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition and installation of the asset.
- Depreciation is charged so as to write off the cost of assets to their residual value, over their estimated useful lives.
- Land, pre-production oil and gas exploration costs and assets under construction are not depreciated.
- With the exception of oil and gas exploration and production equipment (see 10(b) below), assets are depreciated using the straight-line method at the following rates:
  - Freehold buildings – 2% to 10%
  - Leasehold buildings – life of lease
  - Plant, machinery and motor vehicles – 6% to 33⅓%
- The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
- Assets in the course of construction are carried at cost, less any impairment in value and are included in the relevant asset category. Depreciation of these assets commences when they are ready for their intended use. In the case of a new manufacturing facility, it is when the facility has been commissioned. For larger facilities, this may occur in phases.
- Computer software integral to an item of machinery is capitalised as part of the hardware.

(b) Exploration Expenditure

- Oil and gas exploration and appraisal costs are initially capitalised pending determination of the existence of commercial reserves and are included in the asset category *oil and gas exploration and development*.
- Upon determination that commercially viable quantities of hydrocarbons are not found, the costs are charged immediately to the income statement.
- Depreciation of oil and gas expenditure commences when production commences. The costs are depreciated using the unit of production method.

(11) Goodwill

- Goodwill arises when the fair value of the consideration paid for a business exceeds the fair value of the Group's share of the net assets acquired.
- Goodwill is recognised as an asset and is carried at cost less accumulated impairment losses.
- Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.
- On the disposal of a business, goodwill relating to that business that remains on the balance sheet at the date of disposal is included in the determination of the profit or loss on disposal.

45. Principal Accounting Policies continued

(12) Other Intangible Assets

- Other intangible assets are stated at cost less accumulated amortisation and impairment losses where applicable.
- These assets have a finite life and are amortised in accordance with the pattern of expected future economic benefits, or when this cannot be reliably estimated, by using the straight-line method.
- Intangible assets are amortised over the following periods:
  - Customer relationships – eight to ten years
  - Patents – ten to twelve years
  - Unpatented technology – ten years
  - Trademarks and domain names – one to five years

(13) Impairments

- The Group performs goodwill impairment reviews at least annually.
- The Group also assesses at least annually whether there have been any events or changes in circumstances that indicate that property, plant and equipment and intangible assets other than goodwill may be impaired. An impairment review is carried out whenever the assessment indicates that the carrying amount may not be fully recoverable.
- For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.
- Where impairment exists, the asset is written down to the higher of (a) its fair value minus costs to sell; and (b) its value in use. Impairments are recognised immediately in the income statement.
- An impairment to goodwill is never reversed. When applicable, an impairment of any other asset is reversed, but only to the extent that the consequent carrying value does not exceed what would have been the carrying value had the impairment not originally been made.

(14) Inventories

- Inventories 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 disposal in the ordinary course of business. The cost of inventories includes direct costs plus production overheads.

(15) Cash and Cash Equivalents

- Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of less than three months from the date of deposit that are readily convertible to a known amount of cash.
- Accrued interest is disclosed as part of the year-end balance.
- For cash flow statement purposes, cash and cash equivalents include bank overdrafts and short-term deposits with a maturity of less than three months from the date of deposit. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(16) Financial Assets

- The Group classifies its financial assets principally into the following categories: *financial assets at fair value through profit or loss* and *loans and receivables*. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.
- Financial assets are initially recognised at fair value at the trade date which is normally the consideration paid, plus, in the case of financial assets that are not measured at fair value through profit or loss, transaction costs.
- The Group assesses at each balance sheet date whether a financial asset is impaired and if necessary the carrying amount is reduced to the appropriate value. The loss is recognised immediately in the income statement.
- Financial assets cease to be recognised when the right to receive cash flows has expired or the Group has transferred substantially all the risks and rewards of ownership.

(17) Loans and Receivables

- The Group's financial assets are principally loans and receivables, which comprise *trade and other receivables* and *cash and cash equivalents*.
- Loans and receivables are carried at amortised cost using the effective interest method. If collection is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets.
- By virtue of the nature of the effective interest method, interest arising on loans carried at amortised cost is regarded as an integral part of the loan balance and is therefore included within the carrying amount of the loan. Consequently, interest receivable within twelve months on loans due after more than one year is recognised within non-current assets.

Notes to the Financial Statements continued

45. Principal Accounting Policies continued

(18) Financial Liabilities

- Financial liabilities are initially recognised at fair value at the trade date which is normally the consideration received less, in the case of financial liabilities that are not measured at fair value through profit or loss, transaction costs. The Group subsequently re-measures all of its non-derivative financial liabilities, including trade payables, at amortised cost.
- Payables are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.
- By virtue of the nature of the effective interest method, interest arising on loans that are measured at amortised cost using the effective interest method is regarded as an integral part of the loan balance and is therefore included within the carrying amount of the loan. Consequently, interest payable within twelve months on loans due after more than one year is recognised in non-current borrowings.

(19) Debt Issue Costs

- When it is probable that some or all of a loan facility will be drawn down, transaction costs are capitalised and presented as a reduction to the borrowed amount and subsequently amortised through interest expense using an appropriate effective interest method.
- When it is not probable that some or all of the loan facility will be drawn down, the facility fee is capitalised as a prepayment for services and amortised over the period of the relevant facility on a straight-line basis.
- The amortisation charge is recognised in the income statement as an interest expense.

(20) Leases

- An operating lease is defined as a lease that is not a finance lease. A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee.
- The rental costs incurred on operating leases are charged to the income statement as incurred over the life of the lease on a straight-line basis.
- Operating lease income is recognised in the income statement within other income as it is earned.

(21) Provisions

- Provisions are liabilities for which the amount or timing of future expenditure is uncertain.
- Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation.
- Whenever the time value of money is material, provisions are discounted to their present value.

(22) Post-employment Benefits

(a) Defined Contribution Retirement Schemes

- Payments to defined contribution retirement schemes are charged to the income statement when they fall due.

(b) Defined Benefit Retirement Schemes

- Payments to defined benefit retirement schemes are recognised as increments to the assets of the schemes.
- The amount charged to the income statement with respect to these schemes, within profit from operations, is the increase in the retirement benefit obligation resulting from the additional service provided by the participating employees during the current year, which is measured using the Projected Unit method.
- Interest arising on the obligations and the expected return from the assets are also recognised in the income statement, net, within net finance costs.
- Actuarial gains and losses are recognised fully and immediately in the statement of comprehensive income.

(23) Share-based Payments

- The Group issues share-based payments (LTIP awards), which can be settled in either cash or equity, to certain employees as consideration for services received from the employees. A liability is recognised equal to the current fair value of the services received, determined at each balance sheet date. The fair value of the liability is remeasured at each subsequent reporting date and at the date of settlement, with any changes in fair value recognised in the income statement.
- The fair value is measured as the present value of the expected future cash flows.
- The Group also issues equity-settled share-based payments (PSP and RSP awards) to certain employees as consideration for services received from the employees. The fair value of the employees' services is recognised as an expense in the income statement on a straight-line basis over the vesting period based on the Group's estimate of awards that will ultimately vest.
- The fair value of employees' services is determined by an external valuer, using the Monte Carlo model for PSP awards and the Black-Scholes model for the RSP awards, with reference to the grant date fair value of the options granted. The fair value includes market performance conditions in respect of the performance based awards and excludes the impact of any service and non-market performance vesting conditions.
- The estimate of the number of awards likely to vest is reviewed at each balance sheet date and at the vesting date, where the estimate is adjusted to reflect current expectations. The adjustment is included as part of the underlying expense recognised in the income statement. No adjustment is made to the fair value after the vesting date.

45. Principal Accounting Policies continued

(24) Share Capital

- The Company's share capital comprises a single class of Ordinary shares, which are classified as equity.
- Incremental costs directly attributable to the issue of new shares are charged to equity as a deduction from the proceeds, net of tax.

(25) Treasury Shares

- Treasury shares are stated at cost and presented as a deduction from the equity attributable to owners of the parent. Consideration received for the sale of these shares is also recognised directly in equity, with any difference between the proceeds from the sale and the original cost being taken directly to retained earnings.

(26) Dividend Distributions

- Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders and are dealt with in the Statement of Changes in Equity.
- Interim dividends are recognised when paid.

Financial Record*
(Unaudited)

	2012 £m	Restated^ 2011 £m	2010 £m	2009 £m	2008 £m
Revenue	825.8	608.8	423.3	309.9	371.1
EBITDA	154.3	102.5	62.6	42.8	73.8
Depreciation and non-exceptional impairment	(25.5)	(21.5)	(17.6)	(13.7)	(16.1)
Profit from continuing operations	128.8	81.0	45.0	29.1	57.7
Finance (charges) income	(6.2)	(2.2)	1.0	1.7	(4.0)
Share of associates' post-tax profits	1.0	1.0	1.0	0.9	1.2
Profit before taxation from continuing operations	123.6	79.8	47.0	31.7	54.9
Taxation	(34.6)	(22.5)	(14.0)	(9.8)	(18.2)
Profit for the year from continuing operations	89.0	57.3	33.0	21.9	36.7
Profit for the year from discontinued operations	–	0.7	5.8	5.9	42.3
Profit for the year	**89.0**	**58.0**	**38.8**	**27.8**	**79.0**
Basic earnings per share:					
Continuing operations	58.9p	39.6p	23.1p	14.3p	25.5p
Continuing and discontinued operations	58.9p	40.1p	27.6p	18.8p	57.8p
Diluted earnings per share:					
Continuing operations	57.5p	38.7p	22.7p	14.1p	25.5p
Continuing and discontinued operations	57.5p	39.2p	27.1p	18.5p	57.8p
Dividend per share#	18.5p	15.0p	12.0p	10.5p	9.90p
Total assets					
Non-current assets	765.9	787.9	353.1	238.3	204.5
Net current assets	285.7	230.3	285.7	362.0	386.0
	1,051.6	**1,018.2**	**638.8**	**600.3**	**590.5**
Financed by:					
Shareholders' funds (including non-controlling interests)	813.8	732.0	594.6	561.8	557.3
Non-current liabilities	237.8	286.2	44.2	38.5	33.2
	1,051.6	**1,018.2**	**638.8**	**600.3**	**590.5**
Net assets per share	553.6p	500.3p	448.8p	425.0p	422.2p

* Information is stated before exceptional items and amortisation of intangible assets.

\# Dividend per share is stated on a declared basis.

^ Non-current assets and net current assets have been restated for the additional goodwill of £1.4m and a reduction in inventories of £1.4m recognised on the acquisition of Hunting Titan on 16 September 2011. Non-current assets and liabilities have been restated by £15.8m following the offset of deferred tax balances where there is a legally enforceable right to offset.

Shareholder Information
(Unaudited)

Financial Calendar 2013

17 April	Annual General Meeting
1 July	Final Ordinary Dividend Payment
August	Announcement of Interim Results
November	Interim Ordinary Dividend Payment

In common with many public companies in the UK, the Company no longer publishes a printed version of its half year report. The half year report is only available online from the Company's website at www.huntingplc.com.

Analysis of Ordinary Shareholders
At 31 December 2012, the Company had 2,105 Ordinary shareholders (2011 – 2,137) who held 147.0 million (2011 – 146.3 million) Ordinary shares analysed as follows:

	2012		2011	
	% of total shareholders	% of total shares	% of total shareholders	% of total shares
Size of holdings				
1–4,000	72.5	1.0	74.1	1.1
4,001–20,000	13.0	1.7	12.3	1.6
20,001–40,000	3.1	1.3	2.8	1.1
40,001–200,000	6.1	8.2	6.2	9.0
200,001–500,000	2.4	10.9	2.3	11.1
500,001 and over	2.9	76.9	2.3	76.1

Share Information
The Ordinary shares of the Company are quoted on the London Stock Exchange.

The Company's registrars, Equiniti, offer a range of shareholder information and dealing services on www.shareview.co.uk.

Glossary

AGM	Annual General Meeting.
AMG	Advanced Manufacturing Group – combines the precision engineering and manufacturing capabilities in the Well Construction segment for the Hunting Innova, Hunting Dearborn and Hunting Doffing product lines. Hunting is aiming to become a leading single source of MWD/LWD tools.
API	American Petroleum Institute.
Average gross capital employed	The monthly average of the aggregate of capital employed.
Basic EPS	Basic earnings per share is calculated by dividing the earnings from continuing operations attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year.
bbl	Barrel of oil – one barrel of oil equals 159ℓ or 42 US gallons.
boe	Barrels of oil equivalent.
Board	The Board of Directors of the Company.
Capital employed	The amount of capital available to the Group to invest in its business and comprises the total equity plus net debt.
Capital expenditure -"Capex"	Cash spend on tangible non-current assets.
Can	Canada.
C$** or **Can$	Canadian dollar.
CGU	Cash-generating unit.
CO_2	Carbon dioxide.
CO_2^e	Carbon dioxide equivalent.
CODM	Chief operating decision maker.
Company	Hunting PLC.
CPI	Consumer Price Index.
DPS	Dividend per share – the amount in pence returned to Ordinary shareholders. Figures shown are calculated on an accruals basis.
Diluted EPS	Diluted earnings per share – earnings from continuing operations before amortisation and exceptional items, attributable to Ordinary shareholders, divided by the weighted average number of Ordinary shares in issue during the year, as adjusted for all potentially dilutive Ordinary shares.
Dividend cover	An indication of the Company's ability to maintain the level of its dividend and is calculated as earnings from continuing operations attributable to Ordinary shareholders divided by the cash dividend to be returned to Ordinary shareholders, on an accruals basis.
Downhole	Downhole refers to something that is located within the wellbore.
DTR	Disclosure and Transparency Rules.
EBITDA	Pre-exceptional earnings before share of associates' post-tax profits, interest, tax, depreciation, impairment and amortisation.
EPS	Earnings per share.
ESOP	Executive Share Option Plan.
EU	European Union.
Free cash flow	Profit from continuing operations adjusted for working capital, tax, replacement capital expenditure and interest.
FSA	Financial Services Authority.
FTSE	Financial Times Stock Exchange.
FY	The twelve months ending 31 December of a given year.
GAAP	Generally Accepted Accounting Practice.
Gearing	Net debt as a percentage of total equity.

GHG	Greenhouse gas.
GoM	Gulf of Mexico.
Group	The Company and its subsidiaries.
Growth capital expenditure	Capital expenditure to grow the business from current operating levels and enhance operating activity.
H1	The six months ended 30 June of a given financial year.
H2	The six months ended 31 December of a given financial year.
HEMS	Hunting Equipment Management Services – provide downhole tool rental equipment in the Well Construction segment.
HS&E	Health, safety and environment.
Hunting	The Company and its subsidiaries.
IAS	International Accounting Standards.
IFRIC	International Financial Reporting Interpretations Committee interpretation.
IFRS	International Financial Reporting Standards.
Inventory and WIP days	Inventory and WIP at the year end divided by revenue per day, adjusted for the impact of acquisitions.
ISO	International Standards Organisation.
KPI	Key performance indicator.
LEAN or **Lean**	A production practice that eliminates wasteful processes, thereby reducing production time and costs, and improving efficiency.
LHS	Left hand side.
LIBOR	London Inter-bank Offered Rate.
LLP	Limited Liability Partnership.
LNG	Liquefied Natural Gas.
LPG	Liquefied Petroleum Gas.
LTIP	Long-Term Incentive Plan.
m	million.
m^3	Cubic metre.
mcf	1,000 cubic feet.
MENA	Middle East and North Africa region.
MWD/LWD	Measurement-while-drilling/Logging-while-drilling.
MWh	Megawatt hours.
NEB	Net equivalent barrels of oil.
Net debt	Bank overdrafts, current and non-current borrowings and finance leases less cash and cash equivalents and investments.
OCI	Other comprehensive income.
OCTG	Oil Country Tubular Goods – pipe and tubular goods and products used in the oil and gas industry, such as drill pipe, pipe casings and production pipes.
p	UK pence.
PLC	Public Limited Company.
PSP	Performance Share Plan.
R&D	Research and Development.
RCF	Revolving Credit Facility.
Replacement capital expenditure	Capital expenditure necessary to maintain existing levels of operating activity.

Glossary continued

Term	Definition
Reported	Results for the year as reported under IFRS.
RHS	Right hand side.
ROCE	Return on average capital employed – measures profit before interest and tax before amortisation and exceptional items, as a percentage of average gross capital employed.
RPI	Retail Price Index.
RSP	Restricted Share Plan.
Scope 1	Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by the entity. Scope 1 emissions include fossil fuels burned on site, emissions from vehicles and other direct sources.
Scope 2	Scope 2 emissions are indirect GHG emissions resulting from the generation of electricity, heating and cooling or steam generated off site but purchased by the entity.
£	Sterling.
Trade payable days	The average number of days' credit taken by the Group, calculated as trade payables at the year end divided by cost of sales per day, adjusted for the impact of acquisitions.
Trade receivable days	The average number of days' credit given to the Group's customers, calculated as trade receivables at the year end divided by revenue per day, adjusted for the impact of acquisitions.
TSR	Total Shareholder Return – the net share price change plus the dividends paid during that period.
TSR %	Total Shareholder Return % = Share price end of period – Share price start of period + Dividends paid ÷ Share price start of period.
TWh	Terawatt hours.
UAE	The Federation of the United Arab Emirates.
Underlying	Results for the year, as reported under IFRS, adjusted for amortisation and exceptional items, which is the basis used by the Directors in assessing performance.
US or **USA**	United States of America.
US$** or **$	United States dollar.
UK	United Kingdom.
VAT	Value Added Tax.
Wellbore	The wellbore refers to the drilled hole.
Well completion	Well completion refers to the processes of preparing a well for production. This involves the assembly of downhole tubulars and equipment required to enable safe and efficient production from an oil or gas well.
Well construction	Well construction refers to the initial drilling and processes of constructing the wellbore in an oil and gas well. These processes typically include drilling and logging the hole; running, cementing and logging the casing; hydraulic fracturing or stimulating the well and monitoring well performance and integrity.
Well intervention	Well intervention refers to any operation carried out on an oil or gas well that maintains or enhances the production of the well or provides well diagnostics.
WIP	Work in progress.
Working capital	Trade and other receivables, excluding receivables from associates, derivative financial assets, environmental escrow and promissory notes, plus inventories less trade and other payables, excluding payables due to associates, derivative financial liabilities, dividend liabilities and retirement plan obligations.
WTI	West Texas Intermediate – the price per barrel of Texas light sweet crude oil.

Professional Advisers

Solicitors
CMS Cameron McKenna LLP

Auditors
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