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Hunting PLC

Report and Accounts 2005



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COMPANIES HOUSE 08/06/2006

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COMPANIES HOUSE 26/05/2006

Report of the Directors

The Directors present their report, together with the audited financial statements for the year ended 31 December 2005.

Activities

The Company is an industrial holding company, whose subsidiaries are primarily involved in international oil services. The Group's activities and prospects are reviewed in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Review on pages 2 to 14. Details of the Company's principal subsidiary and associated undertakings are set out in note 42.

Results

The results of the Group are set out in the Consolidated Income Statement on page 42.

Dividends

The final dividend for 2004 of 3.0p per share (2003 – 2.25p) was paid on 29 June 2005 and on 23 November 2005 the 2005 interim dividend of 2.0p per Ordinary share was paid (2004 – 1.5p). The Directors recommend a final Ordinary dividend of 4.0p per share (2004 – 3.0p) payable on 29 June 2006 to shareholders on the register at 9 June 2006.

Directors

Brief biographies of the Directors are shown on page 16.

In accordance with the Articles of Association, Dennis Clark and Hector McFadyen retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

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 pages 26 and 27. As at 31 December 2005, 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.

Principal Acquisitions

On 1 May 2005 the Group acquired the 80% of Setmat SA it did not already own for a net consideration of £0.7m.

On 18 August 2005 the share capital of Cromar Ltd was acquired for a consideration of £9.6m payable in cash of which £1.5m is subject to the achievement of certain performance targets during the 18 month period following the date of acquisition.

Report of the Directors continued

Substantial Interests

As at 2 March 2006, substantial interests in the Ordinary shares of the Company, other than Directors' interests, notified to the Company in accordance with Sections 198 to 208 of the Companies Act 1985, were as follows:

		Number of Ordinary shares	Percentage of issued Ordinary shares
Prudential PLC	(i)	11,540,646	8.93
Hunting Investments Limited	(ii)	10,884,743	8.43
FMR Corp. and Fidelity International Ltd	(iii)	8,670,351	6.71
AXA Framlington Group Ltd		6,701,900	5.19
Slaley Investments Limited		6,411,679	4.96
JP Morgan Fleming Asset Management		6,299,204	4.88
F. Godson – as trustee	(iv)	6,216,999	4.81
D. R. L. Hunting		199,910	
– other beneficial	(v)	2,484,583	
– as trustee	(iv)	<u>2,549,117</u>	
		5,233,610	4.05
Legal and General Management		4,595,933	3.55
J. A. Trafford – as trustee	(iv)	4,036,110	3.12

Notes:

- (i) The interest is held by certain of its subsidiaries.
- (ii) Included in the holding are 9,437,743 Ordinary shares held by Huntridge Limited, a wholly owned subsidiary of Hunting Investments Limited. Neither of these companies are owned by Hunting PLC, either directly or indirectly.
- (iii) The interest is held by direct and indirect subsidiaries.
- (iv) After elimination of duplicated holdings, the total Hunting family trustee interests shown above amount to 6,520,693 Ordinary shares.
- (v) These interests arise because D. R. L. Hunting and his children are or could become beneficiaries under the relevant family trusts of which D. R. L. Hunting is a trustee.

Corporate Social Responsibility

The Company acknowledges and is committed to its corporate social responsibility in the areas in which it operates. Its contribution and involvement is determined by the custom and best practice in those locations and is monitored and reviewed by the Board as more fully explained within the Corporate Governance Report. Further details of the Board's policies and practices on employment, health and safety and the environment are set out below.

Employment

The Group recognises that its success and reputation is dependent upon the efforts and the integrity of its employees. It encourages an awareness of the financial and economic factors affecting the performance of the Company and consults with employees to the degree relevant to local conditions.

Report of the Directors *continued*

- 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.
- Health & Safety training is encouraged from the outset, as is individual career development.
- Communication is conducted through a variety of media including the bi-annual Hunting Review which is available to all employees.

The Group operates in many locations throughout the world and is committed to meeting or exceeding compliance with all prevailing laws, regulations and industry standards.

Health & Safety

The Group is committed to achieving the highest standards of safety for its employees and the public. All subsidiaries target continuous improvement to their Health & Safety standards.

- *Regular reviews and audits are conducted to assure compliance with prevailing standards and legislation.*
- Accreditation is sought and procedures are aligned with long standing company programmes to internationally recognised Quality Assurance standards.
- Monitoring is a management task that is documented and reported at each board meeting.

Compliance with and achievement of health, safety and environmental standards is referred to in the Chief Executive's Review on page 5.

Group policies, business strategy, planning and decision-making take account of local Health, Safety, Environmental and Employee implications. These considerations are recorded and reviewed regularly.

Environment

The Group will continue 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. As a service provider it is difficult to monitor all or any impact from its activities, but the Group remains firmly of the opinion that sustainable development is in the interest of all parties.

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

Report of the Directors continued

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 £0.7m (2004 – £1.1m).

Charitable and Political Contributions

During the year the Group donated £49,000 (2004 – £26,000) to UK charitable organisations and £99,000 (2004 – £111,000) to overseas charities. No UK political donations were made (2004 – £Nil).

Property, Plant and Equipment

Details of movements in property, plant and equipment are shown in note 12 to the financial statements.

Annual General Meeting

The Annual General Meeting of the Company will be held on 26 April 2006 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS commencing at 10.30am. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders on the Register of Members of the Company on 24 April 2006 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the Register of Members after then shall be disregarded in determining the rights of any person to attend or vote at the Meeting. The Notice of the Annual General Meeting accompanies this document.

Authority to allot shares and disapply pre-emption rights

The Directors are authorised in Resolution 7 to allot unissued shares up to a maximum nominal amount of £10,763,260, representing one third of the issued share capital of the Company as at 2 March 2006. This authority will expire at the close of the next Annual General Meeting of the Company. The Directors have no present intention of issuing shares except on the exercise of options under the Company's share schemes.

The Directors are authorised in Resolution 8 to modify the pre-emption rights of existing shareholders by allowing any arrangements which may be necessary to deal with any legal, regulatory or practical problems arising from a rights issue, for example, by excluding affected shareholders from the rights issue. In addition, this authority also allows the Directors to allot a limited number of shares for cash without first offering them to shareholders. This authority is limited to the issue of equity securities up to a maximum nominal amount of £1,614,489, representing approximately 5% of the issued share capital of the Company as at 2 March 2006, and will also expire at the close of the next Annual General Meeting of the Company. The Directors have no present intention of issuing shares for cash except on the exercise of options under the Company's share schemes.

Purchase of Own Ordinary Shares

The Directors are authorised to make market purchases of the Company's Ordinary shares under an authority granted by the Annual General Meeting held on 27 April 2005. No purchases were made under this authority during the year. In accordance with ABI Investor Protection Guidelines, the maximum number of Ordinary shares which may be acquired is 10% or less of the Company's issued Ordinary shares as at 2 March 2006. The Directors will seek the renewal of this authority at the 2006 Annual General Meeting in Resolution 9 in accordance with the Company's Articles of Association.

Report of the Directors continued

The Directors have no immediate intention of exercising the authority but they will keep the matter under review. Purchases will only be made if they result in an expected increase in earnings per share and will take into account other available investment opportunities, appropriate gearing levels and the overall position of the Company. Any shares purchased in accordance with this authority will subsequently be cancelled.

The total number of options to subscribe for shares that were outstanding as at 2 March 2006 was 11,458,750, being 8.87% of the issued share capital. If the authority to purchase shares is used in full, the proportion of issued share capital represented by this number of options would amount to 9.86%.

Policy on 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 creditors. The total amount of Group trade creditors falling due within one year at 31 December 2005 represents 42 days worth, as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Share Capital

Details of the movements in the Company's share capital are shown in note 28 to the financial statements.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors. A resolution to reappoint them as auditors to the Company will be proposed at the Annual General Meeting to be held on 26 April 2006.

By order of the Board
Peter Rose
Secretary
2 March 2006



The Remuneration Committee's Report

Remuneration Committee

The Remuneration Committee of the Board ("the Committee"), which met three times in 2005, comprises the non-executive Directors of the Company.

George Helland (chairman), Iain Paterson and Hector McFadyen all served throughout the year. The Committee is responsible for determining in particular the remuneration of the Chairman and executive Directors, including the setting of annual performance targets and participation in the executive share option plans.

During the year Hewitt Bacon & Woodrow, who were appointed by the Committee, provided advice and assistance on Directors' remuneration, executive incentive plans and Share Scheme matters. The Company also received advice on various remuneration matters during the year from Buck Consultants Limited.

The Board determines fees payable to the non-executive Directors who do not participate in the Group's share plans or receive any other benefits.

The constitution and operation of the Committee during the year has complied with the Combined Code's guidance on Directors' remuneration, except for the recommended period of notice for executive Directors as referred to below.

Remuneration Policy

The Company's policy on remuneration aims to ensure that the individual rewards and incentives are competitive and appropriate to attract, motivate and retain executives of high ability, experience and commitment.

The executive Directors' remuneration packages consist of an annual salary, health cover, and where appropriate, car and fuel benefits, life and disability insurance, an annual performance linked cash bonus plan, pension contributions and participation in performance linked share plans. Performance targets are established to achieve consistency with the interests of shareholders with an appropriate balance between long and short-term goals.

Basic 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 basic salaries at the mid-market level in the appropriate market for the executive position. In determining executive salaries consideration is given to their experience and general performance level.

The Company operates an executive share option scheme to provide longer term incentives for executives and executive Directors. This reflects market practice, provides longer term focus and aligns the interests of executives and shareholders. The award of options under the scheme are performance related and are principally aligned to the basic salary of the Director. The right to exercise an option is subject to the growth performance of the Company's basic earnings per share ("BEPS") over a three year period in comparison to that of comparator companies, who comprise UK, US and Canadian oil and gas services companies. No shares are exercisable if the growth in BEPS does not exceed the rate of inflation by at least 3% per annum over the three year period. The number of shares exercisable, expressed as a percentage, by a Director can range from 0% if the Company's performance is below the median level, to 40% at the median level and up to 100% if the Company's performance is between the median and upper quartile levels of the comparator group.

The Company's Long Term Incentive Plan ("LTIP") was approved by shareholders at an Extraordinary General Meeting of shareholders on 27 April 2004. 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 for 2005 is calculated using the sum of the Group's after tax operating income after deducting a charge for the after-tax costs of capital at a rate of 7% on average shareholders' funds. The incentive has two components, the first being 2% of the absolute value added, and the second being 5% of the incremental value

The Remuneration Committee's Report continued

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 will be 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.

To phase in the LTIP, three performance cycles began in April 2004, being a one-year, two-year and a normal three-year cycle. The measurement period started effective 1 January 2004, with awards vesting on 31 December 2004 and 31 December 2005. The third cycle is due to vest on 31 December 2006. For awards granted in 2005 and going forward, each cycle is a period of three years. On 1 January 2005 the value of pools for the two year and three year phased-in performance cycles, which vested on 31 December 2005 and are vesting 31 December 2006 respectively were £530,323. At 31 December 2005 the pools available for distribution in respect of these performance cycles had increased to £1,638,091 following the increase of the pool of £1,107,768 in respect of the award granted in April 2005.

Following vesting, the amount payable under any single award may not exceed a certain multiple of the basic annual salary of each participant as at the relevant award date. The maximum award levels under the LTIP rules as a multiple of base salaries are 3.5 times annual salary for the Chief Executive and 1.75 times annual salary for other executive Directors. Maximum awards over the phased-in period will be pro-rated to reflect the reduced term of the performance cycles. Dennis Proctor was allocated 35% of the incentive pool with awards of 15% each for Dennis Clark and Terry Gomke.

In 2005 an annual performance-linked cash bonus scheme was in place for the executive Directors. The scheme, which is not pensionable, is designed to provide an incentive and reward for performance and reflects the competitive markets in which the Group conducts its business.

Dennis Proctor and Dennis Clark are eligible for a bonus under the scheme when 80% of the Group budgeted pre tax profit is achieved. Below this level no bonus is payable. The amount payable under the scheme when performance achieves the budgeted profit before tax and return on capital targets, is 65% of base salary for Dennis Proctor and 50% of base salary for Dennis Clark. When actual results achieve 120% of these performance targets Dennis Proctor and Dennis Clark are entitled to a maximum cash bonus of 130% and 100% of base salary respectively. Terry Gomke has a similar scheme based on the same percentages as set out above for Dennis Clark. However his entitlement is based on the results of Gibson Energy.

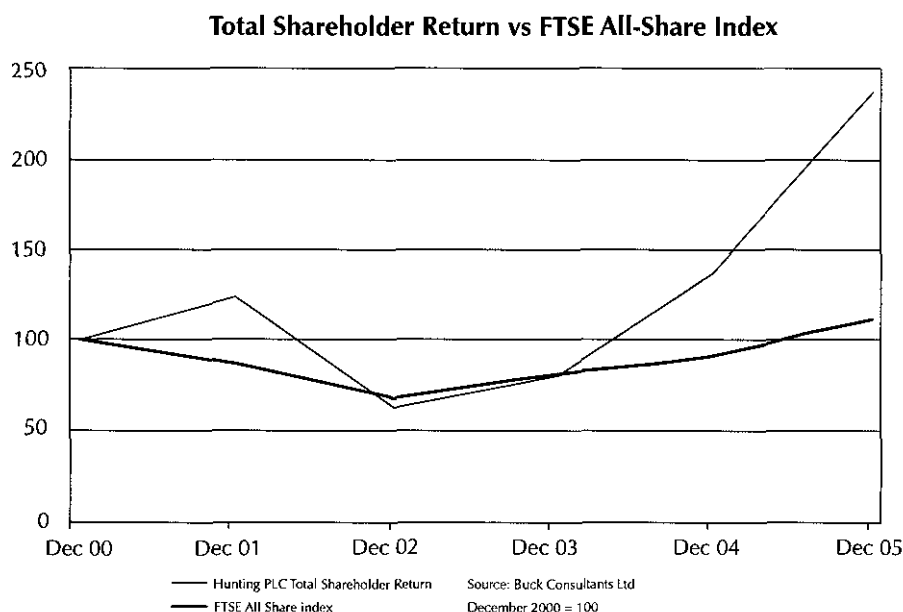
Richard Hunting has no bonus entitlement and his remuneration and that of the non-executive Directors is wholly non-performance related.

The current balance between fixed and variable remuneration is approximately 35% deriving from salary and benefits and 65% from variable incentives.

The Remuneration Committee's Report continued

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 FTSE all share index commencing on 31 December 2000.



In the opinion of the Directors, and due to the Group's past trading activities spanning a broad range of industrial sectors, the FTSE All Share Index is currently the most appropriate index against which the total shareholder return of the Company should be measured.

Directors' Service Contracts

The Company's policy on executive Directors' contracts is to comply with the guidance in the Combined Code. The contracts of Richard Hunting, Dennis Proctor and Dennis Clark are in compliance with that guidance. Terry Gomke's contract pre-dates this policy and presently the Remuneration Committee does not consider it appropriate to seek to amend his contract which is in accordance with Canadian practice.

All the Directors' Service Agreements 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 Holdings Inc, a wholly owned subsidiary of the Company, on 7 February 2001. This Agreement is governed by the laws of the State of Delaware, USA. Under the terms of the Agreement both Hunting Energy Services Holdings 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 in 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 stock options and stock based awards granted to him will become exercisable at the date of the change of control and will remain exercisable for one year.

The Remuneration Committee's Report continued

Richard Hunting and **Dennis Clark** both entered into Service Agreements with the Company on 15 December 1989. These were amended effective 1 March 2004 whereby both the Company and the Directors are required to give one year's notice of termination.

Under the terms of the Service Agreements, the Company reserves the right to pay them in lieu of notice (whether given by the Company or by them). The payment in lieu comprises salary only for Richard Hunting and salary and bonus only for Dennis Clark. The Company also has the option to put Richard Hunting and Dennis Clark on paid leave of absence on payment of a sum equivalent to salary for Richard Hunting and salary and bonus for Dennis Clark (based on the previous 12-month period), subject to them complying with the terms of the Service Agreement. These conditions also apply on termination following a change of control except that Richard Hunting would, in addition to the payment of one year's gross salary, receive an enhancement to his pension benefits that would result from an additional year's service.

Terry Gomke has an Employment Contract with Gibson Energy Ltd ("Gibson") entered into on 20 May 1999. This contract is governed by the laws of the Province of Alberta and the federal laws of Canada. Under the terms of the contract, Terry Gomke is generally required to give 180 days notice of termination. However, if he resigns to join an organisation which is not a direct competitor of Gibson, he is only required to give 90 days notice. If, at the time he resigns, a bonus has been declared but not paid to him, he shall be entitled to be paid such bonus. If the bonus has not been declared at the date of resignation, he shall have no entitlement to it.

Gibson may terminate the contract at any time without prior notice. However, Gibson would have to pay Terry Gomke twice his annual salary, being his base salary, vehicle allowance, regular remuneration (excluding health insurance benefits and bonus) and a 10% gross up on his base salary in lieu of benefits. If the bonus has been declared at the date of termination, but not paid, it remains payable. In addition, he would be entitled to receive two further years' bonuses. These would be payable at the same time as bonuses for those years are paid to other executives and shall be calculated using the same percentage of pre-tax profits applied to him in the year prior to the termination of his employment. Any payments made under these provisions will be subject to mitigation. Special termination provisions apply where there is a change of control or where Terry Gomke terminates the contract within 90 days of a material breach or material change to the terms of his contract without his consent. In such circumstances, he would be entitled to twice his annual salary (as described above) and twice the average bonus paid to him in the previous two years. No reduction for mitigation would be applied in this case.

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. In the event of early termination by the Company non-executive Directors are not entitled to receive compensation for loss of office. Hector McFadyen was reappointed for a second three year term on 4 September 2005.

Non-executive Director	Date of first appointment	Unexpired term from
		2 March 2006
George Helland	1 October 2001	19 months
Hector McFadyen	4 September 2002	30 months
Iain Paterson	6 June 2000	3 months

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. Executive Directors holding external non-executive positions during the year were Richard Hunting and Dennis Clark. Their remuneration in 2005, which they are entitled to retain, was £26,000 and £27,000 respectively.

The Remuneration Committee's Report continued

The following is audited:

Emoluments

In the year to 31 December 2005, the highest paid Director received total emoluments of £703,000 as shown below:

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

	Salary and fees £000	Annual bonus £000	Benefits £000	2005 Total £000	2004 Total £000
Executive Directors					
Richard Hunting	153	-	14	167	160
Dennis Proctor	302	393	8	703	668
Dennis Clark	264	165	17	446	528
Terry Gomke	223	223	15	461	376
Non-executive Directors					
George Helland	33	-	-	33	31
Hector McFadyen	30	-	-	30	29
Iain Paterson	33	-	-	33	31
	1,038	781	54	1,873	1,823

Benefits comprise mainly company car benefits and medical cover.

Dennis Clark waived entitlement to part of his 2005 bonus with the Group making a discretionary pension payment of £99,000.

Prior to his appointment as a Director, Terry Gomke received an interest free loan from Gibson Energy. Repayments during the year of C\$4,800 have been made and at 31 December 2005 the amount outstanding was C\$76,000. The maximum amount outstanding during the year was C\$80,800. The interest benefit is included within "Benefits" in the Directors' emoluments table above.

Directors' share interests

The interests of Directors in the issued Ordinary shares of the Company, as required to be notified by each Director pursuant to Section 324 of the Companies Act 1985, were as follows:

	31 December 2005 Ordinary shares of 25p	31 December 2004 Ordinary shares of 25p
Executive Directors:		
Richard Hunting	756,241	708,268
as trustee	1,452,429	1,470,979
Dennis Proctor	234,162	76,500
Dennis Clark	218,393	118,328
Terry Gomke	158,781	73,188
Non-executive Directors:		
George Helland	18,750	15,000
Hector McFadyen	25,000	20,000
Iain Paterson	2,500	2,000

Directors' outstanding options to acquire Ordinary shares are shown below.

The Remuneration Committee's Report continued

There were no changes in the interests of the Directors in the issued shares of the Company between 31 December 2005 and 2 March 2006.

On 5 May 2005, 72,800 loyalty shares were allotted to participating executives of the 1999 Long Term Executive Share Incentive Plan approved by shareholders on 7 May 1996. The plan provided for one loyalty share for every four exercised and held for three years. Dennis Proctor received 9,125 loyalty shares, Dennis Clark 12,800 shares and Terry Gomke 10,250 shares. The closing mid market price on 4 May was 238p. There will be no further awards under this plan.

The market price of the Ordinary shares at 31 December 2005 was 304.5p. The highest and lowest mid market prices during the year were 323.5p and 167.85p respectively.

Directors' shareholding requirement

Executive Directors are required to maintain a holding in the Company's shares with a market value equivalent to not less than one times their annual basic salary.

Directors' Options over Ordinary Shares

As at 31 December 2005, the following Directors had outstanding options to acquire Ordinary shares of the Company under the share option schemes described in note 34 to the financial statements. The vesting of options are subject to performance conditions set out within the remuneration policy on page 22.

		Options at start of year	Options granted during year	Rights issue adjustment	Options exercised during year	Options at end of year	Exercise price p	Date exercisable	Expiry date
Dennis Proctor	(i)	399,036	-	27,702	-	426,738	194.0	28.03.04	27.03.11
	(i)	169,832	-	11,790	-	181,622	167.4	15.04.05	14.04.12
	(ii)	391,716	-	27,194	-	418,910	79.0	14.03.06	13.03.13
	(ii)	289,600	-	20,105	-	309,705	116.9	31.03.07	30.03.14
	(ii)	-	160,593	11,149	-	171,742	220.7	09.03.08	08.03.15
Dennis Clark	(i)	226,024	-	15,691	-	241,715	194.0	28.03.04	27.03.11
	(i)	100,559	-	6,981	-	107,540	167.4	15.04.05	14.04.12
	(ii)	236,391	-	16,411	-	252,802	79.0	14.03.06	13.03.13
	(ii)	174,400	-	12,107	-	186,507	116.9	31.03.07	30.03.14
	(ii)	-	94,915	6,589	-	101,504	220.7	09.03.08	08.03.15
Terry Gomke	(i)	200,964	-	13,951	-	214,915	194.0	28.03.04	27.03.11
	(i)	90,503	-	6,283	-	96,786	167.4	15.04.05	14.04.12
	(ii)	192,130	-	13,338	-	205,468	79.0	14.03.06	13.03.13
	(ii)	136,000	-	9,441	-	145,441	116.9	31.03.07	30.03.14
	(ii)	-	75,847	5,265	-	81,112	220.7	09.03.08	08.03.15
	(iii)	50,000	-	3,471	(53,471)	-	191.7	-	-

Notes

- (i) Denotes options under the 2001 Share Option Plan granted 28 March 2001, vested 2004 and 15 April 2002 vested 2005.
- (ii) Denotes options under the 2001 Share Option Plan granted 14 March 2003, 31 March 2004 and 9 March 2005, which have not yet vested.
- (iii) Denotes Executive Share Option No.3 Scheme which closed on 23 November 2005.

Terry Gomke exercised 53,471 shares under the Executive Share Option No. 3 Scheme. The share price on the date of exercise was 305p, realising a gain of £60,583.

Between 31 December 2005 and 2 March 2006, there were no changes in the interests of Directors in options over the Ordinary shares of the Company.

The Remuneration Committee's Report continued

Long Term Incentive Plan

	Phased-in Awards					
	Interest in two year performance cycle awarded April 2004 vested 31 December 2005 (at 1 January 2005)	Interest in three year performance cycle awarded April 2004 and vesting 31 December 2006 (at 1 January 2005)	Interest in three year performance cycle awarded April 2005 and vesting 31 December 2007 (at 1 January 2005)	Value of award in respect of two year phased in performance cycle	Interest in three year phased in performance cycle (at 31 December 2005)	Interest in three year performance cycle (at 31 December 2005)
Dennis Proctor	35%	35%	35%	£573,332	35%	35%
Dennis Clark	15%	15%	15%	£245,714	15%	15%
Terry Gomke	15%	15%	15%	£245,714	15%	15%

Executive Directors and senior executives are invited to participate in the Company's LTIP, with all awards subject to the performance conditions outlined on pages 22 and 23. Awards are settled at the end of each performance cycle in cash or shares. To phase-in the LTIP, three performance cycles began in April 2004, being a one, two and three year cycle respectively. The determination of whether to deliver benefits under the LTIP in cash or shares is not made until after awards vest, and is at the employees' discretion. This applies to the performance cycle vesting 31 December 2005. The market value of a share as at 31 December 2005 was 304.5p.

None of the terms of awards under the LTIP were varied during the year.

Pensions

UK executive Directors are members of the Hunting Pension Scheme ("the Scheme") which is a defined benefit contracted-in scheme which was available to all UK employees until 31 December 2002 when the Scheme was closed to new entrants. Dennis Proctor participates in a US 401 K Tax Deferred Savings Plan. Terry Gomke participates in Canadian Supplementary Executive Registered Plans and a defined benefit pension plan.

Executive Directors in the UK are provided with benefits from the Scheme at an enhanced level for which they pay increased member contributions. The retirement age for executive Directors under the Scheme is 60 and provides, subject to Inland Revenue 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 contributes 8.5% of his pensionable salary to the Scheme. The Scheme provides all members a lump sum death in service benefit of four times basic 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.

The Remuneration Committee's Report *continued*

Directors' Pension Benefits

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

	Increase in accrued pension during 2005 excluding inflation £000 pa	Transfer value of increase less Directors' contributions £000	Total accrued pension at 31 December 2005 £000 pa	Transfer value at 31 December 2005 £000	Transfer value at 31 December 2004 £000	Difference in transfer values less Directors' contributions £000
Richard Hunting	8	81	109	2,080	1,718	350
Dennis Clark	-	-	205	3,887	3,542	345
Terry Gomke	8	249	133	1,440	1,108	327

Notes:

- (i) The total accrued pension shown is that which would be paid annually on retirement based on service to 31 December 2005.
- (ii) The increase in accrued pension during the year excludes any increase for inflation where appropriate.
- (iii) The transfer values for the UK arrangement have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value for the Canadian arrangement has been calculated following the Canadian Institute of Actuaries recommendations for the computation of transfer values. The transfer value of the increase in accrued pension includes a deduction for the contributions paid by the Directors. The 2004 transfer value for Terry Gomke has been restated to include the benefits provided through the Gibson Supplemental Executives Retirement Plan which converted from a defined contribution basis to a hybrid defined benefit basis.
- (iv) No further benefits have accrued to Dennis Clark since 31 December 2003 whose pension figure shown above is the late retirement pension available at 31 December 2005.
- (v) In addition to the above, contributions amounting to £72,450 were paid to money purchase arrangements for Dennis Proctor.

By Order of the Board



George Helland
Chairman of the Remuneration Committee
2 March 2006

Corporate Governance

Combined Code

This statement, which has been approved by the Board, reports on the Company's compliance, other than as reported below, with the Revised Combined Code on Corporate Governance ("the Code") as issued by the Financial Reporting Council in July 2003, and how the principles contained within the Code have been applied.

The Board

The Board of Directors currently comprise the Chairman, Chief Executive, two further executive Directors and three independent non-executive Directors. Iain Paterson is the nominated senior independent non-executive Director. This composition, with a separate Chairman and Chief Executive, ensures a balance of responsibilities and authorities. The Directors, together with brief biographical details, are identified on page 16. Excluding the Chairman, 50% of the Board is comprised of independent non-executive Directors.

All Directors are subject to re-election by the shareholders at least every three years. The non-executive Directors are initially appointed for a three year term with subsequent reappointments conditional upon an appraisal and review process described below. Letters of appointment for each of the non-executive Directors are available from the Company upon request and their terms of appointment are summarised on page 25. Details of the executive Directors' service contracts are set out on page 24. The recommended period in the Code for a Director's notice or contract period is one year or less. The Remuneration Committee considers that in one instance a two-year notice period for an executive Director is appropriate.

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. 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 Board normally meets formally a minimum of five times a year and met six times during 2005, three of which were held in North America. The meeting dates are set a year in advance. All Directors attended the board meetings held during the year. In addition, the board met for an extraordinary general meeting on 25 July 2005 which was attended by all directors except Terry Gomke and the non-executive directors who due to the procedural nature of the meeting and the associated cost did not attend.

Board papers are always circulated in advance of meetings. These include detailed financial reports on the group's activities in addition to reports on each operating subsidiary. In addition the meetings held in February and August focus on the full year and half year results respectively. The meeting in December focuses on the budget and plans for the following three years.

The duties and responsibilities of the board and its committees are formally agreed by the board in writing. In addition, the division of responsibility between the Chairman and the 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 UK Listing Rule requirements
- Review of the Group's system of internal control and assessment of its effectiveness
- Consideration of Group commercial strategy and approval of the annual budget
- Consideration of board appointments, terms of reference for each director and the board sub-committees
- Review of board remuneration as recommended by the Remuneration Committee

Corporate Governance continued

The board, its committees and each individual director participate in an annual performance evaluation appraisal the purpose of which is to confirm the continued effective contribution and performance of the individual or committee. Evaluation of the board was undertaken by the non-executive Directors and took account of Directors' attendance and their contribution at meetings, financial performance of the group against budget, compliance with corporate governance and best practice guidelines and market perception of the group. The nomination, remuneration and audit committees were evaluated by the executive Directors and took account of communication with the board and compliance with terms of reference. The evaluation of the Chairman was undertaken by the non-executive Directors and included an assessment of his leadership and direction of the board. The appraisal of the Chief Executive was completed by the non-executive Directors together with the Chairman. Evaluation of the other individual Directors took account of their contribution and in the case of executive Directors the performance of their executive duties.

Prior to the reappointment of a non-executive Director, the Nomination Committee undertake an evaluation of the Director's contribution and commitment to the board together with an evaluation of the board's requirements. The Nomination Committee undertook such an evaluation of Hector McFadyen prior to his reappointment for a second three year term effective from 4 September 2005. Hector McFadyen did not participate in the evaluation process.

The Nomination Committee also met on 1 December 2005 to consider and agree a three year extension to the service contract of Richard Hunting until July 2009. Richard Hunting did not participate in this meeting.

The Board has three main sub-committees to which it delegates responsibility and authorities:

Nomination Committee – members of the committee are the three non-executive Directors, Richard Hunting (Chairman) and Dennis Proctor. The Committee, which convened twice during the year with all members participating, except as noted above, has written terms of reference approved by the board and which are available from the Company upon request. 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 experience and skills required of board members.

Remuneration Committee – Details of the Remuneration Committee are contained within their report on pages 22 to 29. The Committee operates within written terms of reference approved by the board which are available from the Company upon request.

Audit Committee – members of the committee comprise exclusively the three independent non-executive Directors. The Code recommends that at least one of the non-executive Directors has recent and relevant financial experience. None of the non-executive Directors has this experience however the Board considers the audit committee receives sufficient support and guidance from the Finance Director and other financial advisors. The Committee, which met twice during the year, is chaired by Iain Paterson and operates under written terms of reference approved by the board which are available from the company upon request. All committee members attended both meetings. It normally meets in February or March and August each year, to which the Chief Executive and Finance Director are invited to attend. The auditors also attend both meetings. Their annual report, presented to the Committee, includes a statement on their independence, their ability to remain objective and 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. During 2005 the Committee have continued to monitor fees payable to the auditors in respect of non-audit services which are analysed within note 8 on page 53 and include £0.2m in respect of assistance given with the Company's Rights Issue completed during the year together with taxation advice amounting to £0.7m. At the August meeting, scheduled immediately prior to the announcement of the half year results, the auditors present a report to the Committee together with the audit scope and fee estimates for the annual audit. The Committee will normally meet the auditors without executive directors present at the end of each formal meeting.

Corporate Governance continued

Other responsibilities of the audit committee include:

- Review of reports on the group's system of internal controls
- Review of reports from the group's internal audit process and agreement of internal audit scope
- Review of the external auditors' independence and the effectiveness of the audit process and assessment of the level and quality of service in relation to fees paid
- Monitoring and approval of engagements of the external auditor to provide non audit services for the group

The board receives copies of all reports submitted to the audit committee.

The senior independent non-executive Director, Iain Paterson, 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, company notice boards and the company web site.

Institutional shareholders

The Company uses a number of processes for communicating with shareholders including the full and half year reports and the Annual General Meeting to which all shareholders are invited. The Annual General Meeting, at which the full board is normally present, is preceded by an operational and financial presentation given by the Chief Executive and Finance Director when there is opportunity for questions to be put to the board by shareholders.

In addition the Chief Executive and Finance Director meet on a one to one basis with all principal shareholders at least twice a year to apprise them of group performance and strategy. The board is in turn briefed by the Chief Executive when appropriate on matters raised by shareholders. Non-executive Directors are offered the opportunity to meet with shareholders and are available to meet if requested by shareholders.

The Code recommends that the Chairman and the senior independent non-executive director should meet with key shareholders in order that the board receives a balanced view of shareholder issues or concerns. The Board has reviewed the procedures currently in place for ensuring they are fairly and adequately appraised of shareholder issues.

In addition to the foregoing the Company's web site www.hunting.plc.uk publishes Company announcements and other investor information used to communicate with shareholders and interested parties. The maintenance and integrity of the Company's web site is the responsibility of the Directors. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal Controls

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control system is designed to meet the Company's particular needs and the risks to which it is exposed. Any such system of internal control can however, 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:

Corporate Governance continued

Management structure – Within operational parameters set by the Board, management is delegated to the Chief Executive and 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 – All subsidiaries submit detailed management information in accordance with a defined reporting timetable. This includes weekly treasury reports, monthly management accounts, quarterly currency exposure reports, annual budgets and three-year plans together with half and full year statutory reporting. This 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 subject to change 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 appraisal 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 operating procedures and practices ensuring compliance with regulatory requirements.

Monitoring process – In addition to reports from external auditors the Audit Committee receives reports from the internal auditors as part of the Group's internal audit and risk assessment programme.

All subsidiaries undertake formal self-assessment reviews three times a year on their internal control environment. These reviews encompass the identification of the key business, financial, compliance and operational risks facing the business 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. The results of these reviews together with a review of risks facing the Group as a whole are reported to the Board.

Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss for the financial year.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors confirm that the financial statements, using applicable accounting standards, have been prepared on a going concern basis using suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

Report of the Auditors

Independent Auditors' Report to the Shareholders of Hunting PLC

We have audited the group and parent company financial statements (the "financial statements") of Hunting PLC for the year ended 31 December 2005 which comprise the Principal Accounting Policies, the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Recognised Income and Expense, the Consolidated and Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Finance Director's Review, the Board of Directors, the Directors' Responsibilities, the Corporate Governance Statement, Shareholder information and the Financial Record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Report of the Auditors continued

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005 and cash flows for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

2 March 2006

Principal Accounting Policies

The principal accounting policies of the Group under IFRS are set out below. With the exception of IAS 32 and IAS 39, these have been applied with effect from 1 January 2004 – The Transition Date.

Basis of Accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment, available for sale investments, financial assets and financial liabilities held for trading.

This report has been prepared in accordance with IFRS 1 *First-time adoption of International Financial Reporting Standards*, as it is the Group's first full IFRS financial statements. These financial statements have been prepared in accordance with the Companies Act 1985 and those IFRS standards and IFRIC interpretations which are effective, or have been adopted early, as at 31 December 2005.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies.

The Group accounts include the results of the Company and its subsidiaries, together with its share of associates. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

(b) Associates

An associate is an entity in which the Group has an effective interest of not less than 20% and over which it has the ability to exercise significant influence and that is neither a subsidiary nor a joint venture.

The Group's share of after tax results of associates is included separately in the income statement.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given exceeds the fair value of the net assets acquired.

Goodwill is recognised as an asset and is reviewed for impairment at least annually. Impairments are recognised immediately in the income statement. Goodwill is allocated to cash generating units for the purpose of impairment testing.

On the disposal of a business, goodwill relating to that business remaining on the balance sheet is included in the determination of the profit or loss on disposal.

Goodwill written off to reserves prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Revenue

Revenue represents the invoiced amount, excluding sales related taxes, of goods sold and services provided and is recognised when title passes to the customer or when the service has been rendered.

Revenue on long term contracts is recognised by reference to the value of the work done during the period.

Revenue is not recognised for barter transactions that involve the exchange of goods or services which are of a similar nature and value.

Principal Accounting Policies *continued*

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation including decommissioning costs and depreciated to their expected residual values on a straight line basis over their estimated useful lives, at the following rates:

Freehold property	2%-10%
Leasehold buildings	life of lease
Oil and gas exploration and equipment	unit of production
Pipelines, tanks and associated equipment	4%-20%
Plant, machinery and motor vehicles	6%-33 1/3%

Freehold property and long leasehold buildings and terminals are revalued with sufficient regularity, at least every five years, such that the carrying amount does not differ materially from the fair value at the balance sheet date.

Computer software integral to an item of machinery is capitalised as part of the hardware.

Property, plant and equipment are impaired if their recoverable amount falls below their carrying value. Impairment losses are charged to the income statement immediately unless they arise on previously revalued assets, in which case they are recognised in the statement of recognised income and expense up to the amount of the revaluation and thereafter in the income statement.

Intangible Assets

Intangible assets are stated at cost. Those assets that have a finite life 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. General computer software is capitalised as an intangible asset. Customer relationships are amortised over a period of ten years and other intangibles over a period of between five and eight years.

Foreign Currencies

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 an entity operates. The presentation currency of the Group and functional currency of Hunting PLC is sterling.

Assets and liabilities of overseas subsidiaries and associates are translated into Sterling at the market rates ruling at the balance sheet date. Trading results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of overseas subsidiaries and on foreign currency borrowings used to finance overseas net equity investments are dealt with through the foreign currency translation reserve, whilst those arising from trading transactions are dealt with in the income statement.

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.

The Company has taken advantage of the exemption in IFRS 1 *First-time adoption of International Financial Reporting Standards*, whereby the cumulative translation differences for all foreign operations that existed at the date of transition to IFRS are deemed to be zero.

Deferred Taxation

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

Deferred taxation is recognised in the income statement unless it relates to taxable transactions taken directly to equity, in which case the deferred tax is also recognised in equity. The deferred tax is released to the income statement at the same time as the taxable transaction is recognised in the income statement.

Principal Accounting Policies *continued*

Deferred taxation on unremitted overseas earnings is provided for to the extent a tax charge is foreseeable.

Inventories and Construction Contracts

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. Construction contracts are stated at the lower of cost and estimated net realisable value less payments received and receivable on account. Cost includes production overheads and a proportion of administrative overheads in addition to direct labour and material costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation. If the time value of money is material, provisions are discounted to their present value.

Impairments

The Group assesses whether there is any indication that an asset may be impaired at least once a year. Where an impairment exists, the asset is written down to the lower of value in use and fair value less costs to sell.

Segmental reporting

Business segments has been established as the primary reporting format as it is the the main determinant of the sources and nature of the Group's risks and returns. Business segments are components of the Group that are engaged in providing related products. Geographical segments are determined by the country in which the companies operate.

Employee Benefits

Payments to defined contribution retirement schemes are charged to the income statement as they fall due.

For defined benefit retirement schemes, the expected cost of providing benefits is determined using the Projected Unit Method, with qualified independent actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur, in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested and is otherwise amortised on a straight line basis over the average period until the benefits become vested.

As permitted by IFRS 1, all cumulative actuarial gains and losses have been recognised in reserves at the transition date.

The expected cost of post-employment benefit obligations are spread evenly over the period of service of the employees.

Share-based Payments

In accordance with the IFRS transitional provisions, IFRS 2 *Share-based Payments* has been applied from 1 January 2004 to grants of equity instruments issued after 7 November 2002 that had not vested by 1 January 2005. The derived cost of these instruments is spread evenly over the vesting period.

Leases

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

Principal Accounting Policies *continued*

the income statement as incurred over the life of the lease. Interest incurred on finance leases is charged to the income statement on an accruals basis. Operating lease income is recognised in the income statement as it is earned.

Research and Development

Research costs and development costs ineligible for capitalisation are written off as incurred.

Debt Issue Costs

Costs arising on the issue of new loan facilities are capitalised as a reduction to the amortised cost or fair value of the drawn amount. The costs are amortised through interest expense using the effective interest method.

Treasury Shares

Treasury shares are stated at cost and presented as an off-set against reserves.

Cash and cash equivalents

For cashflow statement purposes, cash and cash equivalents include bank overdrafts.

The following are the key accounting policies adopted with effect from 1 January 2005, to reflect the adoption of IAS 32 and IAS 39:

Financial Assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Financial assets cease to be recognised when the right to receive cash flows has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership

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

Gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

(b) Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest rate methodology.

(c) Available for sale financial assets

Investments are initially recognised at fair value plus transaction costs. Unrealised gains and losses arising from changes in the fair value are recognised in equity. Realised gains and losses including accumulated fair value adjustments are included in the income statement.

Financial Liabilities

The Group classifies all of its financial liabilities at amortised cost other than long term loans subject to fair value hedges. Long term loans which have been designated as part of a fair value hedging relationship are adjusted by the movement in the fair value of the hedged risk(s) from the date of designation of the hedging relationship.

Derivatives and Financial Instruments

From 1 January 2005, derivatives are initially recognised at net proceeds received or consideration paid and are subsequently re-measured at their fair value at each balance sheet date. Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged. Prior to 1 January 2005, derivatives were not recognised in the financial statements.

Principal Accounting Policies *continued*

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

The Group designates derivatives that qualify for hedge accounting as either:

(a) Fair value hedge

Hedges of the fair value of recognised assets or liabilities are fair value hedges. Changes in the fair values of these derivatives are recorded in the income statement, together with changes in the fair values of the hedged items that are attributable to the hedged risk. Changes in the fair value of the hedging instruments and hedged items and interest arising on the hedging instruments and hedged items are disclosed separately within finance costs.

(b) Cash flow hedge

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

(c) Net investment hedge in foreign operations

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in equity; gains or losses relating to the ineffective portion are recognised immediately in the income statement. Gains and losses accumulated in equity are released to the income statement when the foreign operation is sold.

The fair value of forward foreign exchange contracts and commodity based derivatives which are traded in active markets is based on quoted market prices at the balance sheet date. The fair value of other financial instruments that are not traded in an active market is determined by using valuation techniques, predominantly discounted cash flows.

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

Key Exemptions and Exceptions

In adopting IFRS, the principal exemptions and exceptions applied by the Company, as set out within IFRS 1 are as follows:

1. Business combinations – the Company has elected not to restate business combinations prior to 1 January 2004.
2. Fair value or revaluation as deemed cost – the Company has elected not to fair value its property, plant and equipment at 1 January 2004.
3. Employee benefits – the Company has elected to recognise all cumulative actuarial gains and losses on its defined benefit pension schemes as at 1 January 2004.
4. Foreign currency translation differences – the Company has elected to commence the foreign currency translation reserve at 1 January 2004.
5. Share based payments – the Company has elected to apply the exemption whereby IFRS 2 only applies to share options granted after 7 November 2002 but that have not vested by 1 January 2005.
6. Restatement of comparatives for IAS 32 and IAS 39 – the Company has elected to adopt IAS 32 and IAS 39 with effect from 1 January 2005. Comparative information for 2004 has not been restated.

Consolidated Income Statement

For the Year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue	1, 2	1,521.9	1,159.4
Cost of sales		(1,394.2)	(1,066.7)
Gross profit		127.7	92.7
Other operating income	3	3.9	3.7
Operating expenses*	4	(86.7)	(75.6)
Profit from operations	1	44.9	20.8
Interest income	7	7.6	2.3
Interest expense and similar charges	7	(12.2)	(6.7)
Share of post-tax profits in associates	15	0.6	0.1
Profit before tax		40.9	16.5
Taxation	9	(14.7)	(5.1)
Profit for the year		26.2	11.4
Attributable to:			
Shareholders of the parent	30	24.4	10.9
Minority interests	31	1.8	0.5
		26.2	11.4
Earnings per share			(restated)
Basic earnings per 25p ordinary share	11	21.2p	7.9p
Diluted earnings per 25p ordinary share	11	20.2p	7.7p

There are no material differences between the results disclosed above and the results on an unmodified historical cost basis.

The profit for the year arises from the Group's continuing operations.

*Operating expenses include exceptional charges of £2.6m (2004 – £8.8m) as described in note 5.

The earnings per share in 2004 has been restated for the bonus shares inherent in the 2005 Rights Issue.

Consolidated and Company Statement of Recognised Income and Expense

For the Year ended 31 December 2005

		Group		Company	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
Profit (loss) for the year		<u>26.2</u>	<u>11.4</u>	<u>(4.0)</u>	<u>8.7</u>
Exchange adjustments		11.1	(2.7)	-	-
Transferred to income statement on disposal of cash flow hedges		(0.3)	-	-	-
Actuarial (losses) gains on defined benefit pension schemes	27	(5.5)	3.5	-	-
- taxation	9	1.4	(1.1)	-	-
Transferred to income statement on disposal of available for sale investments		<u>(0.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income recognised directly in equity		<u>6.5</u>	<u>(0.3)</u>	<u>-</u>	<u>-</u>
Total recognised income and expense for the year		<u>32.7</u>	<u>11.1</u>	<u>(4.0)</u>	<u>8.7</u>

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 £m	2004 £m
ASSETS			
Non-current assets			
Property, plant and equipment – at cost	12	132.1	98.9
Property, plant and equipment – at valuation	12	58.7	56.9
Goodwill	13	58.6	47.5
Other intangible assets	14	5.1	3.1
Interests in associates	15	5.5	8.7
Available for sale investments	16	0.2	3.6
Retirement benefit assets	27	21.1	23.8
Trade and other receivables	18	2.9	3.3
Deferred tax assets	19	14.8	11.2
		<u>299.0</u>	<u>257.0</u>
Current assets			
Inventories	20	107.6	76.5
Trade and other receivables	18	196.2	140.4
Cash and cash equivalents	21	91.9	15.1
		<u>395.7</u>	<u>232.0</u>
LIABILITIES			
Current liabilities			
Trade and other payables	22	217.1	152.8
Current tax liabilities		4.7	1.1
Borrowings	23	93.2	16.4
Provisions	26	2.0	0.6
		<u>317.0</u>	<u>170.9</u>
Net current assets		<u>78.7</u>	<u>61.1</u>
Non-current liabilities			
Borrowings	23	95.7	129.3
Deferred tax liabilities	19	74.9	59.5
Retirement benefit obligations	27	2.9	1.9
Other payables	22	4.5	1.9
Provisions	26	16.1	13.6
		<u>194.1</u>	<u>206.2</u>
Net assets		<u>183.6</u>	<u>111.9</u>
Shareholders' equity			
Share capital	28	32.2	25.3
Share premium	28	82.7	41.5
Treasury shares	32	(4.6)	–
Other reserves	29	21.7	7.2
Retained earnings	30	46.4	34.2
		<u>178.4</u>	<u>108.2</u>
Minority interests	31	5.2	3.7
Total equity		<u>183.6</u>	<u>111.9</u>

Company Balance Sheet

At 31 December 2005

	Notes	2005 £m	2004 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	17	<u>284.2</u>	<u>241.0</u>
Current assets			
Trade and other receivables	18	1.3	1.9
Current tax assets		1.5	-
Cash and cash equivalents	21	<u>5.9</u>	<u>-</u>
		<u>8.7</u>	<u>1.9</u>
LIABILITIES			
Current liabilities			
Trade and other payables	22	13.3	16.5
Current tax liabilities		-	0.7
Borrowings	23	<u>40.2</u>	<u>2.3</u>
		<u>53.5</u>	<u>19.5</u>
Net current liabilities		<u>(44.8)</u>	<u>(17.6)</u>
Non-current liabilities			
Borrowings	23	83.9	103.2
Deferred tax liabilities	19	<u>0.1</u>	<u>0.1</u>
		<u>84.0</u>	<u>103.3</u>
Net assets		<u>155.4</u>	<u>120.1</u>
Shareholders' equity			
Share capital	28	32.2	25.3
Share premium	28	82.7	41.5
Treasury shares	32	(4.6)	-
Other reserves	29	1.9	0.5
Retained earnings	30	<u>43.2</u>	<u>52.8</u>
Total equity		<u>155.4</u>	<u>120.1</u>

Dennis Proctor

Dennis Clark

Directors



Approved by the Board on 2 March 2006

Cash Flow Statement

For the Year ended 31 December 2005

		Group	Company
Notes	2005 £m	2004 £m	2005 £m
2004 £m			
Operating activities			
Profit from operations before exceptional items	44.9	25.8	(2.8)
Depreciation, amortisation and impairment	23.9	19.9	1.6
(Profit) on disposal of investments	(0.4)	(0.4)	-
(Profit) on disposal of property, plant and equipment	(0.6)	(0.9)	-
(Increase) in inventories	(22.6)	(10.0)	-
(Increase) in receivables	(34.1)	(14.2)	-
Increase (decrease) in payables	46.4	19.2	3.2
Taxation (paid) received	(4.8)	6.6	2.0
Other non cash flow items	2.1	-	-
Net cash inflow from operating activities	54.8	46.0	4.0
Investing activities			
Dividends received from associates	15	3.8	3.5
Purchase of subsidiaries		(9.7)	(1.5)
Cash acquired with subsidiaries	35	1.5	-
Additional investment in existing subsidiaries		-	(44.8)
Purchase of minority interest in subsidiary		-	(0.1)
Purchase of and loans to associates		(5.3)	(0.2)
Proceeds from disposal of investments		3.2	2.4
Proceeds from disposal of subsidiary		-	19.9
Proceeds from disposal of property, plant and equipment		2.9	6.0
Purchase of property, plant and equipment		(32.9)	(21.9)
Purchase of intangible assets		(0.2)	(0.4)
Net cash (outflow) inflow from investing activities		(36.7)	7.7
Financing activities			
Interest received		7.7	3.1
Interest paid		(11.7)	(8.7)
Dividends received from subsidiaries		-	-
Equity dividends paid		(5.6)	(3.8)
Preference dividends paid		-	(2.4)
Minority interest dividend paid		(0.3)	-
Share capital issued	32	48.1	-
Cancellation and repayment of preference share capital		-	(47.9)
Purchase of Treasury shares		(4.6)	-
Proceeds from issue of debt		-	92.9
Repayment of borrowings		(58.3)	(87.9)
Capital element of finance leases		(0.2)	(0.3)
Net cash (outflow) inflow from financing activities		(24.9)	(55.0)
Net (outflow) inflow in cash and cash equivalents		(6.8)	(1.3)
Cash and cash equivalents at beginning of year		10.9	12.4
<i>Effect of foreign exchange rate changes</i>		0.7	(0.2)
<i>Adoption of IAS 32 and IAS 39</i>		(0.3)	-
Cash and cash equivalents at end of year		4.5	10.9
Cash and cash equivalents and bank overdrafts at end of year comprise:			
Cash and cash equivalents (note 21)		91.9	15.1
Bank overdrafts included in borrowings (note 23)		(87.4)	(4.2)
		4.5	10.9

Notes to the Financial Statements

1. SEGMENTAL REPORTING

Business segments

Results from operations

	Year ended 31 December 2005			
	Total gross revenue £m	Inter-segmental revenue £m	Total revenue £m	Profit from operations £m
Gibson Energy				
Marketing	1,136.8	(120.1)	1,016.7	10.7
Truck Transportation	83.0	(7.9)	75.1	4.9
Terminals and Pipelines	17.9	(3.8)	14.1	5.7
Canwest Propane and Natural Gas Liquids	109.5	(60.3)	49.2	3.0
Moose Jaw Asphalt	109.6	(50.3)	59.3	(2.5)
	<u>1,456.8</u>	<u>(242.4)</u>	<u>1,214.4</u>	<u>21.8</u>
Hunting Energy Services				
Well Completion	151.7	(14.5)	137.2	12.2
Well Construction	68.8	(3.7)	65.1	6.7
	<u>220.5</u>	<u>(18.2)</u>	<u>202.3</u>	<u>18.9</u>
Tenkay	12.3	-	12.3	5.3
Other operating divisions	92.9	-	92.9	1.5
Total	<u>1,782.5</u>	<u>(260.6)</u>	<u>1,521.9</u>	<u>47.5</u>
Exceptional charges not apportioned to business segments				(2.6)
Profit from operations				<u>44.9</u>

	Year ended 31 December 2004			
	Total gross revenue £m	Inter-segmental revenue £m	Total revenue £m	Profit from operations £m
Gibson Energy				
Marketing	825.3	(78.1)	747.2	7.0
Truck Transportation	60.6	(4.7)	55.9	2.6
Terminals and Pipelines	15.2	(3.2)	12.0	5.3
Canwest Propane and Natural Gas Liquids	104.0	(44.1)	59.9	1.6
Moose Jaw Asphalt	69.3	(31.2)	38.1	(1.0)
	<u>1,074.4</u>	<u>(161.3)</u>	<u>913.1</u>	<u>15.5</u>
Hunting Energy Services				
Well Completion	124.2	(8.0)	116.2	3.5
Well Construction	49.3	(6.4)	42.9	4.8
	<u>173.5</u>	<u>(14.4)</u>	<u>159.1</u>	<u>8.3</u>
Tenkay	8.5	-	8.5	3.1
Other operating divisions	78.7	-	78.7	2.7
Total	<u>1,335.1</u>	<u>(175.7)</u>	<u>1,159.4</u>	<u>29.6</u>
Exceptional charges not apportioned to business segments				(8.8)
Profit from operations				<u>20.8</u>

Inter-segmental revenues are priced on an arms-length basis. Costs incurred centrally are apportioned to the operating units on the basis of the time attributed to those operations by senior executives. The exceptional charges (as described in note 5) relate to the discontinuance of previous operations and are not therefore apportionable to the current business segments shown above.

Notes to the Financial Statements continued

1. SEGMENTAL REPORTING (continued)

Business segments

Assets and liabilities

	2005		2004	
	Segment assets £m	Segment liabilities £m	Segment assets £m	Segment liabilities £m
Gibson Energy				
Marketing	139.9	95.3	75.3	55.1
Truck Transportation	45.7	9.9	40.2	10.4
Terminals and Pipelines	52.6	2.8	48.4	3.2
Canwest Propane and Natural Gas Liquids	44.6	11.1	35.7	7.9
Moose Jaw Asphalt	29.1	5.5	27.9	8.9
	<u>311.9</u>	<u>124.6</u>	<u>227.5</u>	<u>85.5</u>
Hunting Energy Services				
Well Completion	93.2	49.9	67.9	27.1
Well Construction	69.0	12.6	48.0	8.3
	<u>162.2</u>	<u>62.5</u>	<u>115.9</u>	<u>35.4</u>
Tenkay	29.1	0.9	23.7	0.8
Other operating divisions	54.6	32.1	54.6	27.9
Total segment assets and liabilities	<u>557.8</u>	<u>220.1</u>	<u>421.7</u>	<u>149.6</u>
Unallocated assets and liabilities:				
- interests in associates	5.5	-	8.7	-
- current and deferred taxes	14.8	79.6	11.2	60.6
- retirement benefit assets	21.1	-	23.8	-
- net debt	91.9	188.9	15.1	145.7
- central assets and liabilities	3.8	23.8	8.5	23.1
- elimination of inter-segmental balances	(0.2)	(1.3)	-	(1.9)
Total assets and liabilities	<u>694.7</u>	<u>511.1</u>	<u>489.0</u>	<u>377.1</u>

Segment assets comprise property, plant and equipment, intangibles, goodwill, inventories and debtors. Assets owned by head office and employed by a segment are allocated to that segment.

Segment liabilities comprise trade payables, provisions and other operating liabilities.

Notes to the Financial Statements continued

1. SEGMENTAL REPORTING (continued)

Business segments

Other segment items

	Year ended 31 December 2005	Amortisation of intangible assets	Impairment of goodwill
Capital expenditure £m	Depreciation £m	£m	£m
Gibson Energy			
Marketing	9.0	0.3	0.2
Truck Transportation	4.4	3.0	0.3
Terminals and Pipelines	1.7	3.6	0.1
Canwest Propane and Natural Gas Liquids	2.0	1.7	0.1
Moose Jaw Asphalt	0.8	1.4	-
	<u>17.9</u>	<u>10.0</u>	<u>0.7</u>
Hunting Energy Services			
Well Completion	4.9	2.7	0.1
Well Construction	5.1	2.1	-
	<u>10.0</u>	<u>4.8</u>	<u>0.1</u>
Tenkay	5.6	4.2	-
Other operating divisions	1.5	2.0	-
Central	0.2	0.8	-
Total	<u>35.2</u>	<u>21.8</u>	<u>0.8</u>
	Year ended 31 December 2004	Amortisation of intangible assets	Impairment of goodwill
Capital expenditure £m	Depreciation £m	£m	£m
Gibson Energy			
Marketing	1.0	0.1	0.2
Truck Transportation	2.4	2.3	0.3
Terminals and Pipelines	2.4	3.1	-
Canwest Propane and Natural Gas Liquids	2.5	1.3	0.1
Moose Jaw Asphalt	1.0	1.3	-
	<u>9.3</u>	<u>8.1</u>	<u>0.6</u>
Hunting Energy Services			
Well Completion	1.8	2.8	-
Well Construction	3.5	1.5	-
	<u>5.3</u>	<u>4.3</u>	<u>-</u>
Tenkay	6.6	3.7	-
Other operating divisions	2.2	1.8	-
Central	0.1	0.2	-
Total	<u>23.5</u>	<u>18.1</u>	<u>0.6</u>

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Notes to the Financial Statements continued

1. SEGMENTAL REPORTING (continued)

Geographical segments

The Group operates in four main geographical areas. The UK is the domicile of the parent. The main operations are in Canada, USA, UK and Europe.

The analysis in the table below is based on the location of where the order is received and where the assets are principally located which is not materially different from the location of the customer.

	Revenue		Segment assets		Capital expenditure	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
UK	87.2	54.7	36.6	29.5	1.4	0.6
Europe	31.5	28.5	35.8	37.4	1.0	1.2
Canada	1,288.3	964.3	361.2	264.3	19.0	10.2
USA	109.7	106.8	120.0	88.2	13.0	11.4
Other	5.2	5.1	4.2	2.3	0.8	0.1
	<u>1,521.9</u>	<u>1,159.4</u>	<u>557.8</u>	<u>421.7</u>	<u>35.2</u>	<u>23.5</u>
Unallocated assets			136.9	67.3		
			<u>694.7</u>	<u>489.0</u>		

Company

The Company's business is to invest in its subsidiaries and, therefore, it operates in a single segment.

2. REVENUE

	2005 £m	2004 £m
Sales of goods	1,368.7	1,042.2
Revenue from services	<u>153.2</u>	<u>117.2</u>
	<u>1,521.9</u>	<u>1,159.4</u>

3. OTHER OPERATING INCOME

	2005 £m	2004 £m
Royalty income	0.6	0.7
Operating lease rental income	1.6	1.6
Other income	0.4	0.1
Gain on disposal of property, plant and equipment	0.6	0.9
Gain on fair value movement of non-hedging derivatives	0.3	-
Gain on disposal of available for sale investments	<u>0.4</u>	<u>0.4</u>
	<u>3.9</u>	<u>3.7</u>

Notes to the Financial Statements *continued*

4. OPERATING EXPENSES

	2005 £m	2004 £m
Administration expenses	81.9	71.5
including:		
Exceptional charges (note 5)	2.6	8.8
Loss on fair value movement of non-hedging derivatives	3.4	-
Impairment of goodwill	1.2	0.8
Distribution costs	4.8	4.1
	86.7	75.6

5. EXCEPTIONAL CHARGES

	2005 £m	2004 £m
Exceptional charges comprise:		
Settlement of a claim on the disposal of a former subsidiary	-	3.1
Closure of a US subsidiary	-	1.9
Onerous leases	2.6	3.8
	2.6	8.8

6. EMPLOYEES

	2005 £m	2004 £m
Staff costs during the year comprised:		
Wages and salaries	81.9	68.5
Social security costs	8.3	6.8
Pension costs – defined contribution schemes (note 27)	2.7	2.5
Pension costs – defined benefit schemes (note 27)	0.5	0.4
	93.4	78.2

	2005 No.	2004 No.
The average monthly number of employees comprised		
UK	357	297
Europe	315	309
Canada	1,033	993
USA	584	543
Others	54	46
	2,343	2,188

The Company has no employees.

Key management personnel comprise the executive Directors of the Company. All elements of compensation for key management personnel is disclosed within the Remuneration Committee's Report.

Notes to the Financial Statements continued

7. NET FINANCE COSTS

	2005 £m	2004 £m
Interest income:		
Bank balances and deposits	3.8	0.3
Gain on fair value movement of non-hedging financial instruments	1.1	–
Other investment income	2.1	1.9
Foreign exchange gains	0.6	0.1
Total	7.6	2.3
Interest expense and similar charges:		
Bank overdrafts	3.9	0.4
Bank borrowings	3.5	3.9
Other loans and borrowings	2.8	0.8
– Fair value hedge – interest on interest rate swaps	(0.3)	–
– Fair value hedge – fair value movement on interest rate swaps	1.2	–
– Fair value hedge – fair value movement on other loans and borrowings	(1.2)	–
Lease liabilities	0.1	0.1
Loans from associates	0.1	0.2
Amortisation of issue costs of bank loans	0.1	0.3
Unwinding of discount in provisions	0.5	0.1
Other	1.1	0.5
Loss on fair value movement of non-hedging financial instruments	0.4	–
Foreign exchange losses	–	0.4
Total	12.2	6.7
Net finance costs	(4.6)	(4.4)

The Group adopted IAS 32 and IAS 39 on 1 January 2005 on a prospective basis. Comparatives have not been restated.

Notes to the Financial Statements *continued*

8. PROFIT FROM OPERATIONS

The following items have been charged (credited) in arriving at profit from operations:

	2005 £m	2004 £m
Staff costs (note 6)	93.4	78.2
Depreciation of property, plant and equipment		
– owned assets	21.5	17.8
– leased assets on finance leases	0.3	0.3
Amortisation of intangible assets (included in operating expenses)	0.8	0.6
Impairment of goodwill (included in operating expenses)	1.2	0.8
Impairment of available for sale investments	0.1	0.1
Cost of inventories recognised as expense (included in cost of sales)	1,313.2	1,338.6
Write down in inventories	1.1	1.1
(Profit) on disposal of investments	(0.4)	(0.4)
(Profit) on disposal of property, plant and equipment	(0.6)	(0.9)
Operating lease payments:		
– Plant and machinery	1.9	1.7
– Property	7.8	7.6
Research and development expenditure	0.7	1.1
Net foreign exchange (gains) losses	(1.1)	0.7

Services provided by the Group's auditor and network firms

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Statutory audit services	0.9	0.8	0.2	0.2
Tax services				
– Compliance	0.4	0.3	0.2	0.2
– Advisory	0.3	0.3	0.1	0.2
Other services	–	0.1	–	0.1
	<u>1.6</u>	<u>1.5</u>	<u>0.5</u>	<u>0.7</u>

In addition to the above, £0.2m was paid by the Company to the auditors for services provided in respect of the Rights Issue. This amount has been charged to the share premium account.

Notes to the Financial Statements continued

9. TAXATION

	2005 £m	2004 £m
The tax charge (credit) in the income statement comprised:		
Current tax		
– current year expense	11.0	4.2
– adjustment in respect of prior years	(0.4)	(4.6)
Deferred tax (note 19)		
– origination and reversal of temporary differences	5.7	6.1
– changes in tax rates	–	(0.7)
– previously unrecognised tax losses and credits	(1.6)	0.5
– other movements	–	(0.4)
Total tax charged to the income statement	<u>14.7</u>	<u>5.1</u>

The tax charge to the income statement included a tax credit of £0.8m (2004 – £3.2m) in respect of exceptional charges.

The total tax charge (credit) on items recognised in equity comprised:

Actuarial losses and gains on defined benefit pension schemes	<u>(1.4)</u>	<u>1.1</u>
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The tax for the year is higher (2004 – higher) than the standard rate of UK corporation tax of 30% (2004 – 30%) for the following reasons:

	2005 £m	2004 £m
Profit before tax	<u>40.9</u>	<u>16.5</u>
Tax at 30% (2004 – 30%)	12.3	5.0
Permanent differences	1.3	1.0
Non-tax deductible exceptional items	–	2.6
Higher rate of tax on overseas profits	3.1	0.6
Adjustments in respect of prior years	(2.0)	(4.1)
Tax charge for the year	<u>14.7</u>	<u>5.1</u>

10. RESULTS FOR THE FINANCIAL YEAR

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own income statement. A loss of £4.0m (2004 – £8.7m profit) has been dealt with in the accounts of the Company.

Notes to the Financial Statements continued

11. EARNINGS PER SHARE

Basic earnings per share 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 dilutive potential Ordinary shares are those options where the exercise price is less than the average market price of the Company's Ordinary shares during the year and the contingently issuable shares under the Group's long-term incentive plan.

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

	Earnings £m	2005 Weighted average number of Ordinary shares millions	Earnings per Ordinary share pence	Earnings £m	2004 Weighted average number of Ordinary shares millions (restated)	Earnings per Ordinary share pence (restated)
Profit attributable to shareholders of the parent	24.4			10.9		
Less: preference dividends	—			(2.4)		
Basic EPS						
Earnings attributable to Ordinary shareholders	24.4	115.3	21.2	8.5	107.7	7.9
Effect of dilutive shares						
Options	—	5.7		—	1.9	
Long term incentive plans	—	0.3		—	0.9	
Diluted EPS						
Adjusted earnings	24.4	121.3	20.2	8.5	110.5	7.7

The earnings per share in 2004 has been restated for the bonus shares inherent in the 2005 Rights Issue.

Notes to the Financial Statements continued

12. PROPERTY, PLANT AND EQUIPMENT

Group	Year ended 31 December 2005				Total £m
	Land and buildings £m	Oil and gas exploration and development £m	Pipelines, tanks and associated equipment £m	Plant, machinery and motor vehicles £m	
Cost or valuation:					
At 1 January	30.4	40.0	92.0	94.7	257.1
Exchange adjustments	2.1	5.1	13.6	11.7	32.5
Additions	1.0	5.6	3.5	24.9	35.0
Acquisitions	2.0	-	-	1.9	3.9
Disposals	(1.8)	-	-	(6.9)	(8.7)
Reclassification of assets	(1.0)	-	-	1.0	-
At 31 December	32.7	50.7	109.1	127.3	319.8
Depreciation:					
At 1 January	4.4	18.0	26.7	52.2	101.3
Exchange adjustments	0.5	2.5	4.5	5.2	12.7
Charge for the year	2.0	4.2	5.8	9.8	21.8
Disposals	(0.7)	-	-	(6.1)	(6.8)
Reclassification of assets	(0.1)	-	-	0.1	-
At 31 December	6.1	24.7	37.0	61.2	129.0
Net book amount	26.6	26.0	72.1	66.1	190.8

Group	Year ended 31 December 2004				Total £m
	Land and buildings £m	Oil and gas exploration and development £m	Pipelines, tanks and associated equipment £m	Plant, machinery and motor vehicles £m	
Cost or valuation:					
At 1 January	30.2	36.5	88.4	93.5	248.6
Exchange adjustments	(0.6)	(3.1)	0.1	(1.6)	(5.2)
Additions	1.9	6.6	4.7	9.9	23.1
Acquisitions	0.5	-	-	-	0.5
Disposals	(2.5)	-	(1.2)	(6.2)	(9.9)
Reclassification of assets	0.9	-	-	(0.9)	-
At 31 December	30.4	40.0	92.0	94.7	257.1
Depreciation:					
At 1 January	3.4	15.7	22.1	49.4	90.6
Exchange adjustments	-	(1.4)	0.1	(0.8)	(2.1)
Charge for the year	0.9	3.7	4.8	8.7	18.1
Impairment	0.3	-	-	-	0.3
Disposals	(0.3)	-	(0.2)	(5.1)	(5.6)
Reclassification of assets	0.1	-	(0.1)	-	-
At 31 December	4.4	18.0	26.7	52.2	101.3
Net book amount	26.0	22.0	65.3	42.5	155.8

Notes to the Financial Statements continued

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The freehold properties in the UK occupied by Group companies were valued as at 31 December 2002 by Savills (L&P) Ltd, Chartered Surveyors, acting as external valuers on the basis of Existing Use Value in accordance with the Royal Institution of Chartered Surveyors' appraisal and valuation manual. Overseas freehold and long leasehold properties occupied by Group companies were also valued as at 31 December 2002 on this basis.

The properties in Canada were valued by American Appraisal Canada Inc., appraisers acting as external valuers.

Properties in the US were valued by Cushman & Wakefield Inc., valuers and Associated Appraisers, valuers, acting as independent valuers, in the Netherlands by Brantje Makelaars, and in Italy by Savills Italy S.R.L.

Properties not occupied by Group companies were valued on the basis of Open Market Value in the US by WCS Realty Appraised Service, property appraisers, acting as independent valuers.

These valuations are recognised in the accounts with freehold land and buildings recorded at a net book value of £17.9m, long leasehold land and buildings at a net book value of £0.2m and terminals at a net book value of £40.6m. The freehold and long leasehold land and buildings have an historical cost of £19.2m and accumulated depreciation provision of £6.1m. The terminals have an historical cost of £59.8m and accumulated depreciation of £27.7m.

There is a liability to capital gains tax if properties were to be disposed of at their revalued amounts. Deferred tax is provided on temporary differences arising from the revaluation of properties.

Plant, machinery and motor vehicles include £1.6m (2004 – £1.4m) being the net book amount of the capital element of assets held under finance leases before accumulated depreciation of £0.5m (2004 – £0.3m).

13. GOODWILL

	Group	
	2005 £m	2004 £m
Cost:		
At 1 January	48.3	49.8
Exchange adjustments	6.1	(2.0)
Additions (note 35)	6.4	1.3
Disposals	-	(0.8)
At 31 December	60.8	48.3
Impairment provision:		
At 1 January	0.8	-
Exchange adjustments	0.2	-
Charge for the year	1.2	0.8
At 31 December	2.2	0.8
Net book amount	58.6	47.5

Notes to the Financial Statements continued

13. GOODWILL (continued)

Goodwill is tested for impairment annually at the time the Group prepares its annual budgets. The Directors have identified the Group's key cash-generating units for the purposes of evaluating goodwill, which are:

Gibson Energy	<ul style="list-style-type: none"> - Marketing - Truck Transportation - Terminals and Pipelines - Canwest Propane and Natural Gas Liquids - Moose Jaw Asphalt
Hunting Energy Services	<ul style="list-style-type: none"> - Well Completion - Well Construction
Other operating divisions	<ul style="list-style-type: none"> - EA Gibson Shipbrokers - Hunting Energy France

The impairment in 2005 relates mainly to the Moose Jaw Asphalt operation in Canada and reflects a write down of £1.0m of the goodwill due to adverse trading conditions.

Each impairment review takes account of the recoverable amount of the cash generating units which is determined based on a value in use calculation using discounted cash flow projections based on financial budgets approved by management covering periods ranging up to ten years. The growth rates used are in the range of zero to 5% pa and discount rates are in the range of 6% to 9%.

14. OTHER INTANGIBLE ASSETS

	Customer relationships £m	2005 Software and rights of way £m	Total £m	2004 Software and rights of way £m
Group				
Cost:				
At 1 January	-	7.0	7.0	6.6
Exchange adjustments	-	1.0	1.0	-
Additions	-	0.2	0.2	0.4
Acquisitions	2.2	-	2.2	-
At 31 December	<u>2.2</u>	<u>8.2</u>	<u>10.4</u>	<u>7.0</u>
Amortisation:				
At 1 January	-	3.9	3.9	3.3
Exchange adjustments	-	0.6	0.6	-
Charge for the year	0.1	0.7	0.8	0.6
At 31 December	<u>0.1</u>	<u>5.2</u>	<u>5.3</u>	<u>3.9</u>
Net book amount	<u>2.1</u>	<u>3.0</u>	<u>5.1</u>	<u>3.1</u>

All amortisation charges in the year have been charged to profit from operations.

Notes to the Financial Statements *continued*

15. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	£m	£m
At 1 January	8.7	12.1
Exchange adjustments	-	(0.2)
Additions	-	0.2
Share of profits after taxation attributed to the Group	0.6	0.1
Dividends	(3.8)	(3.5)
At 31 December	<u>5.5</u>	<u>8.7</u>
	2005	2004
	£m	£m
Aggregated amounts relating to interests in associates:		
Share of balance sheet:		
Total assets	11.0	14.5
Total liabilities	(5.5)	(5.8)
	<u>5.5</u>	<u>8.7</u>
Share of results:		
Revenues	<u>10.4</u>	<u>2.4</u>
Profit before tax	0.9	0.1
Taxation	(0.3)	-
Profit after tax	<u>0.6</u>	<u>0.1</u>

The key investments in associates, including the name, country of incorporation and proportion of ownership interest is provided in note 42.

Notes to the Financial Statements continued

16. AVAILABLE FOR SALE INVESTMENTS

	Group	
	2005 £m	2004 £m
Cost:		
At 1 January	3.9	5.8
Exchange adjustments	0.1	–
Additions	0.1	0.3
Disposals	(3.5)	(2.2)
At 31 December	<u>0.6</u>	<u>3.9</u>
Impairment provision:		
At 1 January	0.3	0.2
Charge for the year	0.1	0.1
At 31 December	<u>0.4</u>	<u>0.3</u>
Net book amount	<u>0.2</u>	<u>3.6</u>

The investments comprise:

	2005 £m	2004 £m
Listed securities	–	3.2
Unlisted investments	0.2	0.4
	<u>0.2</u>	<u>3.6</u>

The fair values of listed securities are based on quoted market prices. Unlisted investments are valued at the Directors' best estimate of fair value.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 £m	2004 £m
Carrying value:		
At 1 January	241.0	175.4
Additions	44.8	156.6
Disposals	–	(83.4)
Impairments	(1.6)	(7.6)
At 31 December	<u>284.2</u>	<u>241.0</u>

The principal subsidiaries are detailed in note 42.

Notes to the Financial Statements *continued*

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Non-current:				
Loans to associates	0.1	0.1	-	-
Other receivables	1.0	2.0	-	-
Prepayments and accrued revenue	1.8	1.2	-	-
	<u>2.9</u>	<u>3.3</u>	<u>-</u>	<u>-</u>
Current:				
Trade receivables	183.3	129.6	-	-
Less: provision for impairment of receivables	(1.0)	(1.0)	-	-
<i>Net trade receivables</i>	<u>182.3</u>	<u>128.6</u>	<u>-</u>	<u>-</u>
Amounts owed by subsidiaries	-	-	0.9	1.5
Other receivables	3.6	5.2	0.2	0.2
Prepayments and accrued revenue	9.6	6.6	0.2	0.2
Derivative financial instruments	0.7	-	-	-
	<u>196.2</u>	<u>140.4</u>	<u>1.3</u>	<u>1.9</u>

Notes to the Financial Statements continued

19. 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	
	2005 £m	2004 £m	2005 £m	2004 £m
Deferred tax assets	14.8	11.2	-	-
Deferred tax liabilities	(74.9)	(59.5)	(0.1)	(0.1)
	<u>(60.1)</u>	<u>(48.3)</u>	<u>(0.1)</u>	<u>(0.1)</u>

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	(48.3)	(43.3)	(0.1)	(0.1)
Adoption of IAS 32 and IAS 39	(0.2)	-	-	-
At 1 January as restated	(48.5)	(43.3)	(0.1)	(0.1)
Exchange adjustments	(6.2)	0.5	-	-
Acquisitions	(0.1)	-	-	-
Charge to income statement	(4.1)	(5.5)	-	-
Taken direct to equity	1.4	(0.9)	-	-
Transfers to current tax	(2.6)	0.6	-	-
Other movements	-	0.3	-	-
At 31 December	<u>(60.1)</u>	<u>(48.3)</u>	<u>(0.1)</u>	<u>(0.1)</u>

Deferred tax assets of £3.6m (2004 - £2.2m) have not been recognised as realisation of the tax benefit on the tax losses is not probable.

£4m (2004 - £3m) of deferred tax is not recognised on the unremitted earnings of overseas subsidiaries and associates.

The movements in deferred tax assets and liabilities prior to offset are shown below:

Deferred tax liabilities

	Accelerated tax depreciation £m	Goodwill £m	Property revaluations £m	Fair value adjustments £m	Other £m	Total £m
Group						
At 1 January	11.9	0.4	4.4	4.3	38.5	59.5
Adoption of IAS 32 and IAS 39	0.6	-	-	-	-	0.6
At 1 January as restated	12.5	0.4	4.4	4.3	38.5	60.1
Exchange adjustments	1.9	0.1	0.5	0.6	4.8	7.9
Charge (credit) to income statement	1.1	0.9	(0.4)	(0.2)	6.2	7.6
Taken direct to equity	-	-	-	-	(1.4)	(1.4)
Acquisition of subsidiary	0.1	-	-	-	-	0.1
Transfer from current tax	0.3	-	-	-	-	0.3
Other	0.3	-	-	-	-	0.3
At 31 December	<u>16.2</u>	<u>1.4</u>	<u>4.5</u>	<u>4.7</u>	<u>48.1</u>	<u>74.9</u>

Notes to the Financial Statements continued

19. DEFERRED TAX (continued)

Deferred tax assets

Group	Provisions £m	Asset retirement obligation £m	Tax losses £m	Other £m	Total £m
At 1 January	0.9	0.5	5.4	4.4	11.2
Adoption of IAS 32 and IAS 39	-	-	-	0.4	0.4
At 1 January as restated	0.9	0.5	5.4	4.8	11.6
Exchange adjustments	0.2	0.1	0.9	0.5	1.7
Credit to income statement	0.9	0.1	1.4	1.1	3.5
Transfer from current tax	-	-	-	(2.3)	(2.3)
Other	-	-	-	0.3	0.3
At 31 December	2.0	0.7	7.7	4.4	14.8

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Fair value reserves in shareholders' equity:				
- actuarial losses gains on defined benefit pension schemes	(1.4)	1.1	-	-
- other	-	(0.2)	-	-
	(1.4)	0.9	-	-

20. INVENTORIES

	Group	
	2005 £m	2004 £m
Raw materials	28.5	19.7
Work in progress	10.7	4.5
Finished goods	70.3	53.3
Less: provisions for losses	(1.9)	(1.0)
	107.6	76.5

Inventories are stated at the lower of cost and fair value less selling costs. £2.4m (2004 - £1.6m) is stated at fair value less selling costs.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash at bank and in hand	87.1	3.5	5.9	-
Short term bank deposits less than 3 months	4.8	11.6	-	-
	91.9	15.1	5.9	-

The effective interest rate on short term deposits was 3.84% (2004 - 2.62%) and these deposits have an average maturity of less than 7 days.

The Group adopted IAS 32 and IAS 39 on 1 January 2005. As a result, although they are subject to a common legal right of set-off, cash and cash equivalents and borrowings as at 31 December 2005 are required to be shown gross. At 31 December 2004, these are shown net.

Notes to the Financial Statements continued

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Non-current:				
Other payables	3.3	1.9	-	-
Derivative financial instruments	1.2	-	-	-
	<u>4.5</u>	<u>1.9</u>	<u>-</u>	<u>-</u>
Current:				
Trade payables	164.8	108.8	-	-
Construction contracts	5.7	-	-	-
Amounts owed to subsidiaries	-	-	6.4	4.2
Amounts owed to associates	5.6	10.9	5.6	10.9
Social security and other taxes	3.1	2.4	-	0.8
Accruals and deferred revenue	32.8	25.8	1.0	-
Other payables	2.5	4.9	0.3	0.6
Derivative financial instruments	2.6	-	-	-
	<u>217.1</u>	<u>152.8</u>	<u>13.3</u>	<u>16.5</u>

23. BORROWINGS

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Non-current:				
Unsecured bank loans	54.4	92.5	-	-
Other unsecured loans	40.7	36.0	-	-
Finance lease liabilities (note 37)	0.6	0.8	-	-
Amounts due to subsidiaries	-	-	83.9	103.2
	<u>95.7</u>	<u>129.3</u>	<u>83.9</u>	<u>103.2</u>
Current:				
Unsecured bank overdrafts	87.4	4.2	40.2	2.3
Unsecured bank loans	5.2	11.8	-	-
Finance lease liabilities (note 37)	0.6	0.4	-	-
	<u>93.2</u>	<u>16.4</u>	<u>40.2</u>	<u>2.3</u>
Total borrowings	<u>188.9</u>	<u>145.7</u>	<u>124.1</u>	<u>105.5</u>

The borrowings are repayable as follows:

On demand or within one year	93.2	16.4	40.2	2.3
Between two and five years	65.4	99.4	-	-
After five years	30.3	29.9	83.9	103.2
	<u>188.9</u>	<u>145.7</u>	<u>124.1</u>	<u>105.5</u>

Notes to the Financial Statements *continued*

23. BORROWINGS (continued)

Effective interest rates:

The effective interest rates at the balance sheet date were as follows:

	2005	2004
Bank overdrafts	4.9%	5.7%
Bank loans	4.1%	3.3%
Other loans	7.0%	7.0%
Finance leases	4.6%	5.6%

The other loans, which incur a fixed rate of interest, are subject to a fair value interest rate swap that changes the interest rate exposure to floating rates, for which the effective rate at the year end was 6.6% (2004 – 5.6%).

Analysis of borrowings by currency:

As at 31 December 2005

	Sterling £m	US dollars £m	Can dollars £m	Euro £m	Total £m
Group					
Bank overdrafts	64.6	16.5	1.3	5.0	87.4
Bank loans	-	-	59.6	-	59.6
Other loans	-	40.7	-	-	40.7
Finance leases	0.2	-	0.8	0.2	1.2
	<u>64.8</u>	<u>57.2</u>	<u>61.7</u>	<u>5.2</u>	<u>188.9</u>

As at 31 December 2004

	Sterling £m	US dollars £m	Can dollars £m	Euro £m	Total £m
Group					
Bank overdrafts	0.1	-	1.0	3.2	4.3
Bank loans	-	0.1	104.2	-	104.3
Other loans	-	36.0	-	-	36.0
Finance leases	-	-	0.9	0.2	1.1
	<u>0.1</u>	<u>36.1</u>	<u>106.1</u>	<u>3.4</u>	<u>145.7</u>

Company

All of the Company's borrowings are denominated in Sterling.

Notes to the Financial Statements continued

24. CHANGES IN NET DEBT

The analysis below is provided in order to reconcile the movement in borrowings (note 23) and cash and cash equivalents (note 21) during the year.

	At 31 December 2004 £m	Adoption of IAS 32 and IAS 39 £m	At 1 January 2005 £m	Acquisitions (excluding cash, cash equivalents and overdrafts) £m	Cash flow £m	Exchange movements £m	At 31 December 2005 £m
Cash and cash equivalents	15.1	59.0	74.1	–	15.9	1.9	91.9
Bank overdrafts	(4.2)	(59.3)	(63.5)	–	(22.7)	(1.2)	(87.4)
	10.9	(0.3)	10.6	–	(6.8)	0.7	4.5
Current borrowings	(11.8)	–	(11.8)	–	7.6	(1.0)	(5.2)
Non-current borrowings	(128.5)	(0.5)	(129.0)	(3.7)	50.7	(13.1)	(95.1)
Finance leases	(1.2)	–	(1.2)	–	0.2	(0.2)	(1.2)
Total net debt	(130.6)	(0.8)	(131.4)	(3.7)	51.7	(13.6)	(97.0)

The adoption of IAS 32 and IAS 39 incorporates the grossing-up of cash and bank overdrafts previously off-set and the recognition of accrued interest within net debt.

25. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Group adopted IAS 32 and IAS 39 at 1 January 2005. Comparative information reflects UK GAAP where appropriate.

Currency derivatives

The Group uses forward foreign exchange contracts and average rate options to hedge its exposure to exchange rate movements in significant future transactions and cash flows. The instruments are denominated in the functional currencies of the operations whose transactions are being protected for currency risk. Although these contracts act as an economic hedge they are not designated as hedged for hedge accounting purposes with gains or losses taken directly to the income statement.

At 31 December 2005, the total amount of the Group's outstanding forward foreign exchange contracts is £85.1m (2004 – £51.6m). The fair value of the average rate options at 31 December 2005 was £nil (2004 – £nil).

At 31 December 2005, the fair value gain of the Group's currency derivatives is £0.1m. These values are based on market values of equivalent instruments at the balance sheet date, comprising £0.1m assets included in trade and other receivables. The fair value loss of currency derivatives at 31 December 2005 was £1.1m, based on market values of equivalent instruments at that date. These instruments are included in trade and other payables.

Changes in the fair value of non-hedging currency derivatives amounting to £0.3m have been charged to income in the year.

Interest rate swaps and caps

The Group uses interest rate swaps and caps to manage its exposure to interest rate movements on its principal bank and other borrowings. The notional principal amount of the outstanding interest rate swaps and caps contracts at 31 December 2005 was £103.6m (2004 – £93.1m). Swap contracts with nominal values of £46.5m have fixed interest receipts at an average rate of 7.047% and floating interest payments at an average rate of 6 month LIBOR plus 2.857% up to 2012. At 31 December 2005 the fixed interest receivable rates vary from 2.75% to 7.375% (2004 – 2.75% to 7.375%) and floating interest payable rates vary from 6.31% to 6.80%. Cap contracts with nominal values of £57.1m have interest rates capped at the average rate of 3.67%.

On maturity of one of the cap contracts the counterparty has the option to enter into an interest rate swap for four years for a notional US\$30m at 4.2% if the four year interest rate swap rate is below 4.2%. A forward starting interest rate swap was also in place at the year end for a notional US\$10m covering the period 10 January 2006 to 10 January 2008 with fixed payments at 4.2% and floating receipts at 6 month LIBOR.

Notes to the Financial Statements continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

The net fair value loss of interest rate swaps outstanding at 31 December 2005 is £0.8m. These values are based on the market value of equivalent instruments at the balance sheet date. The gross fair value gain of £0.6m is included in trade and other receivables and the gross fair value loss £1.4m is included in trade and other payables.

Fixed to floating interest rate swaps are designated and accounted for as fair value hedges. The movement in the fair value of these contracts is dealt with in the income statement. Correspondingly, the borrowings that are hedged by these swaps are measured at fair value and the consequent movement in fair value is dealt with in the income statement and set-off against the movement in the fair value of these swaps.

Floating to fixed interest rate swaps and interest rate caps are not designated as qualifying hedges. These instruments are measured at fair value and the movement is correspondingly dealt with in the income statement. Changes in the fair value of non-hedging interest rate swaps and caps amounting to £0.2m have been credited to income in the year.

Commodity Derivatives

The Group uses oil price futures to hedge its exposure to oil price movements. The fair value loss of these instruments at 31 December 2005 was £1.3m. Change in the fair value of oil price derivatives of £2.3m has been charged to income in the year.

Fair values of derivative financial instruments

The fair values of derivative financial instruments at 31 December 2005 were:

	Not designated as hedges		Fair value hedges		Total	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps and caps	0.6	0.2	-	1.2	0.6	1.4
Forward foreign exchange	0.1	1.1	-	-	0.1	1.1
Oil price futures	-	1.3	-	-	-	1.3
	<u>0.7</u>	<u>2.6</u>	<u>-</u>	<u>1.2</u>	<u>0.7</u>	<u>3.8</u>

There were no derivatives outstanding at the balance sheet date that were designated as cashflow hedges.

The fair values of derivative financial instruments at 31 December 2004 were:

	Total	
	Assets £m	Liabilities £m
Interest rate swaps and caps	-	0.1
Forward foreign exchange	1.0	0.4
Oil price options	2.2	2.1
	<u>3.2</u>	<u>2.6</u>

The Group adopted IAS 32 and IAS 39 on 1 January 2005 and consequently these amounts were not recognised in the 2004 balance sheet.

The fair values of interest rate swaps and fixed rate loans and leases have been determined by discounting their cash flows at prevailing interest rates. The fair value of forward foreign exchange contracts has been determined by marking those contracts to market against prevailing forward foreign exchange rates. The fair value of forward oil futures has been fair valued using quoted market prices.

Hedge of net investments in foreign entity

The Group has both US dollar and CAD dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the USA and Canada. At 31 December 2005, the fair value of the US dollar borrowings was £55.1m and of the CAD borrowings was £59.9m.

A foreign exchange loss of £3.2m on translation of the borrowings into sterling has been recognised in exchange reserves.

Notes to the Financial Statements continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Maturity profile of financial liabilities

The maturity profile of the carrying amount of the Group's non-current financial liabilities at the end of the year was as follows:

	Borrowings	2005 Other financial liabilities	Total	Borrowings	2004 Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
Between one and two years	0.5	3.3	3.8	35.6	0.7	36.3
Between two and five years	64.9	2.8	67.7	63.7	1.4	65.1
After five years	30.3	14.5	44.8	30.0	13.4	43.4
	<u>95.7</u>	<u>20.6</u>	<u>116.3</u>	<u>129.3</u>	<u>15.5</u>	<u>144.8</u>

Other financial liabilities comprise derivative financial instruments, provisions and other payables. Creditors due within one year are excluded from the above table as they are of a short term nature.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met at that date:

	2005 Floating Rate £m	2004 Floating Rate £m
Expiring within one year	16.5	7.0
Expiring between one and two years	10.0	-
Expiring in more than two years	70.3	12.6
	<u>96.8</u>	<u>19.6</u>

Maturity profile of financial assets

The maturity profile of the carrying amount of the Group's non-current financial assets at the end of the year was as follows:

	2005 £m	2004 £m
Between one and two years	0.8	1.6
Between two and five years	0.5	0.3
After five years	1.4	0.7
	<u>2.7</u>	<u>2.6</u>

Financial assets comprise derivative financial instruments, loans to associates and other receivables. Debtors due within one year are excluded from the above table as they are of a short term nature.

Notes to the Financial Statements *continued*

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (*continued*)

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management and also in The Finance Director's Review.

Fair values of financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected cash flows at prevailing interest rates and by applying year end exchange rates. The carrying amounts and the fair values of non-current financial assets and liabilities are set out below:

Group	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Non-current borrowings (note 23)	(95.7)	(95.7)	(129.3)	(136.5)
Other non-current financial liabilities	(20.6)	(13.6)	(15.5)	(9.5)
Non-current financial assets	2.7	1.9	2.6	2.0

FRS 13 disclosures

The following additional disclosures were required by FRS 13 in respect of the derivatives and other financial instruments for the year ended 31 December 2004.

Currency analysis of monetary net assets

The table below shows the Group's currency exposures at 31 December 2004 that gave rise to net currency gains and losses recognised in the profit and loss account. Such exposures relate to monetary assets and liabilities that are not denominated in the operating or functional currency of the Group's subsidiaries. The amounts shown in the table below take into account the effect of hedging instruments used to manage the Group's currency exposures.

Functional currency of Group operations:	Net foreign currency monetary assets (liabilities)					Total £m
	Sterling £m	US dollars £m	Can dollars £m	Euro £m	Other £m	
Sterling	-	5.4	(7.5)	(0.1)	(0.5)	(2.7)
US dollars	-	-	-	-	0.1	0.1
Canadian dollars	(7.1)	2.3	-	-	-	(4.8)
Euro	(0.3)	(0.6)	-	-	(0.5)	(1.4)
Other currencies	(0.2)	0.4	-	-	(0.4)	(0.2)
Total	<u>(7.6)</u>	<u>7.5</u>	<u>(7.5)</u>	<u>(0.1)</u>	<u>(1.3)</u>	<u>(9.0)</u>

Notes to the Financial Statements continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial liabilities

At 31 December 2004 the interest rate and currency profile of the Group's financial liabilities after taking into account the effect of interest rate and foreign currency swaps were:

Currency	2004			
	Total £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	9.8	9.8	-	-
US dollars	36.2	36.2	-	-
Canadian dollars	106.9	90.6	13.9	2.4
Euro	8.3	8.1	0.2	-
	161.2	144.7	14.1	2.4

	2004		
	Weighted average fixed interest rate (%)	Weighted average fixed rate period (years)	Weighted average interest free period (years)
Sterling	-	-	-
US dollars	-	-	-
Canadian dollars	3.5	1.2	3.7
Euro	4.0	1.8	-

Floating rate financial liabilities bore interest at rates materially based on relevant LIBOR equivalents which were set in advance for periods of up to six months.

An analysis of the Group's financial liabilities maturity profile is set out below:

	2004 £m
Within one year	16.4
Between one and two years	36.3
Between two and five years	65.1
After five years	43.4
	161.2

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the 2004 FRS 13 tables as they are of a short-term nature, with the exception of the currency analysis of monetary net assets.

Notes to the Financial Statements continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets

The interest rate and currency profile of the Group's financial assets after taking into account the effect of interest rate and foreign currency swaps is set out below:

Currency	2004			
	Total £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	2.7	1.3	1.4	–
US dollars	1.6	1.3	0.1	0.2
Canadian dollars	12.3	1.4	10.1	0.8
Euro	1.0	1.0	–	–
Other currencies	0.1	0.1	–	–
	17.7	5.1	11.6	1.0

	2004		
	Weighted average fixed interest rate (%)	Weighted average fixed rate period (years)	Weighted average interest free period (years)
Sterling	4.8	0.1	4.1
US dollars	2.0	0.1	1.0
Canadian dollars	3.1	0.3	4.8
Euro	–	–	1.0

Floating rate financial assets earned interest materially based on relevant LIBID equivalents.

An analysis of the Group's financial assets maturity profile is set out below:

	2004 £m
Within one year	15.1
Between one and two years	1.6
Between two and five years	0.3
After five years	0.7
	17.7

All the Group's debtors due within one year are excluded from the 2004 FRS 13 tables as they are of a short term nature.

Notes to the Financial Statements continued

25. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities

Set out below is an analysis of the book and fair values of the Group's financial assets and liabilities by category:

	2004 Book value £m	Fair value £m
Primary financial instruments:		
Short-term borrowings including net overdrafts	(16.4)	(16.4)
Long-term borrowings (before debt issue costs of £0.3m)	(129.6)	(136.8)
Cash at bank and in hand (net)	15.1	15.1
Other financial liabilities	(15.5)	(9.5)
Other financial assets	2.6	2.0
Derivative financial instruments:		
Interest rate caps and swaps	-	(0.1)
Cross-currency derivatives	-	0.6
Oil price options	-	0.1

Market values have been used to determine the fair values of the derivative instruments.

Borrowings and interest bearing assets are predominantly at floating rates and are of a short-term nature and consequently fair values closely approximate book values in both cases.

Interest rate swaps and caps which hedge against increases in Canadian and US interest rates mature up to January 2012.

Foreign exchange forward contracts hedge against foreign currency trade receivable and payable balances. They mature up to 12 months from the balance sheet date.

Oil price options, futures and swaps hedge Canadian crude oil inventories which mature up to 35 months from the balance sheet date.

Hedging of future transactions

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and the selling price of crude oil inventory. In particular the Group policy is to hedge material currency exposures on contracted foreign currency denominated sales and purchases using forward contracts; to reduce vulnerability to short-term interest rate movements by the use of interest rate swaps, interest rate caps and forward rate agreements and to hedge against unfavourable fluctuations in the selling price of crude oil using oil options, futures and swaps. The Group also protects a proportion of budgeted overseas profits, where significant, using currency options.

The table below shows the extent to which the Group has unrecognised gains and losses in respect of hedges during 2004.

	Unrecognised contracts		Total
	Gains £m	Losses £m	£m
Unrecognised gains (losses) on hedges at 1 January 2004	4.1	(0.4)	3.7
(Gains) losses at 1 January 2004 that were recognised in 2004	(3.3)	0.2	(3.1)
Gains (losses) at 1 January 2004 that were not recognised in 2004	0.8	(0.2)	0.6
Change in market value of hedges not recognised in 2004	(0.1)	0.2	0.1
Gains (losses) arising in 2004 that were not recognised in 2004	2.5	(2.6)	(0.1)
Unrecognised gains (losses) on hedges at 31 December 2004	3.2	(2.6)	0.6
The gains (losses) at 31 December 2004 are expected to be recognised as follows:			
In 2005	3.2	(1.8)	1.4
After 2005	-	(0.8)	(0.8)
	3.2	(2.6)	0.6

The gains (losses) at 31 December 2004 were expected to be fully offset, on maturity, against the exposure losses and gains on underlying transactions.

Notes to the Financial Statements continued

26. PROVISIONS

	Onerous contracts £m	Asset decommissioning & remediation obligations £m	Total £m
Group			
At 1 January 2005	8.1	6.1	14.2
Exchange adjustments	-	0.9	0.9
Charged to income statement	4.8	0.1	4.9
Provisions utilised through income statement	(1.7)	(0.2)	(1.9)
At 31 December 2005	11.2	6.9	18.1

Provisions are due as follows:

	2005 £m	2004 £m
Current	2.0	0.6
Non-current	16.1	13.6
	18.1	14.2

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 £2.0m of the provision will be utilised in 2006, £1.9m in 2007 and the remaining balance of £7.3m utilised from 2008 onwards. Provision is made on a discounted basis, at a rate of 6% pa, for the net rental deficit on these properties to the end of the lease term.

Asset decommissioning & 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. It is expected to be utilised over the next 15 years.

27. POST RETIREMENT BENEFITS

Pensions

The Group has adopted the revisions to IAS 19 which were published in December 2004. As permitted by the revised standard, actuarial gains and losses are recognised immediately in the period in which they occur through the Statement of Recognised Income and Expense.

Within the UK, the Group operates a funded defined benefit plan and a defined contribution plan. With effect from 31 December 2002, the defined benefit plan was closed to new UK employees who are now offered membership of the defined contribution plan. The majority of employees are members of one of these arrangements. Pensions arrangements are also in place for most overseas employees, principally in the form of money purchase plans.

Valuations of the defined benefit plans are produced and updated annually to 31 December by independent qualified actuaries.

Notes to the Financial Statements continued

27. POST RETIREMENT BENEFITS (continued)

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

	2005		2004		2003	
	UK	Overseas (a)	UK	Overseas (a)	UK	Overseas (a)
Rate of increase in salaries	4.8%	4.0% – 4.5%	4.9%	4.0%	4.8%	4.0%
Rate of increase in pensions	2.8%	2.5%	2.9%	2.5%	2.8%	2.5%
Discount rate	4.8%	5.0%	5.3%	6.0%	5.4%	6.5%
Inflation	2.8%	2.5% – 3.5%	2.9%	2.5%	2.8%	2.5%

The post-retirement mortality assumptions allow for future improvements in mortality. The mortality table used for the main arrangements implies that a 65 year old male currently has an expected future lifetime of 20.8 years (2004 – 19.4 years). Based upon past experience, pension increases have been assumed to be in line with inflation.

Long term rates of return expected at 31 December:

	2005		2004		2003	
	UK	Overseas (a)	UK	Overseas (a)	UK	Overseas (a)
Equities	7.3%	n/a	7.5%	n/a	7.8%	n/a
Bonds	4.3%	n/a	5.0%	n/a	4.9%	n/a
Other	4.8%	3.5% – 7.0%	5.3%	7.0%	4.8%	7.0%

(a) The assumptions vary by scheme/location for the overseas plans.

The expected rate of return on pension plan assets is determined as management's best estimate of the long term return of the major asset classes – equities, bonds and other – weighted by the actual allocation of assets at the measurement date, allowing for planned changes in investment strategy. The expected rate of return is calculated using geometric averaging.

Other information

A triennial actuarial valuation of the Group's UK defined benefit plan was made at 5 April 2005 and updated to 31 December 2005. Under the method used to calculate pension costs in accordance with IAS 19, the cost as a percentage of covered payroll will tend to increase as the average age of membership increases.

Scheme assets

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

	2005			2004		
	UK	Overseas	Total	UK	Overseas	Total
Equities	13%	–	13%	35%	–	34%
Bonds	87%	–	84%	65%	–	63%
Other	–	100%	3%	–	100%	3%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

During the year to 31 December 2005, contributions by the Company of £0.1m (2004 – £nil) were made to the defined contribution section of the UK Scheme and £2.6m (2004 – £2.5m) were made to the Overseas defined contribution plans. Employer contributions to the defined benefit section of the UK Scheme in the year to 31 December 2005 were £1.8m (2004 – £1.8m) and to Overseas defined benefits plans in 2005 were £0.4m (2004 – £nil).

Notes to the Financial Statements *continued*

27. POST RETIREMENT BENEFITS (continued)

The employee contribution rates to the defined benefit section of the UK Scheme were increased by 1% of salaries with effect from 1 April 2005. For 2006, the Company will pay estimated contributions of £7.5m to the UK defined benefit plan. This includes an amount of £5.6m, the first of a series of additional contributions aimed at bringing the funding level of the UK Scheme up to the "buy out" level. Contributions to the UK defined contribution plan are in addition to the above.

Surpluses and (deficits) in the plans

The following amounts were measured in accordance with IAS 19:

	UK £m	2005 Overseas £m	Total £m	2004 Total £m
Total fair value of plan assets	204.1	7.5	211.6	193.8
Present value of obligations	(183.0)	(10.2)	(193.2)	(171.8)
Surplus (deficit) in the plans	21.1	(2.7)	18.4	22.0
Unrecognised past service cost	–	0.5	0.5	0.5
Amount not recognised due to asset limit	–	(0.7)	(0.7)	(0.6)
Asset (liability) recognised in the balance sheet	21.1	(2.9)	18.2	21.9

Movements in the present value of the defined benefit obligation

	UK £m	2005 Overseas £m	Total £m	2004 Total £m
Change in present value of obligation:				
Present value of obligation at start of the year	164.1	7.7	171.8	163.9
Current Service cost (employer)	1.8	0.4	2.2	2.0
Interest Cost	8.6	0.4	9.0	8.7
Contributions by plan participants	0.5	–	0.5	0.4
Actuarial losses	15.5	1.1	16.6	1.5
Benefits paid	(7.5)	(0.5)	(8.0)	(7.3)
Past service cost	–	–	–	0.7
Settlement, curtailment and other loss	–	–	–	1.9
Currency exchange rate changes	–	1.1	1.1	–
Present value of obligation at end of the year	183.0	10.2	193.2	171.8

Notes to the Financial Statements continued

27. POST RETIREMENT BENEFITS (continued)

Movements in the fair value of plan assets

	UK £m	2005 Overseas £m	Total £m	2004 Total £m
Change in plan assets:				
Fair value of plan assets at the start of the year	187.9	5.9	193.8	181.4
Expected return on plan assets	10.4	0.4	10.8	10.5
Actuarial gain on plan assets	11.0	0.1	11.1	5.0
Contributions by plan participants	0.5	–	0.5	0.4
Contributions by employer	1.8	0.4	2.2	1.8
Benefits paid	(7.5)	(0.2)	(7.7)	(7.2)
Settlement, curtailment and other gain	–	–	–	1.9
Currency exchange rate changes	–	0.9	0.9	–
Fair value of plan assets at the end of the year	204.1	7.5	211.6	193.8

For 2005 the actual return on the plans' assets amounted to £21.9m (2004 – £15.5m) of which £21.4m related to the UK scheme and £0.5m to the Overseas Plans.

Total expense recognised in the income statement

	UK £m	2005 Overseas £m	Total £m	2004 Total £m
Current service cost (employer)	1.8	0.4	2.2	2.0
Interest Cost	8.6	0.4	9.0	8.7
Expected return on assets	(10.4)	(0.4)	(10.8)	(10.5)
Past service cost	–	0.1	0.1	0.2
Total expense included within staff costs (note 6)	–	0.5	0.5	0.4

In addition, employer contributions of £2.7m (2004 – £2.5m) for defined contribution arrangements are also recognised in the income statement.

Total expense recognised in the Statement of Recognised Income and Expense ("SORIE")

	UK £m	2005 Overseas £m	Total £m	2004 Total £m
Actuarial (gains) and losses	4.5	1.0	5.5	(3.5)
Currency exchange rate changes	–	0.2	0.2	–
Amount recognised in the SORIE	4.5	1.2	5.7	(3.5)

The cumulative actuarial gains and losses recognised in the SORIE as at 31 December 2005 is an actuarial loss of £2.0m (2004 – actuarial gain £3.5m).

Notes to the Financial Statements continued

27. POST RETIREMENT BENEFITS (continued)

Amounts to be shown for the current and previous periods

	2005	2004
Difference between the expected and actual return on plan assets:		
Amount (£m)	11.1	5.0
As a percentage of plan assets	5%	3%
Experience gains and (losses) on obligations:		
Amount (£m)	0.4	1.7
As a percentage of the present value of the obligations	0%	1%
	£m	£m
Present value of defined benefit obligation	(193.2)	(171.8)
Fair value of plan assets	211.6	193.8
Surplus in the plans	<u>18.4</u>	<u>22.0</u>

The Company has no employees and does not therefore participate in any of the above schemes.

28. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares of 25p each No.	Ordinary shares of 25p each £m	Share premium £m	2005 Total £m	2004 Total £m
Group and Company					
Authorised	<u>200,000,000</u>	<u>50.0</u>		<u>50.0</u>	<u>31.3</u>
At 1 January	101,043,970	25.3	41.5	66.8	114.7
Shares issued – rights issue	25,373,332	6.3	39.4	45.7	–
Shares issued – share option schemes	2,103,031	0.5	3.3	3.8	–
Shares issued – LTIP awards	290,583	0.1	0.6	0.7	–
Cancellation and repayment of preference shares	–	–	–	–	(47.9)
Expenses of issue of equity shares	–	–	(2.1)	(2.1)	–
At 31 December	<u>128,810,916</u>	<u>32.2</u>	<u>82.7</u>	<u>114.9</u>	<u>66.8</u>

During August 2005, the Company issued 25,373,332 new Ordinary shares at 180 pence per share on a 1 for 4 basis, in accordance with the Rights Issue announced on 29 June 2005.

There are no restrictions attached to any of the Ordinary shares on issue and all Ordinary shares carry equal voting rights. All of the Ordinary shares in issue are fully paid.

The Company increased its authorised share capital from £31.3m to £50.0m with the creation of 74,613,556 new Ordinary shares of 25p each at an Extraordinary General Meeting held on 25 July 2005.

Notes to the Financial Statements continued

29. OTHER RESERVES

	Year ended 31 December 2005				
	Properties revaluation reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Other reserves £m	Total £m
Group					
At 1 January	8.8	-	(2.7)	1.1	7.2
Adoption of IAS 32 and IAS 39	-	0.3	-	0.2	0.5
At 1 January as adjusted	8.8	0.3	(2.7)	1.3	7.7
Exchange adjustments	0.9	-	10.2	-	11.1
Depreciation transfer for land and buildings	1.1	-	-	-	1.1
- taxation	(0.3)	-	-	-	(0.3)
Released on maturity of cash flow hedges	-	(0.3)	-	-	(0.3)
Released on disposal of available for sale investments	-	-	-	(0.2)	(0.2)
Reserve for cost of share options	-	-	-	1.4	1.4
Transfer to retained earnings	-	-	-	1.2	1.2
At 31 December	10.5	-	7.5	3.7	21.7
	Year ended 31 December 2004				
	Properties revaluation reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Other reserves £m	Total £m
Group					
At 1 January	10.0	-	-	(0.6)	9.4
Exchange adjustments	-	-	(2.7)	-	(2.7)
Depreciation transfer for land and buildings	(1.7)	-	-	-	(1.7)
- taxation	0.5	-	-	-	0.5
Reserve for cost of share options	-	-	-	0.4	0.4
Allotment of Treasury shares	-	-	-	0.1	0.1
Transfer to retained earnings	-	-	-	1.2	1.2
At 31 December	8.8	-	(2.7)	1.1	7.2

Other reserves include share option reserves and pension reserves.

Notes to the Financial Statements continued

29. OTHER RESERVES (continued)

Company

	2005 £m	2004 £m
At 1 January	0.5	0.1
Reserve for cost of share options	1.4	0.4
At 31 December	<u>1.9</u>	<u>0.5</u>

Other reserves include share option reserves.

30. RETAINED EARNINGS

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	34.2	27.1	52.8	50.3
Adoption of IAS 32 and IAS 39	(0.5)	–	–	–
At 1 January as adjusted	<u>33.7</u>	<u>27.1</u>	<u>52.8</u>	<u>50.3</u>
Depreciation transfer for land and buildings	(1.1)	1.7	–	–
– taxation	0.3	(0.5)	–	–
Actuarial (loss) on defined benefit pension schemes	(5.5)	3.5	–	–
– taxation	1.4	(1.1)	–	–
Net profit (loss) for the year	24.4	10.9	(4.0)	8.7
Dividends paid	(5.6)	(6.2)	(5.6)	(6.2)
Transfer between reserves	(1.2)	(1.2)	–	–
At 31 December	<u>46.4</u>	<u>34.2</u>	<u>43.2</u>	<u>52.8</u>

31. MINORITY INTERESTS

Group

	2005 £m	2004 £m
At 1 January	3.7	3.2
Exchange adjustments	–	0.1
Profit after tax attributed to minorities	1.8	0.5
Dividends paid	(0.3)	–
Acquisition of minority interest	–	(0.1)
At 31 December	<u>5.2</u>	<u>3.7</u>

Notes to the Financial Statements continued

32. STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Share capital £m	Share premium £m	Treasury shares £m	Group Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2005	25.3	41.5	-	7.2	34.2	108.2	3.7	111.9
Adoption of IAS 32 and IAS 39	-	-	-	0.5	(0.5)	-	-	-
At 1 January 2005 as adjusted	<u>25.3</u>	<u>41.5</u>	<u>-</u>	<u>7.7</u>	<u>33.7</u>	<u>108.2</u>	<u>3.7</u>	<u>111.9</u>
Depreciation transfer for land and buildings	-	-	-	1.1	(1.1)	-	-	-
Exchange adjustments	-	-	-	11.1	-	11.1	-	11.1
Actuarial gains (losses) on defined benefit pension schemes	-	-	-	-	(5.5)	(5.5)	-	(5.5)
Net gains (losses) on cash flow hedges	-	-	-	(1.7)	1.4	(0.3)	-	(0.3)
Transfer to income statement on disposal	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Tax on items taken directly to equity	-	-	-	1.1	0.3	1.4	-	1.4
Net income recognised directly in equity	-	-	-	11.4	(4.9)	6.5	-	6.5
Profit for the year	-	-	-	-	24.4	24.4	1.8	26.2
Total income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>11.4</u>	<u>19.5</u>	<u>30.9</u>	<u>1.8</u>	<u>32.7</u>
Dividends	-	-	-	-	(5.6)	(5.6)	(0.3)	(5.9)
Shares issued	6.9	41.2	-	-	-	48.1	-	48.1
Purchase of Treasury shares	-	-	(4.6)	-	-	(4.6)	-	(4.6)
Reserve for cost of share options	-	-	-	1.4	-	1.4	-	1.4
Transfer between reserves	-	-	-	1.2	(1.2)	-	-	-
At 31 December 2005	<u>32.2</u>	<u>82.7</u>	<u>(4.6)</u>	<u>21.7</u>	<u>46.4</u>	<u>178.4</u>	<u>5.2</u>	<u>183.6</u>

Notes to the Financial Statements continued

32. STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2004

	Share capital £m	Share premium £m	Treasury shares £m	Group Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2004	73.2	41.5	(0.1)	9.5	27.1	151.2	3.2	154.4
Depreciation transfer for land and buildings	-	-	-	(1.7)	1.7	-	-	-
Exchange adjustments	-	-	-	(2.7)	-	(2.7)	-	(2.7)
Actuarial gains on defined benefit pension schemes	-	-	-	-	3.5	3.5	-	3.5
Tax on items taken directly to equity	-	-	-	0.5	(1.6)	(1.1)	-	(1.1)
Net income recognised directly in equity	-	-	-	(3.9)	3.6	(0.3)	-	(0.3)
Profit for the year	-	-	-	-	10.9	10.9	0.5	11.4
Total income for the year	-	-	-	(3.9)	14.5	10.6	0.5	11.1
Dividends	-	-	-	-	(6.2)	(6.2)	-	(6.2)
Allotment of Treasury shares	-	-	0.1	-	-	0.1	-	0.1
Cancellation and repayments of preference shares	(47.9)	-	-	-	-	(47.9)	-	(47.9)
Transfers between reserves	-	-	-	1.2	(1.2)	-	-	-
Reserve for cost of share options	-	-	-	0.4	-	0.4	-	0.4
At 31 December 2004	25.3	41.5	-	7.2	34.2	108.2	3.7	111.9

Notes to the Financial Statements *continued*

32. STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2005

	Share capital £m	Share premium £m	Treasury shares £m	Company Other reserves £m	Retained earnings £m	Total £m
At 1 January 2005	25.3	41.5	–	0.5	52.8	120.1
Adoption of IAS 32 and IAS 39	–	–	–	–	–	–
At 1 January 2005 as adjusted	25.3	41.5	–	0.5	52.8	120.1
Loss for the year	–	–	–	–	(4.0)	(4.0)
Dividends paid	–	–	–	–	(5.6)	(5.6)
Shares issued	6.9	41.2	–	–	–	48.1
Purchase of Treasury shares	–	–	(4.6)	–	–	(4.6)
Reserve for cost of share options	–	–	–	1.4	–	1.4
At 31 December 2005	32.2	82.7	(4.6)	1.9	43.2	155.4

Year ended 31 December 2004

	Share capital £m	Share premium £m	Treasury shares £m	Company Other reserves £m	Retained earnings £m	Total £m
At 1 January 2004	73.2	41.5	(0.1)	0.1	50.3	165.0
Profit for the year	–	–	–	–	8.7	8.7
Dividends paid	–	–	–	–	(6.2)	(6.2)
Allotment of Treasury shares	–	–	0.1	–	–	0.1
Cancellation and repayment of preference shares	(47.9)	–	–	–	–	(47.9)
Reserve for cost of share options	–	–	–	0.4	–	0.4
At 31 December 2004	25.3	41.5	–	0.5	52.8	120.1

Notes to the Financial Statements continued

33. DIVIDENDS PAID

	Pence per share	2005 £m	Pence per share	2004 £m
Group and Company				
Ordinary dividends:				
2005 interim paid	2.0	2.6	–	–
2004 final paid	3.0	3.0	–	–
2004 interim paid		–	1.50	1.5
2003 final paid		–	2.25	2.3
		<u>5.6</u>		<u>3.8</u>
Preference dividends:				
2004 paid		–	5.0	2.4
Total dividends paid		<u>5.6</u>		<u>6.2</u>

A final dividend of 4.0p per share (2004 – 3.0p per share) has been proposed by the Board amounting to a distribution of £5.2m (2004 – £3.0m). The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been provided for in these financial statements.

34. SHARE BASED PAYMENTS

Equity-settled share option plans

Executive share options

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

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

	2005 09.03.2005	2004 31.03.2004	2003 14.03.2003
Date of grant			
Exercise price (p)	220.7	116.9	79.0
Share price at grant (p)	236.0	125.0	84.5
Expected volatility (% pa)	38	39	41
Dividend yield (% pa)	1.59	3.07	3.88
Risk-free interest rate (% pa)	4.9	4.6	3.9
Turnover rates (% pa)	5	5	5
Early exercise	50% exercise early when options are 20% in-the-money		
Fair value at grant (p)	91.0	44.0	28.0
Fair value adjusted for rights issue (p)	85.1	41.1	26.2
Assumed likelihood of satisfying performance condition at:			
31 December 2004	N/A	50%	50%
31 December 2005	75%	75%	100%

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

The charge to the income statement attributable to Executive Share Options is £1.4m (2004 – £0.4m).

Notes to the Financial Statements continued

34. SHARE BASED PAYMENTS (continued)

Share option movements during the year

	2005		2004	
	No. of options	Weighted average exercise price (p)	No. of options	Weighted average exercise price (p)
Outstanding at beginning of the year	11,256,152	142	8,630,210	147
Granted during the year	1,698,302	236	3,071,200	125
Rights issue adjustment	924,193	-	-	-
Exercised during the year	(2,030,231)	187	-	-
Lapsed during the year	(41,467)	145	(445,258)	139
Outstanding at the end of the year	<u>11,806,949</u>	137	<u>11,256,152</u>	142
Exercisable at the end of the year	<u>2,959,574</u>	183	<u>2,933,976</u>	207

Following completion of the Company's Rights Issue announced on 29 June 2005 the number and price applicable to Executive Share options were adjusted to take account of the dilution in the value of Share options caused by the Rights Issue. The number of options was increased by 6.94% and the option price was reduced by 6.49%.

Options are 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.

Share options outstanding at the end of the year

Options outstanding at 31 December 2005:

	2005 No. of options	2004 No. of options	Exercise price range (p)	Exercise period
Executive Share Options 2001	1,744,120	2,853,976	194.0	28.03.04-27.03.11
Executive Share Options 2002	1,215,454	1,708,094	167.4-180.9	15.04.05-08.05.12
Executive Share Options 2003	3,883,799	3,631,682	79.0	14.03.06-13.03.13
Executive Share Options 2004	3,157,794	2,982,400	116.9	31.03.07-30.03.14
Executive Share Options 2005	1,805,782	-	220.7	09.03.08-08.03.15
Executive Share Options No. 3 scheme	-	80,000	191.7	24.11.98-23.11.05
	<u>11,806,949</u>	<u>11,256,152</u>		

No further options can be granted under the Executive Share Option No. 3 Scheme.

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 pages 22 to 29.

The charge to the income statement attributable to the LTIP is £1.6m (2004 - £0.5m).

Notes to the Financial Statements continued

35. ACQUISITION OF SUBSIDIARIES

The Group acquired two companies during the year for a total consideration of £11.3m. The 80% of Setmat SA that was not already owned was acquired on 1 May 2005 and is incorporated within Hunting Energy France, which forms part of the other operating divisions. 100% of Cromar Ltd and its subsidiaries was acquired on 18 August 2005 and has been incorporated in the Hunting Energy Services operations.

From the date of acquisition to 31 December 2005, the two companies contributed £5.9m to revenue, £1.1m to profit from operations and £1.7m to profit before tax.

Details of the acquired net assets, goodwill and consideration are set out below.

	Cromar Ltd		Setmat SA		Total	
	Pre-acquisition carrying values £m	Provisional fair values £m	Pre-acquisition carrying values £m	Provisional fair values £m	Pre-acquisition carrying values £m	Provisional fair values £m
Property, plant and equipment	2.8	3.9	-	-	2.8	3.9
Intangible assets	-	2.2	-	-	-	2.2
Inventories	0.9	0.9	0.1	0.1	1.0	1.0
Trade and other receivables	2.2	1.9	0.3	0.3	2.5	2.2
Cash and cash equivalents	0.9	0.9	0.6	0.6	1.5	1.5
Trade and other payables	(1.7)	(1.7)	(0.2)	(0.2)	(1.9)	(1.9)
Current tax liabilities	(0.2)	(0.2)	-	-	(0.2)	(0.2)
Non-current borrowings	(3.7)	(3.7)	-	-	(3.7)	(3.7)
Deferred tax liabilities	(0.1)	(0.1)	-	-	(0.1)	(0.1)
Net assets acquired	<u>1.1</u>	<u>4.1</u>	<u>0.8</u>	<u>0.8</u>	<u>1.9</u>	<u>4.9</u>
Goodwill		5.9		0.5		6.4
Consideration		<u>10.0</u>		<u>1.3</u>		<u>11.3</u>
Consideration comprised:						
Cash		8.1		1.2		9.3
Deferred consideration		1.5		0.1		1.6
Costs		0.4		-		0.4
		<u>10.0</u>		<u>1.3</u>		<u>11.3</u>

The intangible assets acquired with the acquisition of Cromar Ltd represent customer relationships. The fair values contain provisional amounts which will be finalised in 2006.

If the acquisitions had been made on 1 January 2005, the results of operations during the year would have been as follows:

	2005 £m
Revenue	14.2
Profit from operations	2.1
Profit before tax	1.0

Notes to the Financial Statements continued

36. OPERATING LEASES

The Group as lessee:

Operating lease payments mainly represent rentals payable by the Group for properties.

	Property £m	2005 Others £m	Total £m	Property £m	2004 Others £m	Total £m
Operating lease payments in Income Statement						
Lease and rental payments	<u>7.8</u>	<u>1.9</u>	<u>9.7</u>	<u>5.2</u>	<u>1.7</u>	<u>6.9</u>

Total future operating lease payments

Total future minimum lease payments under non-cancellable operating leases expiring:

	Property £m	2005 Others £m	Total £m	Property £m	2004 Others £m	Total £m
Within one year	7.1	2.3	9.4	6.9	1.8	8.7
Between two to five years	26.5	2.6	29.1	25.3	2.9	28.2
After five years	<u>32.9</u>	<u>0.1</u>	<u>33.0</u>	<u>36.9</u>	<u>0.1</u>	<u>37.0</u>
Total lease payments	<u>66.5</u>	<u>5.0</u>	<u>71.5</u>	<u>69.1</u>	<u>4.8</u>	<u>73.9</u>

The Group as lessor:

Property rental earned during the year was £1.6m (2004 – £1.6m). A number of the Group's leasehold properties are sublet under existing lease agreements.

Total future operating lease income

Total future minimum sublease income receivable under non-cancellable operating leases expiring:

	2005 Property £m	2004 Property £m
Within one year	1.5	0.9
Between two to five years	3.3	3.3
After five years	<u>2.0</u>	<u>2.1</u>
Total lease income receivable	<u>6.8</u>	<u>6.3</u>

Notes to the Financial Statements continued

37. OBLIGATIONS UNDER FINANCE LEASES

	2005 £m	2004 £m
Group		
Present value of minimum lease payments:		
Within one year	0.6	0.4
Between two to five years	0.7	0.9
	<hr/>	<hr/>
Present value of gross finance lease liabilities	1.3	1.3
Less: Future finance charges on finance leases	(0.1)	(0.1)
	<hr/>	<hr/>
Present value of finance lease liabilities	1.2	1.2
	<hr/>	<hr/>
The present value of finance lease liabilities is as follows:		
Within one year	0.6	0.4
Between two to five years	0.6	0.8
	<hr/>	<hr/>
	1.2	1.2
	<hr/>	<hr/>

38. CONTINGENT LIABILITIES

The Company has guaranteed borrowings of £117.4m (2004 – £159.8m) of other Group companies.

39. CAPITAL COMMITMENTS

Group capital expenditure committed, for the purchase of property, plant and equipment, but not provided for in these financial statements amounted to £1.6m (2004 – £2.0m).

40. RELATED PARTY TRANSACTIONS

Company

During the year, the Company sold services to Hunting Energy Services in the US to the value of £0.7m (2004 – £0.7m) and acquired services from a central subsidiary, HG Management Services, to the value of £1.8m (2004 – £1.5m). At 31 December 2005 the outstanding balance receivable from Hunting Energy Services was £0.7m (2004 – £0.7m) and the outstanding balance payable to HG Management Services was £1.8m (2004 – £1.5m).

During the year, the Company was advanced loans by two subsidiaries, Hunting Defence and Hunting Knightsbridge Holdings, and by one associate, Hunting Brae. The outstanding balances payable to Group companies at 31 December 2005 were £89.4m (2004 – £105.9m) and to associates £5.6m (2004 – £10.9m) respectively. Interest paid on loan balances during the year was £5.3m (2004 – £2.0m) and £0.1m (2004 – £nil) respectively.

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 balances receivable for these services were £0.2m (2004 – £0.8m).

During 2005, the Company invested an additional £44.8m in its existing subsidiaries in order to provide the appropriate capital structure for those companies. During 2004, the Company had re-structured the UK Group in response to new UK tax transfer-pricing regulations. This involved the transfer of £156.6m of directly owned subsidiaries to intermediate parents and the acquisition of subsidiaries from intermediate parents of £83.4m. In 2005, the Company recognised an impairment of £1.6m (2004 – £7.6m) on certain loss-making subsidiaries.

All balances between the Company and its subsidiaries have no fixed term for repayment and are unsecured.

Notes to the Financial Statements *continued*

40. RELATED PARTY TRANSACTIONS (continued)

Associates and non-wholly owned subsidiaries

During the year Hunting Oilfield Services (Int) PTE received £0.1m (2004 – £0.1m) from JFE Technical Centre for management fees and other charges. The Group own 24.5% of JFE Technical Centre.

During the year Hunting Oilfield Services (Int) PTE sold goods with a value of £nil (2004 – £0.5m) to Tubular Resources PTE. The Group own 30% of Tubular Resources PTE.

During the year Hunting Oilfield Services PTE received royalties of £0.2m (2004 – £0.4m) from its associate pipe threading facility in Tianjin, China, in which the Group owns 28.5%.

During the year Hunting Energy Services (International) Ltd sold goods amounting to £0.4m (2004 – £0.2m) and purchased goods amounting to £0.1m (2004 – £0.1m) to/from Hunting Oilfield Services (UK) Ltd. The Group owns 60% of Hunting Oilfield Services (UK) Ltd. At 31 December 2005 Hunting Energy Services (International) Ltd borrowed £7.0m (2004 – £1.8m) from Hunting Oilfield Services (UK) Ltd on which interest was paid of £0.3m (2004 – £0.2m).

During the year Hunting Oilfield Services Ltd received payment for management fees and other services provided of £0.3m (2004 – £0.3m) from SCM Partners. At 31 December 2005 SCM Partners had borrowed £0.1m (2004 – £0.1m) from Hunting Oilfield Services Ltd. The Group owns 40% of SCM Partners.

At 31 December 2005 Hunting Oilfield Services BV had borrowed £0.4m (2004 – £0.7m) from Hunting Energy Services (International) Ltd. The Group owns 60% of Hunting Oilfield Services BV.

Notes to the Financial Statements continued

41. TRANSITION TO IFRS

Hunting PLC adopted IFRS on 1 January 2004, with the exception of IAS 32 and IAS 39 which was adopted on 1 January 2005. This note sets out the impact of IFRS on the Financial Statements.

Consolidated Income Statement

		Year ended 31 December 2004		
	Transition notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue	7,8	1,255.1	(95.7)	1,159.4
Cost of sales	8	(1,161.5)	94.8	(1,066.7)
Gross profit		93.6	(0.9)	92.7
Other operating income	7	–	3.7	3.7
Operating expenses*	7	(66.7)	(8.9)	(75.6)
Share of profit in associates		0.1	(0.1)	–
Profit from operations before exceptional items		27.0	(6.2)	20.8
Exceptional items	7	(6.0)	6.0	–
Profit from operations		21.0	(0.2)	20.8
Net finance costs	1,7	(5.6)	1.2	(4.4)
Share of post-tax profits in associates		–	0.1	0.1
Profit before tax		15.4	1.1	16.5
Taxation	6	(6.3)	1.2	(5.1)
Profit for the period		9.1	2.3	11.4
Attributed to:				
Equity holders of the parent		8.6		10.9
Minority interests		0.5		0.5
Profit for the period		9.1		11.4
Basic earnings per share (restated)		5.9p		7.9p
Diluted earnings per share (restated)		5.7p		7.7p

*Under UK GAAP and IFRS, operating expenses include a £3.8m exceptional charge for onerous leases in the year ended 31 December 2004.

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

Consolidated Balance Sheet

		At 31 December 2004		
	Transition notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Property, plant and equipment	9	158.1	(2.3)	155.8
Goodwill	2	44.8	2.7	47.5
Intangible assets	9	–	3.1	3.1
Interests in associates		8.7	–	8.7
Investments		3.8	(0.2)	3.6
Retirement benefit assets	1	25.8	(2.0)	23.8
Receivables and other assets		3.4	(0.1)	3.3
Deferred tax assets	5,6	–	11.2	11.2
		<u>244.6</u>	<u>12.4</u>	<u>257.0</u>
Current assets				
Inventories		75.7	0.8	76.5
Trade and other receivables		140.5	(0.1)	140.4
Investments		–	–	–
Cash and cash equivalents		15.1	–	15.1
		<u>231.3</u>	<u>0.7</u>	<u>232.0</u>
LIABILITIES				
Current liabilities				
Trade and other payables	4	156.8	(4.0)	152.8
Current tax liabilities		1.5	(0.4)	1.1
Borrowings		16.4	–	16.4
Provisions		–	0.6	0.6
		<u>174.7</u>	<u>(3.8)</u>	<u>170.9</u>
Net current assets		<u>56.6</u>	<u>4.5</u>	<u>61.1</u>
Non-current liabilities				
Borrowings		129.3	–	129.3
Deferred tax liabilities	5,6	39.5	20.0	59.5
Retirement benefit obligations	1	–	1.9	1.9
Other payables		3.0	(1.1)	1.9
Provisions		11.5	2.1	13.6
		<u>183.3</u>	<u>22.9</u>	<u>206.2</u>
Net assets		<u>117.9</u>	<u>(6.0)</u>	<u>111.9</u>
Shareholders' equity				
Share capital		25.3	–	25.3
Share premium		41.5	–	41.5
Revaluation reserve	5	16.6	(7.8)	8.8
Other reserves	3,9	–	(1.6)	(1.6)
Retained earnings	3,5	30.8	3.4	34.2
		<u>114.2</u>	<u>(6.0)</u>	<u>108.2</u>
Minority interests		<u>3.7</u>	<u>–</u>	<u>3.7</u>
Total equity		<u>117.9</u>	<u>(6.0)</u>	<u>111.9</u>

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

Consolidated Balance Sheet at 1 January 2004

(Date of transition to IFRS)

	Transition notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Property, plant and equipment	9	160.5	0.9	161.4
Goodwill	2	49.1	(3.3)	45.8
Intangible assets	9	-	3.3	3.3
Interests in associates and joint ventures		13.0	(0.1)	12.9
Investments		5.6	-	5.6
Retirement benefit assets	1	21.7	(3.4)	18.3
Receivables and other assets		1.4	(0.1)	1.3
Deferred tax assets	5,6	-	5.8	5.8
		<u>251.3</u>	<u>3.1</u>	<u>254.4</u>
Current assets				
Inventories		93.2	0.2	93.4
Trade and other receivables		129.5	(0.5)	129.0
Current tax assets		5.8	0.4	6.2
Investments		0.4	(0.4)	-
Cash and cash equivalents		15.3	0.5	15.8
		<u>244.2</u>	<u>0.2</u>	<u>244.4</u>
LIABILITIES				
Current liabilities				
Trade and other payables	4	138.3	(3.7)	134.6
Borrowings		8.7	(0.1)	8.6
		<u>147.0</u>	<u>(3.8)</u>	<u>143.2</u>
Net current assets		<u>97.2</u>	<u>4.0</u>	<u>101.2</u>
Non-current liabilities				
Borrowings		133.6	-	133.6
Deferred tax liabilities	5,6	34.4	14.7	49.1
Retirement benefit obligations	1	-	1.3	1.3
Other payables		2.9	(0.9)	2.0
Provisions		12.8	2.4	15.2
		<u>183.7</u>	<u>17.5</u>	<u>201.2</u>
Net assets		<u>164.8</u>	<u>(10.4)</u>	<u>154.4</u>
Shareholders' equity				
Share capital		73.2	-	73.2
Share premium		41.5	-	41.5
Treasury shares		(0.1)	-	(0.1)
Revaluation reserve	5	17.8	(7.8)	10.0
Other reserves	3,9	-	(0.5)	(0.5)
Retained earnings	3,5	29.2	(2.1)	27.1
		<u>161.6</u>	<u>(10.4)</u>	<u>151.2</u>
Minority interests		<u>3.2</u>	<u>-</u>	<u>3.2</u>
Total equity		<u>164.8</u>	<u>(10.4)</u>	<u>154.4</u>

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

Consolidated Cash Flow Statement

	Year ended 31 December 2004		
	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Operating activities			
Profit from operations	27.0	(1.2)	25.8
Depreciation, amortisation and impairment	22.1	(2.2)	19.9
(Profit) on disposal of investments	(0.4)	–	(0.4)
(Profit) on disposal of property, plant and equipment	(0.9)	–	(0.9)
Share of (profit) in associates	(0.1)	0.1	–
(Increase) in inventories	(8.3)	(1.7)	(10.0)
(Increase) in receivables	(17.0)	2.8	(14.2)
Increase in payables	20.2	(1.0)	19.2
Taxation received	6.6	–	6.6
Net cash inflow from operating activities	<u>49.2</u>	<u>(3.2)</u>	<u>46.0</u>
Investing activities			
Dividends received from associates	3.5	–	3.5
Purchase of subsidiary and businesses	(1.5)	–	(1.5)
Purchase of minority interest in subsidiary	(0.1)	–	(0.1)
Purchase of associates and joint ventures	(0.2)	–	(0.2)
Proceeds from disposal of investments	2.4	–	2.4
Proceeds from disposal of subsidiary	19.9	–	19.9
Proceeds from disposal of property, plant and equipment	6.0	–	6.0
Purchase of property, plant and equipment	(22.1)	0.2	(21.9)
Purchase of intangible assets	–	(0.4)	(0.4)
Net cash inflow from investing activities	<u>7.9</u>	<u>(0.2)</u>	<u>7.7</u>

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

Consolidated Cash Flow Statement (continued)

	Year ended 31 December 2004		
	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Financing activities			
Interest received	3.1	–	3.1
Interest paid	(8.7)	–	(8.7)
Equity dividends paid	(3.8)	–	(3.8)
Preference dividends paid	(2.4)	–	(2.4)
Cancellation and repayment of preference share capital	(47.9)	–	(47.9)
Increase in borrowings	1.6	(1.6)	–
Proceeds from borrowings	–	92.9	92.9
Repayment of borrowings	–	(87.9)	(87.9)
Capital element of finance leases	(0.3)	–	(0.3)
Movement in short term deposits	0.4	(0.4)	–
Net cash (outflow) from financing activities	(58.0)	3.0	(55.0)
Net (decrease) in cash and cash equivalents	(0.9)	(0.4)	(1.3)
Cash and cash equivalents at beginning of period			12.4
Effect of foreign exchange rate changes			(0.2)
Cash and cash equivalents at end of period			10.9

UK GAAP required cash flows to be presented under seven different headings whereas IAS 7 *Cash Flow Statements* requires cash flows to be presented under three headings: cash flows from operating, investing and financing activities. Consequently there are a number of re-classifications. Under IAS 7, foreign exchange differences on cash and cash equivalents are presented on the face of the cash flow statement. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

Notes to the IFRS Adjustments

KEY INCOME STATEMENT AND BALANCE SHEET ADJUSTMENTS:

1. Employee benefits

Under UK GAAP, the Group accounted for pension costs in accordance with SSAP 24 and provided disclosures as required by FRS 17. The expected cost of defined benefit pensions was charged against profit from operations and actuarial gains and losses were spread evenly over the remaining service lives of current employees as a credit or charge to the operating profit. In accordance with IAS 19 *Employee Benefits*, the expected cost of defined benefit pensions is charged against profit from operations whilst the net return from scheme assets and liabilities is recognised within net finance costs in the income statement. Under the 16 December 2004 amendment to IAS 19, the Group has adopted the option of recognising all actuarial gains and losses immediately, directly in reserves. In the year ended 31 December 2004, an actuarial gain of £3.5m has been recognised in the statement of recognised income and expense.

2. Goodwill

Goodwill is not amortised under IFRS 3 *Business Combinations*, but is subject to an annual impairment review.

Under UK GAAP, goodwill written off to reserves prior to 1998 was reinstated and included in determining the profit or loss on disposal of a business. The Company has applied the exemption within IFRS 1 *First-time adoption of International Financial Reporting Standards* not to restate its business combinations prior to the transition date. Consequently, under IFRS, goodwill written off to reserves is not reinstated. For the year ended 31 December 2004, £1.0m of goodwill previously written off to reserves has not been reinstated.

3. Share options

UK GAAP required that there was no charge to the income statement for share options where the exercise price was equal to the market price at the grant date. In accordance with IFRS 2 *Share-based Payments*, all share-based payments, including share option costs are recognised as an expense over the vesting period. This has resulted in a £0.1m transfer from retained earnings to other reserves at 1 January 2004.

The charge to the income statement was £0.3m for the full year.

In accordance with the IFRS transitional provisions, IFRS 2 has been applied to grants of equity instruments issued after 7 November 2002 that had not vested as of 1 January 2005. No charge is recognised in respect of grants to which IFRS 2 do not apply.

4. Dividends

IFRS requires dividends to be recognised within equity in the period in which they are approved. Under UK GAAP, dividends were recognised within the income statement in the period in which they were declared.

5. Revaluation reserve

A transfer has been made from the revaluation reserve to retained earnings amounting to the difference between the depreciation charged on property, plant and equipment on a revaluation basis and an historical cost basis.

In accordance with UK GAAP, no provision was made for deferred taxation on the revaluation reserve. For IFRS, deferred taxation is provided on the revaluation gains. The revaluation reserve includes the related deferred taxation.

Notes to the Financial Statements continued

41. TRANSITION TO IFRS (continued)

6. Deferred taxation

UK GAAP required deferred taxation to be recognised on timing differences whereas IFRS requires that deferred taxation is provided on all temporary differences including the revaluation of non-monetary assets and on unremitted overseas earnings to the extent that a tax charge is foreseeable.

Under UK GAAP, deferred tax assets and liabilities were shown on a net basis. IFRS requires separate disclosure of deferred tax assets and liabilities.

7. Income statement reallocations

For UK GAAP, royalty, sub-lease and commission income were included in operating expenses or revenue, as appropriate. Under IFRS, these are included in other operating income.

UK GAAP requires the share of profit from operations in associates to be included in total profits from operations, whereas under IFRS the share of profits after tax in associates is included in the Group's profit before tax.

8. Other

Under IAS 18, revenue is not recognised for barter transactions that involve the exchange of goods or services which are of a similar nature and value. These transactions were recognised as revenue under UK GAAP. The impact for the reduction in sales and cost of sales of £89.9m. This reduction has no impact on profit.

Other differences comprise a number of adjustments that are not individually significant.

9. Balance sheet reallocations and other

The Company has taken advantage of the exemption in IFRS 1, whereby the cumulative translation differences for all foreign operations that existed at the date of transition to IFRS are deemed to be zero. The cumulative translation differences from 1 January 2004 are recorded as a separate component of equity.

Under UK GAAP, capitalised computer software was included within property, plant and equipment. In accordance with IFRS, capitalised computer software not integral to plant and equipment, is classified as an intangible asset. The net book value of computer software reclassified as intangible assets was £3.3m at 1 January 2004 and £3.1m at 31 December 2004.

Other differences comprise a number of adjustments that are not individually significant.

Notes to the Financial Statements continued

42. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

OIL AND GAS ACTIVITIES	Country of incorporation and operations	Business
Gibson Energy Holdings Ltd	Canada	Holding Company
Gibson Energy Ltd	Canada	Oil and gas marketing and distribution
Canwest Propane Ltd	Canada	Propane retailing
Moose Jaw Asphalt Inc.	Canada	Asphalt manufacturing and marketing
Hunting Energy Services Holdings Inc.	USA	Oilfield services
Hunting Energy Services, L.P.	USA	Oilfield and trenchless drilling products and services
Hunting Performance Inc.	USA	Drilling equipment
Hunting Energy Services (International) Limited	England & Scotland	Oilfield services
Hunting Oilfield Services (UK) Limited (60%)	Scotland & Holland	Oilfield services
Hunting Oilfield Services Limited	Scotland	Oilfield services
Cromar Limited	Scotland, USA & Singapore	Oilfield services
Hunting Energy Services (Canada) Limited	Canada	Oilfield services
Hunting Oilfield Services (International) Pte Limited	Singapore	Oilfield services
Hunting Oilfield Services Pte Limited	Singapore	Oilfield services
Hunting Airtrust Tubulars Pte Limited (50%) ¹	Singapore & China	Oilfield services
Tubular Resources Pte Ltd (30%) ² +	Singapore	Oilfield services
Tenkay Resources Inc.	USA	Oil and natural gas exploration
Hunting Energy France SA +	France	Holding company
INTERPEC SAS +	France	Refinery and pipeline equipment
Larco SAS +	France	Oil storage equipment
Setmat SA +	France	Oil storage control systems
Roforge SAS +	France	Manufacture of valves
Hunting Specialized Products Inc	USA & England	Pipeline rehabilitation services and protective coatings
E.A. Gibson Shipbrokers Limited	England, Hong Kong & Dubai	Shipbroking, LPG broking
Field Aviation Company Inc.	Canada	Aviation engineering services
Aero Sekur S.p.A.	Italy	Manufacture of rubber and textile products

CORPORATE ACTIVITIES

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 Subsidiaries and associates marked + are audited by firms other than PricewaterhouseCoopers LLP.
- 5 Associates are marked ² above.
- 6 All interests in subsidiaries and associates are in the equity shares of those companies.

Shareholder Information

FINANCIAL CALENDAR 2006

April 26	Annual General Meeting
June 29	Final Ordinary Dividend Payment
August	Announcement of Interim Results
November	Ordinary Interim Dividend Payment

ANALYSIS OF ORDINARY SHAREHOLDERS

The Company has 2,295 Ordinary shareholders (2004 – 2,275) who hold 128.8 million (2004 – 101.0 million) Ordinary shares analysed as follows:

	2005 % of total shareholders	2005 % of total shares	2004 % of total shareholders	2004 % of total shares
SIZE OF HOLDINGS				
1 – 4,000	69.63	1.44	70.99	1.64
4,001 – 20,000	18.26	2.95	19.39	3.78
20,001 – 40,000	3.22	1.68	2.75	1.76
40,001 – 200,000	5.06	7.90	4.26	8.38
200,001 – 500,000	1.87	9.48	1.24	8.54
500,001 and over	1.96	76.55	1.37	75.90

SHARE INFORMATION

The Ordinary Shares of the Company are quoted on the London Stock Exchange.

Telephone information on the latest share price is available on 0906 003 2942.

Lloyds TSB Registrars offers a range of shareholder information and dealing services on www.shareview.co.uk

MARKET MAKERS

The following companies have indicated to the London Stock Exchange that they make a market in the Company's Ordinary Shares:

ABN Amro Bank NV
Merrill Lynch International
Numis Securities
Teather & Greenwood Ltd
UBS Investment Bank
Williams de Broë
Winterflood Securities

Financial Record

	2005 IFRS £m	2004 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m	2001 UK GAAP £m
Revenue					
Continuing operations	1,521.9	1,159.4	1,195.4	951.3	935.1
Discontinued operations	—	—	—	—	100.2
	1,521.9	1,159.4	1,195.4	951.3	1,035.3
Continuing operations	44.9	20.8	25.2	24.4	45.2
Discontinued operations	—	—	—	—	25.9
Profit from operations	44.9	20.8	25.2	24.4	71.1
Finance charges	(4.6)	(4.4)	(4.1)	(5.3)	(6.1)
Share of post-tax profits in associates	0.6	0.1	—	—	—
Profit before taxation	40.9	16.5	21.1	19.1	65.0
Taxation	(14.7)	(5.1)	(7.3)	(7.4)	(19.7)
Profit after taxation	26.2	11.4	13.8	11.7	45.3
Basic earnings per share	21.2p	7.9p	6.0p	3.8p	34.6p
Dividend per share*	6.0p	4.5p	3.5p	3.0p	16.0p
Non-current assets	299.0	257.0	228.2	198.9	182.2
Net current assets	78.7	61.1	120.3	128.9	130.7
	377.7	318.1	348.5	327.8	312.9
Financed by:					
Shareholders' funds (including minorities)	183.6	111.9	164.8	196.7	201.8
Non-current liabilities	194.1	206.2	183.7	131.1	111.1
	377.7	318.1	348.5	327.8	312.9
Net assets per share	142.5p	110.7p	163.2p	194.8p	200.2p

*Dividend per share is stated on a declared basis.