

Report of the Directors

MONDAY

LD4 *L8ZXQ80N* 09/03/2009 188
COMPANIES HOUSE

The Directors present their report, together with the audited financial statements for the year ended 31 December 2008.

Business Review and Principal Activities

The Company is a holding company whose subsidiaries are primarily involved in international oil and gas services. The Business Review, encompassing the Chief Executive's Review and the Finance Director's Review on pages 4 to 13 together with the Chairman's Statement on page 2, reports on the activities during the year ended 31 December 2008 and likely future developments. Details of the Company's principal subsidiary and associated undertakings are set out in note 48.

Results

The results of the Group are set out in the Consolidated Income Statement on page 47.

Dividends

The final dividend for 2007 of 5.7p per share (2006 – 5.2p) was paid on 1 July 2008 and on 21 November 2008 the 2008 interim dividend of 2.9p per Ordinary share was paid (2007 – 2.55p). The Directors recommend a final Ordinary dividend of 7.0p per share (2007 – 5.7p) payable on 1 July 2009 to shareholders on the register at 29 May 2009.

Directors

Brief biographies of the Directors holding office at 31 December 2008 are shown on page 14.

Under the Articles of Association each Director must retire from office at the Annual General Meeting unless appointed or re-appointed as a Director at either of the last two Annual General Meetings before that meeting.

On 23 April 2008, Dennis Clark retired from the Board and Peter Rose was appointed to the Board holding the office of Finance Director. On 12 December 2008, following the sale of Gibson Energy, Terry Gornke stepped down from the Board.

Iain Paterson and Hector McFadyen will retire 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 28 and 29. As at 31 December 2008, 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.

Acquisition

During 2008, the Group acquired 100% of the share capital of Chief Hauling Contractors Inc. in Canada on 1 June 2008 for £7.4m. This company was disposed of as part of the Gibson Energy disposal on 12 December 2008. Further details are provided in note 40 to the accounts.

Report of the Directors continued

Disposal

On 6 August 2008, the Company entered into an agreement for the sale of Gibson Energy Holdings Inc. This sale was completed on 12 December 2008. Further details are provided in note 41 to the accounts.

Major Shareholdings

As at 20 February 2009, major shareholdings in the Ordinary shares of the Company, other than Directors' interests, notified to the Company in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, were as follows:

| | Notes | Number of Ordinary shares | Percentage of issued Ordinary shares |
|--|-------|---------------------------------|---|
| AXA S.A. and Group Companies | | 11,055,536 | 8.37 |
| Hunting Investments Limited | (i) | 10,884,743 | 8.24 |
| Prudential PLC | (ii) | 9,304,647 | 7.05 |
| Schroder Investment Management | | 7,064,193 | 5.35 |
| Mirabaud Investment Management | | 6,672,043 | 5.05 |
| Slaley Investments Limited | | 6,411,679 | 4.85 |
| F Godson – as trustee | (iii) | 6,071,755 | 4.60 |
| Legal & General Investment Management | | 5,990,996 | 4.53 |
| DRL Hunting | | 199,910 | |
| – other beneficial | (iv) | 2,484,583 | |
| – as trustee | (iii) | 2,549,117 | |
| | | 5,233,610 | 3.96 |
| JP Morgan Asset Management | | 4,046,240 | 3.06 |
| JA Trafford – as trustee | (iii) | 3,890,866 | 2.94 |

Notes:

- (i) 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.
- (ii) Held by certain of its subsidiaries.
- (iii) After elimination of duplicated holdings, the total Hunting family trustee interests shown above amount to 6,375,449 Ordinary shares.
- (iv) Arise because DRL Hunting and his children are or could become beneficiaries under the relevant family trusts of which DRL Hunting is a trustee.

Report of the Directors *continued*

Corporate Social Responsibility

Details of the Group's policies on employment, health, safety and the environment are contained within the Business Review on page 4 and within the Corporate Social Responsibility Report on pages 22 and 23.

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 £0.4m (2007 – £0.7m).

Charitable and Political Contributions

During the year the Group donated £51,000 (2007 – £57,000) to UK charitable organisations and £159,000 (2007 – £213,000) to overseas charities. No UK political donations were made (2007 – £nil).

Property, Plant and Equipment

Details of movements in property, plant and equipment are shown in note 14 to the financial statements.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 22 April 2009 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS commencing at 10.30 a.m.

Further details of resolutions the Company is seeking for the allotment, issue and purchase of its Ordinary shares together with details of a new share plan are set out in the letter containing details of the Annual General Meeting which accompanies the Notice of the Annual General Meeting to be held on 22 April 2009.

Powers of the Directors

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

Share Capital

The Company's issued share capital comprises a single class of share capital which is divided into Ordinary shares of 25 pence each. Details of the share capital of the Company are set out in note 32 to the financial statements. The rights and obligations attaching to the Company's Ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of Ordinary shares are entitled to speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives and to exercise voting rights. Holders of Ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Holders of Ordinary shares are entitled to receive the Company's annual report and accounts. Subject to meeting certain thresholds, holders of the Ordinary shares may require a general meeting of the Company to be held or the proposal of resolutions at Annual General Meetings.

Report of the Directors *continued*

Authority to Allot Shares and Disapply Statutory Pre-Emption Rights

The Directors will seek to renew their authorities to allot unissued shares and to disapply statutory pre-emption rights at the Annual General Meeting to be held on 22 April 2009.

Purchase of Own Shares

At the Annual General Meeting held on 23 April 2008, the Company was given authority to purchase up to 10,958,720 of its Ordinary shares until the date of its next Annual General Meeting. No purchases were made during the year. The Directors will be seeking a new authority for the Company to purchase its Ordinary shares at the Annual General Meeting to be held on 22 April 2009. Any shares purchased will either be cancelled and the number of Ordinary shares in issue reduced accordingly or held in Treasury.

Voting Rights and Restrictions on Transfer of Shares

On a show of hands at a general meeting of the Company every holder of Ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. None of the Ordinary shares carry any special rights with regard to control of the Company. Proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting. A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Directors may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer: (i) is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Directors accompanied by the certificate for the share to which it relates and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; (iii) is in favour of a person who is not a minor, bankrupt or a person of unsound mind; or (iv) is in favour of not more than four transferees.

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

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws);
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval to deal in the Company's shares; and

Report of the Directors *continued*

- where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

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

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders. At the Annual General Meeting held on 23 April 2008, a resolution was passed by shareholders adopting new Articles of Association.

Significant Agreements

The Company is a party to certain funding agreements in which the counterparties can determine whether or not to cancel the agreements where there has been a change of control of the Company.

The service agreements of the executive Directors include provisions that provide for compensation for loss of office or employment as a result of a change of control. Further details of the Directors' service contracts can be found in the Remuneration Committee's Report on pages 26 and 27.

Appointment and Replacement of Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Company by ordinary resolution at a general meeting of holders of Ordinary shares or by the Board on the recommendation of the Nomination Committee. The Company may also remove a Director. The Corporate Governance Report sets out further details of the requirements for re-election of Directors on page 32. In addition, further details of the workings of the Nomination Committee are set out on page 33.

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 payables. The total amount of Group trade payables falling due within one year at 31 December 2008 represents 74 days worth (2007 – 40 days), as a proportion of the total amount invoiced by suppliers during the year ended on that date.

Statement on Disclosure of Information to Auditors

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

Report of the Directors *continued*

Going Concern

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

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 22 April 2009.

By order of the Board



Peter Rose
Company Secretary
26 February 2009

Corporate Social Responsibility

Introduction

This report describes the policies and procedures put in place by the board to ensure that the Company operates in a safe and responsible manner and where practical takes steps to protect the environment.

The Company acknowledges and is committed to its corporate social responsibilities within the areas in which it operates. Its contribution and involvement is determined by the regional custom and best practice in those locations and is subject to regular monitoring and review by the board and divisional management.

Employment and Training

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

- As a responsible employer, full and fair consideration is given to applications for positions from disabled persons and to their training and career advancement. Every effort is made to retain in employment those who become disabled while employed by the Company.
- Appropriate training is provided to employees to suit their particular work environment within the Company.
- Communication with employees is undertaken through a variety of media including the bi-annual Hunting Review magazine.

Health and Safety

The Company is committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public. The Group operates a range of facilities and installations and each location has in place a tailored health and safety programme designed to, at a minimum, comply with local regulatory requirements. All subsidiaries target continuous improvement to their Health and Safety Standards. The Health and Safety policies include:

- Regular review and audit of equipment, practices and procedures 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 which is documented and reported at each board meeting.
- Appropriate training and education of all staff.

The Chief Executive, who is directly responsible for Health and Safety, presents a Health and Safety report at every PLC board meeting.

Environment

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

Corporate Social Responsibility continued

Key aspects of the environmental policies include:

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

Regulatory Environment

The Company is listed on the London Stock Exchange and is subject to regulation by the Financial Services Authority in the United Kingdom as well as compliance with UK Company Law. With the aim of maintaining standards and to comply with customer trading requirements a high proportion of our operating facilities are either ISO or API registered or subject to other similar registrations or industry qualifications.

Business Ethics

The Group targets and encourages the highest standards of integrity and honesty in all business dealings. The objective is to maintain and enhance the reputation of the Company and enforce ethical dealings with customers and suppliers.

The Board has established "whistle blowing" procedures for any employee to raise in confidence any concerns they may have about possible financial improprieties or other matters with either the Chairman of the Board or the senior independent Director. Details of the procedure have been communicated to all employees.

Hunting in the Community

Subsidiary companies are responsive to local needs and support a range of charities and community projects in their own areas. Of note in 2008, was the 29th annual Hunting Art Prize held in Houston, Texas, which raised in excess of US\$130,000 for the Linda Lorelle Scholarship Fund. This organisation provides financial assistance and guidance to students from disadvantaged backgrounds in the Houston area.



Dennis Proctor
Chief Executive
26 February 2009

The Remuneration Committee's Report

Remuneration Committee

The Remuneration Committee of the Board ("the Committee"), which met five times in 2008, 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 New Bridge Street, 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. Terry Gomke, who was a Director of the Company until he stepped down from the Board on 12 December 2008, had a service contract with a two year notice period. From 12 December 2008, the Company is compliant with the Code's recommended period of notice for executive Directors.

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, participation in performance-linked share plans and a performance-linked long term incentive plan. 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 nil 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 Remuneration Committee's Report *continued*

The Remuneration Committee believes that the executive share option scheme no longer serves the best interests of the Company and is seeking approval for a replacement Performance Share Plan (PSP) at the Annual General Meeting to be held on 22 April 2009.

The Committee is of the view that the use of share options and their associated volatility is not appropriate for the Company going forward while a PSP will more closely align Executive Directors with shareholders as well as being consistent with FTSE 250 market practice. Full details on the PSP are provided in the 2009 Notice of Annual General Meeting. In brief, under the PSP, awards will be made to executives and Directors that vest subject to total shareholder return (TSR) performance over the three year period relative to the Dow Jones US Oil Equipment and Services sector index and the DJ STOXX TM Oil Equipment and Services sector index. The maximum total market value of shares over which awards may be granted in 2009 for Dennis Proctor and Peter Rose, expressed as a percentage of their annual salary, is 40% and 30% respectively. These limits represent an equivalent value to prior year Directors' awards under the executive share option scheme.

Best practices will be followed in respect of the administration of the PSP, including leaver and change in control provisions. In summary, the Committee believes that the new PSP is an appropriate plan to operate alongside the Long Term Incentive Plan and takes due account of market practice, best practice, and the particular circumstances of the Company.

The Company's Long Term Incentive Plan ("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 2008 is calculated using the sum of the Group's after tax operating income after deducting a charge for the after tax cost 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 added. These performance conditions align the interests of the executives with those of the Group and its shareholders and will only produce value to the participants if value is created for the Group.

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

At 31 December 2008, the pool available for distribution has decreased from £6,219,577 to £6,183,231 following a decrease in the pool of £36,346.

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. As the pool was greater than these maximum levels, the awards were restricted to these multiples. The aggregate amount of the pool awarded to participants was £5,446,239.

In 2008, 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 Peter Rose 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 Peter Rose. When actual results achieve 120% of these performance targets Dennis Proctor and Peter Rose are entitled to a maximum cash bonus of 130% and 100% of base salary respectively.

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

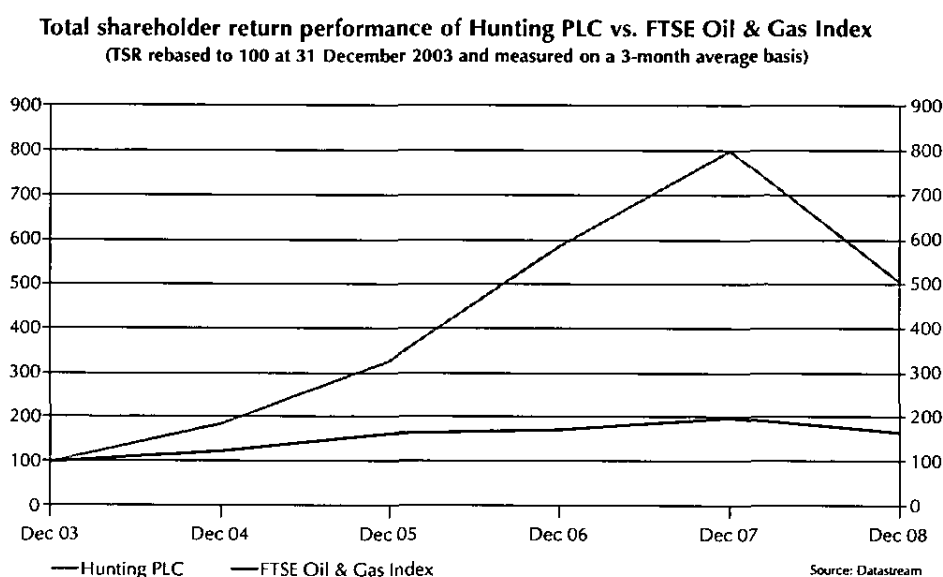
The Remuneration Committee's Report *continued*

The current balance between fixed and variable remuneration is approximately 25% deriving from salary and benefits and 75% from variable incentives.

Bonus schemes are also in place for the majority of Group employees.

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 Oil and Gas index commencing on 31 December 2003.



In the opinion of the Directors the FTSE Oil and Gas Index is the most appropriate index against which the total shareholder return of the Company should be compared, because this is the sector in which the Company is quoted.

Directors' Service Contracts

The Company's policy on executive Directors' contracts is to comply with the guidance in the Combined Code. At 31 December 2008, all executive Directors' contracts were in compliance with that guidance.

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 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 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 entered into a Service Agreement with the Company on 15 December 1989. This was amended effective 1 March 2004 whereby both the Company and the Director are required to give one year's notice of termination.

Peter Rose entered into a Service Agreement with the Company on 23 April 2008.

Under the terms of the Service Agreements for Richard Hunting and Peter Rose, both the Company and the Directors are required to give one year's notice of termination. 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 Peter Rose. The Company also has the option to put Richard Hunting and Peter Rose on paid leave of absence on payment of a sum equivalent to salary for Richard Hunting and salary and bonus for Peter Rose (based on the previous 12 month period), subject to them complying with the terms of their Service Agreement. These conditions also apply on termination following a change of control. In addition, Peter Rose would be entitled to an acceleration of all share options and share-based awards, which would become immediately exercisable and remain exercisable for a period of one year following termination.

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 one year term from 4 September 2008.

| <i>Non-executive Director</i> | <i>Date of first appointment</i> | <i>Unexpired term from 26 February 2009</i> |
|-------------------------------|----------------------------------|---|
| George Helland | 1 October 2001 | 19 months |
| Hector McFadyen | 4 September 2002 | 6 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. Richard Hunting held an external non-executive position during the year and his remuneration in 2008, which he is entitled to retain, was £36,000.

The Remuneration Committee's Report *continued*

Emoluments (audited)

In the year to 31 December 2008, the highest paid Director received total emoluments of £801,000 as shown below:

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

| | Salary and fees £000 | Annual bonus £000 | Benefits £000 | 2008 Total £000 | 2007 Total £000 |
|-----------------------------------|----------------------------|-------------------------|------------------|-----------------------|-----------------------|
| Executive Directors | | | | | |
| Richard Hunting | 174 | – | 12 | 186 | 180 |
| Dennis Proctor | 339 | 441 | 21 | 801 | 708 |
| Peter Rose (from 23 April 2008) | 133 | 200 | 10 | 343 | – |
| Dennis Clark (to 23 April 2008) | 96 | – | 5 | 101 | 591 |
| Terry Gomke (to 12 December 2008) | 273 | 288 | 17 | 578 | 519 |
| Non-executive Directors | | | | | |
| George Helland | 51 | – | – | 51 | 44 |
| Hector McFadyen | 45 | – | – | 45 | 38 |
| Iain Paterson | 54 | – | – | 54 | 44 |
| Total remuneration | 1,165 | 929 | 65 | 2,159 | 2,124 |
| <i>Analysed as:</i> | | | | | |
| Executive Directors | 1,015 | 929 | 65 | 2,009 | 1,998 |
| Non-executive Directors | 150 | – | – | 150 | 126 |
| Total remuneration | 1,165 | 929 | 65 | 2,159 | 2,124 |

The bonus figures stated for Peter Rose and Terry Gomke are for the full year and the salary and fees are stated for the period as a Director.

Benefits comprise company car and fuel benefits, subscriptions and life and disability insurance.

The remuneration of the two non-UK executive Directors paid in their local currencies is as follows:

| | | Salary and fees 000 | Annual bonus 000 | Benefits 000 | 2008 Total 000 | 2007 Total 000 |
|-----------------------------------|------|---------------------------|------------------------|-----------------|----------------------|----------------------|
| Dennis Proctor | US\$ | 631 | 820 | 35 | 1,486 | 1,418 |
| Terry Gomke (to 12 December 2008) | C\$ | 535 | 565 | 33 | 1,133 | 1,112 |

Directors' share interests (audited)

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

| | 31 December 2008 (or cessation date) | 31 December 2007 (or appointment date) |
|---------------------------------|---|---|
| | Ordinary shares of 25p | Ordinary shares of 25p |
| Executive Directors: | | |
| Richard Hunting | 736,241 | 736,241 |
| as trustee | 1,315,519 | 1,390,519 |
| Dennis Proctor | 754,898 | 607,071 |
| Peter Rose | 25,750 | 25,750 |
| Dennis Clark | 310,930 | 239,973 |
| Terry Gomke | 301,042 | 239,474 |
| Non-executive Directors: | | |
| George Helland | 18,750 | 18,750 |
| Hector McFadyen | 25,000 | 25,000 |
| Iain Paterson | 2,500 | 2,500 |

The Remuneration Committee's Report continued

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

The market price of the Ordinary shares at 31 December 2008 was 418p. The highest and lowest mid market prices during the year were 953p and 329.25p respectively.

Directors' Shareholding Requirement (audited)

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. As a result of recent adverse stock market activity and the reduction in the Company's share price, the market value of shares held by Peter Rose is currently less than one times his annual basic salary.

Directors' Options over Ordinary Shares (audited)

The following Directors had options to acquire Ordinary shares of the Company under the share options schemes described in note 39 to the financial statements. The vesting of options are subject to performance conditions set out within the remuneration policy on pages 24 and 25. The options at the start are as at 1 January 2008 or on appointment as a Director. The options at the end are as at 31 December 2008 or on ceasing to be a Director of the Company.

| | Options at start | Options granted | Options lapsed | Options at end | Exercise price p | Date exercisable | Expiry date |
|----------------|---------------------|--------------------|-------------------|-------------------|---------------------|---------------------|----------------|
| Dennis Proctor | (i) 426,738 | - | - | 426,738 | 194.0 | 28.03.04 | 27.03.11 |
| | (i) 181,622 | - | - | 181,622 | 167.4 | 15.04.05 | 14.04.12 |
| | (i) 309,705 | - | - | 309,705 | 116.9 | 31.03.07 | 30.03.14 |
| | (i) 171,742 | - | - | 171,742 | 220.7 | 09.03.08 | 08.03.15 |
| | (ii) 104,178 | - | - | 104,178 | 383.0 | 08.03.09 | 07.03.16 |
| | (ii) 64,688 | - | - | 64,688 | 640.0 | 06.03.10 | 05.03.17 |
| | (ii) - | 55,449 | - | 55,449 | 784.5 | 04.03.11 | 03.03.18 |
| Peter Rose | (i) 8,190 | - | - | 8,190 | 194.0 | 28.03.04 | 27.03.11 |
| | (i) 29,454 | - | - | 29,454 | 220.7 | 09.03.08 | 08.03.15 |
| | (ii) 18,277 | - | - | 18,277 | 383.0 | 08.03.09 | 07.03.16 |
| | (ii) 15,000 | - | - | 15,000 | 640.0 | 06.03.10 | 05.03.17 |
| | (ii) 21,670 | - | - | 21,670 | 784.5 | 04.03.11 | 03.03.18 |
| Dennis Clark | (i) 241,715 | - | - | 241,715 | 194.0 | 28.03.04 | 05.08.09 |
| | (i) 186,507 | - | - | 186,507 | 116.9 | 31.03.07 | 05.08.09 |
| | (i) 101,504 | - | - | 101,504 | 220.7 | 09.03.08 | 05.08.09 |
| | (iii) 61,358 | - | (22,621) | 38,737 | 383.0 | 06.08.08 | 05.08.09 |
| | (iii) 38,281 | - | (21,267) | 17,014 | 640.0 | 06.08.08 | 05.08.09 |
| Terry Gomke | (i) 205,468 | - | - | 205,468 | 79.0 | 14.03.06 | 11.12.09 |
| | (i) 145,441 | - | - | 145,441 | 116.9 | 31.03.07 | 11.12.09 |
| | (i) 81,112 | - | - | 81,112 | 220.7 | 09.03.08 | 11.12.09 |
| | (iii) 57,441 | - | - | 57,441 | 383.0 | 12.12.08 | 11.12.09 |
| | (iii) 31,406 | - | (10,468) | 20,938 | 640.0 | 12.12.08 | 11.12.09 |
| | (iii) - | 29,955 | (19,971) | 9,984 | 784.5 | 12.12.08 | 11.12.09 |

Notes

- (i) Denotes options under the 2001 Share Option Plan granted 28 March 2001 and vested 2004, granted 15 April 2002 and vested 2005, granted 14 March 2003 and vested 2006 and granted 31 March 2004 and vested 2007 and granted 9 March 2005 and vested 2008.
- (ii) Denotes options under the 2001 Share Option Plan granted 8 March 2006, 6 March 2007 and 4 March 2008 which have not yet vested.
- (iii) Denotes options granted under the 2001 Share Option Plan which became exercisable on cessation of employment.

The Remuneration Committee's Report *continued*

Long Term Incentive Plan (audited)

| | <i>Interest in three year performance cycle awarded April 2006 vested 31 December 2008 (at 1 January 2008)</i> | <i>Interest in three year performance cycle awarded April 2007 and vesting 31 December 2009 (at 1 January 2008)</i> | <i>Interest in three year performance cycle awarded March 2008 and vesting 31 December 2010 (at 1 January 2008)</i> | <i>Value of award in respect of three year performance cycle vested 31 December 2008</i> |
|----------------|--|---|---|--|
| Dennis Proctor | 35% | 35% | 35% | £1,186,668 |
| Peter Rose | 15% | 15% | 15% | £350,000 |
| Dennis Clark | 15% | 15% | 15% | £336,353 |
| Terry Gomke | 15% | 15% | 15% | £504,196 |

Executive Directors and senior executives are invited to participate in the Company's LTIP, with all awards subject to the performance conditions outlined on page 25. Awards are settled at the end of each performance cycle in cash or shares. The determination of whether to deliver benefits under the LTIP in cash or shares is not made until after awards vest. This applied to the performance cycle that vested on 31 December 2007 with Dennis Proctor receiving 147,827 shares, Dennis Clark receiving 70,957 shares and Terry Gomke receiving 61,568 shares. The interests of Peter Rose are as at 23 April 2008. On ceasing to be a Director of the Company the interests of Terry Gomke and Dennis Clark in the three year cycle ending 31 December 2009 were reduced to two thirds and one third of their awards respectively and for the cycle ending 31 December 2010 to one third for Terry Gomke and nil for Dennis Clark.

The market price of a share on 1 April 2006 was 394p and on 4 March 2008 was 791.5p. The market price as at 31 December 2008 was 418p (2007 - 711p).

Pensions (audited)

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. They 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 HMRC limits, a pension of up to two thirds of final salary. Pensionable salary is the annual salary less an amount equal to the State Lower Earnings Limit. Richard Hunting contributed 8.5% of his pensionable salary up until his Scheme retirement date of 31 July 2006. Peter Rose contributes a similar proportion of his salary to the Scheme. The Scheme provides all members a lump sum death in service benefit of four times 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.

Dennis Proctor participates in a US 401K Tax Deferred Savings Plan.

The Remuneration Committee's Report continued

Directors' Pension Benefits (audited)

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

| | <i>Increase in accrued pension during 2008 including inflation £000 pa</i> | <i>Increase in accrued pension during 2008 excluding inflation £000 pa</i> | <i>Transfer value of increase less Directors' contributions £000</i> | <i>Total accrued pension at 31 December 2008 £000 pa</i> | <i>Transfer value at 31 December 2008 £000</i> | <i>Transfer value at 31 December 2007 £000</i> | <i>Difference in transfer values less Directors' contributions £000</i> |
|-----------------|--|--|--|--|--|--|---|
| Richard Hunting | – | – | – | 111 | 2,781 | 2,538 | 243 |
| Peter Rose | 16 | 15 | 383 | 60 | 1,376 | 544 | 816 |

Notes:

- (i) The total accrued pension shown is that which would be paid annually on retirement for life based on service to 31 December 2008.
- (ii) The transfer values at 31 December 2007 have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values at 31 December 2008 have been based on estimated insurance company pricing terms, reflecting the fact that most of the benefits are covered by insurance policies.
- (iii) Richard Hunting's normal retirement date was 31 July 2006. No further benefits have accrued to him since that date. Mr Hunting took a cash lump sum and drew part of his pension during the year. The pension figure shown above is the combination of his pension in payment and his residual late retirement pension available as at 31 December 2008. The year end transfer value reflects only the value of the pension shown above and does not include the value of benefits received during the year.
- (iv) Peter Rose was appointed a Director in April 2008 and received an improvement in benefits. The improvement is reflected in the increase in transfer values between 31 December 2007 and 31 December 2008.
- (v) In addition, contributions amounting to £81,100 were paid to money purchase arrangements for Dennis Proctor.

The information on pages 24 to 27 of this report is not audited and the information on pages 28 to 31 is audited.

By Order of the Board



George Helland
Chairman of the Remuneration Committee
26 February 2009

Corporate Governance

Combined Code

This statement, which has been approved by the Board, reports on the Company's compliance during the year ended 31 December 2008, other than as reported below, with the updated Combined Code on Corporate Governance ("the Code") as issued by the Financial Reporting Council in June 2006 and how the principles contained within the Code have been applied. Compliance with the principles relating to Directors' Remuneration is reported within the Remuneration Committee's report on pages 24 to 31.

The Board

The Board of Directors currently comprises the Chairman, Chief Executive, Finance Director 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 14. Excluding the Chairman, 60% of the Board is currently 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 27. Details of the executive Directors' service contracts are set out on pages 26 and 27.

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 five times a year and convened seven times during 2008 of which one meeting was held in North America. Meeting dates are set a year in advance. All Directors attended all the board meetings held whilst in tenure during the year.

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

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 the Group's system of internal control and assess its effectiveness.
- Consider Group commercial strategy and approve the annual budget.
- Consider Board appointments, terms of reference for each Director and the Board sub committees.
- 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 undertakes an evaluation of the Director's contribution and commitment to the Board together with an evaluation of the Board's requirements. In the case of a non executive Director being reappointed for a term beyond six years, the Code recommends a particularly rigorous evaluation with particular consideration being given to the need to regularly refresh the Board. The Nomination Committee undertook such an evaluation of Hector McFadyen prior to his reappointment for a one year term effective from 4 September 2008 concluding that he remained a valuable contributor to the Board. Hector McFadyen did not participate in the evaluation process undertaken by the Committee.

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

Nomination Committee – members of the Committee are Richard Hunting (Chairman), Dennis Proctor and the three non executive Directors. 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 published on the Company's website. The role of the Committee includes leading the process for Board appointments and determining the terms of new appointments. The Committee also considers succession planning which takes into account the experience and skills required of Board members. The Committee met on 26 August 2008 to consider the reappointment of Hector McFadyen as a non executive Director and on 25 February 2008 to consider the appointment of Peter Rose as Finance Director in succession to Dennis Clark with effect from 23 April 2008.

Remuneration Committee – details of the Remuneration Committee are contained within their report on page 24. The Committee, which convened five times during the year with all members participating, has written terms of reference approved by the Board which are published on the Company's website.

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 external auditors, the Finance Director and other financial advisors. The Committee, which met three times during the year, is chaired by Iain Paterson and operates under written terms of reference approved by the Board which are published on the Company's website. All Committee members attended all meetings held during the year. It normally meets in February and August each year with a third meeting in April coinciding with the Group's Annual General Meeting. The Chief Executive, Finance Director and the auditors are invited to attend all meetings. The auditors present an audit report at each meeting for consideration by the Committee. Their full year report 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

Corporate Governance *continued*

Board taking into account the level of fees paid particularly for non audit services. During 2008 the Committee has continued to closely monitor fees paid to the auditors in respect of non audit services, which are analysed within note 8 on page 59 and include £0.8m in respect of taxation advice and £1.0m in respect of assistance with the disposal of Gibson Energy. At the August meeting, scheduled to be held immediately prior to the announcement of the half year results, the auditors present their interim report to the Committee which includes audit scope and fee estimates for the annual audit. The Committee normally meets with the auditors without executive Directors present at the end of each formal meeting.

Other responsibilities of the Audit Committee include:

- Review of reports on the Group's system of internal control.
- Review of reports from the Group's internal audit process and agreement of internal audit scope.
- Review of the external auditors' independence and effectiveness of the audit process and assess the level and quality of service in relation to fees paid.
- Monitor the Group's financial statements and announcements.
- Monitor and approve engagements of the external auditor to provide non audit services for the Group.

The Board receive 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, Interim Management Statements issued twice yearly and the Annual General Meeting to which all shareholders are invited.

In addition, the Chief Executive and Finance Director meet on a one to one basis with all principal shareholders at least twice a year or when requested to update them on Group performance and strategy. The Board is in turn briefed by the Chief Executive when appropriate on matters raised by shareholders. Non executive Directors are offered the opportunity to meet with shareholders and are available to meet if requested by shareholders. No meetings between non executive Directors and shareholders were requested or took place during 2008.

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 its procedures currently in place for ensuring they are fairly and adequately apprised of shareholder issues.

In addition to the foregoing, the Company's web site www.hunting.plc.uk includes 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.

Corporate Governance continued

Internal Controls

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control system, which has been in place throughout 2008 and up to the date of approval of these accounts, is an ongoing process designed to identify, evaluate and manage the significant risks to which the Company 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:

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 pre-set reporting timetable. This includes weekly treasury reports, monthly management accounts, annual budgets and three-year plans together with half year 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 proposals and authorisation.

Quality assurance – most of the business sectors within which the Group operate 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 a minimum of 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. Risk management is a Board agenda item at every Board meeting.

Corporate Governance *continued*

Directors' Responsibilities

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

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

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed on page 14 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Business Review on pages 4 to 13 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board



Peter Rose
Company Secretary
26 February 2009

Report of the Auditors

Independent Auditors' Report to the Members 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 2008, which comprise the Group Consolidated Income Statement, the Group Consolidated and Company Statements of Recognised Income and Expense, the Group Consolidated and Company Balance Sheets, the Group and Company Cash Flow Statement, the Principal Accounting Policies 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 Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Committee's 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 Remuneration Committee's 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 Remuneration Committee's Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Operating and Financial Review that is cross-referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 Combined Code (2006) 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 Report of the Directors, the unaudited part of the Remuneration Committee's Report, the Chairman's Statement, the Business Review, Financial Highlights, the Board of Directors, the Corporate Social Responsibility Statement, 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

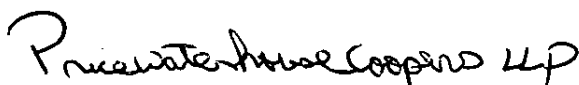
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Committee's 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 Remuneration Committee's 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 Remuneration Committee's 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 2008 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 2008 and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Committee's Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 February 2009

Notes:

- (a) The maintenance and integrity of the Hunting PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal Accounting Policies

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.

These financial statements have been prepared in accordance with the Companies Act 1985 and those IFRS standards as adopted by the European Union and IFRIC interpretations, which are effective as at 31 December 2008.

The following Interpretations, which became effective for and were adopted during the year ended 31 December 2008, had no impact on the Group's results or financial position:

- IFRIC 11 – *IFRS 2 – Group and Treasury Share Transactions*
- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 12 *Service Concession Arrangements* is effective for the year ended 31 December 2008. Although the European Parliament has voted to endorse IFRIC 12, it has delayed implementation which is likely to be the year ended 31 December 2012. Therefore, IFRIC 12 has not been adopted.

The following Standards, Interpretations and Amendments are effective subsequent to the year end and consequently have not been adopted for the year ended 31 December 2008:

- IFRS 8 *Operating Segments*
- IFRS 3 (revised) *Business Combinations*
- IAS 23 (revised) *Borrowing Costs*
- IAS 1 (revised) *Presentation of Financial Statements*
- Amendment to IFRS 2 *Share-based Payment* on vesting conditions and cancellations
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* on the Reclassification of Financial Assets
- IFRIC 13 *Customer Loyalty Programmes Relating to IAS 18 Revenue*

IFRS 8 *Operating Segments* is effective for reporting periods beginning on or after 1 January 2009. The standard requires segment information to be presented in the Annual Report on the same basis as it is presented to the Board for decision-making purposes. The segmental analysis of the profit from operations will therefore be presented on this basis in the 2009 Annual Report.

IAS 23 (revised) requires the Group to capitalise those borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The Group is currently in a net cash position and will acquire qualifying assets with cash. Therefore, the Group does not expect the adoption of IAS 23 (revised) to have any impact on the 2009 financial statements.

The following Standards, Interpretations and Amendments are effective subsequent to the year end, but have not yet been endorsed by the EU:

- IFRS 1 (revised) *First-time Adoption*
- IFRS 3 (revised) *Business Combinations*
- IAS 27 (revised) *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on Eligible Hedged Items
- Annual Improvements to IFRSs
- Amendment to IAS 32 May 2008 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* on Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to IFRS 1 *First Time Adoption of IFRS* and IAS 27 *Consolidated and Separate Financial Statements* on the Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Principal Accounting Policies continued

- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of non-cash assets to owners*
- IFRIC 18 *Transfer of Assets from Customers*

The amendment to IAS 16, which is part of the Annual Improvements to IFRSs and is effective for the year ended 31 December 2009, requires those entities, whose activities include renting and subsequently selling assets, to transfer the carrying amount of the assets to inventories when the assets become held for sale, and to present the carrying amount in cost of sales and the proceeds as revenue on the sale of those assets. A consequential amendment to IAS 7 states that the cash flows arising from the purchase, rental and sale of those assets are classified as cash flows from operating activities. The impact of this amendment on the Group's accounts will be to reclassify £12.4m from investing activities to operating activities in the Consolidated Cash Flow Statement in 2009 for the year 2008.

It is anticipated that all other new requirements will not significantly impact on the Group's results or financial position.

Consolidation

On adoption of IFRS, the Company elected not to restate business combinations prior to 1 January 2004. The Group accounts include the results of the Company and its subsidiaries, together with its share of associates.

Subsidiaries

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

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

Minority interests

Minority interests in the net assets of consolidated subsidiaries are identified separately in shareholders' equity.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Generally, the Group regards an investment of between 20% and 50% as an associate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Discontinued Operations

A discontinued operation is a component of the Group that has either been disposed of during the year, or that is classified as held-for-sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate line of business or geographical area of operations. Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

Revenue

Revenue is measured as the fair value of the consideration received or receivable and is stated net of sales taxes. Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be reliably measured.

Revenue from services is recognised as the services are rendered. Revenue from product sales is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is normally on delivery of the products.

Principal Accounting Policies continued

Revenue on long term contracts is recognised according to the stage of completion reached in the contract by reference to the work done during the period. An estimate of the profit attributable to work completed is recognised once the outcome of the contract can be reliably measured. Expected losses are recognised in full as soon as losses are probable. The net amount of costs incurred to date plus recognised profits less the sum of recognised losses and progress billings is disclosed as trade receivables/payables.

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

Exceptional Items

Exceptional items are regarded as significant items of income and expense, which are separately presented on the face of the Consolidated Income Statement by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Exceptional items are principally profits or losses on the closure or disposal of subsidiaries, the impairment of assets and provisions for onerous leases.

Interest

Interest income and expense is recognised in the income statement using the effective interest method.

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, which commenced on 1 January 2004, whilst those arising from trading transactions are dealt with in the income statement. The cumulative translation differences for all foreign operations that existed on 1 January 2004 were deemed to be zero.

On the disposal of a business, the cumulative exchange differences previously recognised in the foreign currency translation reserve relating to that business are transferred to the income statement as part of the gain or loss on disposal.

Segmental Reporting

Business segments have been established as the primary reporting format as this is 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.

Research and Development

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

Taxation

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

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

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.

Principal Accounting Policies *continued*

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.

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

Exploration Expenditure

Oil and gas exploration and appraisal costs are initially capitalised to wells or fields as appropriate, pending determination of the existence of commercial reserves. Expenditures incurred during the various exploration and appraisal phases are then written off unless probable ('commercial') reserves have been established or the determination process has not been completed. Drilling expenditure and directly attributable operational overheads associated with an exploratory dry hole are expensed immediately upon final determination that commercially viable quantities of hydrocarbons are not found.

When an oil or gas field has been approved for development, the accumulated exploration and appraisal costs are transferred to oil and gas properties.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment in value. Costs include expenditure that is directly attributable to the acquisition and installation of the items.

Depreciation is charged so as to write off the cost or valuation of assets, other than land or assets under construction, using the straight-line method, over their estimated useful lives, at the following rates:

| | |
|---|--------------------|
| Freehold buildings | 2%-10% |
| Leasehold buildings | life of lease |
| Oil and gas exploration and equipment | unit of production |
| Pipelines, tanks and associated equipment | 3%-20% |
| Plant, machinery and motor vehicles | 6%-33⅓% |

Freehold land and expenditure on the exploration for and evaluation of mineral resources are not depreciated.

Assets in the course of construction are carried at cost, less any impairment in value. Depreciation of these assets commence when the assets are ready for their intended use.

Freehold land and buildings and terminals are revalued with sufficient regularity, at least every five years or when events indicate a review is needed, 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.

Oil and gas development expenditure is stated at cost less accumulated depreciation and any impairment in value. Where commercial production in an area of interest has commenced, the capitalised costs are depreciated using the unit-of-production method over the total proved reserves of the field concerned. Costs are depreciated only when commercial reserves associated with a development project can be determined with reasonable accuracy and commercial production has commenced.

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 Group's share of the net assets acquired.

Principal Accounting Policies *continued*

Goodwill is recognised as an asset and is carried at cost less accumulated impairment losses.

On the disposal of a business, goodwill relating to that business remaining on the balance sheet at the date of disposal 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.

Other Intangible Assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses, where applicable. 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 and amortised over a period of between five and eight years. Customer relationships are amortised over a period of between five and ten years, pipeline rights of way over a period of twenty years and other intangibles over a period of between three and eight years.

Impairments

The Group carries out impairment reviews in respect of goodwill at least annually. The Group also assesses at least annually whether there have been any events or changes in circumstances that indicate that property, plant and equipment, inventories and other intangible assets may be impaired and an impairment review is carried out whenever such an assessment indicates that the carrying amount may not be recoverable. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Where an impairment exists, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and value in use. Impairments are recognised immediately in the income statement, unless the asset has previously been revalued, in which case the impairment is treated as a revaluation decrease. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of disposal in the ordinary course of business.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of less than three months.

For cashflow statement purposes, cash and cash equivalents include bank overdrafts and deposits with a maturity of less than three months.

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 are initially recognised at fair value at the trade date, which is normally the consideration paid, plus, in the case of financial assets that are not measured at fair value through profit or loss, transaction costs. The Group assesses at

Principal Accounting Policies *continued*

each balance sheet date whether a financial asset is impaired by comparing its carrying value with the present value of the estimated future cash flows discounted at a rate relevant to the nature of the financial asset. If the carrying amount is higher, it is reduced to the appropriate value and the loss is recognised in the income statement immediately. 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. A financial asset is included in this category if acquired principally for the purpose of selling in the short term and also includes derivatives that are not designated in a hedge relationship.

(b) Loans and receivables

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

(c) Available for sale financial assets

Available for sale financial assets are held at fair value, with changes in fair value recognised directly in equity. On disposal or impairment, the accumulated gains and losses previously recognised in equity are recognised in the income statement.

Financial Liabilities

Financial liabilities are initially recognised at fair value at the trade date which is normally the consideration received less, in the case of financial liabilities that are not measured at fair value through profit or loss, transaction costs. The Group subsequently re-measures all of its non-derivative financial liabilities, including trade payables, at amortised cost. The amortised cost of long term loans which have been designated as part of a fair value hedge relationship is adjusted by the movement in the fair value of the hedged risk from the date of designation of the hedging relationship. The adjustment is recognised as a fair value gain or loss in the income statement immediately.

Interest accrued on loans that are measured at amortised cost using the effective interest method is regarded as an integral part of the loan balance and therefore included within the carrying amount of those loans. Consequently, interest payable within twelve months on loans due after more than one year is recognised in non-current borrowings.

Debt Issue Costs

Costs arising on the issue of new loan facilities are capitalised and amortised through interest expense using the effective interest method.

Derivatives and Financial Instruments

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

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

Derivative and primary financial instruments that are designated in a hedge relationship are accounted for under one of the following methods:

(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.

Principal Accounting Policies continued

(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 gains and losses relating to the ineffective portion are recognised immediately in the income statement. Amounts accumulated in equity are dealt with in the income statement at the same time as the gains and losses on the hedged items. When a forecast transaction is no longer expected to occur, the cumulative gains and losses that were reported in equity are immediately transferred to the income statement.

(c) Net investment hedge in foreign operations

Gains and losses on the hedging instrument relating to the effective portion of the hedge are recognised in equity. Gains and 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.

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

Embedded derivatives

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

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

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 the lower of their fair value and the present value of the minimum lease payments and depreciated over the shorter of their estimated useful lives and their lease terms. The corresponding rental obligations are included in borrowings as finance lease liabilities. All other leases are operating leases, and the rental of these is charged to 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.

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.

If an obligation is not capable of being reliably estimated it is classified as a contingent liability.

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 valuations updated annually by qualified independent actuaries 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. The asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets.

Principal Accounting Policies continued

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.

All cumulative actuarial gains and losses at 1 January 2004 have been recognised in reserves.

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

Share-based Payments

The Group issues equity-settled share-based payments to certain employees. The fair value of share awards with market-related vesting conditions are determined by an external valuer, using the Monte Carlo valuation model, and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the current expectations. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

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.

Share Capital

The Company has only one class of shares, ordinary shares, which are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

Treasury Shares

Treasury shares are stated at cost and presented as a deduction from shareholders' equity. Consideration received for the sale of these shares is also recognised directly in equity, with any difference between the proceeds from the sale and the original cost being taken directly to retained earnings.

Dividend Distributions

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders and remain unpaid at the period end. Dividend distributions are dealt with in the Statement of Changes in Equity and recognised in the period in which they are approved by the Company's shareholders or, if earlier, approved and paid by the Company.

Critical Accounting Estimates and Judgements

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

Accounting estimates are applied in determining the carrying amounts of the following significant assets and liabilities: employee benefits (as detailed in note 31), property, plant and equipment (useful lives), goodwill (discounted cash flow projections), deferred taxation (timing of liabilities and timing and recoverability of assets), share based payments (as detailed in note 39) and provisions (fair value of obligation and discount rate).

In respect of the sale of Gibson Energy, accounting estimates and judgements have been applied in determining the fair value of the outstanding warrant, provisions for tax indemnities and it has also been assumed that no tax will be paid on the profit on sale of Gibson Energy as the Company expects to qualify for relief under current UK tax legislation.

Consolidated Income Statement

For the Year ended 31 December 2008

| | | Before exceptional items | Exceptional items | | Before exceptional items | Exceptional items | Total |
|---|-------|--------------------------------|----------------------|--------|--------------------------------|----------------------|------------|
| | Notes | 2008 £m | 2008 £m | | 2007 £m | 2007 £m | 2007 £m |
| Revenue | 1, 2 | 440.0 | – | | 398.7 | – | 398.7 |
| Cost of sales | | (303.7) | (16.2) | | (286.6) | – | (286.6) |
| Gross profit | | 136.3 | (16.2) | | 112.1 | – | 112.1 |
| Other operating income | 3 | 4.7 | – | | 4.4 | – | 4.4 |
| Operating expenses | 4 | (80.1) | (34.7) | | (65.2) | (2.3) | (67.5) |
| Profit from continuing operations | 1, 8 | 60.9 | (50.9) | | 51.3 | (2.3) | 49.0 |
| Interest income | 7 | 7.2 | – | | 9.6 | – | 9.6 |
| Interest expense and similar charges | 7 | (10.4) | – | | (15.8) | – | (15.8) |
| Share of post-tax profits in associates | 1, 17 | 1.2 | – | | 2.2 | – | 2.2 |
| Profit before tax from continuing operations | | 58.9 | (50.9) | | 47.3 | (2.3) | 45.0 |
| Taxation | 10 | (19.4) | 11.7 | | (18.1) | 0.2 | (17.9) |
| Profit from continuing operations | | 39.5 | (39.2) | | 29.2 | (2.1) | 27.1 |
| Profit from discontinued operations | 11 | 38.2 | 218.1 | | 35.4 | – | 35.4 |
| Profit for the year | | 77.7 | 178.9 | | 64.6 | (2.1) | 62.5 |
| Attributable to: | | | | | | | |
| Shareholders of the parent | 34 | 74.2 | 178.9 | | 59.5 | (2.1) | 57.4 |
| Minority interests | 35 | 3.5 | – | | 5.1 | – | 5.1 |
| | | 77.7 | 178.9 | | 64.6 | (2.1) | 62.5 |
| Earnings per share | | | | | | | |
| Basic | | | | | | | |
| – from continuing operations | 13 | | | (2.5)p | | | 16.9p |
| – from discontinued operations | 13 | | | 195.9p | | | 27.1p |
| – group total | | | | 193.4p | | | 44.0p |
| Diluted | | | | | | | |
| – from continuing operations | 13 | | | (2.4)p | | | 16.2p |
| – from discontinued operations | 13 | | | 189.8p | | | 26.1p |
| – group total | | | | 187.4p | | | 42.3p |

Consolidated and Company Statement of Recognised Income and Expense

For the Year ended 31 December 2008

| | Notes | Group | | Company | |
|--|-------|--------------|--------------|-------------|-------------|
| | | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Profit for the year | | 256.6 | 62.5 | 37.0 | 16.3 |
| Exchange adjustments net of tax | | 44.2 | 16.4 | - | - |
| Release of foreign exchange adjustments on disposal of subsidiary, net of tax | | (18.0) | - | - | - |
| Revaluation of property, plant and equipment net of tax | | - | 51.6 | - | - |
| Impairment of revalued assets, net of tax | | (0.4) | (1.0) | - | - |
| Fair value gain on available for sale financial asset, net of tax | | 1.2 | - | - | - |
| Fair value gains and losses net of tax: | | | | | |
| - losses originating on cash flow hedges | | (3.1) | - | - | - |
| - losses (gains) transferred to income statement on disposal of cash flow hedges | | 0.4 | (0.2) | - | - |
| Actuarial losses on defined benefit pension schemes | 31 | (19.6) | (12.5) | - | - |
| - taxation | 21 | 5.2 | 3.8 | - | - |
| Net income recognised directly in equity | | 9.9 | 58.1 | - | - |
| Total recognised income and expense for the year | | 266.5 | 120.6 | 37.0 | 16.3 |
| Attributable to: | | | | | |
| Shareholders' equity | | 262.7 | 115.4 | 37.0 | 16.3 |
| Minority interests | | 3.8 | 5.2 | - | - |
| | | 266.5 | 120.6 | 37.0 | 16.3 |

Consolidated Balance Sheet

At 31 December 2008

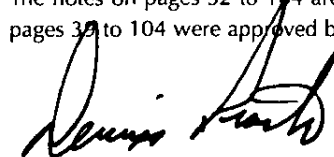
| | Notes | 2008 £m | 2007 £m |
|--|-------|------------|------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment – at cost | 14 | 101.3 | 158.0 |
| Property, plant and equipment – at valuation | 14 | 29.3 | 163.0 |
| Goodwill | 15 | 29.3 | 72.4 |
| Other intangible assets | 16 | 1.2 | 13.9 |
| Interests in associates | 17 | 10.8 | 10.5 |
| Available for sale financial assets | 18 | 28.5 | 0.2 |
| Retirement benefit assets | 31 | 7.6 | 25.2 |
| Trade and other receivables | 20 | 1.6 | 2.8 |
| Deferred tax assets | 21 | 5.9 | 7.1 |
| | | 215.5 | 453.1 |
| Current assets | | | |
| Inventories | 22 | 124.3 | 142.1 |
| Trade and other receivables | 20 | 124.0 | 244.3 |
| Investments | 23 | – | 0.9 |
| Cash and cash equivalents | 24 | 421.4 | 79.8 |
| | | 669.7 | 467.1 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 25 | 164.8 | 262.1 |
| Current tax liabilities | | 13.6 | 7.1 |
| Borrowings | 26 | 49.1 | 89.2 |
| Provisions | 30 | 56.2 | 4.5 |
| | | 283.7 | 362.9 |
| Net current assets | | 386.0 | 104.2 |
| Non-current liabilities | | | |
| Borrowings | 26 | – | 130.7 |
| Deferred tax liabilities | 21 | 18.6 | 98.1 |
| Retirement benefit obligations | 31 | – | 1.1 |
| Other payables | 25 | – | 0.1 |
| Provisions | 30 | 16.7 | 15.4 |
| | | 35.3 | 245.4 |
| Net assets | | 566.2 | 311.9 |
| Shareholders' equity | | | |
| Share capital | 32 | 33.0 | 32.9 |
| Share premium | 32 | 90.0 | 87.2 |
| Other reserves | 33 | 47.5 | 73.3 |
| Retained earnings | 34 | 383.5 | 107.5 |
| | | 554.0 | 300.9 |
| Minority interests | 35 | 12.2 | 11.0 |
| Total equity | | 566.2 | 311.9 |

Company Balance Sheet

At 31 December 2008

| | Notes | 2008 £m | 2007 £m |
|---|-------|--------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 19 | 284.2 | 284.2 |
| Trade and other receivables | 20 | 21.2 | 20.8 |
| | | 305.4 | 305.0 |
| Current assets | | | |
| Trade and other receivables | 20 | 36.0 | 1.8 |
| Current tax assets | | 6.4 | 3.7 |
| Cash and cash equivalents | 24 | – | 5.7 |
| | | 42.4 | 11.2 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 25 | 9.4 | 8.0 |
| Borrowings | 26 | 31.6 | 13.8 |
| | | 41.0 | 21.8 |
| Net current assets (liabilities) | | 1.4 | (10.6) |
| Non-current liabilities | | | |
| Borrowings | 26 | 138.7 | 152.4 |
| Deferred tax liabilities | 21 | 0.1 | 0.1 |
| | | 138.8 | 152.5 |
| Net assets | | 168.0 | 141.9 |
| Shareholders' equity | | | |
| Share capital | 32 | 33.0 | 32.9 |
| Share premium | 32 | 90.0 | 87.2 |
| Other reserves | 33 | 4.9 | 2.8 |
| Retained earnings | 34 | 40.1 | 19.0 |
| Total equity | | 168.0 | 141.9 |

The notes on pages 52 to 104 are an integral part of these consolidated financial statements. The financial statements on pages 33 to 104 were approved by the Board of Directors on 26 February 2009 and were signed on its behalf by:



Dennis Proctor



Peter Rose
Directors

Cash Flow Statement

For the Year ended 31 December 2008

| | | Group | | Company | |
|--|-------|----------------|---------------|---------------|---------------|
| | Notes | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Operating activities | | | | | |
| Continuing operations: | | | | | |
| Profit (loss) from operations | | 10.0 | 49.0 | (2.9) | 8.0 |
| Exceptional items | | 50.9 | 2.3 | - | - |
| Depreciation, amortisation and impairment | | 17.4 | 14.5 | - | - |
| Profit on disposal of investments | | (0.1) | (0.2) | - | - |
| Loss on disposal of property, plant and equipment | | 2.0 | 2.8 | - | - |
| Increase in inventories | | (21.9) | (9.4) | - | - |
| (Increase) decrease in receivables | | (21.9) | (16.6) | (14.6) | 0.6 |
| Increase (decrease) in payables | | 28.1 | (10.1) | 4.1 | (0.8) |
| Taxation (paid) received | | (8.7) | (6.7) | 0.6 | 3.2 |
| UK pension scheme contribution | | - | (5.6) | - | - |
| Other non-cash flow items | | (3.8) | (1.0) | 2.7 | (7.9) |
| Discontinued operations | | 27.3 | 39.2 | - | - |
| Net cash inflow (outflow) from operating activities | | 79.3 | 58.2 | (10.1) | 3.1 |
| Investing activities | | | | | |
| Continuing operations: | | | | | |
| Dividends received from associates | 17 | 1.0 | 0.1 | - | - |
| Purchase of subsidiaries | 40 | (1.6) | (9.1) | - | - |
| Cash acquired with subsidiaries | | - | 0.8 | - | - |
| Disposal of subsidiaries | | 525.9 | 1.1 | - | - |
| Net (cash) bank overdrafts disposed of with subsidiary | | (1.5) | 3.3 | - | - |
| Closure of business | | (0.7) | - | - | - |
| Purchase of associates | | - | (0.2) | - | - |
| Loans to associates | | (0.4) | - | - | - |
| Loans from associates repaid | | (1.5) | - | - | - |
| Loans from associates | | - | 0.5 | - | - |
| Purchase of investments | | (0.1) | - | - | - |
| Proceeds from disposal of investments | | - | 0.2 | - | - |
| Proceeds from disposal of property, plant and equipment | | 4.4 | 2.4 | - | - |
| Purchase of property, plant and equipment | | (35.0) | (38.3) | - | - |
| Purchase of intangible assets | | - | (0.1) | - | - |
| Discontinued operations | | (35.2) | (45.1) | - | - |
| Net cash inflow (outflow) from investing activities | | 455.3 | (84.4) | - | - |
| Financing activities | | | | | |
| Continuing operations: | | | | | |
| Interest received | | 6.1 | 6.5 | 2.2 | 2.0 |
| Interest paid | | (8.2) | (12.3) | (11.2) | (10.9) |
| Dividends received from subsidiaries | | - | - | 25.5 | 13.9 |
| Equity dividends paid | | (11.3) | (10.1) | (11.3) | (10.1) |
| Minority interest dividend paid | | (2.6) | (1.9) | - | - |
| Share capital issued | 32 | 0.2 | 0.1 | 0.2 | 0.1 |
| Purchase of treasury shares | | (6.2) | (18.2) | (6.2) | (18.2) |
| Disposal of treasury shares | | 1.3 | 4.2 | 1.3 | 4.2 |
| Proceeds from new borrowings | | - | 76.0 | - | 67.0 |
| Repayment of borrowings | | (162.2) | (12.4) | (13.5) | (10.5) |
| Loan to subsidiary | | - | - | (0.4) | - |
| Purchase of deposits | | - | (0.3) | - | - |
| Repayment of deposits | | 0.9 | - | - | - |
| Capital element of finance leases | | (0.1) | - | - | - |
| Discontinued operations | | (4.4) | (3.8) | - | - |
| Net cash (outflow) inflow from financing activities | | (186.5) | 27.8 | (13.4) | 37.5 |
| Net cash inflow (outflow) in cash and cash equivalents | | 348.1 | 1.6 | (23.5) | 40.6 |
| Cash and cash equivalents at beginning of period | | 19.7 | 16.9 | (8.1) | (48.7) |
| Effect of foreign exchange rates | | 4.6 | 1.2 | - | - |
| Cash and cash equivalents at end of the year | | 372.4 | 19.7 | (31.6) | (8.1) |
| Cash and cash equivalents and bank overdrafts at the end of the year comprise: | | | | | |
| Cash and cash equivalents (note 24) | | 421.4 | 79.8 | - | 5.7 |
| Bank overdrafts included in borrowings (note 26) | | (49.0) | (60.1) | (31.6) | (13.8) |
| | | 372.4 | 19.7 | (31.6) | (8.1) |

Notes to the Financial Statements

1. SEGMENTAL REPORTING

Business segments

Results from operations

| | Year ended 31 December 2008 | | | | | |
|---|-----------------------------|-------------------------|------------------------|-------------------|-------------------|--------------|
| | Total gross revenue | Inter-segmental revenue | Profit from operations | Exceptional items | Exceptional items | Total |
| | £m | £m | £m | £m | £m | £m |
| Continuing operations: | | | | | | |
| Hunting Energy Services | | | | | | |
| Well Construction | 118.4 | (6.4) | 112.0 | 13.4 | (13.4) | - |
| Well Completion | 216.9 | (3.8) | 213.1 | 31.4 | (4.9) | 26.5 |
| Exploration and Production | 14.8 | - | 14.8 | 5.9 | (16.2) | (10.3) |
| Hunting Energy France | 21.5 | - | 21.5 | 2.0 | - | 2.0 |
| | 371.6 | (10.2) | 361.4 | 52.7 | (34.5) | 18.2 |
| Other Operating Divisions | 78.6 | - | 78.6 | 8.2 | (2.8) | 5.4 |
| Total from continuing operations | 450.2 | (10.2) | 440.0 | 60.9 | (37.3) | 23.6 |
| Exceptional items not apportioned to business segments* | | | | - | (13.6) | (13.6) |
| | | | | 60.9 | (50.9) | 10.0 |
| Discontinued operations: | | | | | | |
| Gibson Energy | | | | | | |
| Marketing | 2,567.8 | (779.9) | 1,787.9 | 6.5 | - | 6.5 |
| Truck Transportation | 147.3 | (18.1) | 129.2 | 15.9 | - | 15.9 |
| Terminals and Pipelines | 502.8 | (434.1) | 68.7 | 17.5 | - | 17.5 |
| Propane Distribution and Marketing | 229.5 | (17.5) | 212.0 | 7.7 | - | 7.7 |
| Moose Jaw Refinery | 302.6 | (129.6) | 173.0 | 10.5 | - | 10.5 |
| Profit on disposal (note 11) | - | - | - | - | 208.8 | 208.8 |
| Total from discontinued operations | 3,750.0 | (1,379.2) | 2,370.8 | 58.1 | 208.8 | 266.9 |

*Exceptional items not apportioned to business segments primarily relate to head office provisions.

Notes to the Financial Statements continued

1. SEGMENTAL REPORTING (continued)

| | Year ended 31 December 2007 | | | | | |
|---|-----------------------------|-------------------------|--------------------------------|------------------------|-------------------|-------------|
| | Total gross revenue | Inter-segmental revenue | Total before exceptional items | Profit from operations | Exceptional items | Total |
| | £m | £m | £m | £m | £m | £m |
| <i>Continuing operations:</i> | | | | | | |
| Hunting Energy Services | | | | | | |
| Well Construction | 78.8 | (6.0) | 72.8 | 8.2 | – | 8.2 |
| Well Completion | 226.2 | (18.7) | 207.5 | 34.1 | – | 34.1 |
| Exploration and Production | 11.7 | – | 11.7 | 4.4 | – | 4.4 |
| Hunting Energy France | 22.5 | – | 22.5 | 2.6 | – | 2.6 |
| | 339.2 | (24.7) | 314.5 | 49.3 | – | 49.3 |
| Other Operating Divisions | 84.2 | – | 84.2 | 2.0 | (2.3) | (0.3) |
| Total from continuing operations | 423.4 | (24.7) | 398.7 | 51.3 | (2.3) | 49.0 |
| <i>Discontinued operations:</i> | | | | | | |
| Gibson Energy | | | | | | |
| Marketing | 1,407.1 | (193.2) | 1,213.9 | 3.4 | – | 3.4 |
| Truck Transportation | 121.5 | (10.9) | 110.6 | 12.5 | – | 12.5 |
| Terminals and Pipelines | 295.2 | (265.6) | 29.6 | 15.5 | – | 15.5 |
| Propane Distribution and Marketing | 102.2 | (0.1) | 102.1 | 4.6 | – | 4.6 |
| Moose Jaw Refinery | 150.2 | (55.6) | 94.6 | 13.5 | – | 13.5 |
| Total from discontinued operations | 2,076.2 | (525.4) | 1,550.8 | 49.5 | – | 49.5 |

The above analysis of profit from operations for the year ended 31 December 2007 has been re-presented to exclude central costs previously allocated to Gibson Energy. All central costs have been allocated to continuing operations.

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 share of post-tax profits in associates is derived from the following business segments:

| | 2008 | 2007 |
|---|------------|------------|
| | £m | £m |
| Hunting Energy Services – Well Completion | 1.1 | 0.9 |
| Central | 0.1 | 1.3 |
| | 1.2 | 2.2 |

Notes to the Financial Statements continued

1. SEGMENTAL REPORTING (continued)

Business segments

Assets and liabilities

| | 2008 | | 2007 | |
|---|-------------------------|------------------------------|-------------------------|------------------------------|
| | Segment assets £m | Segment liabilities £m | Segment assets £m | Segment liabilities £m |
| Continuing operations: | | | | |
| Hunting Energy Services | | | | |
| Well Construction | 125.4 | 19.6 | 93.5 | 12.9 |
| Well Completion | 195.2 | 93.3 | 143.6 | 51.7 |
| Exploration and Production | 26.4 | 2.7 | 31.1 | 1.4 |
| Hunting Energy France | 19.3 | 7.7 | 15.7 | 6.8 |
| | 366.3 | 123.3 | 283.9 | 72.8 |
| Other operating divisions | 41.6 | 31.6 | 29.8 | 21.7 |
| Interests in associates | | | | |
| Hunting Energy Services – Well Completion | 5.0 | – | 4.4 | – |
| Central | 5.8 | – | 5.8 | – |
| | 10.8 | – | 10.2 | – |
| Total segment assets and liabilities – continuing operations | 418.7 | 154.9 | 323.9 | 94.5 |
| Discontinued operations: | | | | |
| Gibson Energy | | | | |
| Marketing | – | – | 130.1 | 88.2 |
| Truck Transportation | – | – | 73.1 | 10.4 |
| Terminals and Pipelines | – | – | 111.6 | 9.2 |
| Propane Distribution and Marketing | – | – | 91.6 | 42.7 |
| Moose Jaw Refinery | – | – | 72.3 | 9.6 |
| | – | – | 478.7 | 160.1 |
| Interests in associates | | | | |
| Propane Distribution and Marketing | – | – | 0.3 | – |
| Total segment assets and liabilities – discontinued operations | – | – | 479.0 | 160.1 |
| Total segment assets and liabilities | 418.7 | 154.9 | 802.9 | 254.6 |
| Unallocated assets and liabilities – continuing operations: | | | | |
| – current and deferred taxes | 5.9 | 32.2 | 3.7 | 31.7 |
| – retirement benefit assets | 7.6 | – | 25.2 | – |
| – net cash/debt | 421.4 | 49.1 | 67.9 | 135.6 |
| – central assets and liabilities | 33.5 | 84.7 | 6.0 | 30.3 |
| – elimination of inter-segment balances | (1.9) | (1.9) | (1.2) | (1.2) |
| Unallocated assets and liabilities – discontinued operations: | | | | |
| – current and deferred taxes | – | – | 3.4 | 73.5 |
| – net cash/debt | – | – | 12.8 | 84.3 |
| – elimination of inter-segment balances | – | – | (0.5) | (0.5) |
| Total assets and liabilities | 885.2 | 319.0 | 920.2 | 608.3 |

Segment assets comprise property, plant and equipment, intangibles, goodwill, inventories and receivables. Assets owned centrally 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 2008 | | | |
|--|-----------------------------|--------------------|---|----------------------------|
| | Capital expenditure £m | Depreciation £m | Amortisation of intangible assets £m | Impairment of assets £m |
| Continuing operations: | | | | |
| Hunting Energy Services | | | | |
| Well Construction | 14.0 | 5.2 | - | 13.3 |
| Well Completion | 11.8 | 5.5 | 0.3 | 3.8 |
| Exploration and Production | 8.8 | 5.3 | - | 16.2 |
| Hunting Energy France | 0.3 | 0.3 | - | - |
| | 34.9 | 16.3 | 0.3 | 33.3 |
| Other operating divisions | 0.4 | 0.7 | - | - |
| Central | 0.3 | 0.1 | - | - |
| Total – continuing operations | 35.6 | 17.1 | 0.3 | 33.3 |
| Discontinued operations: | | | | |
| Gibson Energy | | | | |
| Marketing | 3.0 | 0.3 | - | - |
| Truck Transportation | 6.3 | 2.5 | 0.1 | - |
| Terminals and Pipelines | 5.3 | 1.5 | - | - |
| Propane Distribution and Marketing | 3.1 | 1.5 | 0.4 | - |
| Moose Jaw Refinery | 4.8 | 0.1 | 0.2 | - |
| Total – discontinued operations | 22.5 | 5.9 | 0.7 | - |

| | Year ended 31 December 2007 | | |
|--|-----------------------------|--------------------|---|
| | Capital expenditure £m | Depreciation £m | Amortisation of intangible assets £m |
| Continuing operations: | | | |
| Hunting Energy Services | | | |
| Well Construction | 17.6 | 3.7 | - |
| Well Completion | 10.2 | 4.1 | 0.2 |
| Exploration and Production | 7.0 | 5.0 | - |
| Hunting Energy France | 0.8 | 0.2 | - |
| | 35.6 | 13.0 | 0.2 |
| Other operating divisions | 1.1 | 1.1 | - |
| Central | 0.4 | 0.2 | - |
| Total – continuing operations | 37.1 | 14.3 | 0.2 |
| Discontinued operations: | | | |
| Gibson Energy | | | |
| Marketing | 1.4 | 0.6 | 0.1 |
| Truck Transportation | 8.8 | 3.4 | 0.2 |
| Terminals and Pipelines | 7.4 | 3.9 | 0.1 |
| Propane Distribution and Marketing | 3.3 | 2.0 | 0.3 |
| Moose Jaw Refinery | 7.6 | 1.6 | 0.3 |
| Total – discontinued operations | 28.5 | 11.5 | 1.0 |

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 mainly operates in four geographical areas. The UK is the domicile of Hunting PLC. The main operations for the year were 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 | |
|---------------------------------|----------------|----------------|----------------|--------------|---------------------|-------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Continuing operations: | | | | | | |
| UK | 112.5 | 111.5 | 95.9 | 75.0 | 6.8 | 2.9 |
| Rest of Europe | 37.4 | 47.6 | 29.4 | 23.7 | 0.6 | 1.4 |
| Canada | 103.5 | 81.0 | 89.9 | 68.1 | 1.3 | 1.8 |
| USA | 153.7 | 124.7 | 164.9 | 137.5 | 25.9 | 30.4 |
| Other | 32.9 | 33.9 | 38.6 | 19.6 | 1.0 | 0.6 |
| | 440.0 | 398.7 | 418.7 | 323.9 | 35.6 | 37.1 |
| Discontinued operations: | | | | | | |
| Canada | 2,370.8 | 1,550.8 | - | 478.7 | 22.5 | 28.5 |
| USA | - | - | - | 0.3 | - | - |
| | 2,810.8 | 1,949.5 | 418.7 | 802.9 | 58.1 | 65.6 |
| Unallocated assets | | | 466.5 | 117.3 | | |
| | | | 885.2 | 920.2 | | |

Company

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

2. REVENUE

| | 2008 £m | 2007 £m |
|------------------------------|--------------|--------------|
| Sales of goods | 405.2 | 371.9 |
| Revenue from services | 34.8 | 26.8 |
| Continuing operations | 440.0 | 398.7 |

3. OTHER OPERATING INCOME

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Royalty income | 1.1 | 0.8 |
| Operating lease rental income | 0.9 | 1.0 |
| Other income | 0.9 | 0.7 |
| Gain on disposal of property, plant and equipment | 1.5 | 1.7 |
| Net gains on fair value movement of non-hedging derivatives | 0.2 | - |
| Gain on disposal of available for sale investments | 0.1 | 0.2 |
| Continuing operations | 4.7 | 4.4 |

Notes to the Financial Statements continued

4. OPERATING EXPENSES

| | 2008 £m | 2007 £m |
|--|--------------|-------------|
| Administration expenses | 112.5 | 63.8 |
| including: | | |
| Exceptional items (note 5) | 34.7 | 2.3 |
| Net loss on fair value movement of non-hedging derivatives | 0.1 | 0.4 |
| Distribution costs | 2.3 | 3.7 |
| Continuing operations | 114.8 | 67.5 |

5. EXCEPTIONAL ITEMS

| | 2008 £m | 2007 £m |
|---|-------------|------------|
| Exceptional items comprise: | | |
| Impairment of goodwill | 16.3 | - |
| Impairment of property, plant and equipment | 16.8 | - |
| Property provisions | 10.6 | - |
| Other exceptional items | 7.2 | - |
| Disposal of a subsidiary | - | 2.3 |
| Continuing operations | 50.9 | 2.3 |

Following the downturn in business activity levels during 2008, a goodwill impairment charge of £16.3m has been recognised (note 15).

Property, plant and equipment impairment of £16.8m includes an oil and gas development expenditure impairment of £16.2m resulting from the fall in commodity prices during the year (note 14).

The Group has increased its property provisions by £10.6m for onerous lease obligations as a result of additional remediation and dilapidation costs, the impact of the economic downturn on the recoverability of rental income, the fall in interest rates and a change in legislation resulting in property rates being paid on vacant properties.

Other exceptional items of £7.2m include restructuring costs and warranty provisions.

6. EMPLOYEES

| | 2008 | | | 2007 | | |
|--|-----------------------|-------------------------|--------------|-----------------------|-------------------------|--------------|
| | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| | £m | £m | £m | £m | £m | £m |
| Staff costs during the year comprised: | | | | | | |
| Wages and salaries | 87.3 | 35.8 | 123.1 | 76.8 | 25.6 | 102.4 |
| Social security costs | 9.3 | 2.0 | 11.3 | 8.7 | 0.9 | 9.6 |
| Share options – value of employee services | 1.2 | 1.2 | 2.4 | 0.6 | 0.6 | 1.2 |
| Pension costs – defined contribution schemes (note 31) | 2.5 | 1.3 | 3.8 | 1.5 | 1.3 | 2.8 |
| Pension costs – defined benefit schemes (note 31) | 1.1 | 0.5 | 1.6 | 0.1 | 0.6 | 0.7 |
| | 101.4 | 40.8 | 142.2 | 87.7 | 29.0 | 116.7 |

Notes to the Financial Statements continued

6. EMPLOYEES (continued)

| | 2008 | | Total No. | 2007 | | Total No. |
|--|--------------------------|----------------------------|--------------|--------------------------|----------------------------|--------------|
| | Continuing operations | Discontinued operations | | Continuing operations | Discontinued operations | |
| | No. | No. | | No. | No. | |
| The average monthly number of employees comprised: | | | | | | |
| UK | 427 | – | 427 | 417 | – | 417 |
| Rest of Europe | 157 | – | 157 | 233 | – | 233 |
| Canada | 626 | 777 | 1,403 | 666 | 606 | 1,272 |
| USA | 784 | 4 | 788 | 769 | – | 769 |
| Others | 100 | – | 100 | 91 | – | 91 |
| | 2,094 | 781 | 2,875 | 2,176 | 606 | 2,782 |

The Company has no employees.

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

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Salaries and short term employee benefits | 2.3 | 2.1 |
| Post employment benefits | 0.1 | 0.1 |
| Long term incentive plan | 2.4 | 2.0 |
| | 4.8 | 4.2 |

Salaries and short term benefits are included within Emoluments on page 28 of The Remuneration Committee's report. Post employment benefits comprise employer pension contributions. Share options exercised are disclosed on page 29 within Directors' Options over Ordinary Shares in the Remuneration Committee's report.

7. NET FINANCE COSTS

| | 2008 £m | 2007 £m |
|--|--------------|--------------|
| Interest income: | | |
| Bank balances and deposits | 3.5 | 6.8 |
| Gain on fair value movement of non-hedging financial instruments | 0.7 | 0.5 |
| Other investment income | 1.0 | 1.9 |
| Foreign exchange gains | 2.0 | 0.4 |
| | 7.2 | 9.6 |
| Interest expense and similar charges: | | |
| Bank overdrafts | 3.0 | 6.6 |
| Bank borrowings | 2.0 | 2.0 |
| Other loans and borrowings | 1.8 | 2.5 |
| – Fair value hedge – interest on interest rate swaps | (0.3) | 0.5 |
| – Fair value hedge – fair value movement on interest rate swaps | 0.2 | (1.4) |
| – Fair value hedge – fair value movement on other loans and borrowings | 0.1 | 1.3 |
| Loans from associates | 0.2 | 0.1 |
| Unwinding of discount in provisions | 0.5 | 0.5 |
| Bank fees and commissions | 0.1 | 0.2 |
| Other | 1.4 | 1.9 |
| Loss on fair value movement of non-hedging financial instruments | 1.4 | 1.6 |
| | 10.4 | 15.8 |
| Net finance costs – continuing operations | (3.2) | (6.2) |

Notes to the Financial Statements continued

8. PROFIT FROM CONTINUING OPERATIONS

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

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Staff costs (note 6) | 101.4 | 87.7 |
| Depreciation of property, plant and equipment: | | |
| – owned assets | 17.1 | 14.3 |
| Amortisation of intangible assets (included in operating expenses) | 0.3 | 0.2 |
| Impairment of goodwill (included in operating expenses) | 16.3 | – |
| Impairment of property, plant and equipment (included in cost of sales and operating expenses) | 16.8 | – |
| Impairment of other intangible assets (included in operating expenses) | 0.2 | – |
| Cost of inventories recognised as expense (included in cost of sales) | 211.8 | 203.4 |
| Write down in inventories | 0.8 | 0.4 |
| Profit on disposal of investments | (0.1) | (0.2) |
| Loss on disposal of property, plant and equipment | 2.0 | 2.8 |
| Operating lease payments: | | |
| – Plant and machinery | 0.1 | 0.4 |
| – Property | 6.5 | 6.0 |
| Research and development expenditure | 0.2 | 0.6 |
| Net foreign exchange losses (gains): | | |
| – financial assets held for trading | 0.7 | – |
| – cash and cash equivalents | (1.9) | 0.1 |
| – loans and receivables | (7.9) | (0.2) |
| – financial liabilities held for trading | 1.8 | (0.2) |
| – financial liabilities measured at amortised cost | 4.8 | 0.2 |

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

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Statutory audit of the parent and Group accounts | 0.2 | 0.2 | 0.3 | 0.2 |
| Statutory audit of the Group's subsidiaries accounts | 0.8 | 0.7 | – | – |
| Transaction services | 1.0 | – | – | – |
| Tax services | 0.8 | 0.5 | 0.4 | 0.2 |
| | 2.8 | 1.4 | 0.7 | 0.4 |

9. EBITDA

Earnings before interest, tax, depreciation and amortisation ("EBITDA") comprises:

| | 2008 £m | 2007 £m |
|---|-------------|-------------|
| Profit from continuing operations (page 47) | 10.0 | 49.0 |
| Add: Exceptional charges excluding impairment (note 5) | 17.6 | 2.3 |
| Depreciation, amortisation and impairment (notes 14, 15 and 16) | 50.7 | 14.5 |
| | 78.3 | 65.8 |

Notes to the Financial Statements continued

10. TAXATION

| | 2008 £m | 2007 £m |
|--|------------|-------------|
| The tax charge (credit) in the income statement comprised: | | |
| Current tax | | |
| – current year expense | 13.6 | 12.0 |
| – adjustment in respect of prior years | 0.7 | 2.7 |
| Deferred tax (note 21) | | |
| – origination and reversal of temporary differences | (7.5) | 5.4 |
| – changes in tax rates | – | (0.4) |
| – previously unrecognised tax losses and credits | 0.9 | (1.8) |
| Total tax charged to the income statement – continuing operations | 7.7 | 17.9 |

The tax charge to the income statement includes a tax credit of £11.7m (2007 – £0.2m) in respect of exceptional charges. The tax credit includes £5.5m in respect of the impairment of oil and gas development expenditure and £3.0m in respect of property provisions.

The weighted average applicable tax rate for continuing operations before exceptional items is 32.9% (2007 – 38.3%). The lower rate in 2008 is mainly due to increased profits in lower tax jurisdictions particularly in SE Asia and a reduced UK corporate tax rate.

The tax for the year is higher (2007 – higher) than the standard rate of UK corporation tax of 28.5% (2007 – 30%) for the following reasons:

| | 2008 £m | 2007 £m |
|--|------------|-------------|
| Profit before tax from continuing operations | 8.0 | 45.0 |
| Tax at 28.5% (2007 – 30%) | 2.3 | 13.5 |
| Permanent differences | 0.4 | 3.2 |
| Non-tax deductible exceptional items | 3.8 | 0.5 |
| (Lower) higher rate of tax on overseas profits | (0.4) | 0.2 |
| Adjustments in respect of prior years | 1.6 | 0.5 |
| Tax charge for the year – continuing operations | 7.7 | 17.9 |

Tax charged (credited) directly in equity comprised:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Exchange adjustments | 6.3 | (1.9) |
| Revaluation of property, plant and equipment | – | 14.6 |
| Actuarial losses on defined benefit pension schemes | (5.2) | (3.8) |
| Release of fair value loss (gain) on cash flow hedges | 0.2 | (0.1) |
| Fair value loss on cash flow hedges | (0.5) | – |
| Disposal of Treasury shares | (1.4) | (1.9) |
| Share options | – | (1.4) |
| Impairment of revalued assets | (0.3) | (0.5) |
| Release of foreign exchange on disposal of subsidiary | 1.3 | – |
| | 0.4 | 5.0 |

Notes to the Financial Statements continued

11. DISCONTINUED OPERATIONS

On 6 August 2008, the Group entered into an agreement for the sale of Gibson Energy Inc. (Gibson Energy), its midstream services operation. The sale was completed on 12 December 2008. The results from discontinued operations comprise the trading results of Gibson Energy up to the date of disposal and the gain on disposal, as follows:

| | 2008 £m | 2007 £m |
|--|--------------|-------------|
| Results of Gibson Energy: | | |
| Revenue | 2,370.8 | 1,550.8 |
| Cost of sales | (2,303.7) | (1,486.0) |
| Gross profit | 67.1 | 64.8 |
| Other operating income | 0.5 | 0.6 |
| Operating expenses | (9.5) | (15.9) |
| Profit from operations | 58.1 | 49.5 |
| Interest income | 0.2 | 0.2 |
| Interest expense and similar charges | (4.5) | (4.0) |
| Share of post-tax loss in associates | (0.2) | - |
| Profit before tax | 53.6 | 45.7 |
| Taxation | (15.4) | (10.3) |
| Profit for the year | 38.2 | 35.4 |
| Profit on disposal of Gibson Energy: | | |
| Profit on disposal before tax | 208.8 | - |
| Taxation | 9.3 | - |
| Profit on disposal after tax | 218.1 | - |
| Total profit from discontinued operations | 256.3 | 35.4 |

Interest expense and similar charges includes interest incurred on bank loans drawn on behalf of Gibson Energy by the continuing Group's central treasury function.

No depreciation and amortisation has been charged against the results of Gibson Energy with effect from 30 April 2008 when the business was deemed to be held for sale.

The taxable gain on the disposal of Gibson Energy is exempt due to the availability of the "Substantial Shareholding Exemption". Tax relief is available on certain costs included in the profit on disposal but which are not included in the taxable gain.

12. 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 profit of £37.0m (2007 - £16.3m) has been dealt with in the accounts of the Company.

Notes to the Financial Statements continued

13. 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 dilution in respect of share options applies where the exercise price is less than the average market price of the Company's Ordinary shares during the year and the possible issue of shares under the Group's long term incentive plan.

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

From continuing operations

| | Earnings £m | 2008 Weighted average number of shares millions | Earnings per Ordinary share pence | Earnings £m | 2007 Weighted average number of shares millions | Earnings per Ordinary share pence |
|---|----------------|--|---|----------------|--|---|
| Profit before exceptional items attributable to shareholders of the parent and for basic EPS | 36.0 | 130.9 | 27.5 | 24.1 | 130.4 | 18.5 |
| Exceptional items after tax | (39.2) | – | | (2.1) | – | |
| (Loss) profit attributable to shareholders of the parent and for basic EPS | (3.2) | 130.9 | (2.5) | 22.0 | 130.4 | 16.9 |
| Effect of dilutive shares: | | | | | | |
| Options | – | 3.7 | | – | 4.7 | |
| Long term incentive plan | – | 0.5 | | – | 0.4 | |
| Diluted EPS | (3.2) | 135.1 | (2.4) | 22.0 | 135.5 | 16.2 |

From continuing and discontinued operations

| | Earnings £m | 2008 Weighted average number of shares millions | Earnings per Ordinary share pence | Earnings £m | 2007 Weighted average number of shares millions | Earnings per Ordinary share pence |
|---|----------------|--|---|----------------|--|---|
| Profit before exceptional items attributable to shareholders of the parent and for basic EPS | 74.2 | 130.9 | 56.7 | 59.5 | 130.4 | 45.6 |
| Exceptional items after tax | 178.9 | – | | (2.1) | – | |
| Profit attributable to shareholders of the parent and for basic EPS | 253.1 | 130.9 | 193.4 | 57.4 | 130.4 | 44.0 |
| Effect of dilutive shares: | | | | | | |
| Options | – | 3.7 | | – | 4.7 | |
| Long term incentive plan | – | 0.5 | | – | 0.4 | |
| Diluted EPS | 253.1 | 135.1 | 187.4 | 57.4 | 135.5 | 42.3 |

Notes to the Financial Statements continued

13. EARNINGS PER SHARE (continued)

From discontinued operations

| | Earnings £m | 2008 Weighted average number of shares millions | Earnings per Ordinary share pence | Earnings £m | 2007 Weighted average number of shares millions | Earnings per Ordinary share pence |
|---|----------------|--|---|----------------|--|---|
| Profit before exceptional items attributable to shareholders of the parent and for basic EPS | 38.2 | 130.9 | 29.2 | 35.4 | 130.4 | 27.1 |
| Exceptional items after tax | 218.1 | - | | - | - | |
| Profit attributable to shareholders of the parent and for basic EPS | 256.3 | 130.9 | 195.9 | 35.4 | 130.4 | 27.1 |
| Effect of dilutive shares: | | | | | | |
| Options | - | 3.7 | | - | 4.7 | |
| Long term incentive plan | - | 0.5 | | - | 0.4 | |
| Diluted EPS | 256.3 | 135.1 | 189.8 | 35.4 | 135.5 | 26.1 |

14. PROPERTY, PLANT AND EQUIPMENT

| Group | Year ended 31 December 2008 | | | | | | Total £m |
|---|--------------------------------------|--------------------------|--|---|--------------------------|--|--------------|
| | Land and Buildings Freehold £m | Short leasehold £m | Oil and gas exploration and development £m | Pipelines, tanks and associated equipment Terminals £m | Other equipment £m | Plant, machinery and motor vehicles £m | |
| Cost or valuation: | | | | | | | |
| At 1 January | 46.7 | 4.5 | 59.2 | 116.3 | 68.9 | 161.4 | 457.0 |
| Exchange adjustments | 4.8 | 0.5 | 20.4 | (2.0) | (1.1) | 25.2 | 47.8 |
| Additions | 6.0 | 0.1 | 8.8 | 2.7 | 2.3 | 23.8 | 43.7 |
| Impairment of assets | (1.0) | - | (16.2) | - | - | (0.3) | (17.5) |
| Disposals | (0.1) | (0.2) | - | - | - | (10.3) | (10.6) |
| Transfer to assets classified as held for sale | (20.7) | - | - | (117.0) | (70.1) | (71.5) | (279.3) |
| At 31 December | 35.7 | 4.9 | 72.2 | - | - | 128.3 | 241.1 |
| Depreciation: | | | | | | | |
| At 1 January | - | 2.7 | 31.1 | - | 29.3 | 72.9 | 136.0 |
| Exchange adjustments | 0.2 | 0.3 | 13.4 | - | (0.5) | 9.6 | 23.0 |
| Charge for the year* | 1.0 | 0.1 | 5.3 | 2.4 | 1.5 | 12.7 | 23.0 |
| Disposals | (0.1) | - | - | - | - | (4.8) | (4.9) |
| Transfer to assets classified as held for sale | (0.3) | - | - | (2.4) | (30.3) | (33.6) | (66.6) |
| At 31 December | 0.8 | 3.1 | 49.8 | - | - | 56.8 | 110.5 |
| Net book amount | 34.9 | 1.8 | 22.4 | - | - | 71.5 | 130.6 |

Included in the net book amount of freehold land and buildings is expenditure of £4.8m (2007 - £2.3m) and in plant and machinery is expenditure of £2.1m (2007 - £2.3m) relating to assets in the course of construction.

*Included in the charge for the year is £5.9m for discontinued operations.

Notes to the Financial Statements continued

14. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group | Year ended 31 December 2007 | | | | | | Total £m |
|--|--------------------------------------|--------------------------|--|---|--------------------------|--|--------------|
| | Land and Buildings Freehold £m | Short leasehold £m | Oil and gas exploration and development £m | Pipelines, tanks and associated equipment Terminals £m | Other equipment £m | Plant, machinery and motor vehicles £m | |
| Cost or valuation: | | | | | | | |
| At 1 January | 27.4 | 4.2 | 53.8 | 76.3 | 42.5 | 128.0 | 332.2 |
| Exchange adjustments | 1.7 | 0.6 | (0.6) | 10.2 | 11.1 | 11.6 | 34.6 |
| Additions | 6.3 | - | 7.0 | 5.9 | 11.6 | 34.5 | 65.3 |
| Acquisitions | - | - | - | - | 3.8 | 6.1 | 9.9 |
| Impairment of assets previously held for sale | (1.5) | - | - | - | - | - | (1.5) |
| Disposals | (1.8) | - | - | - | (0.1) | (10.9) | (12.8) |
| Disposal of subsidiaries | (2.2) | - | - | - | - | (6.6) | (8.8) |
| Revaluation | 15.2 | - | - | 22.9 | - | - | 38.1 |
| Reclassification of assets | 1.6 | (0.3) | (1.0) | 1.0 | - | (1.3) | - |
| At 31 December | 46.7 | 4.5 | 59.2 | 116.3 | 68.9 | 161.4 | 457.0 |
| Depreciation: | | | | | | | |
| At 1 January | 4.1 | 2.7 | 26.8 | 17.9 | 20.7 | 65.4 | 137.6 |
| Exchange adjustments | 0.3 | 0.3 | (0.3) | 2.4 | 4.5 | 6.1 | 13.3 |
| Charge for the year | 1.1 | 0.2 | 5.1 | 3.0 | 4.1 | 12.3 | 25.8 |
| Disposals | (0.8) | - | - | - | - | (5.4) | (6.2) |
| Disposal of subsidiaries | (0.5) | - | - | - | - | (5.9) | (6.4) |
| Revaluation | (4.3) | - | - | (23.8) | - | - | (28.1) |
| Reclassification of assets | 0.1 | (0.5) | (0.5) | 0.5 | - | 0.4 | - |
| At 31 December | - | 2.7 | 31.1 | - | 29.3 | 72.9 | 136.0 |
| Net book amount | 46.7 | 1.8 | 28.1 | 116.3 | 39.6 | 88.5 | 321.0 |

On 31 December 2007, the Group's freehold properties and terminals were valued on the bases of either existing use value or market value. The freehold properties in the UK were valued by Savills (L&P) Limited, Chartered Surveyors and Ryden LLP, acting as independent valuers, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual Practice Statement 1 and 5. Freehold properties and terminals in Canada were valued by American Appraisal Canada Inc, acting as independent valuers. Freehold properties in the US were valued by Cushman & Wakefield Inc, acting as independent valuers. Freehold property in the Netherlands was valued by Brantjes Makelaars, acting as independent valuers.

The revalued assets would have been recognised in the financial statements at the following carrying amounts if they had been carried under the cost model:

| | 2008 £m | 2007 £m |
|-----------------------------|-------------|-------------|
| Freehold land and buildings | 19.4 | 22.1 |
| Terminals | - | 62.1 |
| | 19.4 | 84.2 |

The movement during the year in the carrying amount of assets carried at valuation, from £163.0m at 1 January to £29.3m at 31 December, comprised: the transfer to assets classified as held for sale of £134.6m, the impairment of £0.7m, exchange gains of £5.0m, less depreciation of £3.4m.

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.

Notes to the Financial Statements continued

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The impairment charge of £17.5m includes £16.2m for the write down of oil and gas development expenditure (included in the Exploration and Production operating segment) following a fall in commodity prices during the year. The recoverable amount of the oil and gas development expenditure is based on value in use. These calculations use discounted pre-tax cash flow projections based on estimated oil and gas reserves and future production and income attributable to such reserves. Reserve determinations were made utilising geological maps in conjunction with volumetric calculations, material balance extrapolations and exponential decline curve analysis. Cash flows are based on reserve production lives varying from one to fifteen years. Cash flows are discounted using a pre-tax rate of 8%. The long term price of oil has been assumed to be US\$55/bbl and the average price of gas US\$5.89 mcf.

Oil and gas exploration and development includes expenditure on the exploration for and evaluation of mineral resources, which is recognised at cost and is not depreciated. The amount recognised in cost at 31 December 2008 is £nil (2007 – £0.6m) including additions during the year of £2.2m (2007 – £0.6m) an impairment loss of £2.9m (2007 – £nil) and an exchange gain of £0.1m (2007 – £nil).

Plant, machinery and motor vehicles include £0.2m (2007 – £0.6m) being the net book amount of the capital element of assets held under finance leases after accumulated depreciation of £0.2m (2007 – £1.2m).

15. GOODWILL

| | Group | |
|--|-------------|-------------|
| | 2008 | 2007 |
| | £m | £m |
| Cost: | | |
| At 1 January | 74.5 | 55.0 |
| Exchange adjustments | 8.1 | 5.0 |
| Additions | – | 14.5 |
| Transfer to assets classified as held for sale | (31.9) | – |
| At 31 December | 50.7 | 74.5 |
| Accumulated impairment losses: | | |
| At 1 January | 2.1 | 2.0 |
| Exchange adjustments | 4.3 | 0.1 |
| Charge for the year | 16.3 | – |
| Transfer to assets classified as held for sale | (1.3) | – |
| At 31 December | 21.4 | 2.1 |
| Net book amount | 29.3 | 72.4 |

Impairment of goodwill

The impairment charge of £16.3m relates to two cash-generating units, namely US Trenchless operations (included in the Well Construction operating segment), a supplier of drill rods and Canada Manufacturing (included in the Well Completion operating segment), a specialised API coupling manufacturer. The impairment of goodwill arises due to a downturn in business activity levels during 2008.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's) that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as follows:

| | 2008 | 2007 |
|-------------------------------|-------------|-------------|
| | £m | £m |
| Continuing operations: | | |
| Well Construction | 15.7 | 20.8 |
| Well Completion | 9.2 | 16.9 |
| Hunting Energy France | 3.2 | 2.4 |
| Other operating divisions | 1.2 | 1.2 |
| | 29.3 | 41.3 |

Notes to the Financial Statements continued

15. GOODWILL (continued)

| | 2008 £m | 2007 £m |
|--------------------------------------|-------------|-------------|
| Discontinued operations: | | |
| Gibson Energy | | |
| - Marketing | - | 5.5 |
| - Truck Transportation | - | 8.5 |
| - Terminals and Pipelines | - | 5.0 |
| - Propane Distribution and Marketing | - | 9.9 |
| - Moose Jaw Refinery | - | 2.2 |
| | - | 31.1 |
| Total | 29.3 | 72.4 |

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use discounted pre-tax cash flow projections based on financial budgets approved by management covering a three year period and are based on past experience. Cash flows beyond the three year period are extrapolated using estimated growth rates in the range 2% to 5%. These growth rates reflect the products, industries and countries in which the relevant CGU operates.

Cash flows are discounted using a pre-tax rate of 8%. In determining the discount rate, management considered the Group's weighted average cost of capital and the Group's incremental borrowing rates. The discount rate best reflects the risks associated with the cash flows and the likely external rate of borrowing of the cash generating units. Consideration has also been given to other risks such as currency risk and country risk.

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

16. OTHER INTANGIBLE ASSETS

| | 2008 | | | | 2007 | | | |
|--|--|----------------------------------|-------------|-------------|--|----------------------------------|-------------|-------------|
| | Customer lists and relationships £m | Software and rights of way £m | Other £m | Total £m | Customer lists and relationships £m | Software and rights of way £m | Other £m | Total £m |
| Group Cost: | | | | | | | | |
| At 1 January | 9.0 | 10.6 | 2.7 | 22.3 | 2.2 | 8.0 | - | 10.2 |
| Exchange adjustments | (0.1) | (0.1) | - | (0.2) | 0.6 | 1.4 | 0.3 | 2.3 |
| Additions | - | - | - | - | - | 0.2 | 0.1 | 0.3 |
| Acquisitions | - | - | - | - | 6.2 | 1.0 | 2.3 | 9.5 |
| Impairment | - | - | (0.2) | (0.2) | - | - | - | - |
| Transfer to assets classified as held for sale | (6.7) | (10.5) | (2.5) | (19.7) | - | - | - | - |
| At 31 December | 2.2 | - | - | 2.2 | 9.0 | 10.6 | 2.7 | 22.3 |
| Amortisation: | | | | | | | | |
| At 1 January | 0.7 | 7.6 | 0.1 | 8.4 | 0.3 | 5.9 | - | 6.2 |
| Exchange adjustments | 0.3 | (0.1) | - | 0.2 | - | 1.0 | - | 1.0 |
| Transfer to assets classified as held for sale | (0.5) | (7.9) | (0.1) | (8.5) | - | - | - | - |
| Charge for the year* | 0.5 | 0.4 | - | 0.9 | 0.4 | 0.7 | 0.1 | 1.2 |
| At 31 December | 1.0 | - | - | 1.0 | 0.7 | 7.6 | 0.1 | 8.4 |
| Net book amount | 1.2 | - | - | 1.2 | 8.3 | 3.0 | 2.6 | 13.9 |

*Included in the charge for the year is £0.6m (2007 - £1.0m) for discontinued operations.

None of the Group's intangible assets have been internally generated. All are regarded as having a finite life and are amortised accordingly.

All amortisation charges in the year have been charged to profit from operations (note 8).

Notes to the Financial Statements continued

17. INTERESTS IN ASSOCIATES

| | Group | |
|--|-------------|-------------|
| | 2008 | 2007 |
| | £m | £m |
| At 1 January | 10.5 | 8.0 |
| Exchange adjustments | 0.5 | 0.1 |
| Additions | – | 0.3 |
| Share of profits after taxation attributed to the Group* | 1.1 | 2.2 |
| Dividends | (1.0) | (0.1) |
| Transfer to assets classified as held for sale | (0.3) | – |
| At 31 December | 10.8 | 10.5 |

*The share of profits after taxation attributed to the Group includes a £0.1m loss relating to discontinued operations.

Interests in associates includes goodwill of £nil (2007 – £nil).

The Group's share of the results of its principal associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

| | 2008 | 2007 |
|--|-------------|-------------|
| | £m | £m |
| Aggregated amounts relating to interests in associates: | | |
| Share of balance sheet: | | |
| Total assets | 20.4 | 15.6 |
| Total liabilities | (9.6) | (5.1) |
| | 10.8 | 10.5 |
| Share of results: | | |
| Revenues | 20.4 | 15.0 |
| Profit before tax | 1.4 | 2.5 |
| Taxation | (0.3) | (0.3) |
| Profit after tax | 1.1 | 2.2 |

The key investments in associates, including the name, country of incorporation and proportion of ownership interest is provided in note 48.

Notes to the Financial Statements *continued*

18. AVAILABLE FOR SALE FINANCIAL ASSETS

| | Group | |
|--|-------------|------------|
| | 2008 | 2007 |
| | £m | £m |
| Valuation: | | |
| At 1 January | 0.6 | 0.6 |
| Additions | 54.2 | – |
| Transfer to assets classified as held for sale | (0.1) | – |
| Disposals | (0.4) | – |
| Fair value gain (note 33) | 1.2 | – |
| At 31 December | 55.5 | 0.6 |
| Impairment provision: | | |
| At 1 January | 0.4 | 0.4 |
| Charge for the year | 27.0 | – |
| Disposals | (0.4) | – |
| At 31 December | 27.0 | 0.4 |
| Net book amount | 28.5 | 0.2 |

The financial assets comprise:

| | 2008 | 2007 |
|----------------------|------|------|
| | £m | £m |
| Unlisted investments | 28.5 | 0.2 |

The net book amount of £28.5m at 31 December 2008 includes the warrant received on the disposal of Gibson Energy at a fair value of £28.3m.

During the year, the Group disposed of unlisted investments with a carrying value of £nil (2007 – £29,000) for a consideration of £nil (2007 – £0.2m).

The maximum exposure to credit risk at 31 December 2008 is the fair value of the unlisted investments of £28.5m (2007 – £0.2m).

At 31 December 2008, the fair value of unlisted investments that was impaired was £55.3m (2007 – £0.4m) and the provision for impairment was £27.0m (2007 – £0.4m).

The impairment loss of £27.0m that arose during the year relates to the impairment of the warrant received on the disposal of Gibson Energy (note 41), and has been recorded in the income statement as part of the profit on disposal. The provision for impairment of the warrant has been made as management do not believe that the asset is recoverable under the original terms of the instrument given current global market conditions but expect a portion to be recovered.

19. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-------------------------------------|--------------|--------------|
| | 2008 | 2007 |
| | £m | £m |
| Carrying value: | | |
| At 1 January and 31 December | 284.2 | 284.2 |

The principal subsidiaries are detailed in note 48.

Notes to the Financial Statements continued

20. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|--------------|--------------|-------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Non-current: | | | | |
| Loans to associates | - | 0.2 | - | - |
| Amounts owed by subsidiaries | - | - | 21.2 | 20.8 |
| Other receivables | - | 0.2 | - | - |
| Prepayments | 1.6 | 2.3 | - | - |
| Derivative financial instruments | - | 0.1 | - | - |
| | 1.6 | 2.8 | 21.2 | 20.8 |
| Current: | | | | |
| Trade receivables | 94.2 | 218.7 | - | - |
| Less: provision for impairment of receivables | (3.7) | (2.1) | - | - |
| Net trade receivables | 90.5 | 216.6 | - | - |
| Amounts due under long-term contracts | 5.3 | 11.5 | - | - |
| Amounts owed by subsidiaries | - | - | 35.3 | 1.5 |
| Amounts owed by associates | 1.3 | 0.5 | - | - |
| Other receivables | 15.8 | 4.6 | 0.5 | 0.1 |
| Prepayments | 5.7 | 9.1 | 0.2 | 0.2 |
| Accrued revenue | 2.3 | 1.2 | - | - |
| Derivative financial instruments | 3.1 | 0.8 | - | - |
| | 124.0 | 244.3 | 36.0 | 1.8 |

Group:

Trade receivables that are neither past due nor impaired are expected to be fully recovered as there is no recent history of default or any indications that the debtors will not meet their payment obligations. At the year end there are no trade receivables (2007 - none) whose terms have been renegotiated and would otherwise be past due or impaired.

Derivative financial instruments have been acquired from financial institutions that have short-term Fitch ratings of F1 or F1+ and these are expected to be fully recovered.

At 31 December 2008, trade receivables of £29.3m (2007 - £39.2m) and other receivables of £0.9m (2007 - £nil) were past due but not impaired. The ageing of these receivables at the year end is as follows:

No. of days overdue:

| | Trade receivables | 2008 Other receivables | Total | 2007 Trade receivables |
|-----------------------|-------------------|------------------------|-------------|------------------------|
| | £m | £m | £m | £m |
| 1-30 days | 15.8 | 0.1 | 15.9 | 20.2 |
| 31-60 days | 8.0 | 0.5 | 8.5 | 13.4 |
| 61-90 days | 3.4 | 0.1 | 3.5 | 3.2 |
| 91-120 days | 1.3 | 0.1 | 1.4 | 1.8 |
| more than 120 days | 0.8 | 0.1 | 0.9 | 0.6 |
| At 31 December | 29.3 | 0.9 | 30.2 | 39.2 |

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

At 31 December 2008, £nil (2007 - £0.4m) of trade receivables were not past due but were impaired and £3.7m (2007 - £2.1m) were past due and were impaired.

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

Notes to the Financial Statements continued

20. TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2008, other receivables of £1.2m (2007 – £nil) were not past due but were impaired and £0.1m (2007 – £0.1m) were past due and impaired and a provision of £1.3m (2007 – £0.1m) was made following objective evidence that the amounts would not be collectable under the original terms of the receivable.

At 31 December 2008, amounts due under long-term contracts of £8.1m were not past due but were impaired and a provision for impairment of £2.8m was made as there is some concern over the customer's liquidity.

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

| | 2008 | | | 2007 | |
|---|-------------------|---------------------------------------|-------------------|-------------------|-------------------|
| | Trade receivables | Amounts due under long-term contracts | Other receivables | Trade receivables | Other receivables |
| | £m | £m | £m | £m | £m |
| At 1 January | 2.1 | – | 0.1 | 2.2 | 0.1 |
| Exchange adjustments | 0.5 | 0.3 | – | 0.1 | – |
| Provision for receivables impairment | 2.1 | 2.5 | 1.2 | 0.8 | – |
| Receivables written off during the year | (0.1) | – | – | (0.1) | – |
| Unused amounts reversed | (0.9) | – | – | (0.6) | – |
| Disposal of subsidiary | – | – | – | (0.3) | – |
| At 31 December | 3.7 | 2.8 | 1.3 | 2.1 | 0.1 |

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

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

The maximum exposure to credit risk is the fair value of each class of receivable, as shown in note 28.

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

Company:

None (2007 – none) of the Company's trade and other receivables were past due at the year end and the Company does not consider it necessary to provide for any impairments. The Company's maximum exposure to credit risk is the fair value of each class of receivable, as shown in note 28. The Company does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held.

21. DEFERRED TAX

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

| | Group | | Company | |
|--------------------------|---------------|---------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Deferred tax assets | 5.9 | 7.1 | – | – |
| Deferred tax liabilities | (18.6) | (98.1) | (0.1) | (0.1) |
| | (12.7) | (91.0) | (0.1) | (0.1) |

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

| | Group | | Company | |
|---|---------------|---------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| At 1 January | (91.0) | (63.9) | (0.1) | (0.1) |
| Exchange adjustments | (1.7) | (7.3) | – | – |
| Acquisitions | – | (4.5) | – | – |
| Transfer to liabilities classified as held for sale | 72.2 | – | – | – |
| Credit (charge) to income statement* | 3.4 | (6.5) | – | – |
| Taken direct to equity | 5.8 | (8.8) | – | – |
| Transfers to current tax | (1.4) | – | – | – |
| At 31 December | (12.7) | (91.0) | (0.1) | (0.1) |

*The credit to the income statement includes a charge of £3.2m (2007 – £3.3m charge) in respect of discontinued operations.

Notes to the Financial Statements continued

21. DEFERRED TAX (continued)

Deferred tax assets of £10.0m (2007 – £1.7m) have not been recognised as realisation of the tax benefit on the tax losses is not probable.

A deferred tax liability of £nil (2007 – £5m) has not been 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 assets

| Group | Provisions £m | Asset retirement obligation £m | Tax losses £m | Fair value losses £m | Other £m | Total £m |
|---|------------------|---|------------------|----------------------------|-------------|-------------|
| At 1 January 2008 | 1.1 | 0.6 | 0.5 | – | 4.9 | 7.1 |
| Exchange adjustments | 0.7 | – | 0.1 | – | 0.1 | 0.9 |
| Transfer to assets classified as held for sale | – | (0.6) | – | – | (1.8) | (2.4) |
| (Charge) credit to income statement* | 1.2 | – | 0.2 | 0.2 | (0.2) | 1.4 |
| Taken direct to equity | – | – | – | 0.3 | – | 0.3 |
| Transfer from current tax | – | – | – | – | (1.4) | (1.4) |
| At 31 December 2008 | 3.0 | – | 0.8 | 0.5 | 1.6 | 5.9 |

*The credit to the income statement includes a charge of £0.5m in respect of discontinued operations.

Deferred tax liabilities

| Group | Accelerated tax depreciation £m | Goodwill £m | Property revaluations £m | Fair value adjustments £m | Other £m | Total £m |
|--|---------------------------------------|----------------|--------------------------------|---------------------------------|-------------|-------------|
| At 1 January 2008 | 15.2 | 2.1 | 18.4 | 7.3 | 55.1 | 98.1 |
| Exchange adjustments | 0.9 | 0.3 | 0.3 | (0.2) | 1.3 | 2.6 |
| Transfer to liabilities classified as held for sale | (14.6) | – | (15.9) | (6.9) | (37.2) | (74.6) |
| Charge (credit) to income statement* | 5.7 | (1.6) | (0.4) | (0.2) | (5.5) | (2.0) |
| Taken direct to equity | – | – | (0.3) | – | (5.2) | (5.5) |
| At 31 December 2008 | 7.2 | 0.8 | 2.1 | – | 8.5 | 18.6 |

*The credit to the income statement includes a charge of £2.7m in respect of discontinued operations.

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

| | Group | | Company | |
|---|--------------|------------|------------|------------|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Revaluation of property, plant and equipment | – | 14.6 | – | – |
| Actuarial losses on defined benefit pension schemes | (5.2) | (3.8) | – | – |
| Release of fair value loss (gain) on cash flow hedges | 0.2 | (0.1) | – | – |
| Fair value loss on cash flow hedges | (0.5) | – | – | – |
| Share options | – | (1.4) | – | – |
| Impairment of revalued assets | (0.3) | (0.5) | – | – |
| | (5.8) | 8.8 | – | – |

22. INVENTORIES

| | Group | |
|-----------------------------|--------------|--------------|
| | 2008 £m | 2007 £m |
| Raw materials | 42.2 | 29.7 |
| Work in progress | 18.2 | 9.4 |
| Finished goods | 67.6 | 105.1 |
| Less: provisions for losses | (3.7) | (2.1) |
| | 124.3 | 142.1 |

Inventories are stated at the lower of cost and fair value less selling costs. The carrying amount of inventories stated at fair value less selling costs is £15.8m (2007 – £6.0m).

Notes to the Financial Statements continued

23. INVESTMENTS

Investments comprise bank deposits maturing after more than three months of £nil (2007 – £0.9m).

24. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|--|--------------|-------------|----------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Cash at bank and in hand | 60.6 | 65.0 | – | 5.7 |
| Short term deposits and Money Market Funds | 360.8 | 14.8 | – | – |
| | 421.4 | 79.8 | – | 5.7 |

Cash and cash equivalents have been deposited with banks with Fitch short-term ratings of F1 to F1+ and with AAA rated Money Market Funds and are expected to be fully recovered.

25. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|--|--------------|--------------|------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Non-current: | | | | |
| Derivative financial instruments | – | 0.1 | – | – |
| | – | 0.1 | – | – |
| Current: | | | | |
| Trade payables | 65.6 | 195.0 | – | – |
| Amounts owed under long-term contracts | 1.8 | 1.9 | – | – |
| Amounts owed to subsidiaries | – | – | 1.7 | 1.5 |
| Amounts owed to associates | 7.4 | 9.0 | 5.6 | 5.6 |
| Social security and other taxes | 3.8 | 3.2 | – | – |
| Accruals | 53.3 | 40.5 | 1.1 | 0.4 |
| Deferred revenue | 6.4 | 4.2 | – | – |
| Other payables | 22.6 | 4.8 | 1.0 | 0.5 |
| Derivative financial instruments | 3.9 | 3.5 | – | – |
| | 164.8 | 262.1 | 9.4 | 8.0 |

26. BORROWINGS

| | Group | | Company | |
|-------------------------------------|----------|--------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Non-current: | | | | |
| Unsecured bank loans | – | 97.3 | – | – |
| Other unsecured loans | – | 33.3 | – | – |
| Finance lease liabilities (note 43) | – | 0.1 | – | – |
| Amounts due to subsidiaries | – | – | 138.7 | 152.4 |
| | – | 130.7 | 138.7 | 152.4 |

Notes to the Financial Statements continued

26. BORROWINGS (continued)

| | Group | | Company | |
|-------------------------------------|-------------|--------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Current: | | | | |
| Unsecured bank overdrafts | 49.0 | 60.1 | 31.6 | 13.8 |
| Unsecured bank loans | - | 25.8 | - | - |
| Other unsecured loans | - | 3.1 | - | - |
| Finance lease liabilities (note 43) | 0.1 | 0.2 | - | - |
| | 49.1 | 89.2 | 31.6 | 13.8 |
| Total borrowings | 49.1 | 219.9 | 170.3 | 166.2 |

Analysis of borrowings by currency

The carrying amounts of the Group's borrowings are denominated in the following currencies:

As at 31 December 2008

| | Sterling | US | Canadian | Euro | Total |
|---------------------------|-------------|-------------|------------|------------|-------------|
| | £m | dollars | dollars | £m | £m |
| Group | | | | | |
| Unsecured bank overdrafts | 35.0 | 12.9 | 1.1 | - | 49.0 |
| Finance lease liabilities | - | - | - | 0.1 | 0.1 |
| | 35.0 | 12.9 | 1.1 | 0.1 | 49.1 |

As at 31 December 2007

| | Sterling | US | Canadian | Euro | Total |
|---------------------------|-------------|-------------|--------------|------------|--------------|
| | £m | dollars | dollars | £m | £m |
| Group | | | | | |
| Unsecured bank overdrafts | 37.0 | 10.7 | 12.4 | - | 60.1 |
| Unsecured bank loans | - | - | 123.1 | - | 123.1 |
| Other unsecured loans | - | 36.4 | - | - | 36.4 |
| Finance lease liabilities | - | - | 0.1 | 0.2 | 0.3 |
| | 37.0 | 47.1 | 135.6 | 0.2 | 219.9 |

Company

The Company has borrowings of £170.3m (2007 - £166.2m) at the year end, of which £162.1m (2007 - £166.2m) is denominated in sterling and £8.2m (2007 - £nil) is denominated in US dollars.

Notes to the Financial Statements continued

27. CHANGES IN NET CASH (DEBT)

The analysis below is provided in order to reconcile the movement in borrowings (note 26), investments (note 23) and cash and cash equivalents (note 24) during the year.

| | At 1 January 2008 £m | Cash flow £m | Fair value and similar movements £m | Exchange movements £m | At 31 December 2008 £m |
|------------------------------|----------------------------|-----------------|---|-----------------------------|---------------------------------|
| Cash and cash equivalents | 79.8 | 334.4 | - | 7.2 | 421.4 |
| Bank overdrafts | (60.1) | 13.7 | - | (2.6) | (49.0) |
| | 19.7 | 348.1 | - | 4.6 | 372.4 |
| Investments | 0.9 | (0.9) | - | - | - |
| Current borrowings | (28.9) | 28.9 | - | - | - |
| Non-current borrowings | (130.6) | 133.3 | (0.1) | (2.6) | - |
| Finance leases | (0.3) | 0.1 | - | 0.1 | (0.1) |
| Total net cash (debt) | (139.2) | 509.5 | (0.1) | 2.1 | 372.3 |

28. DERIVATIVES AND FINANCIAL INSTRUMENTS

Currency derivatives

The Group uses currency swaps, spot and forward foreign exchange contracts and average rate options to hedge its exposure to exchange rate movements.

At 31 December 2008, the total notional amount of the Group's outstanding forward foreign exchange contracts is £45.4m (2007 - £61.0m).

Gains and losses on contracts that are not designated in a hedge relationship are taken directly to the income statement. Changes in the fair value of currency derivatives not designated in a hedge relationship amounting to a £2.2m profit (2007 - £2.2m) have been recognised in the income statement during the year for continuing operations and £4.0m loss (2007 - £2.8m gain) for discontinued operations.

Certain highly probable forecast transactions have been designated in a cash flow hedge relationship and hedged using forward foreign exchange contracts. These forecast transactions are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve on forward foreign exchange contracts at 31 December 2008 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

Losses of £3.6m were recognised in the hedging reserve (note 33) during the year. Losses of £0.8m were removed from equity during the year and were included in revenue in the income statement. Ineffectiveness of £nil arose on the cash flow hedges during 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 Group had interest rate swaps and caps hedging its US Private Placement borrowings during the year. The fixed to floating interest rate swaps were designated in a fair value hedge of these borrowings and a fair value gain of £0.1m (2007 - £0.9m) was recognised in the income statement. The US Private Placements were repaid during the year and the fixed to floating interest rate swaps were matured early. The floating to fixed interest rate swaps and caps were not designated in a hedge relationship and were also matured early following the repayment of the US Private Placements. The changes in the fair value of the floating to fixed interest rate swaps and caps are taken directly to the income statement. A loss of £3.6m (2007 - £1.0m) was recognised in the income statement during the year.

The US Private Placements were measured at amortised cost and adjusted for the fair value of the hedged risk up until the date of repayment, with the movement in the fair value being dealt with in the income statement. The movements in the fair value of the US Private Placements and of the fixed to floating interest rate swaps hedging this borrowing are shown in note 7.

Notes to the Financial Statements continued

28. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Commodity Derivatives

Commodity price derivatives were used by the Group to hedge its exposure to changes in the price of oil, gas and electricity commodities. The Group no longer has any commodity derivatives following the sale of Gibson Energy.

The change in the fair value of oil and gas price derivatives of £2.5m loss (2007 – £7.6m loss) has been recognised in the income statement during the year, as part of discontinued operations.

Electricity price swaps were entered into to hedge the risk arising from movements in electricity prices and these have been designated in a cash flow hedge. Payments for electricity were made monthly during the year. Gains and losses are recognised in the income statement in the period or periods when payments for electricity are made. Gains of £0.2m (2007 – £0.3m) were removed from equity during the year and were included in cost of sales in the income statement as part of discontinued operations.

Fair values of derivative financial instruments

As at 31 December 2008

| | Not designated as hedges | | Cash flow hedges | | Fair value hedges | | Total | |
|--------------------------|--------------------------|--------------|------------------|--------------|-------------------|-------------|------------|--------------|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Forward foreign exchange | 3.0 | (0.9) | – | (3.0) | – | – | 3.0 | (3.9) |
| Currency swaps | 0.1 | – | – | – | – | – | 0.1 | – |
| | 3.1 | (0.9) | – | (3.0) | – | – | 3.1 | (3.9) |

As at 31 December 2007

| | Not designated as hedges | | Cash flow hedges | | Fair value hedges | | Total | |
|---|--------------------------|--------------|------------------|-------------|-------------------|--------------|------------|--------------|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Interest rate swaps and caps | 0.4 | (1.1) | – | – | 0.1 | (0.1) | 0.5 | (1.2) |
| Forward foreign exchange | 0.2 | – | – | – | – | – | 0.2 | – |
| Oil and gas price futures, swaps and caps | – | (2.4) | – | – | – | – | – | (2.4) |
| Electricity price swaps | – | – | 0.2 | – | – | – | 0.2 | – |
| | 0.6 | (3.5) | 0.2 | – | 0.1 | (0.1) | 0.9 | (3.6) |

Hedge of net investments in foreign entity

During the year, the Group had both US dollar and Canadian dollar denominated borrowings which it had designated as a hedge of the net investment in its subsidiaries in the USA and Canada. The US dollar and Canadian dollar denominated borrowings were repaid from the proceeds received from the sale of Gibson Energy in December 2008 and the hedge of the net investments in foreign subsidiaries ceased.

At 31 December 2008, a foreign exchange gain of £22.1m (2007 – £6.2m loss) on translation of the borrowings into sterling has been recognised in the foreign currency translation reserve.

Notes to the Financial Statements continued

28. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and financial liabilities

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

| Group | 2008 | | | | | | | Total Fair value |
|---------------------------------------|--|-----------------------------|--|---|---|--|--------------|------------------------|
| | Financial assets held for trading | Loans and receivables | Available for sale financial assets | Financial liabilities held for trading | Financial liabilities measured at amortised cost | Derivatives at fair value through equity (cash flow hedges) | Total | |
| | Carrying amount | | | | | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Non-current assets | | | | | | | | |
| Unlisted investments (note 18) | - | - | 28.5 | - | - | - | 28.5 | 28.5 |
| Current assets (note 20) | | | | | | | | |
| Net trade receivables | - | 90.5 | - | - | - | - | 90.5 | 90.5 |
| Amounts due under long-term contracts | - | 5.3 | - | - | - | - | 5.3 | 5.3 |
| Amounts owed by associates | - | 1.3 | - | - | - | - | 1.3 | 1.3 |
| Other receivables | - | 15.8 | - | - | - | - | 15.8 | 15.8 |
| Accrued revenue | - | 2.3 | - | - | - | - | 2.3 | 2.3 |
| Derivative financial instruments | 3.1 | - | - | - | - | - | 3.1 | 3.1 |
| Cash and cash equivalents (note 24) | - | 421.4 | - | - | - | - | 421.4 | 421.4 |
| Current liabilities (note 25) | | | | | | | | |
| Trade payables | - | - | - | - | (65.6) | - | (65.6) | (65.6) |
| Amounts owed to associates | - | - | - | - | (7.4) | - | (7.4) | (7.4) |
| Accruals | - | - | - | - | (53.3) | - | (53.3) | (53.3) |
| Other payables | - | - | - | - | (2.8) | - | (2.8) | (2.8) |
| Derivative financial instruments | - | - | - | (0.9) | - | (3.0) | (3.9) | (3.9) |
| Provisions (note 30) | - | - | - | - | (56.2) | - | (56.2) | (56.2) |
| Current borrowings (note 26) | | | | | | | | |
| Unsecured bank overdrafts | - | - | - | - | (49.0) | - | (49.0) | (49.0) |
| Finance lease liabilities | - | - | - | - | (0.1) | - | (0.1) | (0.1) |
| Non-current liabilities | | | | | | | | |
| Provisions (note 30) | - | - | - | - | (16.7) | - | (16.7) | (16.7) |
| | 3.1 | 536.6 | 28.5 | (0.9) | (251.1) | (3.0) | 313.2 | 313.2 |

Notes to the Financial Statements continued

28. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

| | 2007 | | | | | | | |
|--|--|--|-----------------------------|--|---|---|----------------|------------------------|
| | Financial assets held for trading | Derivatives at fair value through equity (cash flow hedges) | Loans and receivables | Available for sale financial assets | Financial liabilities held for trading | Financial liabilities measured at amortised cost | Total | Total Fair value |
| | Carrying amount | | | | | | | |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Non-current assets | | | | | | | | |
| Unlisted investments (note 18) | - | - | - | 0.2 | - | - | 0.2 | 0.2 |
| Loans to associates (note 20) | - | - | 0.2 | - | - | - | 0.2 | 0.2 |
| Other receivables (note 20) | - | - | 0.2 | - | - | - | 0.2 | 0.1 |
| Derivative financial instruments (note 20) | 0.1 | - | - | - | - | - | 0.1 | 0.1 |
| Current assets (note 20) | | | | | | | | |
| Net trade receivables | - | - | 216.6 | - | - | - | 216.6 | 216.6 |
| Amounts due under long-term contracts | - | - | 11.5 | - | - | - | 11.5 | 11.5 |
| Amounts owed by associates | - | - | 0.5 | - | - | - | 0.5 | 0.5 |
| Other receivables | - | - | 4.6 | - | - | - | 4.6 | 4.6 |
| Accrued revenue | - | - | 1.2 | - | - | - | 1.2 | 1.2 |
| Derivative financial instruments | 0.6 | 0.2 | - | - | - | - | 0.8 | 0.8 |
| Investments (note 23) | - | - | 0.9 | - | - | - | 0.9 | 0.9 |
| Cash and cash equivalents (note 24) | - | - | 79.8 | - | - | - | 79.8 | 79.8 |
| Current liabilities (note 25) | | | | | | | | |
| Trade payables | - | - | - | - | - | (195.0) | (195.0) | (195.0) |
| Amounts owed to associates | - | - | - | - | - | (9.0) | (9.0) | (9.0) |
| Accruals | - | - | - | - | - | (40.5) | (40.5) | (40.5) |
| Other payables | - | - | - | - | - | (3.0) | (3.0) | (3.0) |
| Derivative financial instruments | - | - | - | - | (3.5) | - | (3.5) | (3.5) |
| Provisions (note 30) | - | - | - | - | - | (4.5) | (4.5) | (4.5) |
| Current borrowings (note 26) | | | | | | | | |
| Unsecured bank overdrafts | - | - | - | - | - | (60.1) | (60.1) | (60.1) |
| Unsecured bank loans | - | - | - | - | - | (25.8) | (25.8) | (25.8) |
| Other unsecured loans | - | - | - | - | - | (3.1) | (3.1) | (3.1) |
| Finance lease liabilities | - | - | - | - | - | (0.2) | (0.2) | (0.2) |
| Non-current liabilities | | | | | | | | |
| Derivative financial instruments (note 25) | - | - | - | - | (0.1) | - | (0.1) | (0.1) |
| Provisions (note 30) | - | - | - | - | - | (8.1) | (8.1) | (8.1) |
| Non-current borrowings (note 26) | | | | | | | | |
| Unsecured bank loans | - | - | - | - | - | (97.3) | (97.3) | (97.3) |
| Other unsecured loans | - | - | - | - | - | (33.3) | (33.3) | (33.3) |
| Finance lease liabilities | - | - | - | - | - | (0.1) | (0.1) | (0.1) |
| | 0.7 | 0.2 | 315.5 | 0.2 | (3.6) | (480.0) | (167.0) | (167.1) |

Notes to the Financial Statements continued

28. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

Company

| | 2008 | | | |
|---|--------------------------|--|----------------|------------------------|
| | Loans and receivables | Financial liabilities measured at amortised cost | Total | Total Fair value |
| | Carrying amount | | | |
| | £m | £m | £m | £m |
| Non-current assets (note 20) | | | | |
| Amounts owed by subsidiaries | 21.2 | - | 21.2 | 21.2 |
| Current assets (note 20) | | | | |
| Amounts owed by subsidiaries | 35.3 | - | 35.3 | 35.3 |
| Other receivables | 0.5 | - | 0.5 | 0.5 |
| Current liabilities (note 25) | | | | |
| Amounts owed to subsidiaries | - | (1.7) | (1.7) | (1.7) |
| Amounts owed to associates | - | (5.6) | (5.6) | (5.6) |
| Accruals | - | (1.1) | (1.1) | (1.1) |
| Other payables | - | (1.0) | (1.0) | (1.0) |
| Current borrowings (note 26) | | | | |
| Unsecured bank overdrafts | - | (31.6) | (31.6) | (31.6) |
| Non-current borrowings (note 26) | | | | |
| Amounts owed to subsidiaries | - | (138.7) | (138.7) | (138.7) |
| | <u>57.0</u> | <u>(179.7)</u> | <u>(122.7)</u> | <u>(122.7)</u> |

Notes to the Financial Statements continued

28. DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

| | 2007 | | | |
|---|--------------------------|--|----------------|------------------------|
| | Loans and receivables | Financial liabilities measured at amortised cost | Total | Total Fair value |
| | Carrying amount | | | |
| | £m | £m | £m | £m |
| Non-current assets (note 20) | | | | |
| Amounts owed by subsidiaries | 20.8 | – | 20.8 | 20.8 |
| Current assets (note 20) | | | | |
| Amounts owed by subsidiaries | 1.5 | – | 1.5 | 1.5 |
| Other receivables | 0.1 | – | 0.1 | 0.1 |
| Cash and cash equivalents (note 24) | 5.7 | – | 5.7 | 5.7 |
| Current liabilities (note 25) | | | | |
| Amounts owed to subsidiaries | – | (1.5) | (1.5) | (1.5) |
| Amounts owed to associates | – | (5.6) | (5.6) | (5.6) |
| Accruals | – | (0.4) | (0.4) | (0.4) |
| Other payables | – | (0.5) | (0.5) | (0.5) |
| Current borrowings (note 26) | | | | |
| Unsecured bank overdrafts | – | (13.8) | (13.8) | (13.8) |
| Non-current borrowings (note 26) | | | | |
| Amounts owed to subsidiaries | – | (152.4) | (152.4) | (152.4) |
| | 28.1 | (174.2) | (146.1) | (146.1) |

The fair value of commodity based derivatives, that 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 standard valuation techniques, predominantly based on discounted cash flows.

The fair value of forward foreign exchange contracts is determined by the deviation in future expected cash flows calculated by reference to the movement in market quoted exchange rates. The fair value of interest rate swaps is based on their future cash flows, projected using the yield curve at the balance sheet date and discounted using rates determined from the relevant curve. The fair values of interest rate caps, foreign exchange options and interest rate swap options are based on the Black's financial model. The carrying values of available for sale unlisted investments are based on the Directors' best estimate of fair value. The fair values of non-sterling denominated financial instruments are translated into sterling using the year end exchange rate.

29. FINANCIAL RISK FACTORS

Hunting PLC's activities expose it to certain financial risks, namely market risk (including currency risk, fair value interest risk, cash flow interest risk and commodity price risk), credit risk and liquidity risk. The Group's risk management strategy seeks to minimise potential adverse effects on its financial performance. As part of its strategy, both primary and derivative financial instruments are used to hedge its risk exposures.

There are clearly defined objectives and principles for managing financial risk established by the Board of Directors, with policies, parameters and procedures covering the specific areas of funding, banking relationships, foreign currency and interest rate exposures, cash management and the investment of surplus cash.

Notes to the Financial Statements *continued*

29. FINANCIAL RISK FACTORS (continued)

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

(a) Foreign exchange risk

Hunting PLC's international base is exposed to foreign exchange risk from its investing, financing and operating activities, particularly in respect of US dollars. Foreign exchange risks arise from future transactions and cash flows and from recognised monetary assets and liabilities that are not denominated in the functional currency of the Group's local operations.

(i) Transactional risk

The exposure to exchange rate movements in significant future transactions and cash flows is hedged by using forward foreign exchange contracts, currency options and currency swaps. Certain forward foreign exchange contracts have been designated as hedging instruments of highly probable forecast transactions. Operating companies prepare quarterly rolling twelve month cash flow forecasts to enable working capital currency exposures to be identified. Exposures arising from committed long-term projects beyond a twelve month period are also identified. The currency flows to be hedged are currently set at £250,000 equivalent for monthly transactions and £500,000 equivalent for annual transactions.

No speculative positions are entered into by the Group.

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

At 31 December 2008

| | Currency of denomination | | | | | Total £m |
|---|--------------------------|---------------------|---------------------------|------------|---------------------------|-------------|
| | Sterling £m | US dollars £m | Canadian dollars £m | Euro £m | Other currencies £m | |
| Functional currency of Group's entities | | | | | | |
| Sterling | - | 9.8 | 7.2 | (4.1) | 1.2 | 14.1 |
| US dollars | (0.2) | - | - | - | (3.5) | (3.7) |
| Canadian dollars | - | 15.6 | - | - | 0.4 | 16.0 |
| Euro | (1.1) | 0.1 | - | - | - | (1.0) |
| Other currencies | (0.2) | 1.0 | - | - | - | 0.8 |
| | (1.5) | 26.5 | 7.2 | (4.1) | (1.9) | 26.2 |

At 31 December 2007

| | Currency of denomination | | | | | Total £m |
|---|--------------------------|---------------------|---------------------------|------------|---------------------------|-------------|
| | Sterling £m | US dollars £m | Canadian dollars £m | Euro £m | Other currencies £m | |
| Functional currency of Group's entities | | | | | | |
| Sterling | - | 27.4 | 1.5 | (1.6) | 0.1 | 27.4 |
| US dollars | (0.5) | - | - | - | - | (0.5) |
| Canadian dollars | - | 31.8 | - | - | - | 31.8 |
| Euro | (0.4) | 1.2 | - | - | - | 0.8 |
| Other currencies | (0.4) | (2.0) | - | - | - | (2.4) |
| | (1.3) | 58.4 | 1.5 | (1.6) | 0.1 | 57.1 |

The US dollar denominated financial instruments consist mainly of trade receivables and inter-group loans.

Notes to the Financial Statements continued

29. FINANCIAL RISK FACTORS (continued)

(ii) Translational risk

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

(b) Interest rate risk

Cash deposits or borrowings at variable interest rates expose the Group to cash flow risk. The Group's policy is to minimise interest costs and changes in the market value of debt. Prior to the receipt of Gibson Energy sale proceeds and the elimination of debt, interest expense was hedged using interest rate swaps, interest rate caps, forward rate agreements and currency swaps.

(c) Commodity price risk

The Group was previously exposed to changes in the price of oil, gas and electricity commodities. Oil and gas price futures and swaps were used to hedge the exposure to oil and gas price movements.

Following the sale of Gibson Energy during the year, the Group is no longer exposed to these commodity price risks.

(d) Credit risk

The Group's credit risk arises from its cash and cash equivalents, deposits, derivative financial instruments and outstanding receivables.

At the year end, the Group had credit risk exposures to a wide range of counterparties. Credit risk exposure is continually monitored and no individual exposure is considered to be significant in the context of the ordinary course of the Group's activities. Financing transactions are with leading financial institutions, which have Fitch long-term ratings between A and AA+, and no losses are expected from non-performance of these counterparties.

Surplus funds are only invested with financial institutions approved by the Board. Exposure limits are set for each approved counterparty, as well as the types of transactions that may be entered into. Approved institutions all have a minimum of an A1, P1 or F1 short-term rating and AAA rating for Money Market Funds from Standard and Poors, Moodys or Fitch rating agencies.

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

Trade and other receivables are continuously monitored. Credit account limits are primarily based on the credit quality of the customer and past experience through trading relationships. To reduce credit risk exposure from outstanding receivables, the Group has taken out credit insurance with an external insurer, subject to certain conditions.

The majority of the Company's defined benefit section of the UK Scheme is now covered by insurance company annuity policies, meaning the pensions-related risks have largely been eliminated. The pension buy-in has been affected by using three insurers, so as to spread its credit risk. The credit ratings of these insurers is monitored.

Notes to the Financial Statements continued

29. FINANCIAL RISK FACTORS (continued)

(e) Liquidity risk

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

The credit facilities totalled £194.4m (2007 – £269.6m) and comprise £142.5m (2007 – £207.7m) of committed facilities and £51.9m (2007 – £61.9m) of uncommitted facilities. All of these facilities are unsecured and are provided by a variety of funding sources.

The committed facilities comprise a £125m multi-currency loan facility from a syndicate of five banks and two bilateral facilities totalling £17.5m.

The £125m multi-currency loan facility expires on 22 September 2010. A commitment fee of 0.15% is payable on the undrawn amount.

The two bilateral facilities mature on 14 December 2009 and 31 March 2010. Commitment fees payable on the undrawn amount range from 0.2% to 0.26%.

The Group has the following undrawn committed borrowing facilities available at the year end:

| | 2008 £m | 2007 £m |
|-------------------------------------|--------------|-------------|
| Floating rate: | | |
| Expiring within one year | 7.5 | – |
| Expiring between one and two years | 135.0 | 12.4 |
| Expiring between two and five years | – | 28.1 |
| | 142.5 | 40.5 |

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

Set out below are maturity analyses of the Group's and Company's financial liabilities at the year end which will be settled on a net basis. The maturity dates are the contractual maturities of the financial liabilities and the amounts are the contractual, undiscounted cash flows. The carrying amounts in the balance sheet are the *discounted* amounts. Balances due within one year have been included in the maturity analysis at their carrying amounts, as the impact of discounting is not significant.

Group

| | 2008 | | | |
|--|--|--|---------------------------|--------------|
| | On demand or within one year £m | Between two and five years £m | After five years £m | Total £m |
| Non-derivative financial liabilities: | | | | |
| Trade payables | 65.6 | – | – | 65.6 |
| Amounts owed to associates | 7.4 | – | – | 7.4 |
| Accruals | 53.3 | – | – | 53.3 |
| Other payables | 2.8 | – | – | 2.8 |
| Provisions | 56.2 | 7.1 | 12.5 | 75.8 |
| Unsecured bank overdrafts | 49.0 | – | – | 49.0 |
| Finance lease liabilities | 0.1 | – | – | 0.1 |
| Total financial liabilities | 234.4 | 7.1 | 12.5 | 254.0 |

The Group had no net-settled financial liabilities at the year end.

Notes to the Financial Statements continued

29. FINANCIAL RISK FACTORS (continued)

| | 2007 | | | |
|---|--|--|---------------------------|--------------|
| | On demand or within one year £m | Between two and five years £m | After five years £m | Total £m |
| Non-derivative financial liabilities: | | | | |
| Trade payables | 195.0 | – | – | 195.0 |
| Amounts owed to associates | 9.0 | – | – | 9.0 |
| Accruals | 40.5 | – | – | 40.5 |
| Other payables | 3.0 | – | – | 3.0 |
| Provisions | 4.5 | 1.5 | 10.0 | 16.0 |
| Unsecured bank overdrafts | 60.1 | – | – | 60.1 |
| Unsecured bank loans | 123.1 | – | – | 123.1 |
| Other unsecured loans | 5.3 | 39.0 | – | 44.3 |
| Finance lease liabilities | 0.2 | 0.1 | – | 0.3 |
| | 440.7 | 40.6 | 10.0 | 491.3 |
| Derivative financial liabilities: | | | | |
| Net-settled derivative financial liabilities – held for trading | 2.6 | 1.0 | – | 3.6 |
| Total financial liabilities | 443.3 | 41.6 | 10.0 | 494.9 |

| Company | On demand or within one year £m | 2008 | | Total £m |
|------------------------------------|--|--|---------------------------|--------------|
| | | Between two and five years £m | After five years £m | |
| Amounts owed to subsidiaries | 1.7 | 138.7 | – | 140.4 |
| Amounts owed to associates | 5.6 | – | – | 5.6 |
| Accruals | 1.1 | – | – | 1.1 |
| Other payables | 1.0 | – | – | 1.0 |
| Unsecured bank overdrafts | 31.6 | – | – | 31.6 |
| Total financial liabilities | 41.0 | 138.7 | – | 179.7 |

| | On demand or within one year £m | 2007 | | Total £m |
|------------------------------------|--|--|---------------------------|--------------|
| | | Between two and five years £m | After five years £m | |
| Amounts owed to subsidiaries | 1.5 | 152.4 | – | 153.9 |
| Amounts owed to associates | 5.6 | – | – | 5.6 |
| Accruals | 0.4 | – | – | 0.4 |
| Other payables | 0.5 | – | – | 0.5 |
| Unsecured bank overdrafts | 13.8 | – | – | 13.8 |
| Total financial liabilities | 21.8 | 152.4 | – | 174.2 |

The Company did not have any derivative financial liabilities.

Notes to the Financial Statements continued

29. FINANCIAL RISK FACTORS (continued)

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

| | 2008 On demand or within one year £m |
|---|--|
| Forward foreign exchange contracts – held for trading | |
| – inflows | 58.9 |
| – outflows | (63.1) |
| | |
| | 2007 On demand or within one year £m |
| Funding swaps – held for trading | |
| – inflows | 34.1 |
| – outflows | (34.0) |
| | |
| Forward foreign exchange contracts – held for trading | |
| – inflows | 26.8 |
| – outflows | (26.7) |

(f) Sensitivity analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's and Company's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The sensitivity analysis relates to the position as at 31 December 2008.

The sensitivity analysis has been prepared on the basis that the amount of net cash, the ratio of fixed to floating interest rates of the cash and derivatives and the proportion of financial instruments in foreign currencies remain unchanged from the hedge designations in place at 31 December 2008.

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

The following assumptions have been made in calculating the sensitivity analysis:

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

Notes to the Financial Statements continued

29. FINANCIAL RISK FACTORS (continued)

(i) Interest rate sensitivity

Group

At 31 December, if US interest rates had been 1% (2007 – 1.0%) higher or lower, with all other variables held constant, the post-tax effects for the year would have been as follows:

| | 2008 | | 2007 | |
|------------------------------------|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| US interest rates +1% (2007 +1.0%) | (0.1) | – | 0.8 | – |
| US interest rates –1% (2007 –1.0%) | – | – | (1.7) | – |

The movements arise from the US dollar derivative financial instruments.

At 31 December, if UK interest rates had been 1% (2007 – 0.5%) higher or lower, with all other variables held constant, the post-tax effects for the year would have been as follows:

| | 2008 | | 2007 | |
|------------------------------------|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| UK interest rates +1% (2007 +0.5%) | 0.9 | – | – | – |
| UK interest rates –1% (2007 –0.5%) | (1.1) | – | – | – |

The movement in the income statement is mainly due to sterling cash deposits.

At 31 December, if Canadian interest rates had been 1% (2007 – 0.5%) higher or lower, with all other variables held constant, the post-tax effects for the year would have been as follows:

| | 2008 | | 2007 | |
|--|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| Canadian interest rates +1% (2007 +0.5%) | 0.1 | – | (0.5) | – |
| Canadian interest rates –1% (2007 –0.5%) | – | – | 0.5 | – |

The movement in the income statement is due to Canadian dollar denominated derivative financial instruments.

Company

At 31 December, if UK interest rates had been 1% (2007 – 0.5%) higher or lower, with all other variables held constant, the post-tax effects for the year would have been as follows:

| | 2008 | | 2007 | |
|------------------------------------|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| UK interest rates +1% (2007 +0.5%) | (1.0) | – | (0.6) | – |
| UK interest rates –1% (2007 –0.5%) | 1.0 | – | 0.6 | – |

The movements arise from the sterling loans from subsidiaries and bank overdrafts.

Notes to the Financial Statements *continued*

29. FINANCIAL RISK FACTORS (continued)

(ii) Foreign exchange rate sensitivity

Group

At 31 December, if the US dollar had strengthened or weakened by 15% (2007 – 15%) against sterling, with all other variables held constant, the impact on post-tax profit and equity for the year would have been as follows:

| | 2008 | | 2007 | |
|---|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| US dollar exchange rates +15% (2007 +15%) | 0.9 | (8.0) | (3.9) | (7.2) |
| US dollar exchange rates –15% (2007 –15%) | (0.7) | 10.9 | 5.7 | 9.7 |

The movement on post-tax profit is mainly attributable to trade receivables being denominated in US dollars, where the functional currency of the entity is a currency other than US dollars.

The movement on equity arises from US dollar denominated loans that have been recognised as part of the Company's net investment in foreign subsidiaries.

At 31 December, if the Canadian dollar had strengthened or weakened by 10% against sterling, with all other variables held constant, the post-tax impact on profit and equity for the year would have been as follows:

| | 2008 | | 2007 | |
|---|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| Canadian dollar exchange rates +10% (2007 +15%) | (0.6) | (3.1) | 2.7 | 0.8 |
| Canadian dollar exchange rates –10% (2007 –15%) | 0.8 | 3.8 | (3.6) | (1.1) |

The movement in the income statement relates to Canadian dollar loans where the functional currency of the entity making the loan is a currency other than Canadian dollars.

The movement on equity arises from the Canadian dollar warrant received as part of the purchase consideration for Gibson Energy and Canadian dollar denominated loans that have been recognised as part of the Company's net investment in foreign subsidiaries.

Company

At 31 December, if the US dollar had strengthened or weakened by 15% against sterling, with all other variables held constant, the post-tax impact on profit and equity for the year would have been as follows:

| | 2008 | | 2007 | |
|-------------------------------|------------------|--------|------------------|--------|
| | Income statement | Equity | Income statement | Equity |
| | £m | £m | £m | £m |
| US dollar exchange rates +15% | 0.8 | – | – | – |
| US dollar exchange rates –15% | (1.0) | – | – | – |

The movement arises from US dollar bank overdrafts. The Company did not have any US dollar denominated financial instruments at 31 December 2007.

Notes to the Financial Statements continued

30. PROVISIONS

| | Onerous contracts £m | Asset decommissioning & remediation obligations £m | Tax indemnities and warranties £m | Other £m | Total £m |
|---|-------------------------|---|--------------------------------------|-------------|-------------|
| Group | | | | | |
| At 1 January 2008 | 11.7 | 7.3 | – | 0.9 | 19.9 |
| Exchange adjustments | – | 0.2 | – | 0.4 | 0.6 |
| Charged to income statement | 9.9 | – | 45.2 | 5.4 | 60.5 |
| Provisions utilised through income statement | (2.3) | – | – | (0.5) | (2.8) |
| Change in discount rate | 1.2 | – | – | – | 1.2 |
| Reclassification | – | – | 2.9 | (2.9) | – |
| Transfer to liabilities classified as held for sale | – | (6.5) | – | – | (6.5) |
| At 31 December 2008 | 20.5 | 1.0 | 48.1 | 3.3 | 72.9 |

Provisions are due as follows:

| | 2008 £m | 2007 £m |
|-------------|-------------|-------------|
| Current | 56.2 | 4.5 |
| Non-current | 16.7 | 15.4 |
| | 72.9 | 19.9 |

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 £4.8m of the provision will be utilised in 2009, £2.0m in 2010 and the remaining balance of £13.7m utilised from 2011 onwards. Provision is made on a discounted basis, at a risk-free rate of 3% 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. The provision is expected to be utilised over a period of 3 to 5 years.

Following the disposal of Gibson Energy, the Group has recognised a provision of £45.2m for tax indemnities (note 41). These provisions are expected to be utilised in 2009.

The Group expects the other provisions of £3.3m to be fully utilised in 2009.

Notes to the Financial Statements continued

31. POST RETIREMENT BENEFITS

Pensions

Within the UK, the Group operates a funded defined benefit plan with benefits linked to final salary and a defined contribution plan. With effect from 31 December 2002, the defined benefit plan was closed to new UK employees who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements.

During the year, the trustees of the scheme, with the support of the Company, purchased an annuity policy in relation to the active members of the scheme. The effect of this is recognised in actuarial gains (losses) on plan assets in the statement of recognised income and expense. The majority of the Scheme's benefits are now covered by insurance policies, meaning that pensions-related risks have largely been eliminated, however the obligation ultimately rests with the Group.

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

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

| | 2008 | 2007 |
|------------------------------|------|-----------|
| <i>Annual rates</i> | | |
| Rate of increase in salaries | 4.9% | 5.5% |
| Rate of increase in pensions | 2.9% | 3.2%-3.5% |
| Discount rate | 6.4% | 5.7%-6.3% |
| Inflation | 2.9% | 3.2%-3.5% |

The post-retirement mortality assumptions allow for future improvements in mortality. The mortality table implies that a 65 year old male currently has an expected future lifetime of 23.8 years (2007 – 23.7 years) and an expected future lifetime of 26.9 years (2007 – 26.8 years) for a male reaching 65 in 20 years time. Based upon past experience, pension increases have been assumed to be in line with inflation.

Long term rates of return expected at 31 December:

| | 2008 | 2007 |
|----------------------------|------|-----------|
| <i>Annual rates</i> | | |
| Insurance annuity policies | 6.4% | 5.7%-6.3% |
| Equities | 7.6% | 7.6% |
| Bonds | 4.1% | 4.5% |
| Other | 3.8% | 5.7% |

The expected rate of return on pension plan assets is determined as management's best estimate of the long term return on the major asset classes – insurance annuity policies, equities, bonds and other – weighted by the actual allocation of assets at the measurement date. The expected rate of return on the insurance policies has been set equal to the discount rate.

Other information

The defined contribution section of the Scheme held assets, equal to its liabilities, of £1.9m as at 31 December 2008.

Notes to the Financial Statements continued

31. POST RETIREMENT BENEFITS (continued)

Scheme assets

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

| | 2008 | 2007 |
|--|-------------|-------------|
| Insurance annuity policies | 89% | 66% |
| Equities | 3% | 5% |
| Bonds | 7% | 27% |
| Other | 1% | 2% |
| | 100% | 100% |
| Employer contributions made during year (£m) | 2.0 | 7.6 |

During the year to 31 December 2008, contributions by the Group of £0.6m (2007 – £0.2m) were also made to the defined contribution section of the Scheme. The 2007 Company contribution to the Scheme included an amount of £5.6m, which was a planned additional payment intended to bring the funding level of the Scheme towards the “buy out” level. These ceased in 2008 as the majority of Scheme benefits have been covered with insurance company annuity policies. For 2009, the Group will pay estimated contributions of £2.0m to the defined benefit section of the Scheme. Contributions to the defined contribution section of the Scheme are in addition.

Surpluses and (deficits) in the plans

The following amounts were measured in accordance with IAS 19:

| | 2008 £m | 2007 £m |
|--|------------|-------------|
| Total fair value of plan assets | 182.6 | 222.1 |
| Present value of obligations | (175.0) | (198.5) |
| Surplus in the plans | 7.6 | 23.6 |
| Unrecognised past service cost | – | 1.1 |
| Amount not recognised due to asset limit | – | (0.6) |
| Asset recognised in the balance sheet | 7.6 | 24.1 |

Movements in the present value of the defined benefit obligation

| | UK £m | 2008 Overseas £m | Total £m | 2007 Total £m |
|---|--------------|------------------------|--------------|---------------------|
| Change in present value of obligation: | | | | |
| Present value of obligation at the start of the year | 188.4 | 10.1 | 198.5 | 195.3 |
| Current service cost (employer) | 1.8 | 0.2 | 2.0 | 2.5 |
| Interest cost | 11.2 | 0.2 | 11.4 | 10.0 |
| Contributions by plan participants | 0.4 | – | 0.4 | 0.4 |
| Actuarial (gains) losses | (16.8) | (0.2) | (17.0) | 0.5 |
| Benefits paid | (10.1) | (0.1) | (10.2) | (10.8) |
| Past service cost | 0.1 | – | 0.1 | 0.3 |
| Settlement | – | – | – | (1.1) |
| Currency exchange rate changes | – | (0.1) | (0.1) | 1.4 |
| Transfer to liabilities classified as held for sale | – | (9.0) | (9.0) | – |
| Unrecognised past service cost | – | (1.1) | (1.1) | – |
| Present value of obligation at end of the year | 175.0 | – | 175.0 | 198.5 |

Notes to the Financial Statements continued

31. POST RETIREMENT BENEFITS (continued)

Movements in the fair value of plan assets

| | UK | 2008 Overseas | Total | 2007 Total |
|---|--------------|------------------|--------------|---------------|
| | £m | £m | £m | £m |
| Change in plan assets: | | | | |
| Fair value of plan assets at the start of the year | 213.6 | 8.5 | 222.1 | 222.8 |
| Expected return on plan assets | 12.0 | 0.2 | 12.2 | 11.9 |
| Actuarial loss on plan assets | (35.3) | (0.6) | (35.9) | (12.0) |
| Contributions by plan participants | 0.4 | – | 0.4 | 0.4 |
| Contributions by employer | 2.0 | 0.3 | 2.3 | 8.6 |
| Benefits paid | (10.1) | (0.1) | (10.2) | (10.8) |
| Currency exchange rate changes | – | (0.1) | (0.1) | 1.2 |
| Transfer to assets classified as held for sale | – | (7.6) | (7.6) | – |
| Asset restriction | – | (0.6) | (0.6) | – |
| Fair value of plan assets at the end of the year | 182.6 | – | 182.6 | 222.1 |

The present value of the obligation and fair value of plan assets with respect to the overseas schemes were transferred to assets and liabilities classified as held for sale on 30 April 2008. Movements in the schemes' obligations and assets after that date are therefore not included in the above tables.

For 2008 the actual return on the plans' assets amounted to a loss of £23.7m (2007 – £0.1m). The loss arising as a result of the reduction of the value placed on the insurance annuity policies is offset by a corresponding reduction in the value placed on the corresponding liabilities. The effect is seen in the actuarial gains (losses) on the defined benefit obligations stated above.

Total expense recognised in the Income Statement

| | UK | 2008 Overseas | Total | 2007 Total |
|---|------------|------------------|------------|---------------|
| | £m | £m | £m | £m |
| Current service cost (employer) | 1.8 | 0.5 | 2.3 | 2.5 |
| Interest cost | 11.2 | 0.5 | 11.7 | 10.0 |
| Expected return on assets | (12.0) | (0.5) | (12.5) | (11.9) |
| Past service cost | 0.1 | – | 0.1 | 0.1 |
| Total expense included within staff costs (note 6) | 1.1 | 0.5 | 1.6 | 0.7 |

In addition, employer contributions of £3.8m (2007 – £2.8m) for defined contribution arrangements are recognised in the income statement. With respect to the overseas schemes, income and expenses are recognised in the income statement up to the date of their disposal included within the disposal of Gibson Energy on 12 December 2008.

Notes to the Financial Statements continued

31. POST RETIREMENT BENEFITS (continued)

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

| | 2008 | | | 2007 |
|---------------------------------------|-------------|------------|-------------|-------------|
| | UK | Overseas | Total | Total |
| | £m | £m | £m | £m |
| Actuarial losses | 18.5 | 1.1 | 19.6 | 12.7 |
| Exchange adjustments | - | 0.1 | 0.1 | - |
| Effect of asset limit | - | - | - | (0.2) |
| Amount recognised in the SORIE | 18.5 | 1.2 | 19.7 | 12.5 |

The cumulative actuarial gains and losses recognised in the SORIE at 31 December 2008 is a loss of £31.7m (2007 – loss £12.1m). With respect to the overseas schemes, income and expenses are recognised in the SORIE up to the date of their disposal included within the disposal of Gibson Energy on 12 December 2008.

Amounts to be shown for the current and previous periods

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|------------|-------------|-------------|-------------|-------------|
| Difference between the expected and actual return on plan assets: | | | | | |
| Amount (£m) | (35.3) | (12.0) | 2.8 | 11.1 | 5.0 |
| As a percentage of plan assets | (19)% | (5)% | 1% | 5% | 3% |
| Experience (losses) and gains on obligations: | | | | | |
| Amount (£m) | (0.2) | 0.5 | (0.3) | 0.4 | 1.7 |
| As a percentage of the present value of the obligations | 0% | 0% | 0% | 0% | 1% |
| | | £m | £m | £m | £m |
| Present value of defined benefit obligation | (175.0) | (198.5) | (195.3) | (193.2) | (171.8) |
| Fair value of plan assets | 182.6 | 222.1 | 222.8 | 211.6 | 193.8 |
| Surplus in the plans | 7.6 | 23.6 | 27.5 | 18.4 | 22.0 |

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

32. SHARE CAPITAL AND SHARE PREMIUM

| | Number of shares of 25p each No. | Ordinary shares of 25p each £m | Share premium £m | 2008 Total £m | 2007 Total £m |
|--------------------------------------|---|---|------------------------|---------------------|---------------------|
| Group and Company | | | | | |
| Authorised | 200,000,000 | 50.0 | | 50.0 | 50.0 |
| At 1 January | 131,504,647 | 32.9 | 87.2 | 120.1 | 118.4 |
| Shares issued – share option schemes | 88,544 | - | 0.1 | 0.1 | 0.1 |
| Shares issued – LTIP awards | 374,514 | 0.1 | 2.6 | 2.7 | 1.5 |
| Share options – discharge | - | - | 0.1 | 0.1 | 0.1 |
| At 31 December | 131,967,705 | 33.0 | 90.0 | 123.0 | 120.1 |

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

At 31 December 2008 the Group held 982,481 (2007 – 1,005,731) Treasury shares. Details are set out in note 34.

Notes to the Financial Statements continued

33. OTHER RESERVES

| Group | Year ended 31 December 2008 | | | | |
|--|------------------------------|--------------------------|---|-------------------------|-------------|
| | Revaluation reserve £m | Hedging reserve £m | Foreign currency translation reserve £m | Other reserves £m | Total £m |
| At 1 January | 61.0 | 0.2 | 7.8 | 4.3 | 73.3 |
| Exchange adjustments | 1.6 | (0.2) | 48.8 | - | 50.2 |
| - taxation | - | - | (6.3) | - | (6.3) |
| Release of foreign exchange on disposal of subsidiary | - | - | (16.7) | - | (16.7) |
| - taxation | - | - | (1.3) | - | (1.3) |
| Depreciation transfer for land and buildings | (1.5) | - | - | - | (1.5) |
| - taxation | 0.4 | - | - | - | 0.4 |
| Fair value loss on cash flow hedges | - | (3.6) | - | - | (3.6) |
| - taxation | - | 0.5 | - | - | 0.5 |
| Release of fair value loss on cash flow hedges | - | 0.6 | - | - | 0.6 |
| - taxation | - | (0.2) | - | - | (0.2) |
| Fair value gain on available for sale financial assets | - | - | - | 1.2 | 1.2 |
| Share options | - | - | - | - | - |
| - value of employee services | - | - | - | 2.4 | 2.4 |
| - discharge | - | - | - | (0.4) | (0.4) |
| Disposal of subsidiary - transfer to retained earnings | (68.6) | - | - | - | (68.6) |
| - taxation | 17.1 | - | - | - | 17.1 |
| Impairment of revalued assets | (0.7) | - | - | - | (0.7) |
| - taxation | 0.3 | - | - | - | 0.3 |
| Transfer between reserves | - | - | 0.8 | - | 0.8 |
| At 31 December | 9.6 | (2.7) | 33.1 | 7.5 | 47.5 |

| Group | Year ended 31 December 2007 | | | | |
|--|------------------------------|--------------------------|---|-------------------------|-------------|
| | Revaluation reserve £m | Hedging reserve £m | Foreign currency translation reserve £m | Other reserves £m | Total £m |
| At 1 January | 9.5 | 0.3 | (6.8) | 2.6 | 5.6 |
| Exchange adjustments | 1.3 | 0.1 | 13.0 | - | 14.4 |
| - taxation | - | - | 1.9 | - | 1.9 |
| Revaluation of property, plant and equipment | 66.2 | - | - | - | 66.2 |
| - taxation | (15.2) | - | - | - | (15.2) |
| - taxation due to change in tax rates | 0.6 | - | - | - | 0.6 |
| Depreciation transfer for land and buildings | (0.5) | - | - | - | (0.5) |
| - taxation | 0.1 | - | - | - | 0.1 |
| Release of fair value gains on cash flow hedges | - | (0.3) | - | - | (0.3) |
| - taxation | - | 0.1 | - | - | 0.1 |
| Share options | - | - | - | - | - |
| - value of employee services | - | - | - | 1.2 | 1.2 |
| - taxation | - | - | - | 1.4 | 1.4 |
| Disposal of subsidiary | - | - | (0.3) | - | (0.3) |
| Impairment of revalued assets sold during the year | (1.5) | - | - | - | (1.5) |
| - taxation | 0.5 | - | - | - | 0.5 |
| Transfer to retained earnings | - | - | - | (0.9) | (0.9) |
| At 31 December | 61.0 | 0.2 | 7.8 | 4.3 | 73.3 |

Other reserves include share option reserves.

Notes to the Financial Statements continued

33. OTHER RESERVES (continued)

Company

| | 2008 | 2007 |
|-----------------------------------|------------|------------|
| | £m | £m |
| At 1 January | 2.8 | 2.5 |
| Other | 0.1 | - |
| Reserve for cost of share options | 2.4 | 1.2 |
| Transfer between reserves | (0.4) | (0.9) |
| At 31 December | 4.9 | 2.8 |

Other reserves include share option reserves.

34. RETAINED EARNINGS

| | Group | | Company | |
|--|--------------|--------------|-------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| At 1 January | 107.5 | 79.8 | 19.0 | 26.0 |
| Depreciation transfer for land and buildings | 1.5 | 0.5 | - | - |
| - taxation | (0.4) | (0.1) | - | - |
| Release of revaluation reserve on disposal of subsidiary | 68.6 | - | - | - |
| - taxation | (17.1) | - | - | - |
| Actuarial loss on defined benefit pension schemes | (19.6) | (12.5) | - | - |
| - taxation | 5.2 | 3.8 | - | - |
| Profit for the year | 253.1 | 57.4 | 37.0 | 16.3 |
| Dividends paid | (11.3) | (10.1) | (11.3) | (10.1) |
| Purchase of Treasury shares | (7.5) | (18.5) | (7.5) | (18.5) |
| Disposal of Treasury shares | 2.6 | 4.5 | 2.6 | 4.5 |
| - taxation | 1.4 | 1.9 | - | - |
| Share options | | | | |
| - discharge | 0.3 | 0.8 | 0.3 | 0.8 |
| Transfer between reserves | (0.8) | - | - | - |
| At 31 December | 383.5 | 107.5 | 40.1 | 19.0 |

In respect of the tax on the actuarial loss on defined benefit pension schemes, £5.2m (2007 - £3.5m) arises on the current year's movement and £nil (2007 - £0.3m) is due to a change in tax rates.

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

| | Group | | Company | |
|-----------------------------|--------------|--------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Cost | | | | |
| At 1 January | (7.6) | (5.1) | (7.6) | (5.1) |
| Purchase of Treasury shares | (7.5) | (18.5) | (7.5) | (18.5) |
| Disposal of Treasury shares | 7.7 | 16.0 | 7.7 | 16.0 |
| At 31 December | (7.4) | (7.6) | (7.4) | (7.6) |

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

| | Group | | Company | |
|------------------|-------|--------|---------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | £m | £m | £m | £m |
| Loss on disposal | (5.1) | (11.5) | (5.1) | (11.5) |

Notes to the Financial Statements continued

35. MINORITY INTERESTS

| | 2008 | 2007 |
|---|-------------|-------------|
| Group | £m | £m |
| At 1 January | 11.0 | 7.7 |
| Exchange adjustments | 0.3 | 0.1 |
| Profit after tax attributed to minorities | 3.5 | 5.1 |
| Dividends paid | (2.6) | (1.9) |
| At 31 December | 12.2 | 11.0 |

36. STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

| | Group | | | | | | |
|--|---------------|---------------|----------------|-------------------|--------------|--------------------|--------------|
| | Share capital | Share premium | Other reserves | Retained earnings | Total | Minority interests | Total equity |
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 January | 32.9 | 87.2 | 73.3 | 107.5 | 300.9 | 11.0 | 311.9 |
| Exchange adjustments | - | - | 50.2 | - | 50.2 | 0.3 | 50.5 |
| Release of foreign exchange on disposal of subsidiary | - | - | (16.7) | - | (16.7) | - | (16.7) |
| Release of revaluation reserve on disposal of subsidiary | - | - | (68.6) | 68.6 | - | - | - |
| Depreciation transfer for land and buildings | - | - | (1.5) | 1.5 | - | - | - |
| Actuarial losses on defined benefit pension schemes | - | - | - | (19.6) | (19.6) | - | (19.6) |
| Impairment of revalued assets | - | - | (0.7) | - | (0.7) | - | (0.7) |
| Fair value loss on cash flow hedges | - | - | (3.6) | - | (3.6) | - | (3.6) |
| Release of fair value loss on cash flow hedges | - | - | 0.6 | - | 0.6 | - | 0.6 |
| Fair value gain on available for sale financial assets | - | - | 1.2 | - | 1.2 | - | 1.2 |
| Transfer between reserves | - | - | 0.8 | (0.8) | - | - | - |
| Tax on items taken directly to equity | - | - | 10.5 | (12.3) | (1.8) | - | (1.8) |
| Net (expense) income recognised directly in equity | - | - | (27.8) | 37.4 | 9.6 | 0.3 | 9.9 |
| Profit for the year | - | - | - | 253.1 | 253.1 | 3.5 | 256.6 |
| Total net income for the year | - | - | (27.8) | 290.5 | 262.7 | 3.8 | 266.5 |
| Dividends | - | - | - | (11.3) | (11.3) | (2.6) | (13.9) |
| Shares issued | | | | | | | |
| - share option schemes | - | 0.1 | - | - | 0.1 | - | 0.1 |
| - LTIP awards | 0.1 | 2.6 | - | - | 2.7 | - | 2.7 |
| Purchase of Treasury shares | - | - | - | (7.5) | (7.5) | - | (7.5) |
| Disposal of Treasury shares | - | - | - | 2.6 | 2.6 | - | 2.6 |
| - taxation | - | - | - | 1.4 | 1.4 | - | 1.4 |
| Share options | | | | | | | |
| - value of employee services | - | - | 2.4 | - | 2.4 | - | 2.4 |
| - discharge | - | 0.1 | (0.4) | 0.3 | - | - | - |
| At 31 December | 33.0 | 90.0 | 47.5 | 383.5 | 554.0 | 12.2 | 566.2 |

Notes to the Financial Statements continued

36. STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2007

| | Group | | | | | | |
|---|---------------|---------------|----------------|-------------------|--------------|--------------------|--------------|
| | Share capital | Share premium | Other reserves | Retained earnings | Total | Minority interests | Total equity |
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 January | 32.8 | 85.6 | 5.6 | 79.8 | 203.8 | 7.7 | 211.5 |
| Exchange adjustments | - | - | 14.4 | - | 14.4 | 0.1 | 14.5 |
| Revaluation of property, plant and equipment | - | - | 66.2 | - | 66.2 | - | 66.2 |
| Depreciation transfer for land and buildings | - | - | (0.5) | 0.5 | - | - | - |
| Actuarial losses on defined benefit pension schemes | - | - | - | (12.5) | (12.5) | - | (12.5) |
| Impairment of revalued assets sold during the year | - | - | (1.5) | - | (1.5) | - | (1.5) |
| Release of fair value gains on cash flow hedges | - | - | (0.3) | - | (0.3) | - | (0.3) |
| Tax on items taken directly to equity | - | - | (12.0) | 3.7 | (8.3) | - | (8.3) |
| Net income recognised directly in equity | - | - | 66.3 | (8.3) | 58.0 | 0.1 | 58.1 |
| Profit for the year | - | - | - | 57.4 | 57.4 | 5.1 | 62.5 |
| Total net income for the year | - | - | 66.3 | 49.1 | 115.4 | 5.2 | 120.6 |
| Dividends | - | - | - | (10.1) | (10.1) | (1.9) | (12.0) |
| Shares issued | | | | | | | |
| - share option schemes | - | 0.1 | - | - | 0.1 | - | 0.1 |
| - LTIP awards | 0.1 | 1.4 | - | - | 1.5 | - | 1.5 |
| Purchase of Treasury shares | - | - | - | (18.5) | (18.5) | - | (18.5) |
| Disposal of Treasury shares | - | - | - | 4.5 | 4.5 | - | 4.5 |
| - taxation | - | - | - | 1.9 | 1.9 | - | 1.9 |
| Share options | | | | | | | |
| - value of employee services | - | - | 1.2 | - | 1.2 | - | 1.2 |
| - discharge | - | 0.1 | (0.9) | 0.8 | - | - | - |
| - taxation | - | - | 1.4 | - | 1.4 | - | 1.4 |
| Disposal of subsidiary | - | - | (0.3) | - | (0.3) | - | (0.3) |
| At 31 December | 32.9 | 87.2 | 73.3 | 107.5 | 300.9 | 11.0 | 311.9 |

Notes to the Financial Statements continued

36. STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2008

| | Share capital £m | Share premium £m | Company Other reserves £m | Retained earnings £m | Total £m |
|------------------------------|------------------------|------------------------|------------------------------------|----------------------------|--------------|
| At 1 January | 32.9 | 87.2 | 2.8 | 19.0 | 141.9 |
| Profit for the year | - | - | - | 37.0 | 37.0 |
| Dividends paid | - | - | - | (11.3) | (11.3) |
| Shares issued | | | | | |
| - share option schemes | - | 0.1 | - | - | 0.1 |
| - LTIP awards | 0.1 | 2.6 | - | - | 2.7 |
| Purchase of Treasury shares | - | - | - | (7.5) | (7.5) |
| Disposal of Treasury shares | - | - | - | 2.6 | 2.6 |
| Share options | | | | | |
| - value of employee services | - | - | 2.4 | - | 2.4 |
| - discharge | - | 0.1 | (0.4) | 0.3 | - |
| Other | - | - | 0.1 | - | 0.1 |
| At 31 December | 33.0 | 90.0 | 4.9 | 40.1 | 168.0 |

Year ended 31 December 2007

| | Share capital £m | Share premium £m | Company Other reserves £m | Retained earnings £m | Total £m |
|------------------------------|------------------------|------------------------|------------------------------------|----------------------------|--------------|
| At 1 January | 32.8 | 85.6 | 2.5 | 26.0 | 146.9 |
| Profit for the year | - | - | - | 16.3 | 16.3 |
| Dividends paid | - | - | - | (10.1) | (10.1) |
| Shares issued | | | | | |
| - share option schemes | - | 0.1 | - | - | 0.1 |
| - LTIP awards | 0.1 | 1.4 | - | - | 1.5 |
| Purchase of Treasury shares | - | - | - | (18.5) | (18.5) |
| Disposal of Treasury shares | - | - | - | 4.5 | 4.5 |
| Share options | | | | | |
| - value of employee services | - | - | 1.2 | - | 1.2 |
| - discharge | - | 0.1 | (0.9) | 0.8 | - |
| At 31 December | 32.9 | 87.2 | 2.8 | 19.0 | 141.9 |

37. CAPITAL RISK MANAGEMENT

The Group's capital consists of equity.

It is managed with the aim of maintaining an appropriate level of financing available for the Group's activities, having due regard to interest rate and currency risks and the availability of borrowing facilities. The gearing ratio, which is net debt expressed as a percentage of total equity, is monitored regularly against both internal targets and external covenant requirements.

Changes in equity arise from the retention of earnings and, from time to time, rights issues of share capital. When the Group has net debt it is monitored on a daily basis and is managed by the control of working capital, dividend and capital expenditure payments and the purchase and disposal of assets and businesses.

At the year end, the capital comprised:

| | 2008 £m | 2007 £m |
|-------------------------------|--------------|--------------|
| Total equity | 566.2 | 311.9 |
| Net debt | - | 139.2 |
| Gross capital employed | 566.2 | 451.1 |
| Gearing | n/a | 45% |

During the year, net debt was repaid from the proceeds on the sale of Gibson Energy completed in December.

Notes to the Financial Statements continued

38. DIVIDENDS PAID

| Group and Company | 2008 | | 2007 | |
|-----------------------------|--------------------|-------------|--------------------|-------------|
| | Pence per share | £m | Pence per share | £m |
| Ordinary dividends: | | | | |
| 2008 interim paid | 2.90 | 3.8 | – | – |
| 2007 final paid | 5.70 | 7.5 | – | – |
| 2007 interim paid | – | – | 2.55 | 3.3 |
| 2006 final paid | – | – | 5.20 | 6.8 |
| Total dividends paid | 8.60 | 11.3 | 7.75 | 10.1 |

A final dividend of 7.0p per share (2007 – 5.7p per share) has been proposed by the Board amounting to a distribution of £9.2m (2007 – £7.5m). 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.

39. 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:

| Date of grant | 04.03.2008 | 06.03.2007 | 08.03.2006 | 09.03.2005 | 31.03.2004 | 14.03.2003 |
|---|------------|------------|------------|------------|------------|------------|
| Exercise price (p) | 784.5 | 640.0 | 383.0 | 220.7 | 116.9 | 79.0 |
| Share price at grant (p) | 784.5 | 640.0 | 383.0 | 236.0 | 125.0 | 84.5 |
| Expected volatility (% pa) | 32 | 36 | 38 | 38 | 39 | 41 |
| Dividend yield (% pa) | 1.1 | 1.17 | 1.31 | 1.59 | 3.07 | 3.88 |
| Risk-free interest rate (% pa) | 4.3 | 4.9 | 4.3 | 4.9 | 4.6 | 3.9 |
| Turnover rates (% pa) | 5 | 5 | 5 | 5 | 5 | 5 |
| Fair value at grant (p) | 294.9 | 248.4 | 149.8 | 91.0 | 44.0 | 28.0 |
| Fair value adjusted for rights issue (p) | n/a | n/a | n/a | 85.1 | 41.1 | 26.2 |

Assumed likelihood of satisfying
performance condition at:

| | | | | | | |
|------------------|-----|-----|------|------|------|------|
| 31 December 2007 | n/a | 75% | 75% | 75% | 100% | 100% |
| 31 December 2008 | 75% | 75% | 100% | 100% | 100% | 100% |

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

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

The charge to the income statement attributable to Executive Share Options is £2.4m (2007 – £1.2m) is recognised as part of operating expenses.

Notes to the Financial Statements continued

39. SHARE BASED PAYMENTS (continued)

Share option movements during the year

| | 2008 | | 2007 | |
|---|------------------|-------------------------------------|------------------|-------------------------------------|
| | No. of options | Weighted average exercise price (p) | No. of options | Weighted average exercise price (p) |
| Outstanding at beginning of the year | 6,428,673 | 266 | 8,063,134 | 190 |
| Granted during the year | 679,464 | 771 | 765,958 | 640 |
| Exercised during the year | (903,386) | 173 | (2,283,424) | 118 |
| Lapsed during the year | (461,936) | 629 | (116,995) | 346 |
| Outstanding at the end of the year | 5,742,815 | 311 | 6,428,673 | 266 |
| Exercisable at the end of the year | 4,308,493 | 229 | 2,730,659 | 135 |

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

| | 2008 No. of options | 2007 No. of options | Exercise price range (p) | Exercise period |
|--|------------------------|------------------------|--------------------------|-------------------|
| Executive Share Options 2001 – vested | 556,243 | 706,243 | 194.0 | 28.03.04–27.03.11 |
| Executive Share Options 2002 – vested | 198,351 | 212,690 | 167.4 | 15.04.05–14.04.12 |
| Executive Share Options 2003 – vested | 357,352 | 386,591 | 79.0 | 14.03.06–13.03.13 |
| Executive Share Options 2004 – vested | 1,082,698 | 1,425,135 | 116.9 | 31.03.07–30.03.14 |
| Executive Share Options 2005 – vested | 1,299,964 | 1,672,104 | 220.7 | 09.03.08–08.03.15 |
| Executive Share Options 2006 | 659,723 | 1,268,077 | 383.0 | 08.03.09–07.03.16 |
| Executive Share Options 2006 – vested* | 515,268 | – | 383.0 | 12.12.08–11.12.09 |
| Executive Share Options 2007 | 407,666 | 757,833 | 640.0 | 06.03.10–05.03.17 |
| Executive Share Options 2007 – vested* | 206,715 | – | 640.0 | 12.12.08–11.12.09 |
| Executive Share Options 2008 | 366,933 | – | 784.5 | 04.03.11–03.03.18 |
| Executive Share Options 2008 – vested* | 91,902 | – | 784.5 | 12.12.08–11.12.09 |
| | 5,742,815 | 6,428,673 | | |

*Following the disposal of Gibson Energy on 12 December 2008, share options awarded to employees of Gibson Energy vested early.

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's report on page 25.

The charge to the income statement attributable to the LTIP is £5.4m (2007 – £3.5m).

Notes to the Financial Statements continued

40. ACQUISITIONS

The Group acquired 100% of the share capital of Chief Hauling Contractors Inc. in Canada for a gross consideration of £7.4m on 1 June 2008. This business was disposed of as part of the Gibson Energy disposal on 12 December 2008.

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

| | Total Pre- acquisition carrying values £m | Provisional fair values £m |
|-------------------------------|--|-------------------------------------|
| Property, plant and equipment | 0.4 | 3.3 |
| Goodwill | 0.4 | 0.4 |
| Other intangible assets | – | 1.7 |
| Inventories | 0.4 | 0.4 |
| Trade and other receivables | 2.7 | 2.7 |
| Deferred tax liabilities | – | (1.2) |
| Trade and other payables | (2.3) | (2.3) |
| Cash and cash equivalents | 0.4 | 0.4 |
| Net assets acquired | <u>2.0</u> | 5.4 |
| Goodwill | | <u>2.0</u> |
| Consideration | | <u>7.4</u> |

Goodwill principally represents the fair value of synergies that are expected to arise as a result of the acquisition.

The consideration for the acquisition comprised £7.4m cash.

In addition to the above, £1.0m of deferred consideration was paid during the year in respect of the 2007 acquisition of Hunting Energy Services (Drilling Tools) Ltd, formerly Hunting Oryx Ltd and £0.6m for acquisition costs that have been written off.

Post-acquisition performance:

Chief Hauling contributed the following to the Group's performance from the date of acquisition to the date of disposal, 12 December 2008:

| | £m |
|------------------------|------|
| Revenue | 13.9 |
| Profit from operations | 2.6 |
| Profit before taxation | 2.6 |

These results have been presented as part of discontinued operations (note 11).

Full year performance:

If the acquisition had been made on 1 January 2008, Chief Hauling would have contributed the following to the Group's performance during 2008 up to the date of its disposal on 12 December 2008:

| | £m |
|------------------------|------|
| Revenue | 21.8 |
| Profit from operations | 3.5 |
| Profit before taxation | 3.5 |

Notes to the Financial Statements continued

41. BUSINESS DISPOSALS

On 12 December 2008, the Group disposed of Gibson Energy.

Details of the disposed net assets and consideration are set out below:

| | £m |
|-----------------------------------|--------------|
| Property, plant and equipment | 242.0 |
| Goodwill | 35.5 |
| Intangible assets | 14.1 |
| Associates | 2.2 |
| Receivables and other assets | 8.5 |
| Inventories | 47.6 |
| Trade receivables | 146.3 |
| Other receivables and prepayments | 40.0 |
| Current liabilities | (143.5) |
| Non-current liabilities | (8.9) |
| Current tax assets | 1.6 |
| Deferred tax liabilities | (73.2) |
| Net borrowings | (83.4) |
| Net assets disposed | 228.8 |
| Cumulative translation reserve | (16.2) |
| Costs of disposal | 22.3 |
| Impairment of warrant | 27.0 |
| Provision for tax indemnities | 45.2 |
| Impairment of receivable | 1.2 |
| Profit on disposal | 208.8 |
| Gross consideration | 517.1 |

The consideration comprised the following:

| | |
|---------------------------------|--------------|
| Net cash proceeds | 441.0 |
| Costs paid | 20.8 |
| Receivable | 1.2 |
| Equity warrant (see note below) | 54.1 |
| Gross consideration | 517.1 |

In addition to the consideration above, the Group received £84.9m in respect of repayment of loans advanced to Gibson Energy by the continuing group.

Equity Warrant

In connection with the disposal of Gibson Energy that completed on 12 December 2008, the Company agreed to defer payment of CAN\$100 million of the consideration through the receipt of a warrant (the "Warrant") that was issued to the Company. The Warrant entitles the Company to CAN\$100 million of Preferred Equity Shares ("Preferred Equity") in the parent company of the purchaser of Gibson Energy on exercise of the Warrant. The Preferred Equity carries an annual dividend that is cumulative and compounding at a rate of 12%. After two years the Preferred Equity automatically converts into a separate class of common shares. The purchaser of Gibson Energy (or an affiliate of the purchaser) may purchase the Warrant from the Company for cash plus a sum equal to any cumulative dividends on the Preferred Equity from the date that the Warrant was issued.

The Warrant is held as an available for sale financial asset within note 18. Following a review of its recoverability the Warrant is carried as its fair value of £28.3m.

Currency derivatives

The Group acquired foreign currency derivatives to hedge the sale proceeds. A loss of £47.8m on the maturity of these derivatives has been included in the cash proceeds.

Notes to the Financial Statements continued

42. OPERATING LEASES

The Group as lessee

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

| | Property £m | 2008 Others £m | Total £m | Property £m | 2007 Others £m | Total £m |
|---|----------------|----------------------|-------------|----------------|----------------------|-------------|
| Operating lease payments in Income Statement for continuing operations | | | | | | |
| Lease and rental payments | 6.5 | 0.1 | 6.6 | 6.0 | 0.4 | 6.4 |

Total future operating lease payments

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

| | Property £m | 2008 Others £m | Total £m | Property £m | 2007 Others £m | Total £m |
|-----------------------------|----------------|----------------------|-------------|----------------|----------------------|-------------|
| Within one year | 6.5 | 0.6 | 7.1 | 8.3 | 3.5 | 11.8 |
| Between two to five years | 20.0 | 0.6 | 20.6 | 23.3 | 8.8 | 32.1 |
| After five years | 22.2 | - | 22.2 | 26.8 | - | 26.8 |
| Total lease payments | 48.7 | 1.2 | 49.9 | 58.4 | 12.3 | 70.7 |

The Group as lessor

Property rental earned during the year was £0.9m (2007 – £1.0m). 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:

| | 2008 Property £m | 2007 Property £m |
|--------------------------------------|------------------------|------------------------|
| Within one year | 0.7 | 1.3 |
| Between two to five years | 1.9 | 3.1 |
| After five years | 0.2 | 0.8 |
| Total lease income receivable | 2.8 | 5.2 |

43. OBLIGATIONS UNDER FINANCE LEASES

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Group | | |
| Present value of minimum lease payments: | | |
| Within one year | 0.1 | 0.2 |
| Between two to five years | - | 0.1 |
| Present value of gross finance lease liabilities | 0.1 | 0.3 |
| Less: Future finance charges on finance leases | - | - |
| Present value of finance lease liabilities | 0.1 | 0.3 |
| The present value of finance lease liabilities is as follows: | | |
| Within one year | 0.1 | 0.2 |
| Between two to five years | - | 0.1 |
| | 0.1 | 0.3 |

Notes to the Financial Statements continued

44. CONTINGENT LIABILITIES

The Company has guaranteed borrowings of £4.4m (2007 – £159.2m) of other Group companies.

45. CAPITAL COMMITMENTS

Group capital expenditure committed, for the purchase of property, plant and equipment, but not provided for in these financial statements amounted to £4.2m (2007 – £13.1m).

46. EXPLORATION AND EVALUATION ACTIVITIES

The assets, liabilities, income, expense and cash flows arising on the Group's exploration for and evaluation of oil and gas resources are as follows:

| | 2008 £m | 2007 £m |
|---|--------------|--------------|
| Assets | - | 0.7 |
| Liabilities | - | (1.0) |
| Net liabilities | - | (0.3) |
| Income | - | - |
| Expense | (3.0) | - |
| Taxation | 0.8 | - |
| Net expense | (2.2) | - |
| Cash inflow (outflow) from operating activities | (0.1) | 0.3 |
| Cash (outflow) from investing activities | (2.3) | (0.5) |
| Cash inflow from financing activities | - | - |
| Net cash flow | (2.4) | (0.2) |

Expenses comprise £2.9m impairment of oil and gas expenditure and £0.1m interest expense.

47. RELATED PARTY TRANSACTIONS

Company

The following related party transactions took place between Hunting PLC and wholly-owned subsidiaries of the Group during the year:

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Transactions: | | |
| Royalties receivable | 1.0 | 0.9 |
| Management fees payable | (1.6) | (1.5) |
| Recharges: | | |
| IFRS 2 share option charge | 2.3 | 0.9 |
| Administrative expenses | 13.8 | 1.5 |
| Loans received | - | 67.0 |
| Loans made to companies | (0.4) | (10.5) |
| Loan from subsidiary repaid | (13.5) | - |
| Loans waived | - | (8.8) |
| Interest payable on inter-company loans | (9.1) | (7.5) |
| Interest receivable on inter-company loans | 1.3 | 0.8 |
| Dividends received from subsidiaries | 45.5 | 13.9 |
| Year end balances: | | |
| Loans owed to subsidiaries | (140.4) | (153.9) |
| Amounts owed by subsidiaries | 55.8 | 21.7 |

The interest rate that the Company is charged, and charges, on sterling loans is the UK base rate +1%.

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

Hunting PLC owed £5.6m (2007 – £5.6m) for an interest free loan from associates.

Notes to the Financial Statements continued

47. RELATED PARTY TRANSACTIONS (continued)

The Company also serves as the Group's intermediary for the provision of UK group tax relief, VAT and certain group insurances. At the year end, the outstanding balance receivable for these services was £3.2m (2007 – £0.9m).

Hunting Group

The following related party transactions took place between wholly-owned subsidiaries of the Group and associates during the year:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Transactions: | | |
| Sales of goods and services | 10.5 | 3.9 |
| Purchase of goods and services | (0.4) | (0.2) |
| Sale of property, plant and equipment | (2.8) | - |
| Royalties receivable | 0.6 | 0.2 |
| Management and other fees receivable | 0.4 | - |
| Loans received from associates | - | 0.5 |
| Loans from associates repaid | (1.5) | - |
| Interest payable on loans from associates | (0.2) | (0.2) |
| Dividends received from associates | 1.0 | 0.1 |
| Year end balances: | | |
| Interest bearing loans owed to associates | (1.6) | (3.2) |
| Interest free loans owed to associates | (5.6) | (5.6) |
| Amounts owed by associates | 1.1 | 1.9 |

The following related party transactions took place between wholly-owned subsidiaries of the Group and non-wholly owned subsidiaries during the year:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Transactions: | | |
| Sales of goods and services | 2.0 | 3.7 |
| Purchase of goods and services | (1.7) | (0.1) |
| Rental income | 0.4 | 0.4 |
| Administrative expenses recharged | - | 0.8 |
| Loans from non-wholly owned subsidiaries repaid | (0.3) | (23.0) |
| Loans to non-wholly owned subsidiaries repaid | 5.0 | - |
| Loans received from non-wholly owned subsidiaries | 0.1 | 25.9 |
| Interest payable on loans from non-wholly owned subsidiaries | (1.0) | (0.5) |
| Interest receivable on loans to non-wholly owned subsidiaries | 0.8 | 0.2 |
| Year end balances: | | |
| Interest bearing loans owed to non-wholly owned subsidiaries | (21.5) | (24.7) |
| Amounts owed by non-wholly owned subsidiaries | 3.6 | 0.2 |

The interest rate on US denominated loans is US dollar LIBOR +1.5%, and on sterling loans is UK base rate +1%.

The outstanding balances at the year end are unsecured and have no fixed date for repayment. No expense has been recognised in the period for bad or doubtful debts in respect of amounts owed by associates and non-wholly owned subsidiaries.

All interests in subsidiaries and associates are in the equity shares of those companies.

The key management of Hunting PLC comprises the executive and non-executive Directors only. The details of the Directors' compensation is disclosed in note 6. The Directors of Hunting PLC had no material transactions other than as a result of their service agreements.

Notes to the Financial Statements continued

48. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

| Subsidiaries and associates | Country of incorporation and operations | Business |
|---|---|--|
| OIL AND GAS ACTIVITIES | | |
| Hunting Energy Corporation | USA | Oilfield services |
| Hunting Energy Services Inc. | USA | Oilfield and trenchless drilling products and services |
| Hunting Energy Services (Drilling Tools) Inc. | USA | Drilling equipment |
| Hunting Energy Services (International) Limited | England & Scotland | Oilfield services |
| Hunting Energy Services (UK) Limited (60%) | Scotland & Holland | Oilfield services |
| Hunting Energy Services Limited | Scotland | Oilfield services |
| Hunting Energy Services (Well Intervention) Limited | Scotland, USA & Singapore | Oilfield services |
| Hunting Energy Services (Canada) Limited | Canada | Oilfield services |
| Hunting Energy Services (Drilling Tools) Limited | Canada | Oilfield services |
| Hunting Energy Services (International) Pte Limited | Singapore | Oilfield services |
| Hunting Energy Services Pte Limited | Singapore | Oilfield services |
| Hunting Airtust 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 |
| E.A. Gibson Shipbrokers Limited | England, Hong Kong, Singapore & USA | Shipbroking, LPG broking |
| Field Aviation Company Inc. | Canada | Aviation engineering services |
| CORPORATE ACTIVITIES | | |
| Hunting Energy Holdings Limited | England | Holding Company |
| Huntaven Properties Limited | England | Group properties |
| Hunting Knightsbridge Holdings Limited ³ | 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 ¹ above.
- 6 All interests in subsidiaries and associates are in the equity shares of those companies.

Shareholder Information

FINANCIAL CALENDAR 2009

| | |
|----------|-----------------------------------|
| April 22 | Annual General Meeting |
| July 1 | Final Ordinary Dividend Payment |
| August | Announcement of Interim Results |
| November | Interim Ordinary Dividend Payment |

ANALYSIS OF ORDINARY SHAREHOLDERS

At 31 December 2008, the Company had 2,385 Ordinary shareholders (2007 - 2,352) who held 132.0 million (2007 - 131.5 million) Ordinary shares analysed as follows:

| | 2008 | | 2007 | |
|-------------------------|----------------------------|----------------------|----------------------------|----------------------|
| | % of total shareholders | % of total shares | % of total shareholders | % of total shares |
| SIZE OF HOLDINGS | | | | |
| 1 - 4,000 | 73.58 | 1.32 | 71.47 | 1.33 |
| 4,001 - 20,000 | 12.54 | 2.01 | 14.37 | 2.37 |
| 20,001 - 40,000 | 3.98 | 2.08 | 3.87 | 1.91 |
| 40,001 - 200,000 | 5.62 | 9.73 | 5.82 | 10.00 |
| 200,001 - 500,000 | 2.18 | 11.94 | 2.47 | 13.96 |
| 500,001 and over | 2.10 | 72.91 | 2.00 | 70.43 |

SHARE INFORMATION

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

The Company's registrars, Equiniti, offer a range of shareholder information and dealing services on www.shareview.co.uk

Financial Record*

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenue | 440.0 | 398.7 | 381.4 | 307.5 | 246.3 |
| Profit from continuing operations | 60.9 | 51.3 | 40.4 | 22.0 | 11.4 |
| Finance charges | (3.2) | (6.2) | (4.5) | (2.1) | (1.9) |
| Share of post-tax profits in associates | 1.2 | 2.2 | 2.6 | 0.6 | 0.1 |
| Profit before taxation from continuing operations | 58.9 | 47.3 | 38.5 | 20.5 | 9.6 |
| Taxation | (19.4) | (18.1) | (13.3) | (9.0) | (4.2) |
| Profit from continuing operations | 39.5 | 29.2 | 25.2 | 11.5 | 5.4 |
| Profit from discontinued operations | 38.2 | 35.4 | 30.6 | 16.5 | 11.6 |
| Profit for the year | 77.7 | 64.6 | 55.8 | 28.0 | 17.0 |
| Basic earnings per share: | | | | | |
| Continuing operations | 27.5p | 18.5p | 16.6p | 8.4p | 2.3p |
| Continuing and discontinued operations | 56.7p | 45.6p | 40.3p | 22.7p | 13.1p |
| Dividend per share [#] | 9.90p | 8.25p | 7.50p | 6.00p | 4.50p |
| Non-current assets | 215.5 | 453.1 | 305.1 | 299.0 | 257.0 |
| Net current assets | 386.0 | 104.2 | 82.1 | 78.7 | 61.1 |
| | 601.5 | 557.3 | 387.2 | 377.7 | 318.1 |
| Financed by: | | | | | |
| Shareholders' funds (including minorities) | 566.2 | 311.9 | 211.5 | 183.6 | 111.9 |
| Non-current liabilities | 35.3 | 245.4 | 175.7 | 194.1 | 206.2 |
| | 601.5 | 557.3 | 387.2 | 377.7 | 318.1 |
| Net assets per share | 428.9p | 237.2p | 161.3p | 142.5p | 110.7p |

*Information is stated before exceptional items.

#Dividend per share is stated on a declared basis.

Professional Advisers

Solicitors

CMS Cameron McKenna LLP

Auditors

PricewaterhouseCoopers LLP

Brokers

RBS Hoare Govett Limited

Merchant Bankers

Close Brothers Corporate Finance Limited

Insurance Brokers

Willis Limited

Pension Advisers & Actuary

Lane Clark & Peacock LLP

Registrars and Transfer Office

Equiniti Limited

Aspect House

Spencer Road, Lancing

West Sussex BN99 6DA

Telephone 0871 384 2173

Registered Office: 3 Cockspur Street, London SW1Y 5BQ

Registered Number: 974568 (Registered in England and Wales)

Telephone: 020 7321 0123 Facsimile: 020 7839 2072

www.hunting.plc.uk

Designed by Marshall Design, Godalming, Surrey.

Printed by Park Communications on paper manufactured from Elemental Chlorine Free (ECF) pulp sourced from sustainable forests.

Park Communications is certified to ISO 14001:2004 Environmental Management System and is a CarbonNeutral® company.