

INTERNATIONAL TUBULAR SERVICES LIMITED
COMPANY NUMBER SC111913

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2012

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INTERNATIONAL TUBULAR SERVICES LIMITED

COMPANY INFORMATION

Directors

S C Milne
J A Chandler (Appointed 16 January 2013)

Secretary

S C Milne

Company number

SC111913

Registered office

Unit 5 Commerce Centre
Souterhead Road
Altens
Aberdeen
AB12 3LF

Business address

Greenbank Crescent
East Tullos
Aberdeen
AB12 3BG

Principal bankers

Bank of Scotland
3 – 5 Albyn Place
Aberdeen
AB10 1PY

Clydesdale Bank
56 Carden Place
Aberdeen
AB10 1UP

Independent auditor

Deloitte LLP
Aberdeen

INTERNATIONAL TUBULAR SERVICES LIMITED

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INTERNATIONAL TUBULAR SERVICES LIMITED

DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2012

The directors present their report and the audited financial statements for the year ended 31 December 2012.

Principal activities and review of the business

During the year International Tubular Services Limited was a wholly owned subsidiary of ITS Tubular Services (Holdings) Limited. The Company operates the Group's main trading operations in the UK and Europe as well as undertaking activities in certain other territories.

In April 2013 Parker Drilling Company, a company registered in Delaware, USA, acquired 100% of the issued share capital of International Tubular Services Limited and certain other subsidiaries of the ITS Group. Further details can be found in Note 29 Subsequent events.

The principal activities of the Company are the rental of tubular equipment, machine shop manufacturing and hard banding. The customer base comprises independent and nationally owned exploration and production companies, drilling contractors and service companies.

The Company presently has 2 offices in the UK – Aberdeen and Great Yarmouth and a branch office in Kazakhstan, and has 106 employees (2011: 103). Subsequent to the year end, decision has been taken to close the Kazakhstan branch and it is expected this will be completed by the end of 2014.

The Company remains committed to providing the highest quality of service in all its chosen markets. The approach is to be as local as possible in each market in order to facilitate efficiency and quality of service to customers. With cost-effective solutions and through developing long-lasting relationships the Company aims to provide customers with a full range of services consistently across all its markets.

Financial performance

The Company's financial performance in 2012 reflected ongoing efforts within the business to improve utilisation and margins in an environment adjusting to the pressures and volatility of global economic uncertainty.

The turnover increased by 2% to £13.6 million (2011: £13.3 million). Overall gross margin decreased to 42% (2011: 43%). Capital investment in plant and oilfield equipment was £0.9 million, compared against £1.1 million in 2011. In addition Plant and oilfield equipment of £4.4 million was transferred from other group companies.

The financial results are shown on page 5 of the financial statements.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies at Note 3 to the financial statements.

Health & safety, environment & quality

The Company continues with its commitment to the highest standards of HSEQ focusing on ensuring the safety of staff, contractors and partners across all operations. Incident rates continued to be low throughout 2012.

Integration with Parker Drilling Company's HSEQ processes and systems is currently ongoing and is due to be completed during 2014.

The long-term goal of the programme continues to be to instill a positive safety culture across the Group where zero tolerance to non-conformance is the norm.

Across the Company all API Product Licenses and API Q1 and ISO 9001 registrations were maintained.

INTERNATIONAL TUBULAR SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

Health & safety, environment & quality (continued)

The Board recognises its environmental responsibilities and ensures that each Company monitors the Group's impact on the environment. Initiatives include the waste management programs which incorporate waste segregation, waste treatment, safe disposal of manufacturing waste, recycling of re-useable waste and reducing energy consumption. This is reflected in the successful maintenance of ISO 14001:2004 Registration in the UK.

Principal risks and uncertainties

The Company operates in the highly competitive oil and gas services environment across a number of geographic markets. The Board ensures that safety, quality and value-added services are at the heart of all activities and relationships with customers are maintained for the long term.

The demand for the Company's services is primarily influenced by rig count and oil and gas commodity prices which impact general investment activity levels within the industry. Further current levels of sovereign debt, industry regulatory restrictions and currency fluctuations all contribute to creating market uncertainty. These issues have had an impact on operator capital investment resulting in cancellations or postponement of activity.

In this environment, the Board is committed to ensuring that the Company has adequate flexibility to grow and capitalise on opportunities in the medium term.

Employees

Average employee numbers remained stable during 2012. Details of employee costs and numbers are shown on page 20.

The Company performance management system is designed to ensure employee performance will be measured, recognised and rewarded in a consistent and uniform fashion across global operations.

Results and dividends

The results for the year are set out on page 5.

Financial risk management objectives and policies

The main financial risks, to which the Company has exposure, are credit, liquidity and currency risk.

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the financial statements are net of provisions for doubtful balances. Exposure to credit risk is actively managed by assessing the credit-worthiness of individual customers in each operating location. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Company monitors its levels of working capital and also has access to group facilities if required to ensure that it can meet its obligations as they fall due.

The Company's international trading activities expose it to foreign currency risk. Currency exposures are actively managed at a Group level.

Charitable donations

During the year the Company made charitable donations of £2,505 (2011: £936). No political donations were made (2011: Nil).

INTERNATIONAL TUBULAR SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

Directors

The following directors have held office since 1 January 2012 and to the date of this report: -

R G Kidd (Resigned 16 January 2013)

J N J Corray (Resigned 6 June 2012)

S C Milne

J A Chandler (Appointed 16 January 2013)

J W Wallace (Appointed 1 February 2013 and resigned 4 April 2013)

As required by Section 418 of the Companies Act 2006, each of the directors has approved this report and confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

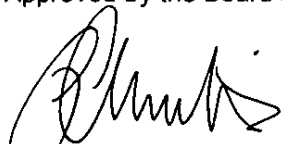
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law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

In preparing the financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

Approved by the Board and signed on its behalf by:



S C Milne

Director

5 December 2013

INTERNATIONAL TUBULAR SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERNATIONAL TUBULAR SERVICES LIMITED

We have audited the financial statements of International Tubular Services Limited for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – uncertain outcome of an investigation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 26 to the financial statements concerning the uncertain outcome and consequences of the Company's disclosure to UK authorities of potential incidents of non-compliance of certain operations with potentially applicable international trade and corruption laws, including the laws of the United Kingdom. Based on the information available at the date of this report, the directors are unable to estimate whether the Company will incur any material financial loss as a result of such matter. Accordingly, the financial statements at 31 December 2012 do not include any provision in respect of this uncertainty.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Graeme Sheils, CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
15 December 2013

INTERNATIONAL TUBULAR SERVICES LIMITED

INCOME STATEMENT FOR YEAR ENDED 31 DECEMBER 2012

	Note	2012 £	2011 £
Revenue	6	13,562,953	13,279,774
Cost of sales		(7,821,307)	(7,590,272)
Gross profit		5,741,646	5,689,502
Administrative expenses		(3,405,091)	(3,268,547)
- (Loss)/gain on sale of fixed assets		(154,032)	132,148
- Amortisation of intangible assets		(4,405)	(4,008)
Operating profit		2,178,118	2,549,095
Dividend income		755,996	555,669
Total operating profit: and share of joint venture		2,934,114	3,104,764
Profit from operating activities	7	2,934,114	3,104,764
Finance income	10	3,583	1,514
Finance expense	11	(435,433)	(56,228)
Profit before taxation		2,502,264	3,050,050
Taxation	12	179,051	261,217
Profit after tax for the financial year		2,681,315	3,311,267
Profit for the financial year		2,681,315	3,311,267

The notes on pages 11 to 34 are an integral part of these financial statements.

All of the results for the current and prior year relate to continuing operations.

INTERNATIONAL TUBULAR SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2012

	Note	2012 £	2011 £
Profit for the year		2,681,315	3,311,267
Exchange difference on translation foreign operations	19	(63,734)	(16,652)
Total recognised income and expense for the year		<u>2,617,581</u>	<u>3,294,615</u>

The notes on pages 11 to 34 are an integral part of these financial statements.

INTERNATIONAL TUBULAR SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Note	2012 £	2011 £
Fixed assets			
Intangible assets	13	44,303	52,488
Tangible assets	14	11,082,254	8,321,773
Investments	15	2,798,474	2,798,474
		<u>13,925,031</u>	<u>11,172,735</u>
Current assets			
Inventories	16	931,144	797,321
Trade and other receivables	17	5,037,077	6,390,358
Cash and cash equivalents		841,203	960,878
		<u>6,809,424</u>	<u>8,148,557</u>
Total assets		<u>20,734,455</u>	<u>19,321,292</u>
Equity			
Share capital	18	250,000	250,000
Currency translation reserve	19	(82,114)	(18,380)
Retained earnings	20	13,607,130	10,925,815
Amounts attributable to the shareholders of the company		<u>13,775,016</u>	<u>11,157,435</u>
Non-current liabilities			
Obligations under hire purchase contracts	21	17,348	-
Deferred tax liability	22	173,963	483,544
Total non-current liabilities		<u>191,311</u>	<u>483,544</u>
Current liabilities			
Trade and other payables	23	6,768,128	7,680,313
Total current liabilities		<u>6,768,128</u>	<u>7,680,313</u>
Total liabilities		<u>6,959,439</u>	<u>8,163,857</u>
Total equity and liabilities		<u>20,734,455</u>	<u>19,321,292</u>

These financial statements of International Tubular Services Limited, company registration number SC111913, were authorised for issue and approved by the board of directors on 5 December 2013 and were signed on its behalf by:



S C Milne
Director

INTERNATIONAL TUBULAR SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2012

	Share Capital £	Currency Translation Reserve £	Retained Earnings £	Total Equity £
Balance at 1 January 2012	250,000	(18,380)	10,925,815	11,157,435
Profit for year	-	-	2,681,315	2,681,315
Other comprehensive income:				
Currency translation difference on foreign currency net investments	-	(63,734)	-	(63,734)
Balance at 31 December 2012	<u>250,000</u>	<u>(82,114)</u>	<u>13,607,130</u>	<u>13,775,016</u>

INTERNATIONAL TUBULAR SERVICES LIMITED

CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2012

	Note	2012 £	2011 £
Net cash (used in)/from operating activities	i	<u>(32,240)</u>	<u>167,466</u>
Cash flows from investing activities			
Interest received		3,583	1,514
Interest paid		(438,682)	(52,978)
Dividends received		755,996	555,669
Purchase of tangible fixed assets		(286,753)	(399,029)
Purchase of intangible fixed assets		-	(18,320)
Net cash from investing activities		<u>34,144</u>	<u>86,856</u>
Cash flows used in financing activities			
Repayment of obligations under finance leases		(121,579)	(337,650)
Net cash used in financing activities		<u>(121,579)</u>	<u>(337,650)</u>
Net decrease in cash and cash equivalents		<u>(119,675)</u>	<u>(83,328)</u>
Cash and cash equivalents at 1 January		960,878	1,044,206
Cash and cash equivalents at 31 December		<u>841,203</u>	<u>960,878</u>
Cash and cash equivalents comprises:			
Cash at bank and in hand		<u>841,203</u>	<u>960,878</u>

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2012

(i) Reconciliation of operating profit to net cash flow from operating activities

	2012 £	2011 £
Operating profit	2,178,118	2,549,095
Adjustments for:		
Exchange gain in net debt included in operating profit	-	(24,044)
Other foreign exchange adjustment	212,129	(105,799)
Depreciation	1,409,011	1,348,709
Impairment of tangible fixed assets	75,943	-
Amortisation of intangible assets	4,405	4,008
Gain on sale of tangible assets	549,142	345,113
	<u>4,428,748</u>	<u>4,117,082</u>
Operating cash flows before movements in working capital		
(Increase)/decrease in inventories	(133,823)	83,361
Decrease/(increase) in trade and other receivables	1,524,173	(7,290,246)
(Decrease)/increase in trade and other payables	(5,720,812)	3,333,209
	<u>98,286</u>	<u>243,406</u>
Cash generated from operating activities	98,286	243,406
Income taxes paid	(130,526)	(75,940)
	<u>(32,240)</u>	<u>167,466</u>
Net cash (used in)/from operating activities	(32,240)	167,466

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

ACCOUNTING POLICIES

1 General information

International Tubular Services Limited is a Company incorporated in Scotland. The registered office is Unit 5, Commerce Centre, Souterhead Road, Altens, Aberdeen, AB12 3LF.

The Company is primarily involved in the provision of products and services to the upstream oil and gas industry, primarily focused on drilling activities. The financial statements are set out on pages 5 to 34.

2 Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted in the EU (adopted IFRS), and its interpretations adopted by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee or their predecessors (IFRIC), which had been approved by the European Commission as at 31 December 2011. All references to IFRS refer to IFRS standards as adopted by the EU.

a) Accounting convention

The Company has taken advantage of the exemption conferred by s401 of the Companies Act 2006 not to prepare consolidated accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

c) Functional and presentation currency

These financial statements are presented in £ sterling, which is the Company's functional currency.

d) Use of estimates and judgements

In the preparation of financial statements in conformity with IFRS, the directors are required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods which are affected by those revisions.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Depreciation rates and residual values of plant and oilfield equipment

As described in Note 3, the Company depreciates plant and oilfield equipment over its assessment of their estimated useful lives less estimated residual values using a straight line basis. The useful lives range between 5-15 years with residual values estimated between 5% - 20% for various equipment. The Company considers its maintenance policies and industry practice in determining the useful lives and residual values of plant and oilfield equipment.

In making its judgement, management considered the detailed requirements of the depreciation and estimated residual values of the plant and oilfield equipment goods as set out in IAS 16 Property Plant and Equipment.

(ii) Contingent liabilities

As described in Note 26, the Company is unable at this time to develop a reliable estimate of any financial loss that may result from past non-compliance with potentially applicable international trade and corruption laws in certain of its operations. Accordingly the financial statements do not include any provision in respect of this uncertainty.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

3 Significant accounting policies

The principal accounting policies set out below have been applied consistently to the periods presented in these financial statements.

3.1 Going concern

The Company's business activities, together with the key factors likely to affect its future development, performance and position are set out in the Directors' report.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future. Accordingly, they continue to prepare the financial statements under the going concern basis.

3.2 Revenue recognition

Turnover comprises the value of goods and services supplied by the Company in the normal course of business, net of trade discounts and sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that the economic benefits associated with a transaction will flow to the Company and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

- (i) Sale of equipment and other goods:
Turnover is recognised when the goods are delivered to the customer, at the contractually agreed delivery location.
- (ii) Rental income:
Rental income from operating leases is recognised as earned over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.
- (iii) Rendering of services:
Turnover is recognised in line with the fulfilment of its contractual obligations. In most cases relating to the supply of services this represents the fulfilment of all obligations contained in its contracts. In certain circumstances specific elements of the total income relating to a contract are recognised where completion of these elements (by reference to contractual trigger points) entitles the Company to the income. Where the rendering of services includes rental income, the rental income element is recognised on a straight line basis over the period of the rental contract.

3.3 Intangible fixed assets

- (i) Licences:
Licences, relating to the design of certain tools, are valued at cost and amortised over their expected useful life.
- (ii) Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life which has been established as 3-4 years.

3.4 Property, plant and equipment

- (i) Recognition and measurement:
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The depreciated cost of property, plant and equipment at 1 January 2010, the IFRS transition date is considered as deemed cost.

Cost comprises the purchase price or construction cost, together with direct borrowing costs and any other costs directly attributable to making the asset capable of operating as intended, in the intended location. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposals of property, plant and equipment other than those held for rental to clients are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in the income statement. Where items are sold from the rental fleet, the sale proceeds are reflected in revenue and the remaining net book value is charged to cost of sales.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

3.4 Property, plant and equipment (continued)

(ii) Depreciation:

Depreciation is calculated using the straight-line basis to allocate the cost less residual values, to the income statement over the estimated useful lives of each item of property, plant and equipment. Assets acquired under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:-

Buildings and short leasehold	5 – 10 years
Office equipment	5 – 15 years
Plant and machinery	5 – 10 years
Rental assets	5 – 15 years
Motor vehicles	4 years

Improvements to leasehold premises are depreciated over the primary period of the leases to which the improvements relate.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3.5 Investment

Fixed asset investments are stated at cost less provision for impairment.

3.6 Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price less all further costs of completion and disposal.

Provision for impairment is based on a management assessment of excess and obsolete inventories.

Costs in relation to partially complete projects are treated as work in progress.

3.7 Foreign currencies

(i) Transactions and balances:

Transactions denominated in foreign currencies are translated and recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at each balance sheet date. Gains and losses on retranslation are recognised in the income statement for the year.

(ii) Branch entity:

The Company's overseas branch uses the Kazakhstani tenge as its functional currency. The results and financial position of the branch are translated into Pounds Sterling as follows:-

- assets and liabilities are translated at the rate ruling at the balance sheet date;
- income and expenses are translated at the average annual exchange rate; and
- resulting exchange differences are recognised in the statement of comprehensive income.

3.8 Employee benefits

(i) Defined contribution plans:

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement in the period to which they relate. The majority of the Company's employees participate in plans of this nature.

(ii) Short-term benefits:

Short-term employee benefit obligations such as annual performance bonuses are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid as a short-term benefit if the Group has a legal or constructive obligation to pay this benefit as a result of past service provided by the employee and the amount of the obligation can be measured reliably.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

3.9 Leasing

Leases (including hire purchase contracts) are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) Operating leases:

As lessee

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the period of lease.

(ii) Finance leases:

As lessee

Assets held under finance leases are capitalised, at their fair value or, if lower, at the present value of the minimum lease payments, as property, plant and equipment, and depreciated over their useful lives. The capital element of the future lease obligation is recorded as a liability, with the interest element charged to the income statement over the period of the lease so as to produce a constant rate of charge on the capital outstanding.

3.10 Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial Assets:

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets 'at Fair Value Through Profit or Loss' (FVTPL), 'held-to-maturity' investments, 'Available-For-Sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method:

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables:

Trade receivables, loans, and other receivables that have fixed or determinable payments that are noted quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.11 Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated discounted future cash flows. All impairment losses on financial assets measured at amortised cost are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

3.11 Impairment (continued)

(ii) Impairment of tangible and intangible assets excluding goodwill:

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

3.12 Income tax expense

Income tax expense comprises current and deferred tax.

Current income tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to, or recovered from, the taxation authorities. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in later years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:-

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax liabilities and assets are measured on an undiscounted basis at the tax rates that are expected to apply when the liability is settled or the asset is realised, based on tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Current and deferred income tax is charged or credited directly to other comprehensive income if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

3.13 Non-recurring items

Non-recurring items are those significant items of income or expense that are separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's financial performance. In accordance with IAS 1, Presentation of Financial Statements, such items are presented separately on the face of the income statement and analysed in the notes to the financial statements.

3.14 Borrowings

Borrowings are initially recorded at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs.

Net financing costs comprise interest payable on borrowings, interest receivable on cash and cash equivalents and amortisation of debt finance costs that are recognised in the income statement.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3.15 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments, less bank overdrafts.

3.16 Share capital

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

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3.17 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event. It is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4 Financial risk management

The Company's multinational operations and debt financing expose it to a variety of financial risks. The Company has in place risk management policies that seek to limit the adverse effects of these risks on financial performance. The board of directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

4.1 Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currencies. The Company also has an overseas branch whose revenue and expenses are denominated in a currency other than Pounds Sterling.

The Company carefully monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to minimise any foreign currency exposure.

The Company's main foreign exchange risk relates to movements in the US Dollar and Euro exchange rates to Sterling. Movements in the US Dollar/Sterling rate impact the translation of US Dollar profit earned by the overseas branch and the translation of US Dollar-denominated net assets. Movement in the Euro/Sterling rate impacts the carrying value of the Euro-denominated receivables and payables.

4.2 Cash flow and fair value interest rate risk

The Company has no significant interest-bearing assets other than cash and cash equivalents of a working capital nature. Therefore the Company's income and operating cash flows arising from such assets are substantially independent of changes in market interest rates.

The Company monitors its exposure to interest rate risk as part of its overall financial risk management.

There were no changes in the Company's approach to cash flow and fair value interest rate risk during the year.

4.3 Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents, primarily composed of current account balances, that are maintained with major financial institutions in each of the territories in which the Company operates.

Sales are made on credit and result in short-term credit exposure on trade receivables. The Company's customers are principally companies in the oil and gas exploration and production sector that have several years' transaction history with the Company. Credit risk from the ordinary course of trade activities is managed on a customer and/or project basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The major component of this allowance is a specific loss component that relates to individually significant exposures. The ageing of receivables is shown in Note 24.

5.1 Overall considerations

IAS 1.117

The Company has adopted the following revisions and amendments to IFRS issued by the International Accounting Standards Board which are relevant to, and effective for, the Company's financial statements for the annual period beginning 1 January 2010:-

- IAS 27 Consolidated and Separate Financial Statements (revised 2008);
- Improvements to IFRSs 2009.

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in Notes 5.2 to 5.4. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in Note 5.5.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

5.2 Adoption of IAS 27 consolidated and separate financial statements (revised 2008)

IAS 8.28(a), IAS 8.28(c)

The adoption of IFRS 3R required that the revised (IAS 27R) is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formally called 'minority') interests and the loss of control of a subsidiary. These charges are applied prospectively.

During the current period, the Company had no transactions with non-controlling interests.

5.3 Adoption of improvements to IFRSs 2009 (issued in April 2009)

IAS 8.28(a), IAS 8.28(c)

The Improvements to IFRSs 2009 made several minor amendments to IFRSs. The only amendment relevant to the Company relates to IAS 17 Leases. The amendment requires that leases of land are classified as finance or operating by applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Company has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases requires reclassification.

5.4 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):-

IFRS 9 (November 2009, revised October 2010)	Financial Instruments: Classification and Measurement
IFRS 11 (May 2011)	Joint Arrangements
IFRS 12 (May 2011)	Disclosures of Interests in Other Entities
IFRS 13 (May 2011)	Fair Value Measurement
IAS 27 (May 2011)	Separate Financial Statements
IAS 28 (May 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 12 (December 2010)	Deferred Tax: Recovery and Underlying Assets
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income
Amendments to IAS 19 (June 2011)	Employee Benefits
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities
Improvements to IFRS (2009 – 2011)	Various

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

5.5 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (continued)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods, except as follows:-

- IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- IFRS 12 will impact the disclosure of interests the Company has in other entities; and
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of the standards until a detailed review has been completed.

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Company in future periods.

6 Revenue

Revenue is analysed as follows:

	2012 £	2011 £
Sales of goods	1,899,159	2,379,221
Rendering of services	11,663,794	10,900,553
	<u>13,562,953</u>	<u>13,279,774</u>

Revenue by destination

There are five main geographical areas and are analysed as follows:

	2012 £	2011 £
United Kingdom and Europe	9,838,763	11,461,316
Africa	919,128	47,576
North and South America	268,954	9,269
Middle East	2,036,108	1,423,780
Far East and Asia Pacific	500,000	337,833
	<u>13,562,953</u>	<u>13,279,774</u>

7 Profit for the year

Profit from operating activities has been arrived at after charging/(crediting):

	2012 £	2011 £
Net foreign exchange losses	173,584	1,678
Depreciation of property, plant and equipment	1,409,011	1,348,709
Loss/(Gain) on disposal of property, plant and equipment	154,032	(132,148)
Amortisation of intangible assets	4,405	4,008
Hire of plant and machinery – rentals payable under operating leases	39,640	31,464
Operating lease rentals – land, buildings and other	<u>676,051</u>	<u>587,193</u>

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

8 Auditors' remuneration

	2012 £	2011 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15,200	14,133
Total audit fees	15,200	14,133
Other services	-	-
Total non-audit fees	-	-

9 Personnel expenses and employee numbers

The average monthly number of employees, including directors, employed during the year was as follows:-

	2012	2011
Direct and factory staff	69	68
Office and management staff	37	35
	106	103

The payroll costs in respect of the employees included in the table above were:

	2012 £	2011 £
Wages and salaries	3,024,201	2,924,977
Social security costs	234,439	262,916
Contributions to defined contribution plans	37,858	38,882
	3,296,498	3,226,775

The directors have not received any remuneration from the Company. In the opinion of the directors, it is not practical to apportion directors' remuneration for services provided to the Company on the basis of level of service and accordingly no allocation has been made.

Defined contribution schemes

The Company operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Company, in independently administered funds. The pension cost charge represents contributions payable by the Company to each fund and amounted to £37,858 (2011: £38,882). Contributions totalling £17,427 (2011: £15,007) were payable to the funds at the year end and are included in creditors.

10 Finance income

	2012 £	2011 £
Bank interest	3,583	1,514

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

11 Finance expense

	2012 £	2011 £
On amounts payable to group companies	414,277	-
Bank interest	-	200
Other interest	7,946	6,460
Finance charges under hire purchase contracts	13,210	49,568
	<u>435,433</u>	<u>56,228</u>

12 Tax income

	2012 £	2011 £
Current tax expense		
Corporation tax on UK profits for year	61,642	-
Double taxation relief	(61,642)	-
Foreign tax - current	130,530	73,461
	<u>130,530</u>	<u>73,461</u>
Deferred tax income		
Origination and reversal of timing differences:		
- United Kingdom	(309,581)	(334,678)
Total income tax income	<u>(179,051)</u>	<u>(261,217)</u>

The current tax charge for the year reconciles to the profit per income statement as follows:

	2012 £	2011 £
Profit before tax	2,502,264	3,050,050
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	613,055	808,263
<i>Effects of:</i>		
Expenses that are not deductible for tax purposes and income not taxable	(177,162)	(265,173)
Tax effect of other adjustments	(416,461)	(622,222)
Group relief claimed	(336,435)	(255,546)
Foreign taxes in excess of UK rates	68,888	73,461
Capital gain	33,437	-
Movement in tax rates	35,627	-
Tax income for the year	<u>(179,051)</u>	<u>(261,217)</u>

The Company's planned level of capital investment is forecast to remain at similar levels to the current year. Accordingly, capital allowances in excess of depreciation and expected to continue in future years.

The UK Government announced on 21 March 2012 a lower UK Corporate Tax rate of 23% which comes into effect on 1 April 2013. Further rate reductions were announced on 20 March 2013 for 2014 and 2015 to 21% and 20% respectively. These rates changes will affect the size of the Company's balance sheet deferred tax assets and liabilities in the future. The deferred tax recognised has been calculated at the rate enacted at the balance sheet date of 23%.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

13 Intangible assets

	Licences £
Cost:	
At 1 January 2012	62,912
Exchange movements	(4,533)
	<u>58,379</u>
At 31 December 2012	58,379
Amortisation and impairment losses:	
At 1 January 2012	10,424
Amortisation for the year	4,405
Exchange movements	(753)
	<u>14,076</u>
At 31 December 2012	14,076
Carrying amounts	
At 31 December 2011	<u>52,488</u>
At 31 December 2012	44,303

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

14 Tangible fixed assets

	Buildings and short leasehold £	Rental assets £	Plant & machinery £	Motor vehicles £	Office equipment £	Total £
Cost						
At 1 January 2012	714,459	12,529,002	2,336,783	125,183	440,824	16,146,251
Additions	-	5,334,004	13,658	22,995	20,336	5,390,993
Disposals	-	(1,418,269)	(133,738)	(14,250)	(749)	(1,567,006)
Exchange movements	(2,320)	(389,286)	65,009	(4,931)	(2,342)	(333,870)
At 31 December 2012	712,139	16,055,451	2,281,712	128,997	458,069	19,636,368
Depreciation and impairment losses						
At 1 January 2012	288,608	5,554,373	1,480,347	107,945	393,205	7,824,478
Impairment	-	75,943	-	-	-	75,943
Depreciation for the year	42,986	1,234,949	104,834	14,374	11,868	1,409,011
Disposals	-	(650,631)	(28,142)	(14,236)	(522)	(693,531)
Exchange movements	(415)	(60,046)	2,696	(3,680)	(342)	(61,787)
At 31 December 2012	331,179	6,154,588	1,559,735	104,403	404,209	8,554,114
Carrying amounts						
At 31 December 2011	425,851	6,974,629	856,436	17,238	47,619	8,321,773
At 31 December 2012	380,960	9,900,863	721,977	24,594	53,860	11,082,254

Leased rental assets

The Company leases rental assets under finance lease arrangements. At 31 December 2012, the net carrying amount of leased rental assets was £22,037 (2011: £288,071).

The tangible fixed assets are subject to a fixed or floating charge in connection with group banking facilities (note 26).

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

15 Investments

	2012 £	2011 £
Shares in subsidiary undertakings		
At 1 January and at 31 December	2,468,366	2,468,366
Investment in joint venture		
At 1 January and 31 December	330,108	330,108
Total fixed asset investment	2,798,474	2,798,474

Details of the individual investments held are provided at note 30 to the financial statements.

16 Inventories

	2012 £	2011 £
Raw materials and consumables	775,875	753,477
Work in progress	42,897	41,845
Stock in transit	112,372	1,999
	931,144	797,321

17 Trade and other receivables

	2012 £	2011 £
Trade receivables	3,071,807	2,533,156
Amounts owed by group undertakings	1,548,836	3,002,095
Prepayments and accrued income	204,062	281,941
Other receivables	212,372	573,166
Amounts falling due within one year	5,037,077	6,390,358
Amounts falling due after one year	-	-
	5,037,077	6,390,358

The Company's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 24.

The Company does not charge interest on its overdue receivables in the normal course of business.

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

18 Share capital

	2012 £	2011 £
Authorised		
1,000,000 (2011 : 1,000,000) Ordinary Shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid:		
250,000 (2011 : 250,000) Ordinary Shares of £1 each	<u>250,000</u>	<u>250,000</u>
Equity share capital	<u>250,000</u>	<u>250,000</u>

19 Currency translation reserve

	£
At 1 January 2012	(18,380)
Currency translation difference on foreign currency net investments	<u>(63,734)</u>
At 31 December 2012	<u><u>(82,114)</u></u>

Exchange differences relating to the translation of the net assets of the Company's foreign operations from their functional currency into the Company's functional currency, being £ sterling, are recognised directly in the translation reserve.

20 Retained earnings

	£
Balance at 1 January 2012	10,925,815
Net profit for the year	<u>2,681,315</u>
At 31 December 2012	<u><u>13,607,130</u></u>

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

21 Obligations under hire purchase contracts

This notes provides information about the contractual terms of the Company's interest bearing hire purchase contracts, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 24.

	2012 £	2011 £
Non current liabilities		
Obligations under hire purchase contracts	17,348	-
Current liabilities		
Obligations under hire purchase contracts	4,395	120,327
Total loans and borrowings	21,743	120,327
Amount due for settlement within 12 months	4,395	120,327
Amount due for settlement after 12 months	17,348	-

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2012 £	Interest 2012 £	Present value of minimum lease payments 2012 £
Less than one year	6,211	1,816	4,395
Between one and five years	20,677	3,329	17,348
	26,888	5,145	21,743

	Future minimum lease payments 2011 £	Interest 2011 £	Present value of minimum lease payments 2011 £
Less than one year	130,346	10,019	120,327
Between one and five years	-	-	-
	130,346	10,019	120,327

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

22 Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate applicable to the territory in which the asset or liability has arisen. Deferred tax is provided at 23% (2011: 25%).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As these earnings are continually reinvested by the Company, no tax is expected to be payable on them in the foreseeable future.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset, they relate to income taxes levied by the same taxation authority and there is an intention to settle the balances on a net basis. The deferred tax balances are analysed below:

	2012 £	Assets 2011 £	2012 £	Liabilities 2011 £
Tangible assets	-	-	183,537	493,010
Retirement benefit obligations	(4,008)	(3,752)	-	-
Trade debtors	(5,566)	(5,714)	-	-
Deferred tax (assets)/liabilities	(9,574)	(9,466)	183,537	493,010
Net deferred tax liabilities	173,963	483,544		

Deferred tax impact of movements in temporary differences during the year – 2012

	Balance 1 January 2012 £	Foreign exchange £	Recognised in income statement £	Balance 31 December 2012 £
Tangible assets	493,010	-	(309,473)	183,537
Retirement benefit obligations	(3,752)	-	(256)	(4,008)
Trade debts	(5,714)	-	148	(5,566)
	483,544	-	(309,581)	173,943

Deferred tax impact of movements in temporary differences during the year – 2011

	Balance 1 January 2011 £	Foreign exchange £	Recognised in income statement £	Balance 31 December 2011 £
Tangible assets	828,338	-	(335,328)	493,010
Retirement benefit obligations	(3,945)	-	193	(3,752)
Trade debts	(6,171)	-	457	(5,714)
	818,222	-	(334,678)	483,544

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

23 Trade and other payables

	2012 £	2011 £
Obligations under hire purchase contracts	4,395	120,327
Trade payables	909,314	1,335,043
Amounts owed to group undertakings	5,324,413	5,683,706
Other tax and social security	77,638	73,870
Other payables	-	108
Accruals and deferred income	452,368	467,259
	<u>6,768,128</u>	<u>7,680,313</u>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

24 Financial instruments

The Company's activities give rise to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management strategy is to hedge exposures wherever practicable in order to minimise any potential adverse impact on the Company's financial performance.

Risk management is carried out by the Group and Company management. Company management, together with the Group's management identify, evaluate and where appropriate, hedge financial risks. The Company's management cover specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and investment of excess cash.

Where the Board considers that a material element of the Company's profits and net assets are exposed to a country in which there is significant geopolitical uncertainty a strategy is agreed to ensure that the risk is minimised.

Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currencies. The Company also has a number of subsidiary companies whose revenue and expenses are denominated in currencies other than the US Dollar. In order to protect the Company's balance sheet from movements in exchange rates, wherever practicable, the Group finances its net investment in non US Dollar subsidiaries primarily by means of borrowings denominated in the appropriate currency. Other strategies, including the payment of dividends, are used to minimise the amount of net assets exposed to foreign currency revaluation.

The carrying amount of the Company's net trade payables were denominated in the following principal currencies:

	2012 £	2011 £
US Dollars	39,933	66,046
Sterling	827,264	1,131,739
Euros	757	10,239
Kazakhstan Tenge	41,360	127,023
	<u>909,314</u>	<u>1,335,047</u>
Company balance sheet exposure		

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

24 Financial instruments (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
	£	£	£	£
US Dollars	1.5849	1.6039	1.6161	1.5453
Euros	1.2331	1.1522	1.2227	1.1933
Kazakhstan Tenge	236.536	231.8400	242.937	224.9600

Credit risk

The Company's credit risk primarily relates to its trade receivables. The amounts presented in the financial statements are net of provisions for doubtful balances. Exposure to credit risk is actively managed by assessing the creditworthiness of individual customers. An allowance for impairment is made when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The Company's major customers are typically national oil companies and companies which have credit ratings assigned by international credit rating agencies. Where a customer does not have sufficiently strong credit ratings, alternative forms of security such as letters of credit may be obtained. The Company has a broad customer base and management believe that no further credit risk provision is required in excess of the provision for impairment of trade receivables.

Management review trade receivables across the Company based on receivable days calculations to assess performance. There is significant management focus on receivables that are overdue. A table showing trade receivables and receivable days is shown below. Receivable days calculations are not provided on non-trade receivables as management do not believe that this information is a relevant metric.

	Carry amount	
	2012	2011
	£	£
Trade receivables	3,071,807	2,533,156
Cash and cash equivalents	841,203	960,878
	<u>3,913,010</u>	<u>3,494,034</u>

Financial assets exclude amounts owed by joint ventures, prepayments and accrued income, deposits and advances, other debtors and other non-current receivables.

The carrying amount of net trade receivables were denominated in the following principal currencies:

	Carry amount	
	2012	2011
	£	£
US Dollars	328,193	166,134
Sterling	2,342,992	1,773,448
Euros	31,198	90,925
Kazakhstan Tenge	369,424	502,649
	<u>3,071,807</u>	<u>2,533,156</u>

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

24 Financial instruments (continued)

Impairment losses

The ageing of trade receivables, including amounts falling due after one year, at the reporting date was:

	Gross 2012 £	Provision for impairment 2012 £	Gross 2011 £	Provision for impairment 2011 £
Current	1,284,261	-	1,215,434	169
31-60 days	972,579	-	758,149	1,177
61-90 days	552,979	-	300,934	692
91-120 days	78,142	-	191,604	23,443
Over 120 days	196,295	12,449	92,516	-
	<u>3,084,256</u>	<u>12,449</u>	<u>2,558,637</u>	<u>25,481</u>
Net value of trade receivables		<u>3,071,807</u>		<u>2,533,156</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 £	2011 £
Balance at 1 January	25,481	22,855
Provision (decrease)/increase	<u>(13,032)</u>	<u>2,626</u>
Balance at 31 December	<u>12,449</u>	<u>25,481</u>

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and including the impact of netting agreements:

Non-derivative financial liabilities

	Carrying amount £	Contractual cash flows £	1-6 months £	7-12 months £	1-2 years £	2-5 years £
2012						
Finance lease liabilities	21,743	26,888	3,105	3,105	6,211	14,467
Trade and other payables	<u>1,439,050</u>	<u>1,439,050</u>	<u>1,439,050</u>	-	-	-
	<u>1,460,793</u>	<u>1,465,938</u>	<u>1,442,155</u>	<u>3,105</u>	<u>6,211</u>	<u>14,467</u>
2011						
Finance lease liabilities	120,327	130,346	93,275	37,071	-	-
Trade and other payables	<u>1,876,280</u>	<u>1,876,280</u>	<u>1,876,280</u>	-	-	-
	<u>1,996,607</u>	<u>2,006,626</u>	<u>1,969,555</u>	<u>37,071</u>	-	-

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

24 Financial instruments (continued)

Interest rate risk

The Company has no interest rate risk arising from its long-term borrowings. All borrowings are on a fixed interest rate basis.

The Company has no significant interest-bearing assets other than cash and cash equivalents of a working capital nature. Therefore the Company's income and operating cash flows arising from such assets are substantially independent of changes in market interest rates.

Profile

	Carrying amount	
	2012	2011
	£	£
Fixed rate instruments		
Financial liabilities at 31 December	<u>21,743</u>	<u>120,327</u>
Variable rate instruments		
Financial instruments at 31 December	<u>-</u>	<u>-</u>

Fair sensitivity analysis for fixed rate instruments

Fixed instruments consist of bank term loans and finance leases. As these are fixed rate financial instruments, no sensitivity analysis has been presented.

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2012 £	Fair value 2012 £	Carrying amount 2011 £	Fair value 2011 £
Trade and other receivables	3,071,807	3,071,807	2,533,156	2,533,156
Cash and cash equivalents	841,203	841,203	960,878	960,878
Finance lease liabilities	(21,743)	(21,743)	(120,327)	(125,832)
Trade and other payables	<u>(1,439,050)</u>	<u>(1,439,050)</u>	<u>(1,876,280)</u>	<u>(1,876,280)</u>
	<u>2,452,217</u>	<u>2,452,217</u>	<u>1,497,427</u>	<u>1,491,922</u>

The fair value of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

Interest rates for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the rates applicable to the borrowings at the relevant balance sheet date, and were as follows:

	2012 %	2011 %
Leases	5.7	5.7

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

25 Operating lease commitments

	2012 £	Property 2011 £
Total commitments under non cancellable operating leases expiring:		
Less than one year	106,552	51,596
Between one and five years	-	-
More than five years	<u>5,398,100</u>	<u>5,577,100</u>
	<u>5,504,652</u>	<u>5,628,696</u>
	2012 £	Land 2011 £
Total commitments under non cancellable operating leases expiring:		
Less than one year	43,565	43,446
Between one and five years	-	-
More than five years	<u>-</u>	<u>-</u>
	<u>43,565</u>	<u>43,446</u>
	2012 £	Other 2011 £
Total commitments under non cancellable operating leases expiring:		
Less than one year	-	-
Between one and five years	119,309	159,744
More than five years	<u>-</u>	<u>-</u>
	<u>119,039</u>	<u>159,744</u>

26 Contingent liabilities

The bank holds a bond and floating charge over the assets of the Company and a cross guarantee over all sums, incorporating rights of offset between certain group companies. The contingent liability to the Company at 31 December 2012 under these arrangements is £106,562,316 (2011: £105,950,767). Subsequent to the year end, on 22 April 2013, the Company's potential liability under this arrangement was removed in conjunction with the sale to Parker Drilling Company (Note 29).

The Company has investigated certain of its operations regarding its compliance with applicable international trade and corruption laws, including the laws of the United Kingdom, and has disclosed potential incidents of non-compliance to the appropriate UK authorities. As the final outcome and potential consequences of this matter are uncertain, it is not possible to estimate whether the Company will incur any material financial loss. Accordingly the financial statements at 31 December 2012 do not include any provision in respect of this uncertainty.

27 Capital commitments

At 31 December 2012 the Company had entered into contracts to purchase property, plant and equipment totalling £53,262 (2011: £9,241) in respect of which delivery and settlement was expected to take place in the following financial year.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

28 Related party transactions

During the year, the Company incurred rent of £480,000 (2011: £387,000) to Blue Properties, a partnership jointly owned by, R G Kidd, a former director.

The Company transacted with each of its subsidiaries and their subsidiaries and joint ventures during both the current and prior years. Details of those companies are outlined in Note 29 to these financial statements.

Amounts due from these companies were as follows:

	2012 £	2011 £
At 1 January	3,002,095	1,057,855
Net amounts (settled)/invoiced in the normal course of business	<u>(1,453,259)</u>	<u>1,944,240</u>
At 31 December	<u>1,548,836</u>	<u>3,002,095</u>

Amounts due to these companies were as follows:-

	2012 £	2011 £
At 1 January	(5,683,706)	(1,789,613)
Net amounts settled/(invoiced) in the normal course of business	<u>359,293</u>	<u>(3,894,093)</u>
	<u>(5,324,413)</u>	<u>(5,683,706)</u>

All transactions are considered to be effected at arms length.

29 Subsequent events

On 19 April 2013, the parent company, ITS Tubular Services (Holdings) Limited, was placed into Administration.

On 20 April 2013, certain assets of ITS Tubular Services (Holdings) Limited were transferred by the Administrator to International Tubular Services Limited for \$88.7 million.

On 22 April 2013, Parker Drilling Company, a company registered in Delaware, USA, acquired 100% of the issued share capital of International Tubular Services Limited and certain other subsidiaries from ITS Tubular Services (Holdings) Limited for a total sum of \$125 million, with \$24 million of that being placed in Escrow, contingent on a number of post-completion matters.

During quarter three of 2013 a decision was made to close the Kazakhstan branch. It is expected that closure will be complete by the end of 2014.

INTERNATIONAL TUBULAR SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR YEAR ENDED 31 DECEMBER 2012

30 Subsidiary undertakings

Details of investments in which the Company holds more than 20% of the nominal value of any class of share capital are as follows:

Company	Country of registration or incorporation	Shares held Class	%
International Tubulars Services – Egypt (ITS Egypt)	Egypt	Ordinary	66
International Tubulars FZE	United Arab Emirates	Ordinary	100
Shenzhen Weisheng ITS Petroleum Tubular Equipment Co Ltd	China	Ordinary	50

The principal activity of each of the companies is the rental, inspection, sale and repair and manufacture of oilfield equipment.

31 Control

On 22 April 2013 Parker Drilling Company became the ultimate parent company having acquired 100% of the issued share capital of International Tubular Services Limited. The Company's ultimate parent company is the smallest and the largest entity consolidating the results of this Company.

Prior to 22 April 2013 the parent company was ITS Tubular Services (Holdings) Limited, a company registered in Scotland, which owned the entire share capital of the Company. ITS Tubular Services (Holdings) Limited was controlled by, R G Kidd, a former director by virtue of his controlling interest in the share capital of that entity