



ITS TUBULAR SERVICES (HOLDINGS) LIMITED



Consolidated Financial Statements
Year ended 31 December 2008

SC246080

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The directors present their annual report on the affairs of the Group, together with the audited consolidated financial statements for the year ended 31 December 2008.

Principal activities and review of the business

The ITS Group provides a range of specialised products and services to the upstream oil and gas industry, primarily focused on drilling activities. Founded in 1986 in Aberdeen the Group has since grown significantly and now has 21 strategically located facilities in 15 countries and in excess of 1,000 employees, covering the key markets within the oil and gas industry. Our extensive customer base ranges from national oil companies as well as Independents and majors on the operator side to drilling contractors and oilfield service companies on the Services side.

The principal activities of the Group are the provision of drilling and pressure control equipment (both for rental and sale), the provision of casing running and fishing services, as well as machine shop manufacturing, inspection and refurbishment services. Our reputation for service excellence is built on commitment to quality of, and delivery on time of, complete and cost-effective solutions in a safe manner.

The strategy is simple: to continue providing customers with the highest quality of service and grow the Group through new geographies, products and services, which will provide employees with the platform to flourish.

Despite the downturn in the global economic climate in the last quarter of the year, the Group continued to deliver strong year-on-year growth in both revenues and net profit. The continued close adherence of a strict control policy over operating and capital expenditure led to the delivery of a satisfactory financial performance.

The Group manages its activities on a regional basis and during 2008, we were

satisfied with the performance across key locations under difficult trading conditions, with particularly strong performances from Pressure Control Systems, the Middle East, USA, Pakistan and Egypt. In 2008 new facilities also became fully operational in Kakinada (India) and Al Hamriya (UAE).

In May 2008 the Group acquired 100% of a Trinidad oilfield equipment rental and service business, Trinpet-ITS Limited. The deal provides a new geo-market to the Group and is also a platform into certain key South American markets, as well as providing access to a pool of experienced oilfield personnel that exists in one of the oldest oilfield markets.

The financial results for the Group are shown on page 8 of the consolidated financial statements. Turnover increased by 47% to \$143.6million, building on the 2007 and 2008 capital investment programme in equipment and facilities, supported by the continued focus on service quality and local expertise. During 2008, the Group invested an additional \$62.4million in capital expenditure across all service lines.

As a result of the increased revenues, the Group Earnings Before Interest Tax, Depreciation and Amortisation (EBITDA) for the year, pre non-recurring expenditure of \$1.3million as disclosed at Note 3 to the financial statements and other non-recurring operating costs of \$0.3million, has increased by 50% to \$47.2million. This was in-line with Board expectations under the challenging operating environment.

The subsidiary and joint ventures principally affecting the profits or net assets of the Group in the year are listed in Note 31 to the financial statements.

Despite the challenging economic environment, the board remains committed

to its capital investment programme and expansion strategy. Consequently, the Group has recently entered into two new joint ventures in Saudi Arabia and South East Asia (refer to Note 26 for significant events since the balance sheet date) and invested in new business opportunities in Mexico, Iraq and Kazakhstan, partially offsetting revenue pressure due to the continuing economic climate.

Going Concern

The Group has in place revolving bank facilities which were renewed and extended on 20 August 2009 and provide the Group with multicurrency revolving facilities, expiring in 2012.

The directors consider these facilities are sufficient to enable the Group to meet its day to day working capital requirements and to continue its growth and development.

The Group's forecasts and projections, taking account possible changes in trading performance, show that the Group should be able to operate within the terms and conditions of the agreed facilities. Consequently, having made appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

Quality, Health and Safety, Environment

The board continues with its commitment to ensuring the safety of staff, contractors and partners in all operations throughout the world. A programme of increased safety awareness has been initiated during the year. Similarly the board recognises the importance

of its environmental responsibilities, and ensures that in each region we monitor the Group's impact on the environment. Initiatives designed to minimise the group impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumptions. Further underpinning the Group dedication towards reducing its impact on the environment, the UK operations maintained ISO14001 and OHSAS18001 status in 2008.

Research and Development

During the year, \$1.6m (2007 – \$1.2m) was spent on the development and protection of the Group's own proprietary products.

The Group's extensive experience in the industry has proven that reliability is of critical importance to its customers. Customers are looking for products that are well designed and manufactured. As a result, the Group maintained its commitment to developing products that address the demands of the industry with noticeable success in the supply of drilling jars and whipstocks.

Principal risks and uncertainties

The Group operates in a highly competitive oil and gas services environment across a number of geographic markets. To successfully manage such activities, the board ensures that safety, quality and value-added services are at the heart of the activities of the Group and relationships with customers are maintained for the long term. The demand for the Group's services is influenced by oil and gas commodity prices, which impacts general activity levels within the industry.

The economic conditions and the reduction generally in available credit facilities have had a major impact on operator capital investment programmes resulting in cancellations or delays

in activity. In this challenging environment, the board is maintaining a healthy and well-managed balance sheet to ensure that the Group has adequate flexibility to grow and capitalise on opportunities in the medium term. The near-term outlook is more difficult to assess given the state of the credit markets and its impact on business in general. Activity in North America continues to be depressed and although international markets have seen a less pronounced fall, future activity levels are nonetheless difficult to predict.

Employees

Employment, development and retention of staff remain a key focus for the Group. Details of employee costs and numbers are shown on page 33 of the financial statements. Employee numbers in the Group rose by 40% year-on-year and the Group is committed to the ongoing training and development of staff at all levels.

The Group remains committed to ensuring employees remain informed and involved by means of our communication policy. Established practices for providing information to all employees via briefings and formal consultation procedures ensure our employees have a common awareness of the principal factors affecting the Group's performance.

Results and Dividends

The results for the year are set out on page 8.

The directors do not recommend the payment of a dividend (2007 – Nil).

Financial Risk Management Objectives and Policies

The Group's financial instruments consist primarily of bank loans, finance leases and overdrafts. The principal purposes of these are to finance the Group's operations and capital investment programme. In addition, various other financial instruments such as trade debtors and trade creditors arise directly from its operations.

The main financial risks, to which the Group has exposure, are credit risk, liquidity risk and cash-flow risk. The use of financial derivatives is approved by the board of directors to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

The Group'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 creditworthiness 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 credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

In respect of liquidity risk, the Group aims to maintain the balance between the continuity of ongoing operations and the funding of future developments through the use of a mixture of both short- and long-term funding, including bank loans, finance leases and overdrafts. Further details regarding the liquidity risk can be found in the Statement of accounting policies in the financial statements.

The Group has exposure to foreign currency risk, where activities in overseas locations are subject to foreign exchange movements. Such exposures are actively managed through the matching of major income and expenditure flows. The use of derivative instruments, such as currency swaps, is considered on a case-by-case basis.

Charitable donations

During the year the Group made charitable donations of \$39,000 (2007 – \$13,000). No political donations were made during the year (2007 – Nil).

Directors

The following directors have held office since 1 January 2008 and to the date of this report, except as otherwise shown:

R G Kidd
J N J Corray
F G Clarkson (Resigned 31 January 2009)
N Burlison (Appointed 1 February 2009)
S C Milne

On 1 February 2009, N Burlison was appointed company secretary, following the resignation of F G Clarkson.

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditors

On 24 February 2009, Hall Morrice resigned as auditors.

Deloitte LLP were appointed auditors to the company on 6 May 2009 and in accordance with s385 of the Companies Act 1985, a resolution proposing that they be reappointed as auditors of the company will be put to the annual general meeting.

As required by Section 234ZA of the Companies Act 1985, each of the directors has approved this report and confirmed that, so far as he is aware, there is no relevant audit information (being information needed by the auditors in connection with preparing their audit report) 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

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 directors have elected to prepare the financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have also responsibility for taking such steps to safeguard the assets of the Group and taking reasonable steps to prevent and detect fraud and other irregularities.

Approved by the board and signed on its behalf by:



J N J Corray
Chief executive officer
20 August 2009

Independent auditor's report

Independent auditor's report

to the members of ITS Tubular Services (Holdings) Limited

We have audited the Group and parent company financial statements (the "financial statements") of ITS Tubular Services (Holdings) Limited for the year ended 31 December 2008 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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 read the other information contained in the annual report as described in the contents section, and consider whether it is consistent with the audited financial statements. This other

information comprises only the Directors' report. 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 further information outside the annual report.

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. 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 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2008 and of the Group's profit for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' report is consistent with the financial statements



Deloitte LLP
Chartered Accountants & Registered Auditors Aberdeen, UK
20 August 2009

Consolidated profit and loss account and Statement of consolidated total recognised gains and losses

Consolidated profit and loss account

for the year ended 31 December 2008

	Note	(as restated – note 1)	
		2008 \$'000	2007 \$'000
Turnover – Existing operations		144,517	101,600
– Acquisitions		4,107	–
Less share of joint-venture turnover		(5,001)	(4,129)
Group Turnover	2	143,623	97,471
Cost of sales		(82,161)	(54,466)
Gross profit		61,462	43,005
Administrative expenses		(33,354)	(23,474)
Group operating profit			
Existing operations		27,058	19,531
Acquisitions		1,050	–
Share of operating profit in joint venture		1,061	437
Total operating profit: Group and share of joint venture	3	29,169	19,968
Profit on sale of fixed assets		295	226
Profit on ordinary activities before interest and taxation		29,464	20,194
Interest receivable and similar income	4	78	202
Interest payable and similar charges	5	(7,865)	(5,684)
Profit on ordinary activities before taxation		21,677	14,712
Tax on profit on ordinary activities	6	(4,405)	(2,481)
Profit on ordinary activities after taxation		17,272	12,231
Minority interests	21	(980)	(511)
Profit for the financial year	20	16,292	11,720

All profits are derived from continuing operations.

The Company has taken advantage of the s230 Companies Act 1985 exemption not to present its own profit and loss account.

The loss for the year of the parent company amounted to \$5,964,000 (2007 – \$4,229,000).

Statement of consolidated total recognised gains and losses

for the year ended 31 December 2008

	Note	2008 \$'000	2007 \$'000
Profit for the financial year			
Group		15,427	11,350
Joint venture		865	370
		16,292	11,720
Exchange differences on translation of foreign operations	19	(6,939)	263
Total recognised gains for the year		9,353	11,983
Group		8,488	11,613
Joint venture		865	370
		9,353	11,983

Balance sheets

Balance sheets

as at 31 December 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Fixed assets					
Intangible assets	7	10,690	4,175	2,795	1,337
Tangible assets	8	130,002	86,140	32,793	13,266
Investments	9	–	–	25,092	17,997
Investments in joint venture:	9				
Share of gross assets		2,916	2,091	–	–
Share of gross liabilities		(811)	(841)	–	–
		2,105	1,250	–	–
		142,797	91,565	60,680	32,600
Current assets					
Stock	10	17,714	12,296	10,837	7,098
Debtors	11	61,345	37,117	77,827	52,735
Cash at bank and in hand		15,219	12,911	1,488	1,752
		94,278	62,324	90,152	61,585
Creditors: amounts falling due within one year	12	(53,803)	(42,470)	(20,837)	(19,037)
Net current assets		40,475	19,854	69,315	42,548
Total assets less current liabilities		183,272	111,419	129,995	75,148
Creditors: amounts falling due after more than one year	13	(137,626)	(76,622)	(135,654)	(74,593)
Provisions for liabilities	15	(2,046)	(1,684)	–	–
Net assets/(liabilities)		43,600	33,113	(5,659)	555
Capital and reserves					
Capital and reserves					
Called-up share capital	16	2	2	2	2
Share premium account	17	2,468	2,468	2,468	2,468
Merger reserve	18	1,306	1,306	11,700	11,700
Currency transaction reserve	19	(7,308)	(369)	–	–
Profit and loss account	20	44,155	27,863	(19,829)	(13,615)
Shareholder's funds/(deficit)	22	40,623	31,270	(5,659)	555
Minority interests	21	2,977	1,843	–	–
Total capital employed/(deficit)		43,600	33,113	(5,659)	555

The financial statements were authorised for issue and approved by the board of directors on 19 August 2009.


J N J Corray
 Chief executive officer


N Burlison
 Group finance director

Consolidated Cash flow statement

Consolidated cash flow statement

for the year ended 31 December 2008

	Note	2008 \$'000	2007 \$'000
Net cash inflow from operating activities	(i)	22,122	22,542
Return on investment and servicing of finance			
Bank interest received		78	202
Bank loans and overdraft interest paid		(7,278)	(5,454)
Other interest paid		(81)	(64)
Dividends paid to minority interests		(131)	–
Finance charges under hire purchase contracts paid		(506)	(166)
		(7,918)	(5,482)
Net cash inflow from returns on investment and servicing of finance		14,204	17,060
Taxation			
UK tax paid		(9)	(1)
Foreign tax paid		(5,341)	(2,530)
		(5,350)	(2,531)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(64,422)	(34,289)
Payments to acquire intangible fixed assets		(1,678)	(1,841)
Receipts from sale of tangible fixed assets		4,267	1,501
Net cash outflow from capital expenditure		(61,833)	(34,629)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(6,243)	–
Net cash acquired with subsidiary undertaking		60	–
		(6,183)	–
Net cash outflow before financing		(59,162)	(20,100)
Financing	(ii)		
Funds drawn from long-term facilities		68,470	31,658
Repayment of long-term loans		(5,275)	(6,501)
Minority shares issued in subsidiary		401	–
Repayment of capital element on hire purchase contracts		(481)	(1,770)
Net cash inflow from financing		63,115	23,387
Increase in cash in year	(iii)	3,953	3,287

Notes to the consolidated cash flow statement

for the year ended 31 December 2008

	2008 \$'000	2007 \$'000
(i) Reconciliation of operating profit to net cash inflow		
Operating profit	28,108	19,531
Adjustment for exchange (gain)/loss in net debt included in operating profit	(3,802)	220
Other foreign exchange adjustment	(1,398)	(105)
Depreciation	15,510	11,109
Amortisation of intangible assets	944	393
Increase in stocks	(5,680)	(4,590)
Increase in debtors	(23,372)	(6,121)
Increase in creditors	11,812	2,105
	22,122	22,542

(ii) Reconciliation of net cash flow to movement in net debt

Increase in cash in period	(3,953)	(3,287)
Funds drawn from long-term facilities	68,470	31,658
Repayment of long-term loans	(5,275)	(6,501)
Repayment of capital element on hire purchase contracts	(481)	(1,770)
Increase in net debt resulting from cash flows	58,761	20,100
Foreign exchange differences	(3,802)	220
Loans and hire purchase contracts acquired with subsidiary	178	–
New hire purchase contracts	1,497	2,486
Increase in net debt in year	56,634	22,806
Net debt at 1 January	78,806	56,000
Net debt at 31 December	135,440	78,806

	At 1 January 2008 \$'000	Cash flows \$'000	Acquisitions (excl cash and overdraft) \$'000	Exchange rate movements \$'000	Other changes \$'000	At 31 December 2008 \$'000
(iii) Analysis of changes in net debt						
Cash at bank and in hand	12,736	3,560	–	(1,282)	–	15,014
Cash on short-term deposit	175	60	–	(30)	–	205
Bank overdraft	(10,189)	649	–	2,358	–	(7,182)
Net debt (due within one year)	(3,402)	(316)	–	88	(1,322)	(4,952)
	(680)	3,953	–	1,134	(1,322)	3,085
Net debt (due after one year)	(74,757)	(63,195)	(178)	2,292	1,322	(134,516)
Obligations under hire purchase contracts	(3,369)	481	–	376	(1,497)	(4,009)
	(78,126)	(62,714)	(178)	2,668	(175)	(138,525)
	(78,806)	(58,761)	(178)	3,802	(1,497)	(135,440)

1. Accounting policies

Notes to the consolidated financial statements for the year ended 31 December 2008

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year, with the exception of the classification of certain payroll and depreciation costs and the treatment of exchange movements on debt included in the net investment in subsidiaries as explained in note 1.3 below.

1.2 Going concern

The Group'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 Group has adequate resources to continue to operate for the foreseeable future. Accordingly, they continue to prepare the financial statements under the going concern basis.

1.3 Change in accounting policy

During the year, the Group amended the presentation of certain payroll and depreciation costs to include them within cost of sales. Payroll costs associated with the cost of manufacturing and maintenance of rental assets and depreciation of plant and oilfield equipment have been included in cost of sales, rather than as administrative expenses as the Group considers this a more appropriate classification.

Due to this change, administrative expenses have reduced by \$29,132,000 (2007 – \$18,001,000), with a corresponding increase in cost of sales. The change has no impact on the reported results for the year ended 31 December 2007 or on net assets at that date.

During the year, the Group changed its accounting policy on recognition of exchange movements on monetary receivables from or payables to foreign operations. Long-term receivables from and payables to foreign operations, the settlement of which is neither planned nor likely to occur in the foreseeable future are considered as part of net investment of the holding company in foreign operations and exchange gains or losses on such monetary items are now recognised in the statement of recognised gains and losses as compared to prior years, whereby this was recognised in the profit and loss account.

Due to the change, exchange losses of \$832,000 (2007 – \$Nil) have been recognised in the statement of recognised gains and losses. The Group considers this is a more appropriate treatment. The change has no impact on the reported results for the year ended 31 December 2007 or on net assets at that date.

1.4 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

(i) Subsidiaries:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the effective date control is transferred to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any excess of the fair values of the identifiable net assets over the cost of acquisition is recognised directly in the statement of recognised gains and losses.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

(ii) Joint Ventures:

Joint ventures are those entities in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more venturers under a contractual arrangement.

In the Group financial statements investments in joint ventures are accounted for using the gross equity method. The consolidated profit and loss account includes the Group's share of joint ventures' profits less losses while the Group's share of the net assets of the joint ventures is shown in the consolidated balance sheet. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy set out in note 1.6. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

1.5 Foreign currency translation

- (i) Functional and presentation currency:
The functional currency of ITS Tubular Services (Holdings) Limited (the Company) is US dollar as the majority of transactions are US dollar denominated.
- (ii) Transactions and balances:
Transactions denominated in foreign currencies are translated and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Gains and losses arising on re-translation are recognised in the profit and loss account, and are included within administrative expenses.
- (iii) Group companies:
On consolidation, the assets and liabilities of the Group's non-US dollar functional entities and branches are translated at exchange rates prevailing on the balance sheet date and income and expense items are translated at average annual exchange rates. All resulting exchange differences are recognised as a separate component of equity within reserves and reported in the statement of total recognised gains and losses.

Further, exchange differences on long-term inter company receivables and payables are recognised in the statement of total recognised gains and losses, as explained in note 1.3 above.

1.6 Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses (representing the excess of fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired) is recognised as an asset and is amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. Provision is made for any impairment when identified.

1.7 Intangible assets – patents, trademarks and licences

Intangible assets are recognised at cost less accumulated amortisation. Amortisation is provided to write off the cost of each asset over their estimated useful lives of five years, using the straight-line method. Provision is made for any impairment when identified.

1.8 Research and development expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is written off as incurred, in accordance with SSAP 13.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Capitalised expenditure is amortised over its useful economic life, up to a maximum of 10 years from the entry-into-service of the product. Provision is made for any impairment when identified.

1.9 Tangible fixed assets and depreciation

Tangible fixed assets held for use in the Group's operations, or for administrative purposes, are stated in the balance sheet at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset over the estimated useful lives, using the straight-line method on the following basis:

Buildings and short leasehold	5-10 years
Office equipment	5-10 years
Plant and oilfield equipment	5-10 years
Motor vehicles	4 years

Assets in the course of construction for production, rental or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct expenditure and an appropriate proportion of direct overheads. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

1.10 Investments

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

1.11 Stock

Stock of raw materials, consumables, work in progress and goods for resale are valued at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of direct overheads.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

1.12 Leasing and hire purchase contracts

Assets obtained under hire purchase contracts are capitalised as tangible assets and depreciated over their useful lives. The capital element of future hire purchase obligations is included in creditors whilst the finance charge is allocated to future periods. The finance element of the rental payment is charged to the profit and loss account to provide a constant rate of charge on the balance of capital repayments outstanding.

Amount receivable from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the leases. The net investment is the total amount outstanding under the primary period of the lease agreements less unearned income. The total gross earnings under finance leases is allocated to future accounting periods over the lease terms to give a constant periodic rate of return to the lessor on the net cash investment in the lease. This is included within turnover.

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

1.13 Pensions

The Group operates a number of defined contribution schemes. The pension costs charged in the financial statements represent the contributions payable by the Group during the period in accordance with FRS 17. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.14 Taxation

The tax charge represents the sum of tax currently payable and deferred tax (including UK corporation tax and foreign tax). Tax currently payable is based on the taxable profit for the year. Taxable profit differs from the profit reported in the profit and loss account due to items that are not taxable or deductible in any period and also due to items that are taxable or deductible in a different period. The Group's liability for current tax is estimated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided, using the full liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and, in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been

enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not, that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.15 Revenue recognition

Revenue represents amounts receivable for goods or services provided in the normal course of business, net of trade discounts, value added tax and other sales-related taxes.

1.16 Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

1.17 Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1.18 Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are not fair valued at the balance sheet date and the resultant gains and losses are recognised in the profit and loss account on settlement.

2. Group segmental reporting – turnover by destination

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

	Group	
	2008 \$'000	2007 \$'000
United Kingdom and Europe	20,271	20,777
Africa	13,981	8,288
North and South America	34,935	12,435
Middle East	33,512	20,496
Far East and Asia Pacific	40,924	35,475
	143,623	97,471

The Group manages its operations under the following key business segments:

	Group	
	2008 \$'000	2007 \$'000
Drilling and pressure control, rental, sale and services	113,237	81,349
Machine-shop manufacturing, inspection and refurbishment services	30,386	16,122
	143,623	97,471

3. Operating profit

Operating profit is stated after charging/(crediting):

	Group	
	2008 \$'000	2007 \$'000
Depreciation of owned assets	14,944	10,693
Depreciation of assets held under hire purchase contracts	566	416
Total depreciation charge	15,510	11,109
Amortisation of goodwill	763	393
Amortisation of intangibles	181	–
Gain on exchange	(3,485)	(185)
Operating lease rentals – plant and machinery	729	1,479
– others	1,850	671
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	58	35
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries	172	162
Non audit services – taxation services	–	35

Operating profit is stated after \$1,315,000 non-recurring professional costs relating to financing arrangements.

4. Interest receivable and similar income

	Group	
	2008 \$'000	2007 \$'000
Bank interest	58	140
Other interest	20	62
	78	202

5. Interest payable and similar charges

	Group	
	2008 \$'000	2007 \$'000
Bank loans and overdraft interest	7,278	5,454
Other interest	81	64
Finance charges under hire purchase contracts	506	166
	7,865	5,684

Taxation

6. Taxation

	Group	
	2008 \$'000	2007 \$'000
Current tax:		
United Kingdom corporation tax	383	412
Double taxation relief	(335)	(206)
	48	206
Foreign tax	4,947	2,763
Adjustment in respect of prior period tax charge	–	2
Share of joint venture	196	67
Total current tax	5,191	3,038
Deferred taxation		
Origination and reversal of timing differences:		
– United Kingdom	(2,395)	(20)
– Foreign tax	1,609	(537)
Total deferred tax	(786)	(557)
Tax on profits on ordinary activities	4,405	2,481

The Group has activities in overseas tax jurisdictions where tax rates vary from the United Kingdom.

The effective rate of taxation for the Group fluctuates, depending on a number of factors including rates of taxation in non-UK tax jurisdictions and the availability of double taxation relief for withholding tax.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

Profit on ordinary activities before tax	21,677	14,712
Profit on ordinary activities multiplied by the average UK standard rate of corporation tax of 28.5% (2007 – 30%)	6,178	4,414
Effects of:		
Losses carried forward	–	(204)
Adjustment in respect of foreign tax rates	(1,976)	(1,218)
Expenses not deductible for tax purposes (net)	781	1,321
Capital allowances less than/(in excess of) depreciation	208	(1,275)
Total current tax	5,191	3,038

Intangible fixed assets

7. Intangible fixed assets

	Group				
	Patents and trademarks \$'000	Development costs \$'000	Licences \$'000	Goodwill \$'000	Total \$'000
Cost					
At 1 January 2008	249	682	406	4,768	6,105
Additions	45	1,093	540	6,193	7,871
Disposals	–	–	–	(17)	(17)
Exchange adjustments	–	–	(11)	(877)	(888)
At 31 December 2008	294	1,775	935	10,067	13,071
Accumulated amortisation					
At 1 January 2008	–	–	–	1,930	1,930
Charge for year	–	–	181	763	944
Disposals	–	–	–	(17)	(17)
Exchange adjustments	–	–	–	(476)	(476)
At 31 December 2008	–	–	181	2,200	2,381
Net book value at 31 December 2008	294	1,775	754	7,867	10,690
Net book value at 31 December 2007	249	682	406	2,838	4,175

Goodwill in the current year includes \$1.3million in relation to start-up costs for ITS Arabia Limited.

	Company			
	Patents and trademarks \$'000	Development costs \$'000	Licences \$'000	Total \$'000
Cost				
At 1 January 2008	249	682	406	1,337
Additions	45	1,093	501	1,639
At 31 December 2008	294	1,775	907	2,976
Accumulated amortisation				
At 1 January 2008	–	–	–	–
Charge for year	–	–	181	181
At 31 December 2008	–	–	181	181
Net book value at 31 December 2008	294	1,775	726	2,795
Net book value at 31 December 2007	249	682	406	1,337

Tangible fixed assets

8. Tangible fixed assets

	Group				
	Buildings and short leasehold	Plant and oilfield equipment	Motor vehicles	Office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
At 1 January 2008	4,555	112,853	939	2,139	120,486
Additions	1,219	62,369	825	1,506	65,919
Acquisition of subsidiary undertaking	39	1,479	156	57	1,731
Disposals	(820)	(6,532)	(108)	(21)	(7,481)
Exchange adjustments	(290)	(9,525)	(81)	(259)	(10,155)
At 31 December 2008	4,703	160,644	1,731	3,422	170,500
Accumulated depreciation					
At 1 January 2008	1,191	31,728	393	1,034	34,346
Charge for year	328	14,440	258	484	15,510
Disposals	(31)	(3,389)	(67)	(22)	(3,509)
Exchange adjustments	(141)	(5,458)	(42)	(208)	(5,849)
At 31 December 2008	1,347	37,321	542	1,288	40,498
Net book value at 31 December 2008	3,356	123,323	1,189	2,134	130,002
Net book value at 31 December 2007	3,364	81,125	546	1,105	86,140

Assets held under hire purchase contracts, capitalised and included in tangible fixed assets:

	2008	2007
	\$'000	\$'000
Cost	5,700	4,632
Accumulated depreciation	(807)	(554)
Net book amount	4,893	4,078

	Company
	Plant and oilfield equipment
	\$'000
Cost	
At 1 January 2008	14,869
Additions	23,699
Disposals	(1,622)
At 31 December 2008	36,946
Accumulated depreciation	
At 1 January 2008	1,603
Charge for year	2,906
Disposals	(356)
At 31 December 2008	4,153
Net book value at 31 December 2008	32,793
Net book value at 31 December 2007	13,266

Investment in subsidiaries and joint ventures

9. Investment in subsidiaries and joint ventures

	Group		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Shares in Group undertakings				
At 1 January	-	-	17,997	17,560
Additions in year	-	-	7,113	437
Amounts written off investments	-	-	(18)	-
At 31 December	-	-	25,092	17,997
Interests in joint ventures (share of net assets)				
At 1 January	1,250	808	-	-
Exchange adjustments	(10)	72	-	-
Share of profit for the year	865	370	-	-
At 31 December	2,105	1,250	-	-
Total fixed asset investments	2,105	1,250	25,092	17,997

Investment in group undertakings are stated at cost. A list of subsidiary undertakings and joint ventures, along with their country of incorporation or registration, principal activities and proportion of shareholding is shown in Note 31 to the financial statements.

The Company has a 50% interest in Shenhzen Weisheng ITS Tubular Equipment Company Limited. Additional information relating to Group's share of the joint venture as required under Financial Reporting Standard 9, 'Associates and Joint Ventures', is given below:

	Group	
	2008	2007
	\$'000	\$'000
Fixed assets	979	883
Current assets	1,937	1,208
Share of gross assets	2,916	2,091
Liabilities due within one year	811	841
Share of gross liabilities	811	841
Share of net assets	2,105	1,250
Share of turnover	5,001	4,129
Profit before tax	1,061	437
Taxation	(196)	(67)
Profit after tax	865	370

On 6 May 2008, the Company acquired the remaining 10% of the issued share capital of Servicios ITS Latinamericana S.A. for a total consideration of \$1,000,000 including \$700,000 for deferred consideration. This resulted in goodwill on acquisition of \$867,000, representing the excess of total consideration over the fair value of assets acquired.

Investment in subsidiaries and joint ventures (continued)

9. Investment in subsidiaries and joint ventures (continued)

On 2 May 2008, the Company acquired 100% of the issued share capital of Trinpet-ITS Limited for a cash consideration \$5,629,000. The following table sets out the book values of the identifiable assets and liabilities acquired and their estimated fair value to the Group:

	Book value and fair value to Group \$'000
Fixed assets	
Tangible	1,731
Current assets	
Stocks	243
Debtors	1,780
Cash	583
Total assets	4,337
Creditors	
Bank loans and overdraft	701
Trade creditors	1,091
Accruals	293
Taxation	605
Deferred taxation	46
Total liabilities	2,736
Net assets	1,601
Goodwill	4,028
	5,629
Satisfied by	
Cash	4,500
Deferred consideration	1,000
Other acquisition costs	129
	5,629

Trinpet-ITS Limited earned a profit after taxation of \$827,000 in the year ended 31 December 2007. The results for the period from 1 January 2008 to 2 May 2008 are summarised as follows:

Profit and loss account	\$'000
Turnover	2,737
Cost of sales	(964)
Gross profit	1,773
Other operating expenses (net)	(1,198)
Operating profit	575
Finance charges (net)	(54)
Profit on ordinary activities before taxation	521
Tax on profit on ordinary activities	(166)
Profit for the financial period	355

During the year the Group also made investments in ITS Energy Services (Cyprus) Limited and ITS Energy Services (Peru) S.A.

Stock and Debtors

10. Stock

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Stock and work in progress				
Raw materials and consumables	6,858	3,693	2,682	1,765
Work in progress	184	569	-	-
Stock in transit	7,021	5,231	6,710	5,231
Finished products for resale	3,651	2,803	1,445	102
	17,714	12,296	10,837	7,098

11. Debtors

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Amounts falling due within one year				
Trade debtors	42,167	25,859	-	-
Amounts owed by group undertakings	-	-	37,083	25,421
Amounts owed by joint ventures	49	46	-	-
Finance lease receivables	-	-	8,410	5,313
Prepayments and accrued income	4,872	5,190	2,419	-
Deferred tax asset	2,250	760	1,450	-
Deposits and advances	8,280	2,719	3,708	889
Other debtors	3,727	2,543	-	502
Amounts falling due within one year	61,345	37,117	53,070	32,125
Amounts falling due after one year				
Finance lease receivables	-	-	24,757	20,610
	61,345	37,117	77,827	52,735

Net investment in finance leases comprises:

Total amounts receivable	38,731	31,820
Less: interest allocated to future periods	(5,564)	(5,897)
	33,167	25,923

Rentals receivable by the Company during the year under finance leases amounted to \$14,063,000 (2007 – \$6,324,000).

The cost of assets acquired during the year for onward finance leasing was \$18,585,000 (2007 – \$10,253,000).

	Group	Company
	\$'000	\$'000
Deferred taxation		
At 1 January 2008	760	-
Transferred to profit and loss account	1,490	1,450
At 31 December 2008	2,250	1,450

Creditors

12. Creditors

Amounts falling due within one year

	Note	Group		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Amounts falling due within one year					
Bank loans and overdraft	14	12,134	13,591	11,648	13,591
Obligations under hire purchase contracts	14	2,354	1,504	–	–
Trade creditors		24,392	12,649	7,506	3,616
Amounts owed to Group undertakings		–	–	–	690
Corporation tax		1,023	778	–	–
Other tax and social security		1,312	1,432	215	166
Other creditors		3,495	5,942	1,033	–
Accruals and deferred income		9,093	6,574	435	974
		53,803	42,470	20,837	19,037

Under the terms of acquisition, deferred consideration of \$1,000,000 is payable in relation to Trinpet-ITS Limited acquisition in two instalments in May 2009 and May 2010. Further, \$700,000 is payable in three instalments in January 2010, January 2011 and January 2012 for acquisition of 10% minority interest in ITS Venezuela. \$1,200,000 is included within non-current liabilities.

13. Creditors

Amounts falling due after more than one year

	Note	Group		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Amounts falling due after more than one year					
Bank loans	14	134,516	74,757	134,454	74,593
Other creditors		1,455	–	1,200	–
Obligations under hire purchase contracts	14	1,655	1,865	–	–
		137,626	76,622	135,654	74,593

Bank loans are stated net of debt issue costs of \$837,000 (2007 – Nil).

Bank and other borrowings

14. Bank and other borrowings

	Group		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Due within one year or on demand				
Secured bank loans and overdraft	12,134	13,591	11,648	13,591
Obligations under hire purchase contracts	2,354	1,504	–	–
	14,488	15,095	11,648	13,591
Due after more than one year				
Secured bank loans and overdraft	134,516	74,757	134,454	74,593
Obligations under hire purchase contracts	1,655	1,865	–	–
	136,171	76,622	134,454	74,593

The bank loans and overdraft are secured by a bond and floating charge over certain assets of the Group. In addition, the bank holds a cross guarantee over all sums, incorporating rights of offset between certain group companies.

Bank loans and overdrafts are denominated in GBP and USD, and bear interest at a margin based on LIBOR or foreign equivalents. Interest is charged at rates between 1.75% and 3.0% above LIBOR.

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

	Group		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Pound sterling	12,618	19,028	12,618	19,028
Euros	271	–	–	–
US dollar and currencies pegged to US dollar	133,761	69,320	133,484	69,156
	146,650	88,348	146,102	88,184

Bank and other borrowings (continued)

14. Bank and other borrowings (continued)

	Group					
	Bank loans \$'000	Other \$'000	2008 total \$'000	Bank loans \$'000	Other \$'000	2007 total \$'000
Maturity of non-current bank and other borrowings:						
In more than one year but not more than two years	5,329	1,185	6,514	5,692	1,254	6,946
In more than two years but not more than five years	129,187	470	129,657	69,065	611	69,676
	134,516	1,655	136,171	74,757	1,865	76,622
	Company					
In more than one year but not more than two years	5,329	–	5,329	5,528	–	5,528
In more than two years but not more than five years	129,125	–	129,125	69,065	–	69,065
	134,454	–	134,454	74,593	–	74,593

Provisions for liabilities

15. Provisions for liabilities

Provisions for liabilities:

	Group \$'000	Company \$'000
Deferred taxation		
At 1 January 2008	1,684	–
Exchange differences	(388)	–
Acquisition of subsidiary undertaking	46	–
Transferred to profit and loss account	704	–
At 31 December 2008	2,046	–

The provision for deferred tax comprises:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Accelerated capital allowances	2,260	1,837	16	94
Other timing differences	(214)	(153)	(16)	(94)
	2,046	1,684	–	–

Factors that may affect future tax charges

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

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

Share capital, Share premium and Merger reserve

16. Share capital

	Group and Company	
	2008 \$'000	2007 \$'000
Authorised 2,000,000 (2007– 2,000,000) Ordinary shares of £1 each	3,918	3,918
Allotted, called-up and fully paid 772 (2007– 772) Ordinary shares of £1 each	2	2

17. Share premium

	Group and Company	
	2008 \$'000	2007 \$'000
As at 1 January and 31 December	2,468	2,468

18. Merger reserve

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At 1 January and at 31 December	1,306	1,306	11,700	11,700

Currency translation reserve and Profit and loss account

19. Currency translation reserve

	Group	
	2008 \$'000	2007 \$'000
Currency translation reserve		
At 1 January	(369)	(632)
Currency translation difference on foreign currency net investments	(6,106)	263
Currency translation difference on related borrowings	(833)	–
At 31 December	(7,308)	(369)

20. Profit and loss account

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At 1 January	27,863	15,868	(13,615)	(9,386)
Net exchange adjustments	–	275	–	–
Profit/(loss) for the financial year	16,292	11,720	(6,214)	(4,229)
At 31 December	44,155	27,863	(19,829)	(13,615)

21. Minority interest

	Group	
	2008 \$'000	2007 \$'000
At 1 January	1,843	1,389
Share of profit after tax	980	511
Dividends paid	(131)	–
Investment in shares of subsidiary	401	–
Acquisition of minority interest in subsidiary undertaking	(133)	(79)
Exchange adjustments	17	22
At 31 December	2,977	1,843

22. Reconciliation of movements in Group shareholder's funds

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Currency translation reserve \$'000	Profit and loss \$'000	Total \$'000
Group						
At 1 January 2007	2	2,468	1,306	(632)	15,868	19,012
Foreign currency translation	–	–	–	263	275	538
Profit for the year	–	–	–	–	11,720	11,720
At 31 December 2007	2	2,468	1,306	(369)	27,863	31,270
At 1 January 2008	2	2,468	1,306	(369)	27,863	31,270
Foreign currency translation	–	–	–	(6,939)	–	(6,939)
Profit for the year	–	–	–	–	16,292	16,292
At 31 December 2008	2	2,468	1,306	(7,308)	44,155	40,623

23. Directors and employees

Employee costs (including directors) for the year were as follows:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Wages and salaries	29,948	17,814	3,298	1,482
Social Security costs	960	752	317	161
Pension costs	309	194	90	33
	31,217	18,760	3,705	1,676

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

	No.	No.	No.	No.
Direct and factory staff	738	499	–	–
Administration staff	183	159	2	–
Management	49	33	9	5
	970	691	11	5

Directors' emoluments comprise the following:

	\$'000	\$'000
Emoluments	3,359	1,482
Money purchase pension contributions	72	33
	3,431	1,515

Emoluments of the highest-paid director

	\$'000	\$'000
Emoluments	1,301	787
Money purchase pension contributions	3	3
	1,304	790

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 4 (2007 – 4).

24. Pension costs

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group, in independently administered funds. The pension cost charge represents contributions payable by the Group to each fund and amounted to \$309,000 (2007 – \$194,000). Contributions totalling \$63,000 (2007 – \$19,000) were payable to the funds at the year end and are included in creditors.

Contingent liabilities, Subsequent events and Capital commitments

25. Contingent liabilities

The Group and Company provided performance bonds and guarantees in the normal course of its business as follows:

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Performance bonds and guarantees	7,118	2,461	4,129	2,325

The bank loans and overdraft are secured by a bond and floating charge over certain assets of the Group. In addition, the bank holds a cross guarantee over all sums, incorporating rights of offset between certain group companies. The contingent liability to the company at 31 December 2008 under these arrangements is \$ Nil (2007 – \$ Nil).

26. Subsequent events

In May 2009, the Group announced the formation of a new company, ITS Scomi Pte Ltd ("ITS Scomi"), following a joint-venture agreement with Malaysian-based Scomi Group Bhd, a global service provider in the oil and gas services industry with significant operations in the Asia Pacific region. ITS Scomi, based in Singapore will provide a wide range of oilfield equipment and associated services to oil and gas companies in the region. The Group has been operating in Singapore for the past three years and this partnership will assist acceleration of expansion in the region.

Also, in May, the Group announced the formation of ITS Arabia Limited, following a joint-venture agreement with Shoaibi Group, a leading Saudi company serving the oil and gas industry. ITS Arabia Limited, based in Al Khobar, Saudi Arabia, will provide a wide range of drilling equipment and associated services to regional oil and gas organisations. The Group has been operating in Saudi Arabia since 2006 and this development will assist the acceleration of expansion in the kingdom. Plans are already under way to establish a machine-shop facility for manufacturing, repair and inspection activity, which will support further investment in equipment and personnel over the next two years.

27. Capital commitments

	Group		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Contracts placed for future capital investment, not provided for in the financial statements	14,676	11,414	13,194	8,771

Operating lease commitments, Related-party transactions and Derivatives not included at fair value

28. Operating lease commitments

At 31 December 2008, the Group had lease agreements which extend over a number of years.

	Property		Other	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Annual commitments under non-cancellable operating leases expiring:				
Within one year	1,447	917	163	43
Within two to five years	1,856	2,498	167	265
After five years	1,433	899	–	81
	4,736	4,314	330	389

The Company had no operating lease commitments (2007 – Nil).

29. Related-party transactions

The following balances relate to transactions carried out with group undertakings:

	Group	
	2008 \$'000	2007 \$'000
Group		
Receivable from joint venture	49	46

There were no significant transactions with the joint venture in the current or prior years.

During the year, the Group incurred rent of £300,000 (2007 – £45,000) to Blue Properties, a partnership jointly owned by the director, R G Kidd.

30. Derivatives not included at fair value

The Group has derivatives which are not included at fair value in the accounts:

	Principal		Fair value	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Interest rate cap contracts	30,000		10	–
Interest rate swap contracts	60,000		(2,422)	–
	90,000		(2,412)	–

The Group uses the derivatives to hedge its exposures to changes in foreign currency exchange rates and to manage its exposure to interest rate movements on its bank borrowings. The fair values are based on market values of equivalent instruments at the balance sheet date.

The interest rate cap contracts with nominal values of \$30million have a cap rate of 3.5% for periods up until 2010.

Subsidiary undertakings and Control

31. Subsidiary undertakings

ITS Tubular Services (Holdings) Limited is a private company, registered and domiciled in Scotland.

Details of investments in which the Group and the Company hold 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 Tubular Services Limited ***	Scotland	Ordinary	100
ITS Leasing Limited ***	Scotland	Ordinary	100
International Tubular Services (Pakistan) Limited ***	Scotland	Ordinary	100
ITS India Private Limited ***	India	Ordinary	100
International Tubular Services (Baku) Limited	Scotland	Ordinary	100
International Tubular Services – Egypt (ITS Egypt)	Egypt	Ordinary	66
International Tubulars FZE	United Arab Emirates	Ordinary	100
International Tubulars (M.E.) W.L.L.	United Arab Emirates	Ordinary	49
International Tubular Services Asia-Pacific Ltd. ***	Singapore	Ordinary	100
ITS-Energy Services Cyprus Limited ***	Cyprus	Ordinary	100
ITS Energy Services Peru S.A. ***	Peru	Ordinary	100
International Tubular Services Cayman * ***	Cayman Islands	Ordinary	100
ITS Holdings Inc *	USA	Ordinary	100
ITS Rental & Sales Inc	USA	Ordinary	100
ITS Threading & Manufacturing Inc	USA	Ordinary	100
Servicios ITS Latinamericana S.A.	Venezuela	Ordinary	90
International Tubular Services De Mexico S De RI DeCV	Mexico	Ordinary	100
Shenzhen Weisheng ITS Tubular Equipment Co. Ltd	China	Ordinary	50
Trinpet-ITS Limited ***	Trinidad	Ordinary	100
International Tubular Services Kish (PJSCO)	Iran	Ordinary	100
ITS Oilfield Supply Ltd ***	Scotland	Ordinary	100
ITS Global Services Ltd ** ***	Scotland	Ordinary	100

The principal activity of all group companies is the rental, inspection, sale and repair and manufacture of oilfield equipment, with the exception of those marked * which are holding companies and ** which is dormant.

Companies under direct control of the holding company are marked ***.

32. Control

The Company was controlled in the current and previous period, by one of its directors, R G Kidd.

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