# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 8-K/A

**(Amendment No. 1)**

**CURRENT REPORT**
**PURSUANT TO SECTION 13 OR 15(d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**

**Date of Report (Date of earliest event reported): April 22, 2013**

**COMMISSION FILE NUMBER 1-7573**

# PARKER DRILLING COMPANY
**(Exact name of registrant as specified in its charter)**

| **Delaware** | **73-0618660** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **5 Greenway Plaza, Suite 100, Houston, Texas** | **77046** |
| **(Address of principal executive offices)** | **(Zip code)** |

**Registrant's telephone number, including area code:**
**(281) 406-2000**

**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e 4(c))

On April 23, 2013, Parker Drilling Company (“Parker Drilling”) filed a Current Report on Form 8-K reporting the acquisition on April 22, 2013 by Parker Drilling and two of its wholly-owned subsidiaries of International Tubular Services Limited and certain of its affiliates (collectively, “ITS”) and other related assets.

Parker Drilling’s acquisition of ITS represents the purchase of substantially all of the key operating assets of ITS Tubular Services (Holdings) Limited (“ITS Holdings”). Accordingly, the Current Report on Form 8-K filed on April 23, 2013 is being amended hereby to include the financial statements described in Item 9.01 hereto.

**Item 9.01 Financial Statements and Exhibits**

(a) Financial Statements of Business Acquired

The audited consolidated statement of financial position of ITS Tubular Services (Holdings) Limited as of 31 December 2012, 2011 and 2010 and the related consolidated income statement, consolidated statements of comprehensive income, changes in equity/(deficit) and cash flow for each of the years in the three-year period ended 31 December, 2012 as required by Item 9.01(a) are filed as Exhibit 99.1 to this report and are incorporated herein by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed consolidated balance sheet of Parker Drilling Company as of March 31, 2013 and unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2012 and the three months ended March 31, 2013 as required by Item 9.01(b) are filed as Exhibit 99.2 to this report and are incorporated herein by reference.

(d) Exhibits.

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of Independent Auditors |
| 99.1 | Audited consolidated statement of financial position of ITS Tubular Services (Holdings) Limited as of 31 December 2012, 2011 and 2010 and the related consolidated income statement, consolidated statements of comprehensive income, changes in equity/(deficit) and cash flow for each of the years in the three-year period ended 31 December 2012. |
| 99.2 | Unaudited pro forma condensed consolidated balance sheet of Parker Drilling Company as of March 31, 2013 and the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2012 and the three months ended March 31, 2013. |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

**PARKER DRILLING COMPANY**

Date: July 8, 2013

By: /s/ Christopher T. Weber
Christopher T. Weber
Senior Vice President and Chief Financial Officer

**Exhibit 23.1**

**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in Registration Statements Nos. 333-184230 and 333-167695 on Form S-8 of Parker Drilling Company of our report dated July 8, 2013, with respect to the consolidated statement of financial position of ITS Tubular Services (Holdings) Limited as of 31 December 2012, 2011 and 2010, and the related consolidated income statement, consolidated statements of comprehensive income, changes in deficit and cash flow for each of the years in the three-year period ended 31 December 2012 (which report expresses an unmodified opinion and includes emphasis-of-matter paragraphs relating to a prior year restatement and ITS Tubular Services (Holdings) Limited's ability to continue as a going concern), included in this Current Report on Form 8-K.

/s/ Deloitte LLP

Aberdeen, UK

July 8, 2013

Exhibit 99.1

ITS TUBULAR SERVICES (HOLDINGS) LIMITED

# Financial Statements

Year ended 31 December 2012

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# Independent auditor's report

The Board of Directors of Parker Drilling Company

We have audited the accompanying consolidated financial statements of ITS Tubular Services (Holdings) Limited (the "Company"), which comprise the consolidated statements of financial position as of 31 December 2012, 2011 and 2010, and the related consolidated income statement, statements of comprehensive income, changes in deficit and cash flow for each of the three years in the period ended 31 December 2012 and the related notes to the consolidated financial statements.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion on financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ITS Tubular Services (Holdings) Limited and its subsidiaries as of 31 December 2012, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Emphases of matter regarding prior year restatement and going concern

As discussed in Note 31 to the financial statements, the 2010 and 2011 financial statements have been restated to correct the accounting for the A Ordinary shares issued in 2009 for a total consideration of $55,000,000. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 30 to the financial statements, on 19 April 2013, the Company was placed into Administration proceedings under the laws of Scotland. Subsequent to entering Administration, the Company entered into a sale and purchase agreement for a substantial portion of the Company's assets to Parker Drilling Company. These circumstances create substantial doubt about the Company's ability to continue as a going concern in the foreseeable future. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

/s/

Deloitte LLP
Aberdeen, Scotland, UK

8 July 2013

# Consolidated income statement

for the year ended 31 December 2012

| | Note | 2012 $'000 | 2011 As restated see Note 31 $'000 | 2010 As restated see Note 31 $'000 |
|---|---|---|---|---|
| Revenue | | | | |
| – Continuing operations | 6 | 137,903 | 142,814 | 123,382 |
| Cost of sales | | (90,064) | (76,983) | (68,943) |
| Gross profit | | 47,839 | 65,831 | 54,439 |
| Administrative expenses | | | | |
| – Other administrative expenses | | (64,889) | (52,422) | (49,633) |
| – Impairment of jars fleet and associated leasehold improvements | 7 | (11,536) | – | – |
| – Impairment of other plant and oilfield equipment | 7 | (18,011) | – | – |
| – Impairment of goodwill and intangible fixed assets | 7 | (6,588) | – | – |
| – Impairment and provision for costs on territory exit | 7 | (11,217) | – | – |
| – Loss on sale of fixed assets | | (893) | (105) | (122) |
| – Amortisation of intangible assets | | (1,247) | (1,286) | (1,120) |
| Group operating (loss)/profit | | | | |
| Existing operations | | (66,542) | 12,018 | 3,564 |
| Share of profit in joint venture | 16 | 796 | 807 | 885 |
| Total operating (loss)/profit: Group and share of joint venture | | (65,746) | 12,825 | 4,449 |
| (Loss)/profit from operating activities | 7 | (65,746) | 12,825 | 4,449 |
| Finance income | 9 | 330 | 157 | 94 |
| Finance expense | 10 | (22,906) | (17,214) | (18,069) |
| Accretion of A Ordinary shares to redemption | 10 | (5,258) | – | – |
| Other gains and losses | 11 | 3,494 | (3,600) | 1,239 |
| Loss before taxation from continuing operations | | (90,086) | (7,832) | (12,287) |
| Taxation | 12 | (12,025) | 676 | 692 |
| Loss for the year from continuing operations | | (102,111) | (7,156) | (11,595) |
| Discontinued operations | | | | |
| (Loss)/profit for the year from discontinued operations | 13 | (1,631) | 618 | 627 |
| Loss for the year | | (103,742) | (6,538) | (10,968) |
| Attributable to: | | | | |
| Equity holders of the parent | | (103,821) | (6,241) | (10,301) |
| Non-controlling interests | | 79 | (297) | (667) |
| Loss recognised in year | | (103,742) | (6,538) | (10,968) |

The notes on pages 11 to 53 are an integral part of these consolidated financial statements.

Subsequent to 31 December 2012, the Group has disposed of certain activities and is in the process of discontinuing and selling the remaining operations. Further details are provided at Note 13.

# Consolidated statement of comprehensive income

for the year ended 31 December 2012

| | 2012<br><br>$'000 | 2011<br>As restated<br>see Note 31<br>$'000 | 2010<br>As restated<br>see Note 31<br>$'000 |
|---|---|---|---|
| Loss for the year | (103,742) | (6,538) | (10,968) |
| Currency translation difference on foreign currency net investments | 377 | (729) | (3,634) |
| Currency translation difference on related borrowings | (907) | (2,210) | 136 |
| Total comprehensive loss for the year | (104,272) | (9,477) | (14,466) |
| | | | |
| Loss for the financial year | | | |
| – Equity holders of the parent | (104,351) | (9,180) | (13,799) |
| – Non-controlling interests | 79 | 297 | (667) |
| Total comprehensive loss for the year | (104,272) | (9,477) | (14,466) |

The notes on pages 11 to 53 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

as of 31 December 2012

| | Note | 2012<br>$'000 | 2011<br>As restated<br>see Note 31<br>$'000 | 2010<br>As restated<br>see Note 31<br>$'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 14 | 5,915 | 14,562 | 15,802 |
| Tangible assets | 15 | 129,544 | 188,249 | 190,905 |
| Deferred tax asset | 18 | 6,186 | 13,545 | 9,608 |
| Investments in joint ventures | 16 | 3,907 | 4,976 | 3,485 |
| | | 145,552 | 221,332 | 219,800 |
| **Current assets** | | | | |
| Inventories | 19 | 11,021 | 21,310 | 23,157 |
| Other financial assets | 17 | – | – | 106 |
| Trade and other receivables | 20 | 54,626 | 61,211 | 57,862 |
| Cash and cash equivalents | | 8,345 | 12,012 | 8,756 |
| Assets held for sale | 13 | 18,643 | – | – |
| | | 92,635 | 94,533 | 89,881 |
| Total assets | | 238,187 | 315,865 | 309,681 |
| **Equity** | | | | |
| Share capital | 21 | 2 | 2 | 2 |
| Share premium account | 22 | 2,468 | 2,468 | 2,468 |
| Other reserves | | 9,093 | 9,093 | 8,893 |
| Currency translation reserve | | (13,418) | (12,888) | (9,949) |
| (Accumulated deficit)/Retained earnings | | (77,164) | 26,657 | 32,898 |
| Equity attributable to equity holders of the parent | | (79,019) | 25,332 | 34,312 |
| Non-controlling interests | | 1,744 | 1,815 | 2,252 |
| | | (77,275) | 27,147 | 36,564 |
| **Non-current liabilities** | | | | |
| A Ordinary shares | 21 | – | 52,571 | 49,801 |
| Loans and borrowings | 23 | – | 172,714 | – |
| Other creditors | 24 | – | – | 250 |
| Obligations under hire-purchase contracts | 23 | 392 | 823 | 1,257 |
| Deferred tax liability | 18 | 4,784 | 3,424 | 3,506 |
| Financial liability | 17 | – | 3,494 | – |
| Total non-current liabilities | | 5,176 | 233,026 | 54,814 |
| **Current liabilities** | | | | |
| A Ordinary shares | 21 | 57,352 | – | – |
| Trade payables | | 20,927 | 16,979 | 22,891 |
| Corporation tax | | 1,907 | 2,831 | 2,456 |
| Obligations under hire-purchase contracts | 23 | 568 | 826 | 1,870 |
| Revolving credit facility and bank overdraft | 23 | 174,327 | – | 166,339 |
| Other payables | 25 | 52,259 | 35,056 | 24,747 |
| Liabilities directly associated with assets classified as held for sale | 13 | 2,946 | – | – |
| Total current liabilities | | 310,286 | 55,692 | 218,303 |
| Total liabilities | | 238,187 | 315,865 | 309,681 |

The notes pages 11 to 53 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity / (deficit)

for the year ended 31 December 2012

| | Share capital | Share premium account | [1] Other reserves | Currency translation reserve | Retained earnings/ (Accumulated deficit) | Total | Non-controlling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 January 2010 as previously reported | 2 | 2,468 | 1,306 | (6,451) | 53,199 | 50,524 | 2,910 | 53,434 |
| Restatement (Note 31) | – | – | 7,587 | – | (10,000) | (2,413) | – | (2,413) |
| Balance at 1 January 2010 (as restated, Note 31) | 2 | 2,468 | 8,893 | (6,451) | 43,199 | 48,111 | 2,910 | 51,021 |
| Loss for year (as restated, Note 31) | – | – | – | – | (10,301) | (10,301) | (667) | (10,968) |
| Other comprehensive income: | | | | | | | | |
| – Currency translation difference on foreign currency net investments | – | – | – | (3,634) | – | (3,634) | – | (3,634) |
| – Currency translation difference on related borrowings | – | – | – | 136 | – | 136 | – | 136 |
| Exchange adjustments | – | – | – | – | – | – | 9 | 9 |
| Balance at 31 December 2010 (as restated, Note 31) | 2 | 2,468 | 8,893 | (9,949) | 32,898 | 34,312 | 2,252 | 36,564 |
| Loss for year (as restated, Note 31) | – | – | – | – | (6,241) | (6,241) | (297) | (6,538) |
| Other comprehensive income: | | | | | | | | |
| – Currency translation difference on foreign currency net investments | – | – | – | (729) | – | (729) | – | (729) |
| – Currency translation difference on related borrowings | – | – | – | (2,210) | – | (2,210) | – | (2,210) |
| Equity apportionment for warrant | – | – | 200 | – | – | 200 | 248 | 448 |
| Dividends paid | – | – | – | – | – | – | (309) | (309) |
| Exchange adjustments | – | – | – | – | – | – | (79) | (79) |
| Balance at 31 December 2011 (as restated, Note 31) | 2 | 2,468 | 9,093 | (12,888) | 26,657 | 25,332 | 1,815 | 27,147 |
| Loss for year | – | – | – | – | (103,821) | (103,821) | 79 | (103,742) |
| Other comprehensive income: | | | | | | | | |
| – Currency translation difference on foreign currency net investments | – | – | – | 377 | – | 377 | – | 377 |
| – Currency translation difference on related borrowings | – | – | – | (907) | – | (907) | – | (907) |
| Dividends paid | – | – | – | – | – | – | (102) | (102) |
| Exchange adjustments | – | – | – | – | – | – | (48) | (48) |
| Balance at 31 December 2012 | 2 | 2,468 | 9,093 | (13,418) | (77,164) | (79,019) | 1,744 | (77,275) |

[1] Other reserves at December 2012 comprise the merger reserve of $1,306,000, which was created following the merger of ITS Tubular Services (Holdings) and ITS Cayman in 2003, and the equity component of the A Ordinary shares of $7,787,000.

# Consolidated statement of cash flow

for the year ended 31 December 2012

| | Note | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|---|
| Net cash from operating activities | i | 11,511 | 28,892 | 34,984 |
| **Cash flows from investing activities** | | | | |
| Interest received | | 330 | 157 | 94 |
| Joint venture dividend received | | 1,000 | 350 | 200 |
| Purchase of tangible fixed assets | | (11,426) | (32,671) | (50,765) |
| Purchase of intangible fixed assets | | (412) | (260) | (5,103) |
| Proceeds from sale of tangible fixed assets | | 4,719 | 11,902 | 6,241 |
| Investment in joint venture | | – | (90) | – |
| Net cash used in investing activities | | (5,789) | (20,612) | (49,333) |
| **Cash flows from financing activities** | | | | |
| Interest paid | | (9,725) | (8,124) | (7,744) |
| Dividends paid to non-controlling interests | | (101) | (316) | – |
| Finance charges under hire-purchase contracts paid | | (37) | (450) | (317) |
| Funds drawn from long-term facilities | | – | 4,350 | 29,000 |
| Debt issue costs | | (1,313) | (3,120) | (875) |
| Issue of A Ordinary shares | | – | 3,225 | – |
| Shareholder advance | | 3,009 | 1,500 | – |
| Repayment of obligations under finance leases | | (898) | (1,988) | (2,733) |
| Net cash from financing activities | | (9,065) | (4,923) | 17,331 |
| **Net increase in cash and cash equivalents** | | (3,343) | 3,357 | 2,982 |
| Cash and cash equivalents at 1 January | | 12,012 | 8,756 | 6,049 |
| Effect of exchange rate fluctuations on cash held | | (137) | (101) | (275) |
| Cash and cash equivalents at 31 December | | 8,532 | 12,012 | 8,756 |
| **Cash and cash equivalents comprises:** | | | | |
| Cash at bank and in hand | | 8,532 | 11,949 | 8,691 |
| Cash on short-term deposit | | – | 63 | 65 |
| | | 8,532 | 12,012 | 8,756 |

Cash at bank and in hand at 31 December 2012 includes $187,000 of cash classified as assets held for resale.

At 31 December 2012 cash includes $850,000 held in countries where exchange control restrictions do not permit transfer outside the country and is therefore considered to be restricted cash.

# Note to the consolidated statement of cash flow

for the year ended 31 December 2012

### i. Reconciliation of loss for the year to net cash flow from operating activities

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Loss for the year | (103,742) | (6,538) | (10,968) |
| Adjustments for: | | | |
| Exchange loss in net debt included in operating profit | (115) | 94 | 219 |
| Other foreign exchange adjustment | (1,330) | (1,113) | (497) |
| Depreciation | 27,261 | 25,378 | 23,325 |
| Amortisation of intangible assets | 1,247 | 1,286 | 1,120 |
| Revaluation of derivative financial instruments | (3,494) | 3,600 | (106) |
| Impairment losses on goodwill and intangible fixed assets | 6,588 | – | – |
| Impairment losses on tangible assets | 30,826 | – | – |
| Impairment losses on trade receivables | 6,412 | – | – |
| Impairment losses on inventory | 7,472 | – | – |
| Provision for impairment on territory exit | 11,217 | – | – |
| Income tax expense | 12,025 | 78 | 609 |
| (Gain)/loss on sale of tangible assets | (2,326) | (1,577) | 122 |
| Net finance expense | 27,834 | 17,413 | 16,905 |
| Share of operating profit in joint venture | (796) | (807) | (885) |
| Operating cash flows before movements in working capital | 19,079 | 37,814 | 29,844 |
| Change in inventories | (2,167) | 1,438 | (6,114) |
| Change in trade and other receivables | (12,360) | (3,750) | 8,922 |
| Change in trade and other payables | 11,207 | (2,895) | 5,036 |
| Cash generated from operating activities | 15,759 | 32,607 | 37,688 |
| Income taxes paid | (4,248) | (3,715) | (2,704) |
| Net cash from operating activities | 11,511 | 28,892 | 34,984 |

During the year, impairment reviews were carried out that indicated impairments in several categories of assets operating in specific geographical segments. These are non-cash movements disclosed in the reconciliation of loss for the year to net cash flow from operating activities statement above.

# Accounting policies

## Notes to the consolidated financial statements for the year ended 31 December 2012

### 1. General information

ITS Tubular Services (Holdings) Limited is a company incorporated in Scotland. The address of its registered office is Unit 5, Commerce Centre, Souterhead Road, Altens, Aberdeen, AB12 3LF.

The consolidated financial statements of the Group as at 31 December 2012 and for the year then ended comprise the parent company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") and the Group's interest in jointly controlled entities. The Group is mainly involved in the provision of products and services to the upstream oil and gas industry, primarily focused on drilling activities.

These consolidated financial statements for the year end 31 December 2012 were authorised for issue by management on 8 July 2013.

### 2. Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board. The information presented for the years ended 31 December 2012, 2011 and 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the respective periods (except 31 December 2012) have been reported upon by the Group's Auditor and delivered to the Registrar of Companies. The report of the Auditor was unqualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

For the year ended 31 December 2012, the Group reported a loss after tax totalling $103,742,000, and at 31 December 2012, had net current liabilities of $217,651,000 including $174,327,000 in total bank loans and overdrafts.

The Company was in breach of its bank covenant as at 31 December 2012 and subsequently on 19 April 2013, the Company filed for administration under the laws of Scotland. On 22 April 2013, the Company consummated the sale of its wholly owned subsidiary International Tubular Services Limited and certain affiliates and other subsidiaries to Parker Drilling Company ("Parker") for an estimated total consideration of $125 million. The sale represented substantially all of the continuing business and operating assets of the Group at that date. Further details of activities sold or discontinued after the balance sheet date of 31 December 2012 is provided in Note 30. The Company continues to hold certain subsidiaries and in the circumstances it is anticipated that the trade or assets of the remaining subsidiaries will be sold or liquidated in due course. The proceeds will largely facilitate the repayment of bank indebtedness. The aforementioned events raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might result should the Company be unable to continue as a going concern. Such circumstances were not committed or entered into at the balance sheet date.

a) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The methods used to measure fair values are detailed below.

b) Functional and presentation currency
These consolidated financial statements are presented in US Dollars, which is the Group's principal functional currency. All financial information presented has been rounded to the nearest $1,000.

c) Use of estimates and judgments
In the preparation of financial statements in conformity with IFRS, the directors are required to make judgments, 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 subject to regular/ongoing review. 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. Carrying values, depreciation rates and residual values of plant and oilfield equipment
As described in Note 3, the Group 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 Group takes into account its maintenance practices and industry experience in assessing the carrying values, useful lives and residual values of plant and oilfield equipment.

In making its judgment, 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. Deferred tax assets
The Group recognises deferred tax assets on unused tax losses where it is probable that future taxable profits will be available for utilisation. This requires management to make judgments and assumptions indicating future trading performance and capital expenditure. The carrying amount of the recognised deferred tax asset at 31 December 2012 was $6,186,000 (2011: $13,545,000; 2010: $9,608,000).

iii. Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $5.7 million.

iv. Recognition and measurement of intangible assets under IFRS 3 "Business Combinations"
In order to determine the value of the separately identifiable intangible assets on the acquisition of a business combination, management are required to make estimates on fair

value of the separately identifiable assets acquired and residual goodwill. Management uses their judgment and knowledge of the industry and where necessary involve outside independent parties to perform these calculations and determine the fair value and estimated useful lives of these assets.

v. Fair value of derivatives and other financial instruments
As described in Note 3, management use their judgment in selecting an appropriate valuation technique for derivative financial instruments. Assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates. Details of the carrying amount of the A Ordinary shares and assumptions used are provided in Note 21.

## 3. Significant Accounting Policies

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

### 3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year.

(i) Subsidiaries:
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the effective date that control commences until the effective date that control ceases. The accounting policies of subsidiaries have been aligned, where necessary, with the policies adopted by the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the

previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

(ii) Joint Ventures:
In the consolidated financial statements, investments in joint ventures are accounted for using the equity method. The consolidated income statement 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 statement of financial position.

(iii) Transactions and balances eliminated on consolidation:
Intra-Group transactions and balances, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

## 3.2 Revenue recognition

Turnover comprises the value of goods and services supplied by the Group 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 Group 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. Lost in hole revenue is recognised when the customer confirms that rental equipment is either lost in hole or damaged beyond repair.

(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 fulfillment of its contractual obligations. In most cases relating to the supply of services this represents the fulfillment 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 Group 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) Goodwill:
The Group elected to exercise the exemption available under IFRS 1, First-time Adoption of IFRS, in relation to the restatement of acquisitions prior to the transition date, 1 January 2008. The goodwill in relation to those acquisitions therefore remains frozen as reported on 1 January 2008, under UK GAAP, but is subject to annual review for impairment.

Acquisitions subsequent to the transition date have been accounted for in accordance with IFRS 3 (Revised 2008), Business Combinations.

Goodwill arising on these acquisitions represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not subject to amortisation but is reviewed at least annually for impairment. Goodwill is stated at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit in respect of which the goodwill arose. Impairment is determined by assessing the ability of the cash-generating units to generate future cash flows and comparison of the recoverable amount with the respective goodwill balances. Impairment losses in respect of goodwill are not reversed.

(ii) Computer software:
Acquired computer software licences 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 three to four years.

(iii) Internally-generated intangible assets – research and development expenditure:
Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives up to 10 years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(iv) Patents and trademarks:
Patents and trademarks associated with internally-generated intangible assets are amortised on a straight-line basis over a period not exceeding 10 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.

Cost comprises the purchase price or construction cost, together with direct borrowing costs and 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 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 fleet of oilfield equipment available for rental or sale, the proceeds are reflected in revenue and the remaining net book value is charged to cost of sales.

(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 | 5-10 years |
| Fixtures, fittings and office equipment | 5-10 years |
| Motor vehicles | 4 years |
| Plant and oilfield equipment | 5-15 years |

Improvements to leasehold premises are depreciated over the shorter of the primary period of the leases to which the improvements relate or their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each reporting date for assets held at fair value.

### 3.5 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

### 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) Group entities:
The results and financial position of all Group entities that have a functional currency different from US Dollars are translated into US Dollars as follows:

- assets and liabilities for each balance sheet presented are translated at the rate ruling at the balance sheet date;
- income and expenses for each income statement are translated at average annual exchange rates; and
- resulting exchange differences are recognised directly in other comprehensive income. Such differences have been recognised in a separate Foreign Currency Translation Reserve (FCTR) in the consolidated statement of financial position.

When a foreign subsidiary is disposed of, the portion of the FCTR relating to that subsidiary is required to be included as part of the calculation of profit or loss on the sale.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and is therefore considered to be long-term financing, are considered to form part of the net investment in a foreign operation and are recognised in other comprehensive income and included in FCTR.

### 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 Group'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.

### 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.

As lessor
Operating lease rental income arising from leased assets is recognised in the income statement on a straight-line basis over the period of the 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 the shorter of the lease term and the asset's useful life. 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 balance sheet when the Group 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 time frame 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 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 not 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 Accounting for derivative financial instruments and hedging activities

The Group enters into derivative financial instruments to manage its exposure to interest rate risk. Further details of derivative instruments are disclosed in Note 17.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date.

The fair value of interest rate swaps are calculated as the present value of their estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance sheet date. The fair value of currency options is determined using market rates at the balance sheet date.

### 3.12 Impairment

(i) Financial assets:
Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they may be 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.

(ii) Impairment of tangible and intangible assets excluding goodwill:
At each statement of financial position date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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.

The Group's approach to impairment testing in relation to goodwill is outlined in section 3.3 (i) above.

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.

## 3.13 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 Group'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.

## 3.14 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods;

(i) Property, plant and equipment:
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date

of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on management's knowledge of prices offered and accepted for comparable items.

(ii) Intangible assets:
The fair value of order books and other intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use of the assets.

(iii) Inventories:
The fair value of inventories acquired in a business combination is determined based on historic cost adjusted to fair value, if applicable. However where its estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, are lower than cost, then that lower value is adopted.

(iv) Trade and other receivables:
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted where appropriate.

(v) Non-derivative financial liabilities:
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### 3.15 Contingent consideration

Contingent consideration relates to the future cash consideration payable in respect of acquisitions which is contingent on the outcome of future events. When an acquisition agreement provides for an adjustment to the consideration which is contingent on future events, provision is made for that amount if the adjustment is probable and can be measured reliably. The amount provided is included in the cost of the acquisition. Those provisional amounts are adjusted during the measurement period (see below), as additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

### 3.16 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.

### 3.17 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the consolidated 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.

### 3.18 Share capital

The Group has three classes of ordinary shares. The A Ordinary shares are classified as a compund instrument with both debt and equity components. The Ordinary and B Ordinary shares 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.

### 3.19 Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the
instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, and is not subsequently remeasured.

### 3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

### 3.21 Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of joint venture but before investment income and finance costs.

### 3.22 Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale (see Note 13), if earlier. In accordance with IFRS 5, where there is a cessation and abandonment of an operation it is classified

as discontinued at the point where the activities have ceased permanently and the abandonment is complete. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the earliest year presented.

## 4. Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. The Group has in place risk management policies that seek to limit the adverse effects of these risks on financial performance.

### 4.1 Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currencies. The Group 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 Group'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 Group monitors the economic and political situation in the countries in which it operates to minimise foreign currency exposure.

The Group's main foreign exchange risk relates primarily to movements in the Group's key transactional currencies (which are described in Note 26 to the US Dollar. Movements in those currencies impact the translation of non-dollar profit earned across the Group and the translation of non-dollar denominated net assets. Movement in the Euro/US Dollar rate impacts the carrying value of the Euro-denominated receivables and payables.

### 4.2 Cash flow and fair-value interest rate risk

The Group has interest rate risk arising from its long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk.

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

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

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

### 4.3 Credit risk

Financial instruments that potentially subject the Group 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, are maintained with major financial institutions in each of the territories in which the Group operates.

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

The Group 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 26.

### 4.4 Liquidity risk

The Group has a blend of long-term and short-term committed facilities to fund operations and to meet its financial obligations as they fall due.

# New standards impact note

## 5. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

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:

| | |
|---|---|
| IFRS 1 (amended) | Government Loans |
| IFRS 7 (amended) | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Annual Improvements to IFRSs | (2009 – 2011) Cycle |
| IFRS 9 | Financial Instruments |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 10, IFRS 12 and IAS 27 (amended) | Investment entities |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 13 | Fair Value Measurement |
| IAS 27 (revised) | Separate Financial Statements |
| IAS 28 (revised) | Investments in Associates and Joint Ventures |
| IAS 32 (amended) | Offsetting Financial Assets and Financial Liabilities |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine |

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

- IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- IFRS 12 will impact the disclosure of interests the Group 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.

It is not considered practicable at this time to estimate the effect of these standards until a detailed review has been completed. However, the directors do not believe that the impact of these standards will be material.

# 6. Revenue

An analysis of the Group's revenue is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Sales of goods and lost in hole | 10,925 | 15,272 | 16,452 |
| Rendering of services | 126,978 | 127,542 | 106,930 |
| | 137,903 | 142,814 | 123,382 |

### Revenue by destination

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| United Kingdom and Europe | 20,093 | 23,845 | 16,887 |
| Africa | 9,992 | 6,488 | 10,955 |
| North and South America | 35,656 | 34,666 | 24,617 |
| Middle East | 57,326 | 68,273 | 46,227 |
| Far East and Asia Pacific | 14,836 | 9,542 | 24,696 |
| | 137,903 | 142,814 | 123,382 |

# 7. (Loss)/profit from operating activities

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Depreciation of property, plant and equipment | 27,261 | 25,378 | 23,325 |
| Loss/(gain) on disposal of rental assets | 893 | (1,577) | (122) |
| Amortisation of intangible assets | 1,247 | 1,286 | 1,120 |
| Hire of plant and machinery – rentals payable under operating leases | 688 | 196 | 81 |
| Operating lease rentals – land and buildings | 5,329 | 4,614 | 4,142 |
| Impairment loss/(gain) recognised on trade receivables | 6,412 | (1,825) | 1,969 |
| Net foreign exchange losses/(gains) | 1,308 | 713 | (110) |
| Impairment and loss of jars fleet, inventory and associated leasehold improvements | 11,536 | – | – |
| Impairment of other plant and oilfield equipment | 18,011 | – | – |
| Impairment of goodwill and intangible fixed assets | 6,588 | – | – |
| Impairment and provision on territory exit | 11,217 | – | – |

As at 31 December 2012, the Group impaired its jars rental CGU by $11,536,000. As described in Note 15, this comprised $10,180,000 relating to tangible fixed asset impairment ($8,300,000 relating to rental assets and $1,880,000 relating to associated leasehold improvements). In addition, $1,356,000 of this impairment related to inventories.

As described in Note 15, as at 31 December 2012, the Group impaired other plant and oilfield equipment by $9,300,000 with lost equipment contributing a further $8,711,000.

## 7. (Loss)/profit from operating activities (cont.)

As described in Note 14, as at 31 December 2012, the Group impaired goodwill and other intangible assets by $6,588,000.

Following a decision to exit Iran, a provision of $11,217,000 was made by the Group during 2012 of which $8,039,000 relates to receivables and retentions, $543,000 relates to other costs of exit and $2,635,000 was written off on disposal of unrecovered assets on exit (Note 15).

## 8. Remuneration of directors

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Directors' emoluments | 2,318 | 2,048 | 2,041 |
| Company contributions to money purchase pension schemes | 17 | 21 | 51 |
| | 2,335 | 2,069 | 2,092 |

| | | | Number of directors |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Retirement benefits accruing to the following number of directors under: | | | |
| Money purchase schemes | 4 | 3 | 4 |

## 9. Finance income

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Bank interest | 11 | 25 | 18 |
| Other interest | 319 | 132 | 76 |
| | 330 | 157 | 94 |

## 10. Finance expenses

| | 2012 | 2011<br>As restated<br>see Note 31 | 2010<br>As restated<br>see Note 31 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Bank loans and overdraft interest (including unwinding of debt issue costs) | 15,137 | 10,206 | 8,529 |
| Accretion of A Ordinary shares to redemption value (Note 21) | 10,604 | 5,518 | 9,092 |
| Other interest | 2,386 | 1,054 | 207 |
| Finance charges under hire-purchase contracts | 37 | 436 | 241 |
| | 28,164 | 17,214 | 18,069 |

In 2012, accretion of A Ordinary shares to their redemption value in the year ended 31 December 2012 includes $5,258,000, which arises from a bank covenant breach in September 2012, thus resulting in the A Ordinary shares financial liability becoming repayable on demand. Refer to Note 23 for further details. Other interest relates to interest payable on the A Ordinary share dividends.

## 11. Other gains and losses

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Change in fair value of financial instruments (Note 17) | 3,494 | (3,600) | 1,239 |

# 12. Income tax expense

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Current tax expense | | | |
| Corporation tax on UK profits for year | 198 | 85 | 79 |
| Double taxation relief | (198) | (85) | (79) |
| Foreign tax – current | 3,324 | 3,832 | 3,628 |
| Foreign tax – adjustments in respect of prior periods | – | – | 40 |
| | 3,324 | 3,832 | 3,668 |
| Deferred tax credit | | | |
| Origination and reversal of temporary differences: | | | |
| – United Kingdom | 5,090 | (4,108) | (2,057) |
| – Foreign tax | 3,611 | (400) | (2,303) |
| | 8,701 | (4,508) | (4,360) |
| Total income tax expense/(credit) | 12,025 | (676) | (692) |

The tax charge/(credit) for the year can be reconciled to accounting loss as follows:

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Loss before taxation from continuing operations | (90,086) | (7,832) | (12,287) |
| Tax at the UK corporation tax rate of 24.5% (2011: 26.5%, 2010: 28%) | (22,071) | (2,075) | (3,440) |
| Reduction in tax rate | 1,029 | 136 | 30 |
| Tax effect of expenses that are not deductible | 10,947 | 1,586 | 5,248 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 17,883 | 994 | 2,352 |
| Derecognition of previously recognised deferred tax asset | 4,237 | – | – |
| Deferred tax asset previously unrecognised | – | (1,317) | (4,882) |
| Taxation for the year | 12,025 | (676) | (692) |

The Finance Act 2012 announced a lower UK Corporate Tax rate of 23% which comes into effect on 1 April 2013. On 20 March 2013 the UK Government announced further rate reductions to the UK Corporate Tax rate for 2014 and 2015 to 21% and 20% respectively. These rate 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 rates substantively enacted at the balance sheet date of 23%.

# 13. Discontinued operations

The results of the discontinued operations, which are included in the consolidated income statement and have been discontinued through sale or cessation subsequent to 31 December 2012 are summarised as follows.

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Revenue | 19,943 | 20,313 | 10,662 |
| Expenses | (21,574) | (19,203) | (8,998) |
| (Loss)/profit before tax | (1,631) | 1,110 | 1,664 |
| Attributable tax expense | – | (492) | (1,037) |
| (Loss)/profit from discontinued operations | (1,631) | 618 | 627 |

In December 2012, the Group entered into an exclusivity agreement to dispose of the business and assets of ITS Threading and Manufacturing Inc and ITS Precision Manufacturing Inc, which carried out non-core activities.

At the balance sheet date, these operations were expected to be sold within 12 months, and have been classified as a disposal group held for sale and are presented separately in the balance sheet. No impairment losses have been recognised on the classification of these operations held for sale. The sale was concluded in April 2013 and proceeds of the disposal exceeded book value of the related net assets.

During 2012, it was decided not to proceed with an intended joint venture in Indonesia. As a result plant and oilfield equipment amounting to $978,000, being part of the intended investment, is reclassified as held for sale at 31 December 2012.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

| | 2012 $'000 |
|---|---|
| Goodwill | 1,386 |
| Tangible fixed assets | 10,738 |
| Inventories | 2,602 |
| Trade and other receivables | 3,730 |
| Cash and bank balances | 187 |
| Total assets classified as held for sale | 18,643 |
| Trade and other payables | (2,946) |
| Total liabilities associated with the assets classified as held for sale | (2,946) |
| Net assets of disposal group | 15,697 |

Cash flows from discontinued operations:

| | 2012 $'000 |
|---|---|
| Net cash used in operating activities | 2,220 |
| Net cash from investing activities | (233) |
| Net cash from financing activities | (2,034) |
| Net cash flows for the year | (47) |

# 14. Intangible assets

| | Goodwill | Patents and trademarks | Development costs | Licences | Software | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cost or deemed cost | | | | | | |
| At 1 January 2010 | 9,098 | 296 | 2,608 | 1,222 | 393 | 13,617 |
| Additions | 3,886 | – | 639 | 500 | 83 | 5,108 |
| Exchange movements | – | – | – | (3) | – | (3) |
| Disposals | (977) | – | – | – | (10) | (987) |
| At 31 December 2010 | 12,007 | 296 | 3,247 | 1,719 | 466 | 17,735 |
| Additions | – | 10 | – | 29 | 220 | 259 |
| Exchange movements | (222) | 2 | – | – | (7) | (227) |
| Disposals | – | – | – | – | – | – |
| At 31 December 2011 | 11,785 | 308 | 3,247 | 1,748 | 679 | 17,767 |
| Additions | – | 2 | 32 | 251 | 131 | 416 |
| Exchange movements | 267 | – | – | (1) | (117) | 149 |
| Disposals | – | – | – | – | (5) | (5) |
| Classified as held for sale | (1,386) | – | – | – | (106) | (1,492) |
| At 31 December 2012 | 10,666 | 310 | 3,279 | 1,998 | 582 | 16,835 |
| Amortisation and impairment losses | | | | | | |
| At 1 January 2010 | 977 | – | – | 615 | 203 | 1,795 |
| Amortisation for the year | – | 59 | 522 | 441 | 98 | 1,120 |
| Disposals | (977) | – | – | – | (5) | (982) |
| At 31 December 2010 | – | 59 | 522 | 1,056 | 296 | 1,933 |
| Amortisation for the year | – | 61 | 649 | 467 | 109 | 1,286 |
| Exchange movements | – | – | – | (9) | (5) | (14) |
| At 31 December 2011 | – | 120 | 1,171 | 1,514 | 400 | 3,205 |
| Impairment loss for year | 5,005 | 128 | 1,455 | – | – | 6,588 |
| Amortisation for the year | – | 62 | 653 | 432 | 100 | 1,247 |
| Exchange movements | – | – | – | (17) | 4 | (13) |
| Classified as held for sale | – | – | – | – | (106) | (106) |
| Disposals | – | – | – | – | (1) | (1) |
| At 31 December 2012 | 5,005 | 310 | 3,279 | 1,929 | 397 | 10,920 |
| Carrying amounts | | | | | | |
| At 1 January 2010 | 8,121 | 296 | 2,608 | 607 | 190 | 11,822 |
| At 31 December 2010 | 12,007 | 237 | 2,725 | 663 | 170 | 15,802 |
| At 31 December 2011 | 11,785 | 188 | 2,076 | 234 | 279 | 14,562 |
| At 31 December 2012 | 5,661 | – | – | 69 | 185 | 5,915 |

# 14. Intangible assets (cont.)

Acquisitions 2010

Colombia

On 30 September 2010, the Company acquired the assets and business of Gagie Corporation S.A. for a total of $5,203,000. The acquisition had the following effect on the Group's assets and liabilities on the acquisition date

### Assets of Gagie Corporation S.A.

| | Recognised values on acquisition $'000 |
|---|---|
| Property, plant and equipment | 1,317 |
| Net identifiable assets and liabilities | 1,317 |
| Goodwill on acquisition | 3,886 |
| Total consideration | 5,203 |
| **Satisfied by** | |
| Cash | 3,850 |
| Deferred consideration | 775 |
| Other | 578 |
| | 5,203 |

### Amortisation and impairment charge

The amortisation and impairment charges are allocated to administrative expenses.

In accordance with IAS 36 'Impairment of assets', the Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired. Goodwill is allocated for impairment testing to cash-generating units (CGU) which reflect how it is monitored for internal management purposes. The recoverable amounts of the CGUs are determined from value-in-use calculations. Value-in-use is calculated using pre-tax cash flow projections based on the financial budgets and business plans covering a three-year period, which take into account historical trends and market conditions, which have been approved by the Board.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates for the period. Management estimates its annual discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business, equivalent to a pre-tax discount rate which was 15% (2011: 15%, 2010: 10%).

Cash flows for 2013-15 assume a growth at a rate based on expected outturn by territory and subsequent cash flows have been assumed to grow between 0% to 5% per annum for a further 3 to 15 years reflecting expected long-term growth rates in the countries in which the Group operates. During 2012, as a result of a change in customer base and termination of contracts acquired on acquisition, the goodwill in the Colombian branch was impaired by $3,886,000 (2011: $Nil, 2010: $Nil). Further, goodwill related to the Venezuela entity was impaired by $867,000 and other goodwill impaired by $252,000. These impairment losses are reflected in administrative expenses in the consolidated income statement.

Further, at 31 December 2012 development costs and patents relating to whipstocks were impaired by $1,583,000.

The Group's impairment review is sensitive to changes in the key assumptions used. The major assumptions that result in significant sensitivities are the revenue growth and the discount rate. Given the Group's sensitivity analysis, a reasonably possible change in a single assumption will not result in further impairment. Goodwill is allocated primarily to the rental division.

# 15. Tangible assets

| | Buildings and short leasehold | Assets under construction | Plant and oilfield equipment | Motor vehicles | Fixtures, fittings & office equipment | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost or deemed cost** | | | | | | |
| At 1 January 2010 | 7,009 | 3,004 | 206,960 | 1,884 | 3,627 | 222,484 |
| Additions | 2,442 | 690 | 46,550 | 680 | 1,055 | 51,417 |
| Transfers | 3,004 | (3,004) | – | – | – | – |
| Disposals | (27) | – | (8,628) | (36) | (139) | (8,830) |
| Exchange movements | (112) | – | (2,771) | (83) | (45) | (3,011) |
| At 31 December 2010 | 12,316 | 690 | 242,111 | 2,445 | 4,498 | 262,060 |
| Additions | 523 | 49 | 33,645 | 514 | 418 | 35,149 |
| Transfers | 333 | (690) | 357 | – | – | – |
| Disposals | (16) | – | (19,203) | (224) | (260) | (19,703) |
| Exchange movements | (561) | – | (1,216) | (62) | (77) | (1,916) |
| At 31 December 2011 | 12,595 | 49 | 255,694 | 2,673 | 4,579 | 275,590 |
| Reclassified as held for sale | (4,164) | (46) | (12,000) | (295) | (314) | (16,819) |
| Additions | 368 | 286 | 21,927 | 446 | 420 | 23,447 |
| Transfers | – | (218) | 218 | – | – | – |
| Disposals | (387) | – | (47,710) | (350) | (416) | (48,863) |
| Exchange movements | 254 | – | 260 | (37) | 17 | 494 |
| At 31 December 2012 | 8,666 | 71 | 218,389 | 2,437 | 4,286 | 233,849 |
| **Depreciation and impairment losses** | | | | | | |
| At 1 January 2010 | 1,537 | – | 47,902 | 673 | 1,482 | 51,594 |
| Depreciation for the year | 964 | – | 20,885 | 526 | 950 | 23,325 |
| Disposals | – | – | (2,391) | (9) | (67) | (2,467) |
| Exchange movements | (47) | – | (1,150) | (66) | (34) | (1,297) |
| At 31 December 2010 | 2,454 | – | 65,246 | 1,124 | 2,331 | 71,155 |
| Depreciation for the year | 1,481 | – | 22,742 | 468 | 687 | 25,378 |
| Disposals | 42 | – | (8,260) | (120) | (237) | (8,575) |
| Exchange movements | (133) | – | (396) | (38) | (50) | (617) |
| At 31 December 2011 | 3,844 | – | 79,332 | 1,434 | 2,731 | 87,341 |
| On assets reclassified as held for sale | (1,850) | – | (3,882) | (165) | (183) | (6,080) |
| Depreciation for the year | 1,446 | – | 24,515 | 593 | 707 | 27,261 |
| Impairment in year | 1,880 | – | 17,600 | – | – | 19,480 |
| Disposals | (18) | – | (23,196) | (226) | (337) | (23,777) |
| Exchange movements | (74) | – | 171 | (33) | 16 | 80 |
| At 31 December 2012 | 5,228 | – | 94,540 | 1,603 | 2,934 | 104,305 |
| **Carrying amounts** | | | | | | |
| At 1 January 2010 | 5,472 | 3,004 | 159,058 | 1,211 | 2,145 | 170,890 |
| At 31 December 2010 | 9,862 | 690 | 176,865 | 1,321 | 2,167 | 190,905 |
| At 31 December 2011 | 8,751 | 49 | 176,362 | 1,239 | 1,848 | 188,249 |
| At 31 December 2012 | 3,438 | 71 | 123,849 | 834 | 1,352 | 129,544 |

## 15. Tangible assets (cont.)

The impairment loss on tangible assets of $19,480,000 arose in connection with the reassessment of the jars rental asset product line (10,180,000) and general plant and equipment (9,300,000).

The net book value of plant and equipment disposals of $24,514,000 includes losses of $8,711,000 and $2,635,000 relating to country exits.

### Leased plant and machinery

The Group leases equipment under a number of finance lease arrangements. At 31 December 2012, the net carrying amount of leased plant and machinery was $1,985,000 (2011: $2,757,000, 2010: $7,326,000).

### Security

At each balance sheet date all tangible fixed assets were subject to a fixed or floating charge over bank borrowings.

## 16. Investment in joint ventures

| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| Interests in joint venture (share of net assets) | | | |
| At 1 January | 4,976 | 3,485 | 2,692 |
| Exchange adjustments | 28 | 141 | 108 |
| Investment in Indonesian JV | (893) | 893 | – |
| Dividend received from joint venture | (1,000) | (350) | (200) |
| Share of profit for the year | 796 | 807 | 885 |
| At 31 December | 3,907 | 4,976 | 3,485 |

The Company has a 50% interest in Shenhzen Weisheng ITS Tubular Equipment Company Limited, a company registered in China. Additional information relating to the performance of this joint venture is given below:

| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| Fixed assets | 1,103 | 1,190 | 1,077 |
| Current assets | 3,792 | 3,803 | 3,392 |
| Share of gross assets | 4,895 | 4,993 | 4,469 |
| Liabilities due within one year | 988 | 911 | 984 |
| Share of gross liabilities | 988 | 911 | 984 |
| Share of net assets | 3,907 | 4,082 | 3,485 |
| Share of turnover | 7,607 | 6,269 | 5,989 |
| Share of profit before tax | 1,076 | 1,076 | 1,148 |
| Share of taxation | (280) | (269) | (263) |
| Share of profit after tax | 796 | 807 | 885 |

During 2011 the Company made an initial investment of $893,000 in an unincorporated JV in Indonesia. The JV did not proceed and at 31 December 2012, the assets included in the initial investment were reclassified as held for sale.

## 17. Derivative financial instruments

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Financial asset: | | | |
| Interest rate swap | – | – | 106 |
| Financial liability: | | | |
| Interest rate swap | | | |
| – Non-current liabilities | – | (3,494) | – |
| | – | (3,494) | 106 |

On 15 November 2010, the Group entered into a three-year swap with a notional principal value of $120,000,000, effective 20 August 2011. The fixed interest rate is 1.43% in year one, 1.77% in year two and 2.19% in the final year. Floating rates are linked to US LIBOR plus a lending margin. Gains and losses on the interest rate swap have been recognised in other gains and losses in the Consolidated Income Statement.

## 18. 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 in relation to UK companies is provided at 23% (2011: 25%, 2010: 27%).

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. These earnings are expected to be reinvested with no tax charge arising from them in the foreseeable future.

Deferred tax assets and liabilities are only offset where this 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:

| | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2010 $'000 | 2012 $'000 | 2011 $'000 | 2010 $'000 |
| Tangible assets | (2,490) | (10,662) | (8,942) | 4,803 | 4,531 | 4,795 |
| Retirement benefit obligations | (12) | (18) | (22) | (6) | (16) | (15) |
| Provisions/accruals | – | (13) | 2,382 | – | – | – |
| Financial liability | – | (873) | – | – | – | – |
| Inventories | (3) | – | (106) | – | – | – |
| Other items | (4) | – | (4) | 6 | – | – |
| Tax losses carried forward | (3,677) | (1,979) | (2,221) | – | (1,091) | (1,274) |
| Trade debts | | – | (695) | (19) | – | – |
| Deferred tax (assets)/liabilities | (6,186) | (13,545) | (9,608) | 4,784 | 3,424 | 3,506 |
| Net deferred tax assets | (1,402) | (10,121) | (6,102) | | | |

Deferred tax assets are recognised to the extent that they are expected to unwind as a result of future taxable profits. These deferred tax assets are determined by most recently available projections for the three years ended 31 December 2015. Taxable profits beyond that period are not considered for the purposes of recognising deferred tax assets.

# 18. Deferred tax (cont.)

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

| | Balance 1 January 2012 $'000 | Foreign exchange $'000 | Discontinued operations $'000 | Recognised income statement $'000 | Balance 31 December 2012 $'000 |
|---|---|---|---|---|---|
| Tangible assets | (6,131) | 17 | – | 8,427 | 2,313 |
| Retirement benefit obligations | (34) | 1 | – | 15 | (18) |
| Provisions/accruals | (13) | – | – | 13 | – |
| Financial liability | (873) | – | – | 873 | – |
| Inventories | – | – | – | (3) | (3) |
| Other items | – | – | – | 2 | 2 |
| Tax losses carried forward | (3,070) | – | – | (607) | (3,677) |
| Trade debts | – | – | – | (19) | (19) |
| | (10,121) | 18 | – | 8,701 | (1,402) |

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

| | Balance 1 January 2011 $'000 | Foreign exchange $'000 | Discontinued operations $'000 | Recognised income statement $'000 | Balance 31 December 2011 $'000 |
|---|---|---|---|---|---|
| Tangible assets | (4,147) | (39) | 350 | (2,295) | (6,131) |
| Retirement benefit obligations | (37) | (4) | – | 7 | (34) |
| Provisions/accruals | 2,382 | (2) | – | (2,393) | (13) |
| Financial liability | – | – | – | (873) | (873) |
| Inventories | (106) | – | – | 106 | – |
| Other items | (4) | – | – | 4 | – |
| Tax losses carried forward | (3,495) | – | 184 | 241 | (3,070) |
| Trade debts | (695) | – | – | 695 | – |
| | (6,102) | (45) | 534 | (4,508) | (10,121) |

## Deferred tax impact of movements in temporary differences during the year – 2010

| | Balance 1 January 2010 $'000 | Foreign exchange $'000 | Discontinued operations $'000 | Recognised income statement $'000 | Balance 31 December 2010 $'000 |
|---|---|---|---|---|---|
| Tangible assets | (480) | (39) | 1,725 | (5,353) | (4,147) |
| Retirement benefit obligations | (2) | – | – | (35) | (37) |
| Provisions/accruals | (351) | (2) | – | 2,735 | 2,382 |
| Inventories | – | – | – | (106) | (106) |
| Other items | – | – | – | (4) | (4) |
| Tax losses carried forward | (1,839) | – | – | (1,656) | (3,495) |
| Trade debts | (46) | – | (708) | 59 | (695) |
| | (2,718) | (41) | 1,017 | (4,360) | (6,102) |

# 18. Deferred tax (cont.)

## Unrecognised deferred tax asset

As at 31 December 2012

| Deferred tax assets have not been recognised in respect of the following items: | 2012 |
|---|---|
| | $'000 |
| – Deductible temporary differences | 6,027 |
| – Tax losses | 2,144 |
| | 8,171 |

# 19. Inventories

| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| Raw materials and consumables | 8,962 | 12,212 | 11,817 |
| Work in progress | 486 | 4,128 | 2,652 |
| Stock in transit | 906 | 1,001 | 3,719 |
| Finished products for resale | 667 | 3,969 | 4,969 |
| | 11,021 | 21,310 | 23,157 |

# 20. Trade and other receivables

| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| Trade receivables | 37,202 | 46,800 | 42,382 |
| Amounts owed by joint ventures | 10 | 10 | 10 |
| Prepayments and accrued income | 8,415 | 5,561 | 5,160 |
| Deposits and advances | 2,981 | 654 | 2,019 |
| Other receivables | 6,018 | 8,186 | 8,264 |
| Amounts falling due within one year | 54,626 | 61,211 | 57,835 |
| Amounts falling due after one year | – | – | 27 |
| | 54,626 | 61,211 | 57,862 |

The Group's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 26.
Under the normal course of business, the Group does not charge interest on its overdue receivables.
Management consider that the carrying amount of trade and other receivables approximate to their fair value.

# 21. Share capital

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Authorised | | | |
| 199,960,294 (2011: 199,960,294, 2010: 199,960,294) Ordinary shares of £0.01 each | 3,917 | 3,917 | 3,917 |
| 39,706 (2011: 39,706, 2010: 39,706) A Ordinary shares of £0.01 each | 1 | 1 | 1 |
| 8,668 (2011: 8,668, 2010: 8,668) Ordinary B shares of £0.01 each | – | – | – |
| | 3,918 | 3,918 | 3,918 |
| Allotted, called-up and fully paid | | | |
| 70,588 (2011: 70,588, 2010: 70,588) Ordinary shares of £0.01 each | 1 | 1 | 1 |
| 39,706 (2011: 39,706, 2010: 36,368) A Ordinary shares of £0.01 each | 1 | 1 | 1 |
| 8,668 (2011: 8,668, 2010: 8,668) Ordinary B shares of £0.01 each | – | – | – |
| Equity share capital | 2 | 2 | 2 |
| Non-equity investment – A Ordinary shares | 57,352 | 52,571 | 49,801 |

### A Ordinary shares

On 26 September 2009, the Company issued 29,752 A Ordinary shares and options to purchase 3,342 A Ordinary shares for aggregate gross proceeds of $45,000,000. In conjunction with the same transaction, 6,612 of Ordinary shares were re-designated as A Ordinary shares and were sold for $10,000,000 by an existing investor to the new investors of A Ordinary shares. The options had an aggregate exercise price of $3,225,000 and an expiration date of one year from the issuance date of the 2009 audited accounts. The options were exercised on 18 February 2011, prior to exercise such options were measured at fair value through profit and loss at each reporting date.

The A Ordinary shares also carry an entitlement to a non-discretionary cumulative dividend of 10% of the principal amount issued. Such dividends are payable on 30 June each year for the first five years from the date of issuance, being 26 September 2009 with payment being deferred and accrued at the Company's discretion each year. The A Ordinary shares may be redeemed at the issue price at any time after 30 September 2016 at the option of either the holder or the Company. The A Ordinary shares may also be redeemed by the holder on demand in the event that the Group's lenders seek to enforce repayment of the Group's borrowings as a result of a breach of any loan covenants. The A Ordinary shares are also convertible at the option of the holder on a one for one basis into ordinary shares at any time. The A Ordinary shares represent a compound financial liability and the options, as they related to a financial liability in the A Ordinary shares, represent a derivative financial liability.

At the date of issue of the A Ordinary shares the fair value of the liability component was estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount was recorded as a liability on an amortised cost basis using the effective interest rate method. The equity component of the A Ordinary shares, determined by deducting the amount of the liability component from the proceeds allocated to the A Ordinary shares upon issuance, was recognised and included in equity.

### Ordinary B shares

In 2010 8,668 Ordinary B shares of £0.01 each were issued at par. These shares have full voting rights, except there are no voting rights if there is a proposal for winding-up, resolution for a reduction in capital or rights attaching to the A Ordinary shares: or an event defined in the Memorandum and Articles of Association of the Company has occurred and is continuing unremedied or unwaived. There is no dividend entitlement.

# 22. Share premium account

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| As at 1 January and at 31 December | 2,468 | 2,468 | 2,468 |

# 23. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 26.

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Secured bank borrowings | – | 169,414 | – |
| Shareholder loans | – | 3,300 | – |
| Obligations under hire-purchase contracts | 392 | 823 | 1,257 |
| | 392 | 173,537 | 1,257 |
| **Current liabilities** | | | |
| Secured bank loan and overdraft | 174,327 | – | 166,339 |
| Shareholder loans | 6,309 | – | 1,800 |
| Obligations under hire-purchase contracts | 568 | 826 | 1,870 |
| | 181,204 | 826 | 170,009 |
| Total loans and borrowings | 181,596 | 174,363 | 171,266 |
| Amount due for settlement within 12 months | 181,204 | 826 | 170,009 |
| Amount due for settlement after 12 months | 392 | 173,537 | 1,257 |

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.

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

| | | | | 31 December 2012 | | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|---|---|---|---|---|
| | Currency | Nominal interest rate | Date of maturity | Face value $'000 | Carrying amount $'000 | Face value $'000 | Carrying amount $'000 | Face value $'000 | Carrying amount $'000 |
| Revolving credit facility | US Dollar | US LIBOR +2.5% –6% | 30/09/2013 | 125,000 | 174,327 | 172,350 | 169,414 | 168,000 | 166,312 |
| Bank overdraft | Trinidadian Dollar | Prime lending rate +2% | 31/12/2011 | – | – | – | – | 27 | 27 |
| Shareholder loans | US Dollar | – | – | – | – | – | – | 1,800 | 1,800 |
| Shareholder loans | US Dollar | 10% | – | 6,309 | 6,309 | 3,300 | 3,300 | – | – |
| | | | | 131,309 | 180,636 | 175,650 | 172,714 | 169,827 | 168,139 |

# 23. Loans and borrowings (cont.)

The Group's ongoing banking facilities were amended in December 2011 and included an extension of the scheduled maturity date to 30 September 2013 (previously 31 August 2012), an increase in the applied interest margin and agreement to a further arrangement fee of $3,062,500, being 1.75% of total facilities.

The interest margin on the revised facilities varies according to the overall debt leverage. A margin of 6% over US LIBOR is payable if the leverage covenant (being the ratio of EBITDA/bank borrowings) is greater than 4.00 and a reducing scale applies if the ratio falls below this level.

The Group breached certain bank covenants in September 2012 and advised the lenders on 18 October 2012. On 2 November 2012, following disclosure of the covenant breaches, Lime Rock Partners, holder of the A Ordinary shares, issued a liquidity request to the board of directors. As a result the A Ordinary shares (Note 21) are due and payable and are presented as a current liability at 31 December 2012. In November 2012, the board appointed a corporate restructuring officer, as requested by the Group's lenders.

Finance lease liabilities are payable as follows:

| | Future minimum lease payments 2012 $'000 | Interest 2012 $'000 | Present value of minimum lease payments 2012 $'000 | Future minimum lease payments 2011 $'000 | Interest 2011 $'000 | Present value of minimum lease payments 2011 $'000 | Future minimum lease payments 2010 $'000 | Interest 2010 $'000 | Present value of minimum lease payments 2010 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Less than one year | 588 | 20 | 568 | 836 | 10 | 826 | 1,965 | 95 | 1,870 |
| Between one and five years | 447 | 55 | 392 | 913 | 90 | 823 | 1,330 | 73 | 1,257 |
| | 1,035 | 75 | 960 | 1,749 | 100 | 1,649 | 3,295 | 168 | 3,127 |

# 24. Other creditors due after more than one year

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Other creditors more than one year | – | – | 250 |

# 25. Other payables

| | 2012 $'000 | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| Other tax and social security | 5,090 | 2,716 | 1,003 |
| Other payables | 9,513 | 4,799 | 3,488 |
| Shareholder loans | 6,309 | – | 1,800 |
| Accruals | 31,347 | 27,541 | 18,456 |
| | 52,259 | 35,056 | 24,747 |

## 25. Other payables (cont.)

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

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

Accruals include $19,872,000 (2011: $13,238,000, 2010: $7,035,000) in respect of dividends on A Ordinary shares.

## 26. Financial instruments

The Group'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 Group's overall risk management strategy is to hedge exposures wherever practicable in order to minimise any potential adverse impact on the Group's financial performance.

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

### Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currencies. The Group 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 Group'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 Group monitors the economic and political situation in the countries in which it operates to ensure appropriate action is taken to mitigate any foreign currency exposure.

The Group's main foreign exchange risk primarily relates to movements in the Group's key transactional currencies which are described in this note, to the US Dollar. Movements in those currencies impact the translation of non-dollar profit earned and the translation of non-dollar denominated net assets.

If the average rate of subsidiary functional currencies to the US Dollar had been 10% higher during 2012, post-tax loss for the year would have been $0.7 million lower (2011: $1.1 million lower). If the average rate for non-US Dollar denominated entities had been weakened by 10% during 2012, post-tax loss for the year would have been $0.7 million higher (2011: $1.1 million higher). If the closing rate for non-US Dollar denominated entities was strengthened or weakened by 10% at 31 December 2012, exchange differences in equity would have been $2.7 million (2011: $2.6 million) higher or lower respectively.

# 26. Financial instruments (cont.)

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

| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|---|
| US Dollar | 11,418 | 8,876 | 17,631 |
| Sterling | 2,634 | 2,435 | 1,913 |
| Indian Rupee | 815 | 793 | 838 |
| Venezuelan Bolivar | 162 | 60 | 76 |
| Egyptian Pound | 78 | 48 | 12 |
| Euro | 152 | 208 | 1,431 |
| Pakistan Rupee | 1,901 | 1,507 | 34 |
| Singapore Dollar | 77 | 104 | 2 |
| Saudi Riyal | 138 | 523 | – |
| Trinidad Dollar | 450 | 300 | 60 |
| Malaysian Ringgit | 544 | 366 | – |
| Mexican Peso | 240 | 245 | 156 |
| Peruvian Nuevo Sol | 95 | 221 | 57 |
| Kazakhstan Tenge | 67 | 196 | 332 |
| United Arab Emirates Dirham | – | 375 | 219 |
| Colombian Peso | 2,112 | 684 | 83 |
| Others | 44 | 38 | 47 |
| Group balance sheet exposure | 20,927 | 16,979 | 22,891 |

The following significant exchange rates applied during the year:

| | | | Average rate | | | Reporting date spot rate |
|---|---|---|---|---|---|---|
| | 2012<br>$ | 2011<br>$ | 2010<br>$ | 2012<br>$ | 2011<br>$ | 2010<br>$ |
| Sterling | 0.631 | 0.6236 | 0.6188 | 0.6188 | 0.6471 | 0.6242 |
| Indian Rupee | 53.5269 | 47.0408 | 45.2009 | 54.839 | 54.4026 | 45.3348 |
| Iranian Rial | 12174.2 | 10,611.4 | 10,388 | 12.285 | 11,171.7 | 10,654 |
| Venezuelan Bolivar | 4.2997 | 4.2997 | 4.2997 | 4.2997 | 4.2997 | 4.2997 |
| Egyptian Pound | 6.0677 | 5.9439 | 5.8807 | 6.1663 | 6.0340 | 5.9511 |
| Euro | 0.7777 | 0.7189 | 0.7134 | 0.7566 | 0.7723 | 0.6949 |
| Pakistan Rupee | 93.2637 | 86.3283 | 84.8002 | 97.35 | 89.8769 | 86.0300 |
| Singapore Dollar | 1.2494 | 1.257 | 1.2582 | 1.2238 | 1.2990 | 1.2357 |
| Saudi Riyal | 3.7502 | 3.7503 | 3.7482 | 3.7504 | 3.7502 | 3.7496 |
| Trinidad Dollar | 6.25 | 6.2500 | 6.2500 | 6.25 | 6.2500 | 6.2500 |
| Malaysian Ringgit | 3.087 | 3.0528 | 3.2115 | 3.0512 | 3.1717 | 3.1018 |
| Mexican Peso | 13.1464 | 12.4317 | 11.8840 | 13.01385 | 13.9875 | 11.7838 |
| Peruvian Nuevo Sol | 2.6375 | 2.7540 | 2.7519 | 2.5525 | 2.6963 | 2.7470 |
| Kazakhstan Tenge | 149.098 | 146.651 | 144.0390 | 150.325 | 147.8960 | 146.1000 |
| United Arab Emirates Dirham | 3.6730 | 3.6730 | 3.6724 | 3.67295 | 3.6730 | 3.6728 |
| Colombian Peso | 1798.000 | 1827.49 | 1877.32 | 1767.5000 | 1929.09 | 1950.47 |

### Credit risk

The Group'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 in each operating location. 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.

# 26. Financial instruments (cont.)

The Group's major customers are typically national oil companies and large companies which have strong 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 Group 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 Group based on receivable days calculations to assess performance. 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.

| | Carrying amount | | |
|---|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
| Trade receivables | 37,202 | 46,800 | 42,382 |
| Cash and cash equivalents | 8,345 | 12,012 | 8,756 |
| | 45,547 | 58,812 | 51,138 |

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 the Group's net trade receivables was denominated in the following principal currencies:

| | Carrying amount | | |
|---|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
| US Dollar | 24,945 | 29,164 | 24,945 |
| Sterling | 3,787 | 2,990 | 4,395 |
| Indian Rupee | 899 | 787 | 1,132 |
| Venezuelan Bolivar | 173 | 688 | 1,021 |
| Euro | 2,953 | 9,614 | 9,060 |
| Pakistan Rupee | 1,785 | 1,805 | 610 |
| Peruvian Nuevo Sol | 35 | 369 | – |
| Trinidad Dollar | 424 | 51 | – |
| Mexican Peso | 33 | 7 | – |
| UAE Dirhams | 42 | 264 | 82 |
| Kazakhstan Tenge | 597 | 777 | 795 |
| Colombian Peso | 1,104 | – | – |
| Others | 425 | 284 | 342 |
| | 37,202 | 46,800 | 42,382 |

## 26. Financial instruments (cont.)

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

| | Gross 2012 | Provision for impairment 2012 | Past due but not impaired | Gross 2011 | Provision for impairment 2011 | Past due but not impaired | Gross 2010 | Provision for impairment 2010 | Past due but not impaired |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Current | 12,974 | – | – | 18,458 | – | – | 15,485 | – | – |
| Accrued income with current date | – | – | – | 3,220 | – | – | 877 | – | – |
| 31-60 days | 7,883 | 14 | 7,869 | 10,648 | – | 10,648 | 11,038 | – | 11,038 |
| 61-90 days | 5,808 | – | 5,808 | 3,713 | – | 3,713 | 5,070 | – | 5,070 |
| 91-120 days | 5,733 | 1 | 5,732 | 2,771 | 36 | 2,735 | 2,607 | 35 | 2,572 |
| Over 120 days | 20,948 | 16,129 | 4,819 | 13,135 | 5,109 | 8,026 | 14,281 | 6,941 | 7,340 |
| | 53,346 | 16,144 | 24,228 | 51,945 | 5,145 | 25,122 | 49,358 | 6,976 | 26,020 |
| Net value of trade receivables | | 37,202 | | | 46,800 | | | 42,382 | |

The average credit period taken on sales is 98 days (2011: 104 days, 2010: 120 days). The provision levels for the various operations are determined by references to past experience and assessment of individual debt recoverability. The provision for impairment at 31 December 2012 includes $8,039,000 related to the cessation of activities in certain Middle Eastern territories.

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Balance at 1 January | 5,145 | 6,976 | 5,004 |
| Foreign exchange movement | 2 | (6) | 3 |
| Net provision created/(released) | 10,997 | (1,825) | 1,969 |
| Balance at 31 December | 16,144 | 5,145 | 6,976 |

# 26. Financial instruments (cont.)

## 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

| 2012 | Carrying amount $'000 | Contractual cash flows $'000 | 1-6 months $'000 | 7-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 |
|---|---|---|---|---|---|---|---|
| Secured bank loans | 174,327 | 175,027 | 175,027 | – | – | – | – |
| Finance lease liabilities | 960 | 1,035 | 308 | 280 | 289 | 158 | – |
| Shareholder loans | 6,309 | 6,309 | 6,309 | – | – | – | – |
| Trade and other payables | 70,284 | 70,284 | 70,284 | – | – | – | – |
| | 251,880 | 252,655 | 251,928 | 280 | 289 | 158 | – |
| **2011** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Secured bank loans | 169,414 | 190,838 | 4,149 | 4,362 | 182,327 | – | – |
| Finance lease liabilities | 1,649 | 1,749 | 465 | 370 | 526 | 388 | – |
| Shareholder loans | 3,300 | 3,944 | – | – | 3,944 | – | – |
| Trade and other payables | 54,866 | 54,866 | 54,866 | – | – | – | – |
| | 229,229 | 251,397 | 59,480 | 4,732 | 186,797 | 388 | – |
| **2010** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Secured bank loans and overdraft | 166,339 | 168,339 | 168,339 | – | – | – | – |
| Finance lease liabilities | 3,127 | 3,295 | 1,189 | 776 | 670 | 660 | – |
| Shareholder loans | 1,800 | 1,800 | – | – | 1,800 | – | – |
| Trade and other payables | 48,544 | 48,544 | 48,294 | – | 250 | – | – |
| | 219,810 | 221,978 | 217,822 | 776 | 2,720 | 660 | – |

## Interest rate risk

The Group has interest rate risk arising from its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk.

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

The Group monitors its exposure to interest rate risk as part of its overall financial risk management. On 15 November 2010 the Group entered into a three-year swap with a notional principal value of $120 million, effective 20 August 2011. The notional principal amount of the outstanding interest rate swap contract at 31 December 2012 was $Nil (2011: $3,494,000, 2010: $Nil). The fixed interest rate is 1.43% in year one, 1.77% in year two and 2.19% in the final year. Floating rates are linked to US LIBOR plus a lending margin. Gains and losses on the interest rate swap have been accounted for through the income statement.

# 26. Financial instruments (cont.)

## Profile

| | Carrying amount | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | $'000 | $'000 | $'000 |
| Fixed-rate instruments | | | |
| Finance leases | 960 | 1,649 | 3,127 |
| Shareholder loans | 6,309 | 3,300 | 1,800 |
| Other loans | – | – | 27 |
| Financial liability | – | 3,494 | – |
| Financial liabilities at 31 December | 7,269 | 8,443 | 4,954 |
| Variable-rate instruments | | | |
| Financial instruments at 31 December | 174,327 | 169,414 | 166,312 |

### Fair-value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair-value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair-value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair-value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments carried at fair value recognised in the statement of financial position as at 31 December 2011 and 2010 are measured in accordance with Level 2. At 31 December 2012, no fair values are presented due to the circumstances of the Holding Company entering administration on 19 April 2013, as described in Note 2.

### Fair-value sensitivity analysis for fixed-rate instruments

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

### Cash flow sensitivity analysis for variable-rate instruments

If average interest rates had been 1% higher or lower during 2012, post-tax loss and net assets would have been $1,747,000 higher or lower respectively (2011: $1,745,000, 2010: $1,270,000).

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011 and 2010.

### 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 $'000 | Carrying amount 2011 $'000 | Fair value 2011 $'000 | Carrying amount 2010 $'000 | Fair value 2010 $'000 |
|---|---|---|---|---|---|
| Trade receivables | 37,202 | 46,800 | 46,800 | 42,382 | 42,382 |
| Shareholder loans | (6,309) | (3,300) | (3,300) | (1,800) | (1,800) |
| Cash and cash equivalents | 8,345 | 12,012 | 12,012 | 8,756 | 8,756 |
| Secured bank loans and overdraft | (174,327) | (169,414) | (172,350) | (166,339) | (154,460) |
| A Ordinary shares | (57,352) | (52,571) | (52,571) | (49,801) | (51,006) |
| Finance lease liabilities | (960) | (1,649) | (1,602) | (3,127) | (2,882) |
| Trade and other payables | (30,440) | (21,778) | (21,778) | (26,379) | (26,379) |
| Interest rate swap | – | (3,494) | (3,494) | 106 | 106 |
| | (223,841) | (193,394) | (196,283) | (196,202) | (185,283) |

# 26. Financial instruments (cont.)

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

*No fair values as at 31 December 2012 are presented due to the circumstances of the Holding Company entering administration on 19 April 2013 as described in Note 2.

### 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<br>% | 2011<br>% | 2010<br>% |
|---|---|---|---|
| Loans and borrowings | – | 6.3 | 4.3 |
| Leases | 9.7 | 5.7 | 10.2 |

# 27. Operating lease commitments

| | | | Property |
|---|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
| Total commitments under non-cancellable operating leases expiring: | | | |
| Less than one year | 1,143 | 890 | 2,948 |
| Between one and five years | 4,500 | 3,597 | 8,778 |
| More than five years | 17,949 | 12,373 | 11,603 |
| | 23,592 | 16,860 | 23,329 |

| | | | Land |
|---|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
| Total commitments under non-cancellable operating leases expiring: | | | |
| Less than one year | – | 187 | 1,396 |
| Between one and five years | 403 | 668 | 4,782 |
| More than five years | 5,530 | 6,613 | 4,352 |
| | 5,933 | 7,468 | 10,530 |

| | | | Other |
|---|---|---|---|
| | 2012<br>$'000 | 2011<br>$'000 | 2010<br>$'000 |
| Total commitments under non-cancellable operating leases expiring: | | | |
| Less than one year | 29 | 6 | 348 |
| Between one and five years | 1,655 | 1,938 | 1,254 |
| More than five years | – | – | 200 |
| | 1,684 | 1,944 | 1,802 |

## 28. Contingent liabilities

The Group provides performance bonds and guarantees in the normal course of its business. As at 31 December the value of performance bonds and guarantees issued is as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Performance bonds and guarantees | 3,558 | 4,215 | 4,998 |

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 Group is investigating certain of its operations regarding its compliance with potentially applicable international trade and anti-corruption laws, including those of the United Kingdom. Based on the knowledge and information available at this time management does not consider financial loss probable and no provision has been made in these financial statements.

## 29. Capital commitments

At 31 December 2012 the Group had entered into contracts to purchase property, plant and equipment totalling $3,769,000 (2011: $2,363,000, 2010: $5,373,000) in respect of which delivery and settlement was expected to take place in the following financial year.

## 30. Events after the balance sheet date

In the period prior to ITS Tubular Services (Holdings) Ltd being placed into administration International Tubulars FZE concluded the cessation of operations in Iran, leaving trapped assets abandoned in Iran. The Group was demonstrably committed to this course of action as at 31 December, and accordingly full provision for impairment of $11,217,000 is included in the financial statements at 31 December 2012 (Note 7).

## 30. Events after the balance sheet date (cont.)

On the 27 March 2013 ITS Tubular Services (Holdings) Ltd incorporated a 100% subsidiary International Tubular Services (UK) Ltd.

In April 2013, International Tubulars FZE abandoned all operations in Sudan. This course of action was not determined and committed until after 31 December 2012 and the financial statements do not include the costs and write down associated with this decision, estimated to be $2,938,000. Based on the condition and circumstances surrounding the Sudan assets and receivables at 31 December 2012, a provision for impairment of $2,113,000.

On 4 April 2013, the Group concluded the sale of the business and assets of ITS Threading and Manufacturing Inc and ITS Precision Manufacturing Inc to OFS International LLC for $14.9 million. The associated assets and liabilities are classified as held for sale at 31 December 2012 (Note 13).

On 19 April 2013, 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 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 the successful conclusion of a number of post-completion matters.

On 29 April 2013 the ITS Scomi joint venture was dissolved. ITS Scomi PTE Ltd (renamed ITS Energy Services PTE Ltd) and its subsidiaries (being [i] ITS Scomi (Asia Pacific) PTE Ltd now renamed ITS Energy Services (Asia Pacific) PTE Ltd; and [ii] ITS Scomi Sdn Bhd now renamed ITS Energy Services Sdn Bhd) are now 100% owned by International Tubular Services Limited.

On 6 June 2013 a Petition to appoint PwC as interim liquidators of ITS Global Services Ltd was lodged at Aberdeen Sheriff Court.

On 24 June 2013 a Sale & Purchase Agreement was entered into between ITS Tubular Services (Holdings) Ltd (in administration) and Grupo CRB Corp, in respect of the sale of the shares in Servicios ITS Latinamericana S.A., Servicios Internationales Tubular Services S.A., ITS Energy Services Perú S.A., ITS Locação e Serviços Ltda, International Tubular Services (UK) Limited and ITS Energy Services Spain S.L.U. for a consideration of US$6.00. The entities posted a combined after tax net loss of $3,362,436 and net liabilities of $4,911,828 in the year ended 31 Dec 2012. ITS Locação e Serviços Ltda, International Tubular Services (UK) Limited and ITS Energy Services Spain S.L.U. are dormant companies. Grupo CRB Corp is a company controlled by J A Chandler, a director of several ITS Group companies.

## 31. Restatement of prior periods

The financial statements for each of the years ended 31 December 2011 and 2010 have been restated to give accounting recognition to the issuance of 6,612 A Ordinary shares in September 2009 arising on the redesignation of 6,612 Ordinary shares for a deemed consideration of $10,000,000.

As discussed in Note 21 at that time a further 29,752 A Ordinary shares of $0.01 and warrants to subscribe for a further 3,342 A Ordinary Shares, which were only exercisable in the event that the Group did not meet an EBITDA threshold for the year ended 31 December 2009 were also issued for an aggregate cash consideration of $45,000,000, net of direct issue costs of $1,377,138. The number of A Ordinary shares in issue was increased in February 2011 through exercise of all of the warrants for a total consideration of $3,225,000.

The financial statements for 2011 and 2010 have been restated to reflect a reassessment of the fair value of the debt and equity components of the total consideration of $55,000,000 associated with the A Ordinary Shares, which represent a compound financial instrument. The debt component of the A Ordinary shares has been calculated using a discount rate of 11%, which is deemed to approximate to the cost of an equivalent subordinated debt instrument at the date of issuance in 2009.

## 31. Restatement of prior periods (cont.)

The impact on the financial statements arising from the restatement is summarised as follows:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | As previously reported | Adjustments brought forward from 2010 | Adjustments | As restated | As previously reported | Adjustments brought forward from 2009 | Adjustments | As restated |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 31 December | | | | | | | | |
| Retained earnings | 40,278 | (13,823) | 202 | 26,657 | 46,721 | (10,000) | (3,823) | 32,898 |
| A Ordinary shares (non-current liability) | 46,738 | 6,236 | (403) | 52,571 | 43,565 | 2,413 | 3,823 | 49,801 |
| Equity attributable to equity holders of the parent | 31,166 | (6,235) | 403 | 25,332 | 40,548 | (2,413) | (3,823) | 34,312 |
| For the year ended 31 December | | | | | | | | |
| Finance expense | (17,423) | – | 209 | (17,214) | (14,246) | – | (3,823) | (18,069) |
| Loss before taxation | (8,041) | – | 209 | (7,832) | (8,464) | – | (3,823) | (12,287) |

The A Ordinary shares were issued in September 2009 and the opening balances as at 1 January 2010 are restated for the initial recognition on the issuance of 6,612 A Ordinary shares in September 2009 arising on the conversion and cancellation of 6,612 Ordinary shares for a deemed consideration of $10,000,000 and recognition of the equity component of 36,364 A Ordinary shares of $7,587,124.

## 32. Related party transactions

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

| | | | Group |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | $'000 | $'000 | $'000 |
| Receivable from joint venture | 10 | 10 | 10 |

During the year, the Group incurred rent of $1,841,000 (2011: $1,737,000, 2010: $1,438,000) to Blue Properties, a partnership jointly owned by a director, R G Kidd and A & E Investments, a company controlled by R G Kidd. Further, the Group purchased inspection services of $313,000 (2011: $314,000, 2010: $262,000) from Independent Inspection Services Inc, a company controlled by R G Kidd. In addition, the Group sold oilfield equipment for $605,000 (2011: $834,000, 2010: $Nil) to Downhole Solutions, a company controlled by R G Kidd. The balance due by ITS Tubular Services (Holdings) Limited to Downhole Solutions at 31 December 2012, amounted to $402,000 (2011: $76,000, 2010: $Nil).

During the year, R G Kidd advanced the Group a 10% loan, totalling $2,607,000 (2011: $1,000,000, 2010: $1,800,000). This is included in loans and borrowings (Note 23). In 2011, Limerock Partners advanced the Group a 10% loan, totalling $500,000, included in loans and borrowings (Note 23). For the advances received from R G Kidd and Limerock, there are no set repayment terms.

# 33. Subsidiary undertakings

Related party transactions were effected at arm's length.

Details of investments in which the Group and 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 Tubular Services Limited 1*** | Scotland | Ordinary | 100 |
| International Tubular Services (Pakistan) Limited 2*** | Scotland | Ordinary | 100 |
| ITS Netherlands BV 1 | Netherlands | Ordinary | 100 |
| ITS India Private Limited 1*** | India | Ordinary | 100 |
| International Tubulars Services- Egypt (ITS Egypt) 1 | Egypt | Ordinary | 66 |
| International Tubulars FZE 1 | United Arab Emirates | Ordinary | 100 |
| Technology Specialists for Tubes Manufacturing 1 | Iraq | Ordinary | 100 |
| International Tubulars (M.E.) W.L.L. 1 | United Arab Emirates | Ordinary | 49 |
| ITS Arabia Limited 1 | Saudi Arabia | Ordinary | 70 |
| ITS Scomi Pte. Limited 1* | Singapore | Ordinary | 75 |
| ITS Scomi (Asia-Pacific) Ltd. 1*** | Singapore | Ordinary | 75 |
| ITS Scomi Sdn Bhd 1*** | Malaysia | Ordinary | 25 |
| ITS Indonesia Pte Ltd 1* | Singapore | Ordinary | 100 |
| ITS-Energy Services Cyprus Limited 2*** | Cyprus | Ordinary | 100 |
| ITS Energy Services Peru S.A. 2*** | Peru | Ordinary | 100 |
| ITS Energy Services, formerly ITS Cayman 1 | Cayman Islands | Ordinary | 100 |
| ITS Holdings Inc 2* | USA | Ordinary | 100 |
| ITS Rental & Sales Inc 1 | USA | Ordinary | 100 |
| ITS Threading & Manufacturing Inc 3 | USA | Ordinary | 100 |
| ITS Precision Manufacturing Inc 3 | USA | Ordinary | 100 |
| Servicios ITS Latinamericana S.A. 2 | Venezuela | Ordinary | 100 |
| International Tubular Services De Mexico S de Rl de CV 1 | Mexico | Ordinary | 100 |
| Servicios de personal ITS S de RL de CV 1**** | Mexico | Ordinary | 100 |
| ITS Locação e Serviços Ltda 2**** | Brazil | Ordinary | 100 |
| Servicios Internacionales Tubular Services S.A. 2 | Ecuador | Ordinary | 100 |
| Shenzhen Weisheng ITS Tubular Equipment Co. Ltd 1 | China | Ordinary | 50 |
| ITS Energy Services Ltd, formerly Trinpet- ITS Limited 1*** | Trinidad | Ordinary | 100 |
| International Tubular Services Kish (PJSCO) 2 | Iran | Ordinary | 100 |
| ITS Energyservices Spain, S.L. 2 | Spain | Ordinary | 100 |
| ITS Oilfield Supply Ltd 2*** | Scotland | Ordinary | 100 |
| ITS Global Services Ltd 2** *** | Scotland | Ordinary | 100 |

The Group undertook preliminary steps to establish a joint venture in Indonesia. This entity was never legally formed and the Group reabsorbed certain assets as its intended investment in the joint venture in 2011. In 2012, it was concluded that the joint venture would not proceed and these assets were reclassified as held for sale at 31 December 2012, (Note 13).

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, ** which is dormant and **** which are service companies. Companies under direct control of the holding company are marked ***.

[1] On 19 April 2013, ITS Tubular Services (Holdings) Limited was placed in administration. On 22 April 2013, PD International Holdings CV acquired certain companies from the administrators.

[2] Those companies not acquired by Parker Drilling Company remained subsidiaries of ITS Tubular Services (Holdings) Limited on 22 April 2013, and are under the control of the administrators. These companies are in the process of being sold or wound up. Refer to Note 30 for further details.

## 34. Control

[3] The business and assets of these entities were classified as held for sale at 31 December 2012.

The Group was controlled in the current and previous period, by one of its directors, R G Kidd, by virtue of the controlling interest in the issued share capital. On 19 April 2013, an Administrator was appointed to the ultimate holding company under the terms of the 2006 Companies Act.

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# UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

On April 22, 2013, Parker Drilling Company ("Parker Drilling") and two of its wholly-owned subsidiaries, Parker Drilling Offshore Corporation ("Parker Offshore") and PD International Holdings C.V. ("PD International" and, together with Parker Drilling and Parker Offshore, the "Parker Parties"), entered into a Sale and Purchase Agreement (the "Agreement") with ITS Tubular Services (Holdings) Limited ("ITS Holdings"), a company organized under the laws of Scotland and in administration proceedings under the laws thereof (the "Seller"), Ian David Green, John Bruce Cartwright and Graham Douglas Frost, each of PricewaterhouseCoopers LLP, as joint administrators of the Seller, and ITS Holdings, Inc., an indirect subsidiary of the Seller. Pursuant to the Agreement, Parker Drilling acquired International Tubular Services Limited and certain of its affiliates (collectively, "ITS") and other related assets held by the Seller (the "Acquisition") for an initial purchase price of $101.0 million paid at the closing of the Acquisition. An additional $24.0 million was deposited into an escrow account, which will either be paid to the Seller as additional purchase price when certain consents are obtained or, in certain circumstances, released to either the Seller or the Parker Parties, as the case may be, in accordance with the Agreement. The Acquisition closed simultaneously with the execution of the Agreement. The following unaudited pro forma condensed consolidated financial information and related notes give effect to the Acquisition and related transactions and financing and should be read in conjunction with the quarterly condensed and historical annual consolidated financial information of Parker Drilling filed with the Securities and Exchange Commission on Form 10-Q for the Quarterly Period Ended March 31, 2013 and Form 10-K for the Year Ended December 31, 2012, as well as the historical annual financial information of ITS Holdings filed as Exhibit 99.1 to this Current Report, including the respective notes thereto. The unaudited pro forma condensed consolidated financial information gives effect to the Acquisition in accordance with the acquisition method of accounting. We believe all significant adjustments necessary to reflect the effects of the Acquisition and related transactions and financing have been made. Each of the adjustments is preliminary and is based on certain estimates and currently available information. The adjustments could, and will be modified as additional information becomes available, as estimates are refined or as additional events occur.

The unaudited pro forma condensed consolidated financial information does not reflect synergies expected from the combination of the two entities. Additionally, we cannot assure you that we will not incur charges in excess of those included in the pro forma total consideration related to the transactions or Parker Drilling's efforts to achieve synergies and integrate the operations of the companies, or that management will be successful in its efforts to integrate the operations of the companies. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only and is not necessarily indicative of what the actual consolidated financial position or results of operations of Parker Drilling and ITS would have been as of and for the periods presented, nor does it purport to represent the future consolidated financial position or results of operations of Parker Drilling and ITS.

Below is the unaudited pro forma condensed consolidated financial information and related notes thereto which give effect to the Acquisition and related transactions and financing. The following unaudited pro forma condensed consolidated financial information sets forth:

(i) The historical financial information as of March 31, 2013 and for the three months then ended, as derived from the unaudited financial information of Parker Drilling and ITS Holdings, and the historical financial information for the year ended December 31, 2012, as derived from the audited financial statements of Parker Drilling and ITS Holdings;

(ii) Adjustments to conform the presentation of ITS Holdings financial information to be consistent with that of Parker Drilling, including adjustments to conform to ITS Holdings' historical presentation in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), to U.S. generally accepted accounting principles ("U.S. GAAP");

(iii) Adjustments to remove specific entities and geographical operations that were not acquired by Parker Drilling; and

(iv) Pro forma adjustments giving effect to the Acquisition and related transactions and financing, as if such transactions had been completed as of March 31, 2013 for purposes of the unaudited pro forma condensed consolidated balance sheet and as of January 1, 2012, the beginning of the earliest period presented, for purposes of the unaudited pro forma condensed consolidated statements of operations. The pro forma adjustments made are (1) directly attributable to the Acquisition, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the consolidated results.

**PARKER DRILLING COMPANY**
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**
**AS OF MARCH 31, 2013**
**(Dollars in Thousands)**

| | Parker Drilling Historical | ITS Holdings IFRS Historical | IFRS to U.S. GAAP Adjustments (1) | | Adjustments for ITS Entities and Operations Not Acquired (2) | Pro Forma Adjustments (3) | | Pro Forma Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | | | |
| Cash and cash equivalents | $ 83,687 | $ 7,843 | $ - | | $ (2,028) | $ (5,200) | **6(b)** | $ 84,302 |
| Accounts and notes receivable, net | 187,632 | 52,849 | - | | (3,768) | - | | 236,713 |
| Rig materials and supplies | 29,388 | 12,964 | - | | (2,877) | - | | 39,475 |
| Deferred costs | 3,775 | - | - | | - | - | | 3,775 |
| Deferred income taxes | 10,406 | - | - | | - | - | | 10,406 |
| Other tax assets | 37,810 | - | - | | - | - | | 37,810 |
| Assets held for sale | 11,526 | 14,072 | - | | (14,072) | - | | 11,526 |
| Other current assets | 12,689 | 2,163 | - | | (736) | - | | 14,116 |
| **Total current assets** | 376,913 | 89,891 | - | | (23,481) | (5,200) | | 438,123 |
| Property, plant and equipment, net | 784,795 | 121,925 | - | | (7,614) | (35,135) | **6(a)** | 863,971 |
| Investment in joint venture | - | 4,023 | - | | - | - | | 4,023 |
| Deferred income taxes | 99,898 | 6,186 | - | | 254 | (28) | **6(a)** | 106,310 |
| Goodwill | - | 5,805 | 665 | **3(a)** | - | (6,470) | **6(a)** | - |
| Intangible assets | - | - | - | | - | 10,200 | **6(a)** | 10,200 |
| Other noncurrent assets | 18,483 | 2,677 | 1,144 | **3(b)** | (1,729) | 5,200 | **6(b)** | 25,775 |
| **Total assets** | $ 1,280,089 | $ 230,507 | $ 1,809 | | $ (32,570) | $ (31,433) | | $ 1,448,402 |
| **Current liabilities:** | | | | | | | | |
| Current portion of long-term debt | $ 10,000 | $ 180,937 | $ 327 | **3(b)** | $ (181,264) | $ - | | $ 10,000 |
| Accounts payable and accrued liabilities | 156,650 | 79,652 | (249) | **3(d)** | (45,254) | 10,000 | **6(c)** | 200,799 |
| Accrued income taxes | 5,414 | 1,529 | - | | (179) | - | | 6,764 |
| A Ordinary shares | - | 57,395 | (57,395) | **3(c)** | - | - | | - |
| **Total current liabilities** | 172,064 | 319,513 | (57,317) | | (226,697) | 10,000 | | 217,563 |
| Long-term debt | 466,449 | - | - | | - | 125,000 | **6(b)** | 591,449 |
| Other long-term liabilities | 22,756 | 170 | - | | - | 620 | **6(a)** | 23,546 |
| Long-term deferred tax liability | 25,507 | 4,768 | - | | (2,103) | - | | 28,172 |
| **Total liabilities** | 686,776 | 324,451 | (57,317) | | (228,800) | 135,620 | | 860,730 |
| A Ordinary shares | - | - | 56,915 | **3(c)** | (56,915) | - | | - |
| **Stockholders' equity:** | | | | | | | | |
| Share capital | | 2 | - | | (2) | - | | - |
| Share premium and other reserves | | 1,307 | - | | (1,307) | - | | - |
| Currency translation reserve | | (16,329) | - | | 16,329 | - | | - |
| Common stock | 19,902 | - | - | | - | - | | 19,902 |
| Capital in excess of par value | 648,241 | 8,512 | (7,788) | **3(c)** | (724) | - | | 648,241 |
| Accumulated deficit | (74,039) | (91,050) | 9,999 | **3(h)** | 238,849 | (167,798) | **6(c)(d)** | (84,039) |
| Total controlling interest stockholders' equity | 594,104 | (97,558) | 2,211 | | 253,145 | (167,798) | | 584,104 |
| Noncontrolling interest | (791) | 3,614 | - | | - | 745 | **6(a)** | 3,568 |
| **Total equity** | 593,313 | (93,944) | 2,211 | | 253,145 | (167,053) | | 587,672 |
| **Total liabilities and stockholders' equity** | $ 1,280,089 | $ 230,507 | $ 1,809 | | $ (32,570) | $ (31,433) | | $ 1,448,402 |

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed consolidated balance sheet.

(1) See note 3 in the accompanying notes for discussion of adjustments related to conversion of IFRS to U.S. GAAP
(2) See note 4 in the accompanying notes for discussion of adjustments related to ITS entities and operations not acquired
(3) See note 6 in the accompanying notes for discussion of pro forma adjustments

## PARKER DRILLING COMPANY
## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
## FOR THE YEAR ENDED DECEMBER 31, 2012
## (Dollars in Thousands, Except Per Share and Weighted Average Shares Outstanding)

| | Parker Drilling Historical | ITS Holdings IFRS Historical | IFRS to U.S. GAAP Adjustments (1) | | Adjustments for ITS Entities and Operations Not Acquired (2) | Pro Forma Adjustments (3) | | Pro Forma Consolidated | |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | $ 677,982 | $ 137,903 | $ 174 | **3(e)** | $ (21,198) | $ - | | $ 794,861 | |
| Expenses: | | | | | | | | | |
| Operating expenses | 414,064 | 130,544 | 174 | **3(e)** | (16,268) | - | | 528,514 | |
| Depreciation and amortization | 113,017 | 25,415 | (647) | **3(f)** | (3,742) | (8,609) | **6(f)(g)** | 125,434 | |
| | 527,081 | 155,959 | (473) | | (20,010) | (8,609) | | 653,958 | |
| **Total operating gross margin** | 150,901 | (18,056) | 647 | | (1,188) | 8,609 | | 140,913 | |
| General and administration expense | (46,052) | - | - | | - | - | | (46,052) | |
| Impairments and restructuring charges | - | (47,352) | 1,841 | **3(d)(f)** | 18,509 | - | | (27,002) | |
| Gain (loss) on disposition of assets, net | 1,974 | (1,134) | - | | 945 | - | | 1,785 | |
| **Total operating income (loss)** | 106,823 | (66,542) | 2,488 | | 18,266 | 8,609 | | 69,644 | |
| **Other income and (expense):** | | | | | | | | | |
| Interest expense, net | (33,389) | (27,834) | 11,207 | **3(i)** | 16,006 | (9,011) | **6(h)** | (43,021) | |
| Loss on extinguishment of debt | (2,130) | - | - | | - | - | | (2,130) | |
| Change in fair value of derivative positions | 55 | 3,494 | - | | (3,494) | - | | 55 | |
| Other | (382) | 1,076 | - | | - | - | | 694 | |
| Total other income and (expense) | (35,846) | (23,264) | 11,207 | | 12,512 | (9,011) | | (44,402) | |
| Income (loss) before income taxes | 70,977 | (89,806) | 13,695 | | 30,778 | (402) | | 25,242 | |
| Income tax expense (benefit) | 33,879 | 12,305 | 484 | **3(g)** | (8,044) | (141) | **6(i)** | 38,483 | |
| **Income (loss) from continuing operations** | $ 37,098 | $ (102,111) | $ 13,211 | | $ 38,822 | $ (261) | | $ (13,241) | |
| | | | | | | | | | |
| Basic Earnings (loss) per share: | $ 0.32 | | | | | | | $ (0.13) | **6(j)** |
| Diluted Earnings (loss) per share: | $ 0.31 | | | | | | | $ (0.13) | **6(j)** |
| | | | | | | | | | |
| Weighted Average Shares Outstanding | | | | | | | | | |
| Basic | 117,721,135 | | | | | | | 117,721,135 | |
| Diluted | 119,093,590 | | | | | | | 117,721,135 | |

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed consolidated statements of operations.

(1) See note 3 in the accompanying notes for discussion of adjustments related to conversion of IFRS to U.S. GAAP
(2) See note 4 in the accompanying notes for discussion of adjustments related to ITS entities and operations not acquired
(3) See note 6 in the accompanying notes for discussion of pro forma adjustments

**PARKER DRILLING COMPANY**
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**FOR THE THREE MONTHS ENDED MARCH 31, 2013**
**(Dollars in Thousands, Except Per Share and Weighted Average Shares Outstanding)**

| | Parker Drilling Historical | ITS Holdings IFRS Historical | IFRS to U.S. GAAP Adjustments (1) | | Adjustments for ITS Entities and Operations Not Acquired (2) | Pro Forma Adjustments (3) | | Pro Forma Consolidated |
|---|---|---|---|---|---|---|---|---|
| Revenues | $ 167,155 | $ 35,416 | $ - | | $ (2,600) | $ - | | $ 199,971 |
| Expenses: | | | | | | | | |
| Operating expenses | 117,046 | 34,488 | - | | (10,757) | - | | 140,777 |
| Depreciation and amortization | 29,512 | 5,350 | - | | (1,017) | (1,229) | **6(f)(g)** | 32,616 |
| | 146,558 | 39,838 | - | | (11,774) | (1,229) | | 173,393 |
| **Total operating gross margin** | 20,597 | (4,422) | - | | 9,174 | 1,229 | | 26,578 |
| General and administration expense | (12,883) | - | - | | - | 3,015 | **6(e)** | (9,868) |
| Impairments and restructuring charges | - | (408) | (181) | **3(d)** | 365 | - | | (224) |
| Gain (loss) on disposition of assets, net | 1,148 | (1,382) | - | | 1,275 | - | | 1,041 |
| **Total operating income (loss)** | 8,862 | (6,212) | (181) | | 10,814 | 4,244 | | 17,527 |
| **Other income and (expense):** | | | | | | | | |
| Interest expense, net | (9,947) | (4,205) | 1,299 | **3(i)** | 2,438 | (2,263) | **6(h)** | (12,678) |
| Change in fair value of derivative positions | 37 | - | - | | - | - | | 37 |
| Other | 116 | (1,749) | - | | 1,749 | - | | 116 |
| Total other income and (expense) | (9,794) | (5,954) | 1,299 | | 4,187 | (2,263) | | (12,525) |
| Income (loss) before income taxes | (932) | (12,166) | 1,118 | | 15,001 | 1,981 | | 5,002 |
| Income tax expense (benefit) | (1,504) | 608 | - | | (114) | 693 | **6(i)** | (317) |
| **Income (loss) from continuing operations** | $ 572 | $ (12,774) | $ 1,118 | | $ 15,115 | $ 1,288 | | $ 5,319 |
| | | | | | | | | |
| Basic Earnings per share: | $ 0.00 | | | | | | | $ 0.05 |
| Diluted Earnings per share: | $ 0.00 | | | | | | | $ 0.05 |
| | | | | | | | | |
| Weighted Average Shares Outstanding | | | | | | | | |
| Basic | 118,867,678 | | | | | | | 118,867,678 |
| Diluted | 120,072,574 | | | | | | | 120,072,574 |

The accompanying notes are an integral part of, and should be read together with, this unaudited pro forma condensed consolidated statements of operations.

(1) See note 3 in the accompanying notes for discussion of adjustments related to conversion of IFRS to U.S. GAAP
(2) See note 4 in the accompanying notes for discussion of adjustments related to ITS entities and operations not acquired
(3) See note 6 in the accompanying notes for discussion of pro forma adjustments

## NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of Presentation

The accompanying unaudited pro forma condensed consolidated financial information presents the pro forma results of operations of Parker Drilling and ITS on a consolidated basis based on the historical financial information of each company after giving effect of the Acquisition and related transactions and financing. The unaudited pro forma condensed consolidated financial information was prepared in accordance with Securities and Exchange Commission Regulation S-X Article 11, using the acquisition method of accounting, and are based on the historical financial statements of Parker Drilling and ITS Holdings after giving effect to the consideration paid by Parker Drilling to consummate the Acquisition and related transactions and financing, as well as pro forma adjustments.

Financial Accounting Standards Board ("FASB")'s Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805"), requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values, as determined in accordance with ASC 820, *Fair Value Measurements*, as of the acquisition date. In addition, the applicable accounting literature requires that consideration transferred be measured at the closing date of the asset acquisition, which may be different than the amount of consideration assumed in these unaudited pro forma condensed consolidated financial information.

Under the acquisition method of accounting, the assets acquired and liabilities assumed will be recorded as of the completion of the acquisition, primarily at their respective fair values and added to those of Parker Drilling. The results of operations of ITS will be reflected in the financial statements and reported results of operations of Parker Drilling from the date of acquisition but Parker Drilling's financial statements will not be retroactively restated to reflect the historical financial position or results of operations of ITS.

The unaudited pro forma condensed consolidated balance sheet is presented "as if" the Acquisition had occurred on March 31, 2013. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2012 and the three months ended March 31, 2013 are presented "as if" the Acquisition had occurred on January 1, 2012, representing the beginning of the earliest period presented.

Acquisition-related transaction costs (i.e., advisory, legal, valuation, and other professional fees) and certain acquisition-related restructuring charges impacting ITS are expensed in the period in which the costs are incurred. Total advisory, legal, regulatory, and valuation costs incurred by Parker Drilling in connection with the Acquisition are estimated to total approximately $13.0 million.

2. Accounting Policies and Presentation

The unaudited pro forma financial information has been compiled in a manner consistent with the accounting policies adopted by Parker Drilling. Certain reclassifications and adjustments have been made to ITS Holdings' historical financial information presented herein to conform to Parker Drilling's historical presentation.

The following are reconciliations of amounts presented in ITS Holdings' consolidated income statement for the year ended December 31, 2012 (in thousands):

| | |
|---|---|
| *Cost of sales* presented in ITS Holdings' audited financial statements | $ 90,064 |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify depreciation included in *Cost of sales* to *Depreciation and amortization* | (22,080) |
| To reclassify *Administrative expenses* to *Operating expenses* | 62,560 |
| *Operating expenses* pro forma presentation | $130,544 |

| | |
|---|---|
| *Amortisation of intangible assets* presented in ITS Holdings' audited financial statements | $ 1,247 |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify depreciation included in *Cost of Sales* to *Depreciation and amortization* | 22,080 |
| To reclassify *Administrative expenses* to *Depreciation and amortization* | 2,088 |
| *Depreciation and amortization* pro forma presentation | $ 25,415 |

| | |
|---|---|
| *Administrative expenses* presented in ITS Holdings' audited financial statements | $ 64,889 |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify *Administrative expenses* to *Operating expenses* | (62,560) |
| To reclassify *Administrative expenses* to *Gain(loss) on disposition of assets, net* | (241) |
| To reclassify *Administrative expenses* to *Depreciation and amortization* | (2,088) |
| *General and administrative expense*[(1)] pro forma presentation | $ - |

[(1)] Parker Drilling's general and administrative expenses represent corporate activities and other costs not allocated to operating expenses, or those costs and expenditures that directly support our products and services.

| | |
|---|---|
| *Loss on sale of fixed assets* presented in ITS Holdings' audited financial statements | $ (893) |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify *Administrative expenses* to *Gain(loss) on disposition of assets, net* | (241) |
| *Gain(loss)on disposition of assets, net* pro forma presentation | $ (1,134) |

| | |
|---|---|
| *Share of profit in joint venture* presented in ITS Holdings' audited financial statements | $ 796 |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify the tax expense portion of the *Share of profit in joint venture* to *Income tax expense (benefit)* | 280 |
| *Other* pro forma presentation | $ 1,076 |

| | |
|---|---|
| *Taxation* presented in ITS Holdings' audited financial statements | $12,025 |
| Reclassification adjustment to conform to Parker Drilling presentation: | |
| To reclassify the tax expense portion of the *Share of profit in joint venture* to *Income tax expense (benefit)* | 280 |
| *Income tax expense (benefit)* pro forma presentation | $12,305 |

3. Adjustments to ITS Holdings' Financial Statements to Reconcile to U.S. GAAP

ITS Holdings' financial statements were prepared in accordance with IFRS, as issued by IASB, which differ in certain respects from U.S. GAAP. Adjustments have been made with respect to the following items to reconcile ITS Holdings' historical IFRS financial statements to U.S. GAAP for the purposes of the pro forma presentation. Significant adjustments include:

a. Goodwill and Goodwill Impairment - ITS Holdings amortized goodwill pursuant to United Kingdom (UK) GAAP until their adoption of IFRS in 2007. Under U.S. GAAP, amortization of goodwill ceased June 2001.

As such, an adjustment amounting to $0.7 million has been recorded to *Accumulated deficit* to reverse the statement of operations effect of prior years' amortization and the corresponding increase to goodwill on the balance sheet to reflect the U.S. GAAP treatment as if it had always been applied. See also 3(h) below.

b. Deferred Financing Costs – Under IFRS, deferred financing costs are offset against debt as a discount, and amortized over the term of the debt. Under U.S. GAAP, deferred financing costs are recognized as a non-current asset. In addition, the amortization method applied by ITS Holdings differs from that of Parker Drilling – under IFRS, the effective interest method was applied, while under U.S. GAAP, the deferred financing costs relating to the ITS Holdings revolver, are amortized on a straight line basis.

   As of March 31, 2013, an adjustment of approximately $1.0 million was made to adjust beginning *Accumulated deficit* and *Other noncurrent assets* for the difference in the amortization methods of financing costs. In addition, an adjustment of approximately $0.3 million was made to reclassify the financing costs recorded as a debt discount under IFRS to *Other noncurrent assets* under U.S. GAAP. For the three months ended March 31, 2013, the adjustment reflected for the difference in the amortization methods resulted in an increase to *Interest expense* and a corresponding decrease to *Other noncurrent assets* of approximately $0.2 million. Therefore, the net impact to *Other noncurrent assets* to record the adjustments to deferred financing costs as of March 31, 2013 under U.S. GAAP is approximately $1.1 million. This additional interest expense is reflected as an adjustment in the unaudited pro forma condensed consolidated statement of operations as an IFRS to U.S. GAAP adjustment. For the year ended December 31, 2012, the adjustment to reduce interest expense of $0.6 million has been made for the difference in amortization methods. See also reconciliation of interest expense and accumulated deficit at 3(h) and 3(i) below.

c. A Ordinary Shares - ITS Holdings had issued a class of share capital, the A Ordinary shares, which carried an entitlement to a fixed cumulative preferential dividend and could have been redeemed at certain times at the option of the shareholder. Under IFRS, such shares were classified as a compound instrument at inception, recognizing both a debt and equity component to the instrument. Related financing costs were offset against the fair value of the debt, which was then amortized back to the redeemable value of the instrument. Any related dividends were treated as interest.

   Under U.S. GAAP, such shares are classified as temporary equity (mezzanine debt). An adjustment has been made as of March 31, 2013 to record temporary equity for the original issuing price of the shares of $56.9 million, net of financing costs, in accordance with U.S. GAAP and eliminate the $57.4 million and $7.8 million, respectively, in current liabilities and equity which were recorded under IFRS.

   Beginning accumulated deficit was reduced by $8.2 million as of December 31, 2012 due to differences in the treatment of the preferential dividend and the initial recognition of the share issuances.

   Interest expense for the year ended December 31, 2012 and the three months ended March 31, 2013, was decreased by $10.6 million and $1.5 million, respectively, as the fixed cumulative preferential dividend is treated as a dividend under U.S. GAAP.

   See also notes 3(h) and 3(i) for reconciliation of accumulated deficit and interest expense.

d. Restructuring Provision – Under IFRS, a provision was made for certain restructuring costs relating to ITS Holdings winding down its business in Iran. Under U.S. GAAP, these costs are recognized in the period in which they are incurred as they do not meet the criteria to recognize a liability. For the year ended December 31, 2012, an entry has been made to reverse $0.4 million of restructuring liabilities previously recognized under IFRS. Of these costs, $0.2 million were incurred between January 1, 2013 and March 31, 2013 for which the adjustment is recorded in the unaudited pro forma condensed consolidated statement of operations as of March 31, 2013. Thus, for the three month period ended March 31, 2013, an adjustment in the unaudited pro forma condensed consolidated balance sheet was necessary to reverse only $0.2 million recognized under IFRS of restructuring liabilities.

e. Revenue Recognition – Under U.S. GAAP, amounts billed to customers related to shipping and handling should be classified as revenue. Under IFRS, shipping and handling charges were recognized as a reduction of revenue. An adjustment of $0.2 million has been made to include such shipping and handling in revenue and include the related expense in operating expenses for the year ended December 31, 2012. The adjustment for the three months ended March 31, 2013 was not significant to the statement of operations, and therefore no pro forma adjustment was included.

f. Research and Development Costs - ITS Holdings capitalized certain research and development (R&D) costs as intangible assets under IFRS, which under U.S. GAAP, would have been expensed. Under IFRS, the intangible asset was amortized and subsequently fully impaired during the year ended December 31, 2012. Accordingly, an adjustment was made to the unaudited pro forma condensed consolidated statement of operations to reverse the impairment charge of $1.4 million and reverse the amortization expense of $0.6 million for the year ended December 31, 2012, that would not have been recognized if the intangible assets had never existed. No adjustment was necessary for the three month period ended March 31, 2013.

g. Tax Effect - Certain relevant adjustments to ITS Holdings' statement of operations were income tax-effected using the applicable statutory tax rate of approximately 24 percent for the year ended December 31, 2012 and the three months ended March 31, 2013 and resulted in an income tax expense increase of $0.5 million for the year ended December 31, 2012. No adjustment was required for the three months ended March 31, 2013.

h. To record the March 31, 2013 accumulated deficit impact of adjustments recorded to convert ITS Holdings' financial statements from IFRS to U.S. GAAP (in thousands):

| | |
|---|---|
| Current period income impact of March 31, 2013 adjustments | $ 1,118 |
| Current period dividend impact to accumulated deficit from adjustment 3(c) above | (1,455) |
| Adjustments impacting accumulated deficit prior to January 1, 2013: | |
| To record the beginning accumulated deficit impact of adjustment 3(a) above | 665 |
| To record the beginning accumulated deficit impact of adjustment 3(b) above | 1,017 |
| To record the beginning accumulated deficit impact of adjustment 3(c) above | 8,224 |
| To record the beginning accumulated deficit impact of adjustment 3(d) above | 430 |
| Total adjustments to *Accumulated deficit* | $ 9,999 |

i. The interest expense adjustments to reflect the decrease in interest expense resulting from the paragraphs above was:

| | For the year ended December 31, 2012 | For the three months ended March 31, 2013 |
|---|---|---|
| Adjustment 3(b) above | $ 603 | $ (199) |
| Adjustment 3(c) above | 10,604 | 1,498 |
| Total impact to *Interest expense, net* | $ 11,207 | $ 1,299 |

4. Adjustments for ITS Entities and Operations Not Acquired

The Parker Parties did not acquire certain entities or geographic operations of ITS Holdings reflected in the historical financial information of ITS Holdings. These entities or operations were related to the operations in Iran, Sudan, Peru, Ecuador, Venezuela, Pakistan, Cyprus, Spain, and Brazil, and certain non-core operations in the U.S. that were sold as part of another transaction prior to the Acquisition. The UK holding company that held ITS Holdings' capital shares, debt and debt related accounts was also not acquired. Accordingly, adjustments have been made to remove the net assets and results of operations, as well as impairment and restructuring charges, attributable to these entities so as to reflect the assets acquired and liabilities assumed by Parker Drilling.

5. Purchase Price Allocation

The total purchase price of the acquisition was $125.0 million. The purchase consideration was comprised of $101.0 million of cash paid at closing and $24.0 million of cash deposited in escrow. Of the $24.0 million deposited in escrow, $5.0 million is contingent consideration. The total purchase consideration of $125.0 million was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as if the Acquisition took place on March 31, 2013. The information below represents the preliminary purchase price allocation of ITS (in thousands):

| | |
|---|---|
| Cash paid to, or on behalf of, ITS and its equity holders | $101,000 |
| Cash deposited in escrow | 19,000 |
| Fair value of contingent consideration deposited in escrow for assets not acquired [(1)] | 5,000 |
| Total purchase consideration | 125,000 |
| | |
| Working capital excluding Rig material and supplies | 20,824 |
| Rig material and supplies | 10,087 |
| Property, plant and equipment | 79,176 |
| Investment in joint venture | 4,023 |
| Other noncurrent assets | 2,092 |
| Total tangible assets | 116,202 |
| Deferred income tax assets | 6,412 |
| Trade name, developed technology, and customer relationship | 10,000 |
| Indefinite-lived intangible assets | 200 |
| Total assets acquired | $132,814 |
| | |
| Less: Other liabilities assumed | (790) |
| Less: Non-current deferred income tax liabilities | (2,665) |
| Net assets acquired | $129,359 |
| Less: Noncontrolling interest | (4,359) |
| Goodwill | $ - |

(1) Based on the terms of the terms of the Agreement, $5.0 million of the $24.0 million in escrow to be paid to the Seller (ITS Holdings) is contingent upon certain future liabilities that could become due by ITS in certain jurisdictions. Any payments in relation to these liabilities will be deducted from the $5.0 million escrow amount and the net balance of the escrow will be paid to the Seller. The estimated fair value of the consideration in escrow related to these liabilities is $5.0 million. Although not expected, Parker could be responsible for these liabilities should they be greater than the $5.0 million in escrow.

The preliminary allocation of the purchase consideration is based on management's estimates, judgments and assumptions. These estimates, judgments and assumptions are subject to change upon final valuation and should be treated as preliminary values. Management estimated that the fair value of the net assets acquired less noncontrolling interest equals consideration paid. Therefore, there was no goodwill recorded. The final allocation of consideration will include changes in (1) amounts deposited in escrow, (2) estimated fair values of property and equipment, (3) allocations to intangible assets and liabilities, (4) changes in contingent consideration, and (5) other assets and liabilities.

6. Pro Forma Adjustments

The pro forma adjustments included in the unaudited pro forma condensed consolidated balance sheet and statements of operations are as follows:

(a) Fair Value Adjustments –

Adjustments to record *Property, plant and equipment, net* and *Intangible assets* at fair value and the associated impact to deferred income tax assets as presented in note 5 above.

The adjustment to *Goodwill* of approximately $6.5 million represents the removal of the historical basis. No goodwill was recorded in this transaction as the preliminary purchase price did not exceed the fair value of the net assets acquired.

The adjustment to *Noncontrolling interest* to reflect an approximate $0.7 million increase in the fair value of two joint ventures in which ITS had a controlling interest.

The adjustment to *Other long-term liabilities* to reflect an approximate $.6 million increase in income tax liabilities related to the Acquisition.

(b) Cash Consideration and Financing of the Acquisition –

Adjustments to cash to record: 1) the initial cash consideration paid to ITS of $101.0 million, 2) the $24.0 million consideration deposited in escrow, 3) the issuance of long-term debt for an aggregate principal amount of $125.0 million to fund the Acquisition, and 4) the debt issuance costs of approximately $5.2 million.

The following table calculates the pro forma adjustments presented related to the cash consideration and financing of the ITS acquisition (in thousands):

| | Cash increase/(decrease) | Other noncurrent assets increase/(decrease) | Long-term debt increase/(decrease) |
|---|---|---|---|
| Cash paid for ITS including amount deposited in escrow | $ (125,000) | $ - | $ - |
| Issuance of long-term debt | 125,000 | - | 125,000 |
| Payment of debt issuance costs | (5,200) | 5,200 | - |
| Total pro forma adjustments | $ (5,200) | $ 5,200 | $ 125,000 |

(c) Adjustment to beginning accumulated deficit of Parker Drilling for the additional unrecorded amount of estimated transaction costs of approximately $10.0 million associated with the Acquisition.

(d) Adjustment to eliminate the historical ITS accumulated deficit account.

(e) Reversal of estimated professional fees and other non-recurring transaction costs incurred associated with the Acquisition of approximately $3.0 million recorded in the historical statement of operations of Parker Drilling for the three months ended March 31, 2013. No adjustment is required for the year ended December 31, 2012.

(f) Reduction in depreciation expense resulting from the purchase price adjustment to property, plant and equipment by $11.7 million and $2.0 million for the year ended December 31, 2012 and for the three months ended March 31, 2013, respectively. The depreciation expense was calculated based on the estimated fair

value of ITS' fixed assets at acquisition using estimated average remaining useful lives consistent with Parker Drilling's policies. Depreciable lives for different categories of property, plant and equipment are as follows:

| | |
|---|---|
| Land drilling equipment | 3 to 20 years |
| Barge drilling equipment | 3 to 20 years |
| Drill pipe, rental tools and other | 4 to 7 years |
| Buildings and improvements | 15 to 30 years |

(g) Recording amortization expense on the estimated fair value of ITS' intangible assets in the amount of $3.1 million and $0.8 million for the year ended December 31, 2012 and the three months ended March 31, 2013, respectively, at acquisition using an estimated average remaining useful life of 3 years.

(h) Recording estimated interest expense, of $8.1 million for the year ended December 31, 2012 and $2.1 million for the three months ended March 31, 2013, on new long-term unsecured borrowings of $125.0 million at an average interest rate of 6.5 percent and associated estimated amortization of deferred financing cost of $0.9 million for the year ended December 31, 2012 and $0.2 million for the three months ended March 31, 2013.

(i) Includes adjustment of income taxes for the items described in notes (e) through (h), above, using an estimated aggregate of statutory income tax rate of the jurisdictions for which the above adjustments relate. Using this method, the estimated aggregate income tax rate used is 35 percent for the year ended December 31, 2012 and for the three months ended March 31, 2013.

(j) Pro forma earnings per share for the year ended December 31, 2012 is calculated using the net loss of approximately $14.7 million which includes loss from discontinued operations and noncontrolling interest of approximately $1.5 million.