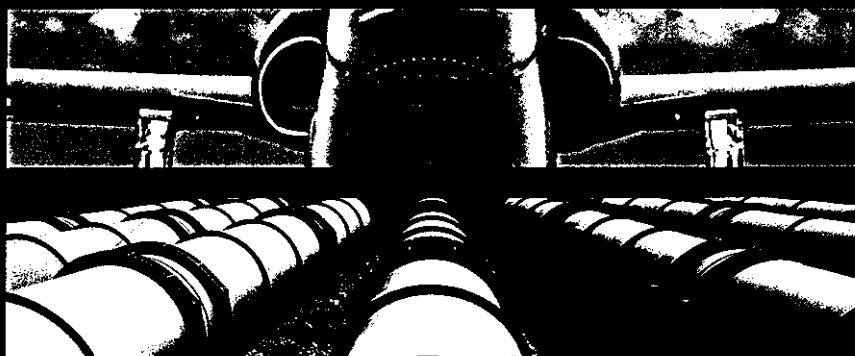


HUNTING PLC
ANNUAL REPORT & ACCOUNTS 1999





Financial Highlights

	1999	1998
Turnover	£1,052 m	£982 m
Operating profit	£35.7 m	£51.0 m
Profit before tax	£30.1 m	£40.4 m
Basic earnings per share	10.0p	17.6p
Ordinary dividend per share	9.25p	9.25p

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Chairman's Statement



1999 was a difficult year, with profit before taxation reducing from £40.4 million to £30.1 million due substantially to lower activity levels in the oil industry.

During the early part of the year, crude oil prices stood at some US\$10 per barrel with predictions by some that the figure might move lower still. This proved not to be the case and price levels moved ahead strongly, achieving levels well in excess of US\$20 per barrel during the third quarter of the year which still prevail. Investment confidence amongst our principal clients in the Oil Division has recovered but will take some months yet to be fully restored to levels approaching those seen during 1997. The acquisition of Iberia Threading in the United States in January 2000 gives us the opportunity to apply oilfield technology in the rapidly expanding trenchless drilling market.

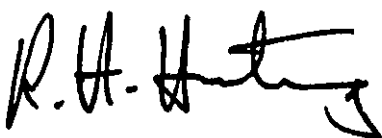
Our Defence Division added significantly to its order book with new business totalling some £250 million being won from the UK Ministry of Defence. Of particular note is a contract to supply that customer with systems to detect the use of chemical and biological weapons. However, the bid with our partners to manage the Atomic Weapons Establishment (AWE) for a further period from April 2000 was not successful despite the submission of a compliant and, we believe, highly competitive bid. The Contract Services activity once again performed very well, supporting the Army and the Royal Air Force in many different locations.

With the improvements in the oil markets and the good order position in the Defence Division, your Board believes that it is appropriate to recommend a final dividend of 6.25p per share, giving a total for the year of 9.25p, the same as that paid in respect of 1998.

In addition to the Board's normal review of strategy, we are undertaking a fundamental review with our advisers to determine the most appropriate way for the Group to maximise shareholder value.

I thank David Waterstone CBE for his wise counsel as a non-executive director during the past five years. He plans to step down at our forthcoming Annual General Meeting.

The Group's performance is, as always, dependent on its staff. I thank them all for their dedication and hard work in a difficult year.



Richard Hunting
Chairman
16 March 2000

Chief Executive's Review



OVERVIEW

A significantly lower level of activity in the oil industry was the dominant factor in the reduction in the Group's profits. Although, during the second half of 1999 and into the current year, there has been a dramatic improvement in the oil price and sentiment generally, it came too late to benefit our upstream service business, though our Canadian based mid-stream operation did see an improvement in the last few months of the year.

The Oil Division experienced, therefore, a very difficult year, but as the results show, the second half started to see the benefit of the anticipated recovery. This process will continue in 2000 but it is likely to take until the second half of the year before we see any significant benefit from a recovery in North Sea activity levels.

The Defence Division was disappointed to lose the contract to manage the AWE with effect from April 2000. However, its order book is strong and there are many sizeable bidding opportunities arising in the next two years.

OIL

Gibson Petroleum, the largest subsidiary in the Division, achieved much improved results in the second half as the Canadian oil industry started to recover on the back of the improvement in oil prices. Our business is more efficient following the restructuring exercise in mid 1999 and has expanded into the market of natural gas plants, a sector which has excellent growth prospects. We also increased our presence in the transportation and propane markets and are actively assessing further expansion moves.

Hunting Oilfield Services (HOSINT) had an extremely difficult year. The market for this business depends on the number of wells drilled and 1999 experienced the lowest level of drilling in more than half a century. However, we are seeing an improving trend and the prospects for North America in particular have recovered strongly. Our market position in the North Sea is very strong and we anticipate an increase in activity levels by our customers in the current year.

HOSINT made an important acquisition in January 2000 with the purchase of Iberia Threading Inc. for £22.4 million. In addition to its involvement in oil tubular threading, this business has established a good position in the trenchless drilling market which has grown strongly in recent years and where the forecasts indicate continuing significant growth. This business should provide good earnings growth in the years ahead.

Chief Executive's Review

continued

DEFENCE

The Defence Divisions' profits were close to target, with the AWE contract producing creditable results.

The Division increased in its range of capabilities during the year with the acquisition of Kudos and the formation of a jointly owned subsidiary with GIAT of France, both to exploit the rapid reaction/mobility market. This led to our being awarded a contract to provide accommodation and related facilities to British forces in Kosovo, the construction phase of which is close to completion. This market area has considerable potential.

The Division's future will be more service related and our Contract Services business will be an important ingredient in this development.

The loss of the AWE contract is disappointing but we will now concentrate on the many other opportunities arising. I believe it is worth pointing out that the new AWE contract would have produced, particularly in the early years, significantly lower profits than we achieved on the current contract.

STRATEGY AND PROSPECTS

The year 2000 should see a good recovery in the Oil Division as activity levels continue to improve. The Defence Division's results will clearly reflect the loss of the AWE contract in April 2000 but shareholders will be aware that there is a 49% minority share in this activity.

We will shortly be completing our review to assess the appropriate future strategic direction for the Group.



Ken Miller
Chief Executive
16 March 2000

Chief Executive's Review: Oil Division



FINANCIAL SUMMARY £m

Turnover	
1999	511.9
1998	466.6

Operating profit	
1999	9.5
1998	23.0

Net assets	
1999	182.6
1998	155.1

SUMMARY

Turnover in the Oil Division at £512 million showed a 10% increase over 1998's level due mainly to the increase in oil prices in the second half augmenting our Canadian subsidiary's marketing revenue.

Operating profits at £9.5m were well down on the level achieved in 1998. However, it is interesting to note the recovery in activity in the oil industry resulted in almost all of this profit being made in the second half of 1999.

GIBSON PETROLEUM

Even though activity declined in the first half of the year, the recovery of crude oil prices in the second half brought volumes back to a point where they began in 1998, and in some cases higher. Gibson's overall results finished slightly above 1998, due mostly to improved marketing margins, but also to the lower cost base which was achieved in mid-year. The rise in oil prices gave significant marketing gains as a result of higher inventory values and a realisation of improved margins for crude oil, diluent, NGL and blending.

The Hardisty Fractionation Plant had higher volumes and earnings following the expansion that was completed in the second quarter.

Truck transportation volumes did not begin to recover until the fourth quarter and results were down for the year. This was also the case in terminal and pipeline operations. As most direct operational costs for these areas are fixed, the full effect of volume recovery will not be realised until mid-2000.

Canwest Propane finished the year with record volumes, but experienced lower margins during the second and third quarters before a recovery in the fourth quarter.

Chief Executive's Review: Oil Division

continued

A number of acquisitions were made during the year. The addition of the Pouce Coupe gas gathering and processing facility added further balance and diversification to Gibson's mid-stream liquid businesses. Development in this area was further increased at the end of the year with the acquisition of the Rainbow Gas Plant and natural gas gathering pipelines in northern Alberta.

Acquisitions were also made in the transportation division as well as two propane businesses to augment the company's position in that market.

Further acquisitions and projects are under consideration and with significantly improved activity levels in the company's markets, prospects for the current year are encouraging.



Left: Work in snow bound Alberta operations is profitable, even in winter.

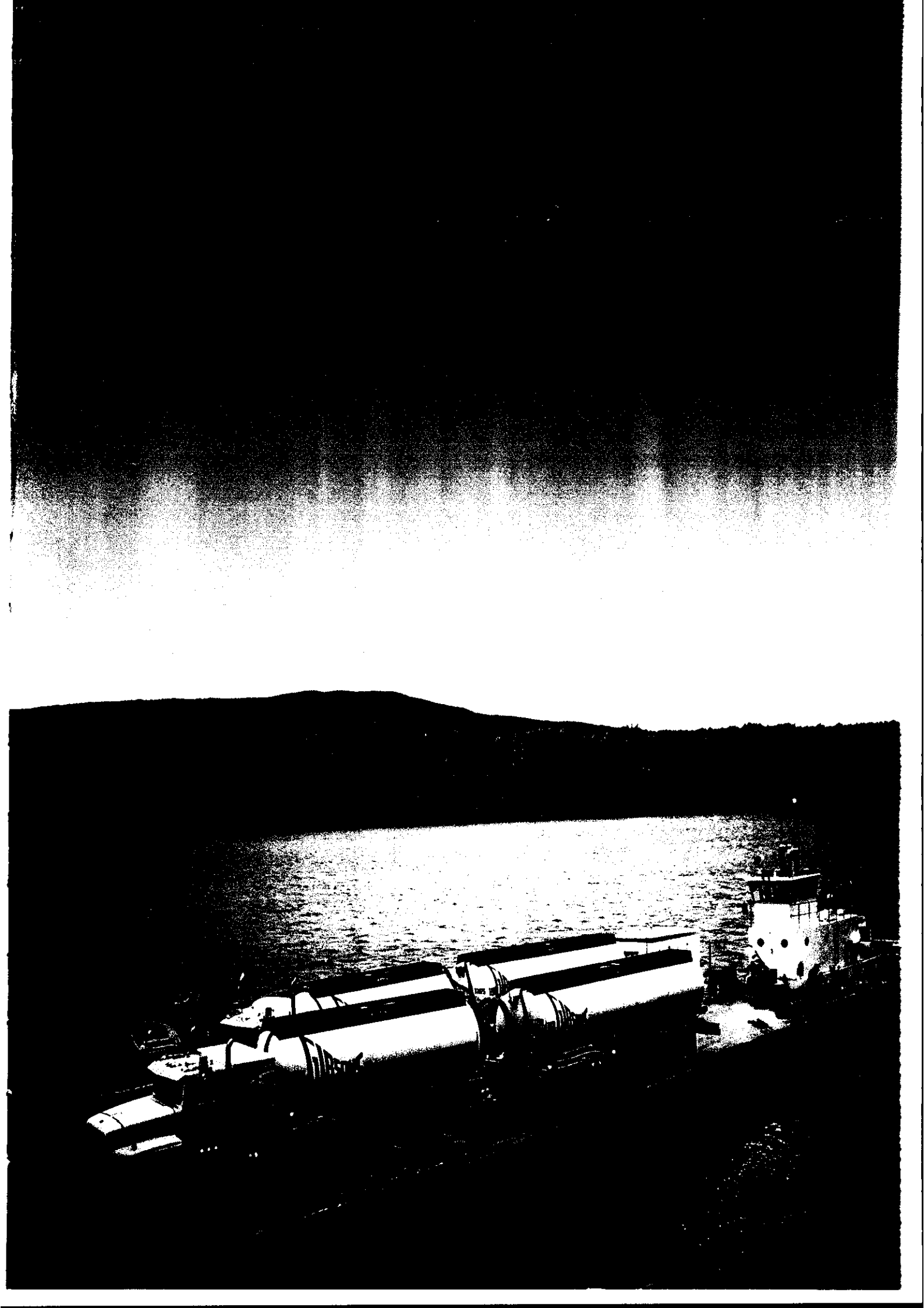
Left: Processing and treating of Hunting Oilfield Services Aberdeen plant.

HUNTING OILFIELD SERVICES INTERNATIONAL

1999 was an exceptionally challenging year for the company. The slump in oil prices continued well into 1999, and even though they recovered during the third quarter, there was no resumption of exploration programmes. The emphasis of the oil majors during the year was to rationalise their operations, whilst entering, or completing discussions on mergers. Due to this, our operations had an extremely difficult year, with pipe prices and demand for oil service products at their lowest for twenty years. In the Eastern Hemisphere, the operating plants in Aberdeen, Holland and Singapore were reorganised to leaner more efficient operations to meet the expected upturn in 2000.

Nevertheless, during this difficult period, the European operations captured a number of major contracts, including BP Amoco, Kerr McGee and Conoco which will allow us to retain our leading position in the North Sea and be in prime position to take advantage of the inevitable increase in the level of activity. In addition, we have established an enlarged offshore service operation for the supply of experienced offshore engineers internationally.

*Opposite page table of contents
includes a table of contents of
the 1999 Annual Report.*





Chief Executive's Review: Oil Division

continued

During the year, the operating divisions in the US were consolidated into one unit with a greater degree of central management and customer focus. This restructuring puts the company in an excellent position to benefit from its infrastructure and forward thinking as expenditure on exploration and development increases.

We introduced new products and services during the year to enhance our range and to enhance our customer alliances. Operations were augmented in August with the acquisition of AMS Inc, a wireline accessory manufacturer in Louisiana.

Canada's coupling manufacturing facility enjoyed a resurgence of activity at the end of 1999 and expectations for 2000 are excellent.

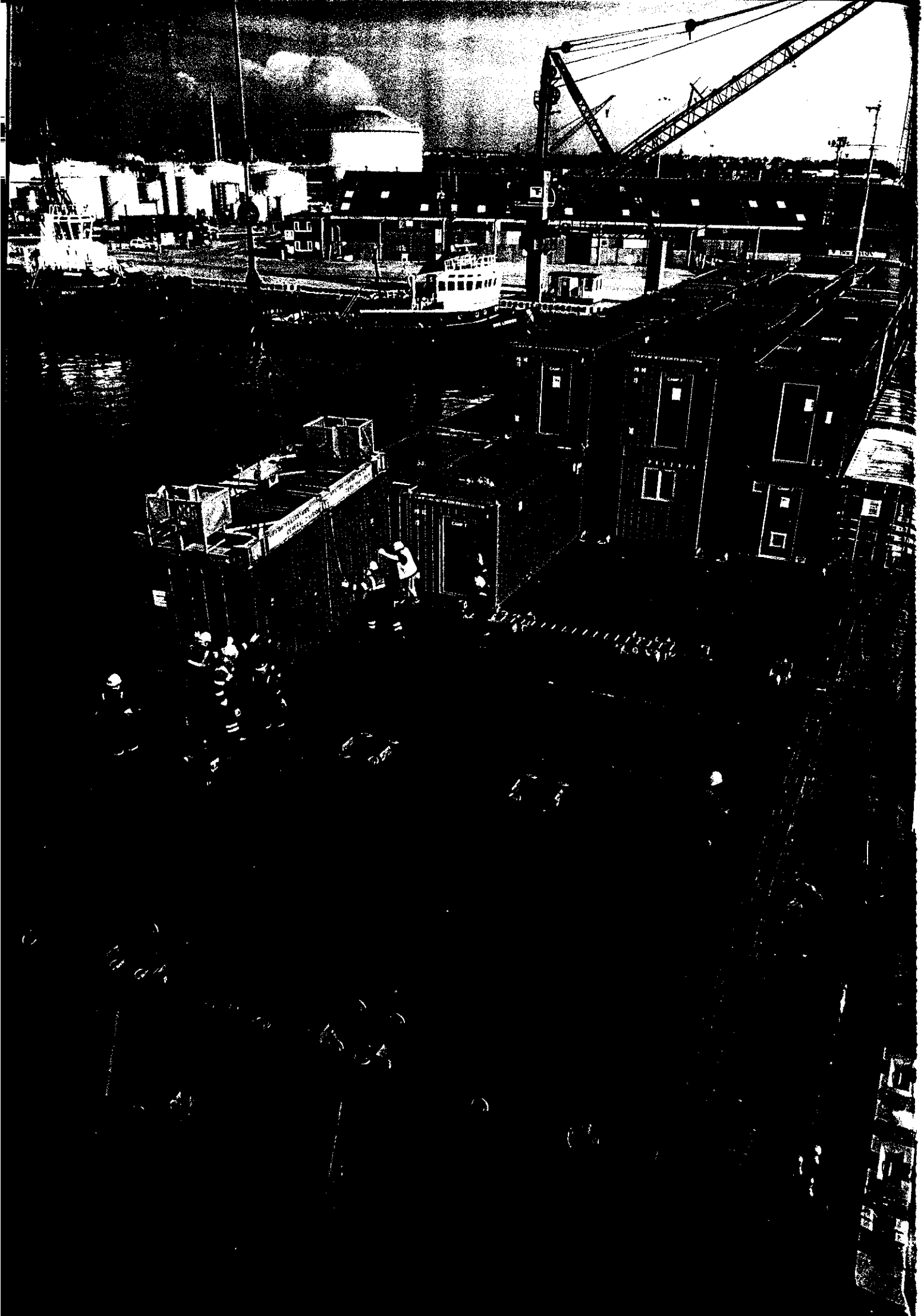
In January 2000, the company acquired Iberia Threading Inc., which is based in Louisiana. Iberia is a major supplier of drill pipe, connections and accessories to the horizontal directional drilling market (trenchless drilling), used by telecommunications and other utilities. This further expands our range of products and services in a market which has excellent growth prospects and is an exciting development for the Oil Division.

Early in 2000, the company signed an agreement to operate a manufacturing facility in Tianjin, China, supplying premium pipe and connections to the domestic and export markets. Production is expected to start in the fourth quarter of 2000.

OTHER ACTIVITIES

Hunting Industrial Coatings experienced a more difficult year with its margins under pressure in the UK due to the strength of sterling. However, the prospects for an improved year in 2000 are excellent with a number of new projects nearing completion.

Tenkay Resources experienced a difficult first half in 1999, but this was more than offset by significant profit improvement in the second half of the year as a result of production from new wells and increased oil and natural gas prices. Successful drilling activity increased its oil and gas reserve base by some 18% and ongoing drilling activity is expected to enhance this further.



Chief Executive's Review: Defence Division



FINANCIAL SUMMARY £m

Turnover	
1999	539.7
1998	489.6

Operating profit

1999	24.4
1998	25.9

Net assets

1999	71.3
1998	51.7

SUMMARY

Turnover in the Defence Division at £540 million was 10% higher than 1998, with increases in Hunting Engineering and Hunting-BRAE, the company responsible for the management of the AWE contract.

The Division achieved a slightly reduced level of operating profits this year. The order book, excluding Hunting-BRAE, increased by 14% during 1999 to £491 million at year end.

HUNTING ENGINEERING

Hunting Engineering benefited from the planned increase in work on the Apache attack helicopter and success on a number of other contracts.

The first Hellfire II and Longbow missiles for the Apache helicopter were rolled out on schedule in December. Other key milestones continue to be met.

The Tactical Ground to Air Radio (TacGA) was accepted into service in February and deliveries against the £24 million contract are largely complete. This fully integrated combat radio system enables ground forces to communicate with close support aircraft, including fast jets and helicopters.

Following successful delivery of several prototype systems in 1998, Hunting Engineering won a £50 million contract in March 1999 for a mobile Integrated Biological Detection System (IBDS) to give warning of biological attack. Deliveries are due to be made in the period 2001-2004 and there are good prospects for overseas sales.

The company has continued to make good progress in weapon systems engineering, particularly ballistic missile defence, the CAMEO-SIM synthetic scene generator and research into warheads for the defeat of armoured fighting vehicles. An extension for a further three years to the MLRS support contract and other new contracts were won.

The Division increased its range of capabilities during the year with the acquisition of Kudos and the formation of a jointly owned subsidiary with GIAT of France, both to exploit the rapid reaction/mobility market. This led to our being awarded a contract to provide accommodation and related facilities to British forces in Kosovo. This contract has been complicated both by many changes in requirements in terms of specification and design of the camps and also by severe operational difficulties in constructing the facilities in that part of Europe in the middle

As part of the Urgent Operational Requirement in support of the British Army in Kosovo a cargo of equipment being loaded at Felixstowe docks.

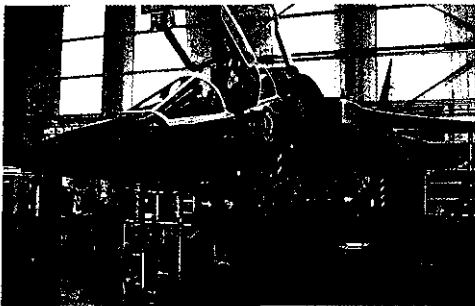
Chief Executive's Review: Defence Division

continued

of winter. We are now making good progress and hope to have completed the construction phase very shortly. An appropriate provision for an overrun of costs has been made in the accounts. We believe this market area has considerable potential and the experience gained on this difficult contract will enhance our ability to secure future orders.

For 2000 and beyond, bids where we are teamed with appropriate industry partners, are being prepared for a large number of major opportunities.

Hunting Engineering continues to respond to and anticipate relevant new working arrangements. These include partnering arrangements with MOD, research agencies and appropriate companies in the Defence industry.



Far left: Hunting technicians carry out maintenance on a Jaguar aircraft at DERA, Boscombe Down.

Left: Hunting Tactical Ground-to-Air (TGA) digital radio system, brought forward in the Bowman programme and now fully in service with the British Army.

IRVIN GROUP

Good trading results in the UK and US were offset by a particularly difficult year in Italy.

Irvin UK had a good year. It retained the contract to operate the Airborne Forces Parachute Support Unit, which repairs, maintains and packs all the parachutes for the British Army. Irvin has successfully operated the Unit since 1991 and the renewal is for five years from 1 April 2000, with an option for a further two years. It also received a major order from the Swedish Special Forces for the Low Level Parachute, which is in service with the British Airborne Forces. Half of the deliveries were made in 1999, with the balance being made in 2000. Further orders are expected in the near future. Irvin continues to support the Royal Navy with its inflatable anti-ship missile decoy system and is making good progress in promising export markets.

After an encouraging improvement in 1998, Irvin Italy's result was disappointing as a result of competitive pressure on margins. 2000 is expected to show an improvement, with a good proportion of budgeted orders already received.

Irvin Canada benefited from several contracts for the parachute and air-bag recovery system associated with the CL289 Unmanned Air Vehicle, which was used extensively in reconnaissance missions in Kosovo. Many countries throughout the world showed interest in its biological and chemical decontamination systems.

Irvin US's contract to supply the Modified Improved Reserve Parachute System was extended into 2000. The engineering department continues to win a significant share of the market for its parachuting technology. Irvin US is competing for a contract to supply an Advanced Troop Parachute System for use by all US Airborne Forces.

Chief Executive's Review: Defence Division

continued

HUNTING-BRAE

Hunting-BRAE has managed the Atomic Weapons Establishment for the British Government since 1993. Hunting-BRAE's outstanding achievements during the last year were acknowledged by the Ministry of Defence, which said 'By any yardstick, Hunting-BRAE's management of AWE has been a success'.

The company's excellent safety record was again recognised by the Royal Society for the Prevention of Accidents, which presented another Gold Prize. Our environmental improvements were also recognised by the prestigious Mars Award for Environment in Berkshire.

Hunting-BRAE again met the requirements of the Trident programme and completed decommissioning of one-third of the Chevaline warheads slightly ahead of programme. The scientific programme also made good progress with a number of highly successful experiments undertaken in collaboration with the United States, which further strengthened this well established relationship.

During the seven years of the contract, Hunting-BRAE has achieved significant savings for the MOD and has benefited accordingly from an incentivised contract. We were very disappointed that despite this outstanding performance, the MOD decided not to award the new contract to us. We are nevertheless confident that we can successfully apply our experience of partnering our proven abilities and innovative techniques to other opportunities for which the Group is currently bidding.

HUNTING CONTRACT SERVICES

Hunting Contract Services (HCS) achieved another record year following the introduction of new initiatives to improve efficiency.

The strengthened management team is strongly focused on customer satisfaction and as a result, achieved the expansion of a number of contracts, including the contract for the Joint Elementary Flying Training School. HCS also won extra business as part of the consortium led by Hunting Engineering to provide accommodation for the British forces in Kosovo. HCS and W S Atkins plc will jointly operate and maintain the accommodation for the next three to five years.

HCS has continued to develop its capabilities to win large long-term contracts and is partnered with a number of well-qualified companies in bidding for the significant opportunities which are scheduled to arise in the next year or two.

HUNTING TECHNICAL SUPPORT

Hunting Technical Support supplies temporary and permanent personnel on a worldwide basis, particularly to the aerospace and telecommunications industries. Profits increased following completion of the restructuring which was carried out in 1998. In October, the company was awarded the status of Aircraft Support Partner by BAE Systems. The business has set up new divisions for aircrew and permanent staff and two new regional offices were established in 1999. Growth is underpinned by a new enlarged personnel database and an interactive recruitment website due to come on line this year.

Financial Review of Operations



Turnover for the year increased to £1,052 million from £982 million in 1998. Oil Division turnover increased to £512 million from £467 million, principally as a result of higher oil and condensate prices in the second half of the year, which resulted in Gibson's marketing sales for the year increasing to £347 million from £268 million. In the Defence Division, turnover rose to £540 million from £490 million following increased activity in Hunting Engineering and at AWE, which increased to £313 million from £289 million.

Operating profit reduced to £35.7 million from £51.0 million in 1998. Whilst the recovery in the oil price during the year led to improved marketing profits and activity levels in Gibson Petroleum, Hunting Oilfield Services International, and its North Sea activity in particular, remained at a very low level. As a consequence, Oil Division profits reduced significantly to £9.5 million from £23.0 million in the previous year. In the Defence Division operating profit was £24.4 million compared to £25.9 million, with strong contributions from AWE and Contract Services offset by a decline in Irvin and a high level of bid costs, particularly on the unsuccessful AWE contract re-bid. Operating profit from discontinued operations included the release of provisions no longer required.

The impact of movements in the exchange rates of the principal currencies was not material to the results of the Group. The rates used to translate overseas results into sterling were Canadian Dollar 2.40 (1998 : 2.47) and US Dollar 1.62 (1998 : 1.66).

The interest charge for the year was £5.6 million (1998 : £5.5 million) to give interest cover of 6.4 times.

Pre-tax profit before exceptional items was £30.1 million compared with £45.5 million in 1998.

TAXATION

Tax of £8.7 million represents an effective rate of 29%. The effect of the higher rate of overseas tax was not as evident in the current year due to lower profits in the Oil Division and because of the utilisation of earlier years trading losses.

EARNINGS AND DIVIDENDS

Basic earnings per share were 10.0p (1998 : 17.6p) on an average of 100.2 million shares in issue during the year. An interim dividend of 3p was paid on 5 January 2000 which, with a proposed final dividend of 6.25p, gives a maintained dividend of 9.25p per ordinary share for the year.

CASHFLOW

Operating cash inflow reduced to £16.9 million (1998 : £57.8 million) principally due to a short-term working capital requirement for the Hunting Engineering Kosovo contract and to lower trading profits. Capital expenditure reduced to £14.9 million (1998 : £23.0 million), with Gibson Petroleum accounting for £5.4 million of the 1999 spend. During the year, £13.0 million was spent on new acquisitions, principally in Gibson Petroleum.

Gearing, based on net borrowings as a percentage of shareholders' funds and minority interests, increased to 42% (1998 : 26%).

Financial Review of Operations

continued

BALANCE SHEET

Shareholders' funds, including minority interests, increased to £176.8 million from £163.8 million.

The Company currently has in issue 704,700 6% Cumulative Preference Shares of £1 each. These shares constitute a very small part of the Company's total capitalisation but incur a disproportionate administrative cost. Accordingly, a resolution will be proposed at the Annual General Meeting to cancel and repay these shares by way of a reduction of share capital.

ACCOUNTING STANDARDS

Two Financial Reporting Standards were adopted during the year; 12 – Provisions, contingent liabilities and contingent assets, and 13 – Derivatives and other financial instruments: Disclosures. No significant adjustments to the financial statements were found to be necessary in adopting these Standards. The Financial Reporting Standard 14–Earnings per share, was adopted in 1998.

TREASURY

Established procedures exist to monitor interest rate, currency and other market price risks. The Treasury policy objective is to reduce or eliminate these financial risks, operating within policies and procedures approved by the Board which include strict controls on the use of financial instruments.

Fluctuations in exchange rates can have a significant effect on the Group's results and balance sheet. As part of the Group's treasury policy objectives, currency options are entered into to hedge approximately 50% of the years budgeted Canadian and U.S dollar earnings in order to cover the exposure to the translation of these currencies into Sterling and this objective was achieved. Forward foreign exchange contracts are used to cover the net foreign exchange exposure of purchases and sales in non-domestic currencies. The exposure to movements in interest rates in the major currency borrowings is managed with interest rate derivatives on a two year rolling basis. The Group's objective is to hedge 50% of these borrowings. At the year end 46.6% of the Group's medium and long term major currency borrowings were hedged. Balance sheet exposure is limited by financing assets with borrowings in the same currency. Crude oil future and swap contracts are used to protect against a decline in the selling price of the crude oil inventory.

Borrowings are either arranged or approved by Group Treasury with the objective of establishing borrowing maturities appropriate to the Group's requirements. Committed facilities are £118 million, of which £92.7 million were utilised at 31 December 1999. These facilities have varying maturities and include the Group's five-year syndicated loan facility of £70 million which runs until 2003 and US\$63 million private placement notes, of which US\$25 million was renewed during the year in two tranches of US\$10 million until 2005 and US\$15 million until 2007. These facilities, together with substantial uncommitted facilities, provide the Group with sufficient liquidity to meet anticipated future funding requirements. Surplus short-term cash is invested on the money market according to an approved investment policy, using bank deposits and money market funds.

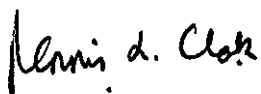
Information on the Group's use of derivatives and financial instruments is given in note 27 to the financial statements.

THE MILLENNIUM

Following completion of a Group-wide compliance programme, the Millennium passed without incident.

EUROPEAN ECONOMIC AND MONETARY UNION ("EMU")

The Group continues to monitor UK Government policy on EMU, which, if adopted, is not expected to have a significant impact on the Group's transactions.



Dennis Clark
Finance Director
16 March 2000

Board of Directors



CHAIRMAN

RICHARD HUNTING

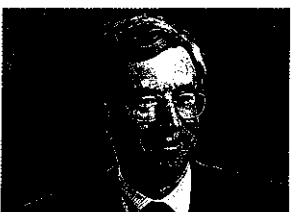
Was elected an executive director and deputy chairman on the formation of Hunting PLC in 1989 and has been Chairman of the Board since 1991. He is a non-executive director of Yule Catto & Co plc. Age 53



CHIEF EXECUTIVE

KEN MILLER

Was appointed chief executive of Hunting PLC upon its formation in 1989. He is a non-executive director of Colt Group Limited. Age 61



FINANCE DIRECTOR AND COMPANY SECRETARY

DENNIS CLARK

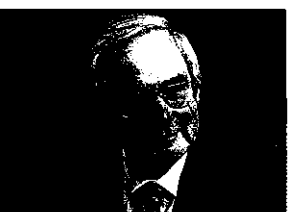
Was appointed finance director of Hunting PLC in 1989 upon its formation. He is chairman of the Hunting Pension Scheme and a non-executive director of Business Post Group PLC. Age 56



EXECUTIVE DIRECTOR

ROGER WHYSALL

Was appointed a director in 1998. He joined Hunting Engineering in 1977 and was appointed chief executive of the Defence Division in 1998. Age 54



NON-EXECUTIVE DIRECTORS

ALAN FRYER

Was appointed a non-executive director in 1994 and is chairman of the Remuneration Committee and a member of the Audit Committee. He is Deputy Chief Executive of Smith & Nephew plc, where he has been an executive director since April 1987, and is non-executive chairman of Oxoid Holdings Limited and a non-executive director of Flying Flowers Limited. Age 58



DAVID WATERSTONE CBE

Was appointed a non-executive director in 1995 and is chairman of the Audit Committee and a member of the Remuneration Committee. He is a non-executive director of Precoat International Plc. Age 64.



SIR PATRICK BROWN KCB

Was appointed a non-executive director in 1998 and is a member of the Audit and Remuneration Committees. He is a director of Go-Ahead Group Plc and a non-executive director of Arlington Securities Plc and was the Permanent Secretary at the Department of Transport between 1991 and 1997. Age 59

Report of the Directors

The directors present their report, together with the audited financial statements for the year ended 31 December 1999.

ACTIVITIES

The Company is an industrial holding company, whose subsidiaries are involved in Oil and Defence. The Group's activities and prospects are reviewed in the Chairman's Statement, the Chief Executive's Review and the Financial Review on pages 2 to 15. Details of the Company's principal subsidiary, associated and joint venture undertakings are set out on pages 53 and 54.

RESULTS

The results of the Group are set out in the consolidated profit and loss account on page 31.

DIVIDENDS

On 5 January 2000, an interim dividend of 3p was paid (1998 - first interim 3p; second interim 5.75p paid as a deemed foreign income dividend). The directors recommend a final ordinary dividend of 6.25p per share (1998 - 0.5p) payable, on 3 July 2000, to shareholders on the register at 31 March 2000. This, together with the interim dividend referred to above, makes a total ordinary dividend for the year of 9.25p (1998 - 9.25p).

DIRECTORS

Brief biographies of the present directors are shown on page 16.

In accordance with the Articles of Association, K. W. Miller and Sir Patrick Brown retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. K. W. Miller was last re-appointed to the Board on 2 May 1997 and has a service contract which expires on 28 February 2001. Sir Patrick Brown, a non-executive director, was last re-appointed to the Board on 30 April 1998. D. G. S. Waterstone who is also a non-executive director will retire from the Board at the conclusion of the Annual General Meeting.

No director during the period had a material interest in any contract of significance to which either the Company or any of its subsidiaries were a party. Directors' interests in shares of the Company are shown on pages 18 and 23. As at 31 December 1999, no director of the Company had any beneficial interest in the shares of its subsidiary companies.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors and officers in the discharge of their duties.

Report of the Directors

continued

DIRECTORS' INTERESTS

The interests of directors in the issued Ordinary shares and Convertible Preference shares of the Company, as required to be notified by each director pursuant to Section 324 of the Companies Act 1985, were as follows:

	31 December 1999		31 December 1998	
	Ordinary shares of 25p	Convertible Preference shares of £1	Ordinary shares of 25p	Convertible Preference shares of £1
Executive directors:				
R. H. Hunting	706,268	174,333	706,268	174,333
other beneficial	1,614,091	277,414	1,614,091	277,414
K. W. Miller	51,890	2,204	51,890	2,204
D. L. Clark	14,464	—	14,464	—
R. J. Whysall	60,945	—	60,945	—
Non-executive directors:				
A. R. Fryer	6,034	—	6,034	—
D. G. S. Waterstone	2,509	—	2,509	—
Sir Patrick Brown	2,000	—	2,000	—

Directors' outstanding options to acquire Ordinary shares are shown on page 23.

There were no changes in the interests of the directors in the issued shares of the Company between 31 December 1999 and 16 March 2000.

The market price of the Ordinary shares at 31 December 1999 was 113.5p. The highest and lowest mid market prices during the year were 177p and 100.5p respectively.

PRINCIPAL ACQUISITIONS AND DISPOSALS

Gibson Petroleum Company Limited acquired the following:

On 22 February 1999, the share capital of Holiday Transport Limited for £0.7 million, on 1 March 1999, the share capital of Dave's Propane Limited for £0.2 million, on 17 June 1999, 41 per cent. of Mica Pouce Coupe gas plant for £0.8 million, on 20 August 1999, the share capital of Town & Country Propane Limited for £1.2 million and on 10 November 1999, the assets and business of the Rainbow Gas Plant for £4.8 million.

On 29 January 1999, the Group disposed of the assets of the printing business of Leach Colour Group Limited and on 29 March 1999, the assets of the photographic business for a total consideration of £1.5 million.

On 26 February 1999, Hunting Engineering Limited acquired Kudos 2000 Limited for £0.1 million.

On 1 March 1999, the Group increased its holding in Hunting Custom Packaging Inc. from 50 per cent. to 100 per cent. for £0.8 million.

On 30 April 1999, Hunting Engineering acquired a 50 per cent. holding in Euro-Shelter SA for a consideration of £2.0 million.

On 19 August 1999, the Group acquired AMS Inc. for £1.2 million.

On 27 August 1999, a freehold site at Southampton was sold by the Group for £4.4 million.

Subsequent to the year end on 19 January 2000, Gibson Petroleum Company Limited acquired the share capital of Rex Propane Limited for £0.7 million. On 20 January 2000, Iberia Threading Inc. was acquired by Hunting Oilfield Services Holdings Inc. for £22.4 million and on 22 January 2000, 50 per cent. of Hunting Airtrust Tubulars Pte Limited was acquired by Hunting Oilfield Services Overseas Holdings Limited for £0.7 million.

Report of the Directors

continued

SUBSTANTIAL INTERESTS

As at 16 March 2000, substantial interests in the Ordinary shares of the Company, other than directors' interests, notified to the Company in accordance with Sections 198 to 208 of the Companies Act 1985, were as follows:

	Notes	Number of shares	Percentage of issued share capital
The Capital Group Companies, Inc	(i)	16,275,913	16.10
Hunting Investments Limited	(ii)	10,884,743	10.82
Prudential plc	(iii)	10,212,133	10.15
F M R Corp. and Fidelity International Limited	(iv)	9,071,976	9.01
Slaley Investments Limited		6,411,679	6.37
R.H. Malthouse – as trustee*		6,416,097	6.37
F. Godson – as trustee*†		6,344,097	6.30
Phillips & Drew Holding Limited	(v)	4,550,001	4.52
B T Pension Fund		3,574,225	3.55
L.C. Hunting		910,701	
– as trustee*		2,298,117	
		3,208,818	3.19

Notes

(i) The interest is held by affiliates.

(ii) Included in the holding are 9,437,743 shares held by a wholly owned subsidiary.

(iii) The interest held by Prudential plc includes segregated funds managed for clients.

(iv) The interest is held by direct and indirect subsidiaries.

(v) The interest is held by a subsidiary.

* After elimination of duplicated holdings, the total Hunting family trustee interests shown above amount to 6,344,097 shares.

† F. Godson, a member of the staff of PricewaterhouseCoopers, acts as a trustee in his personal capacity.

SHARE OPTION SCHEMES

Details are provided in note 29 to the financial statements on page 48.

Report of the Directors

continued

EMPLOYEE POLICY

The Group recognises the value of employee involvement in its activities. It encourages an awareness of the financial and economic factors affecting the performance of the Group and the participation of employees in the Group's share option schemes. The information which is made available and the degree to which employees are consulted on matters affecting their interests varies according to local conditions and circumstances. The Hunting Review, which includes articles on the Group, is available to all employees.

Full and fair consideration is given to applications for employment from disabled persons and to their training, career development and promotion. Every effort is made to retain in employment those who become disabled. The Group recognises its responsibility for the health and safety of its employees and encourages their active participation in addressing environmental issues. This is regularly reviewed so as to provide a working environment which meets the requirements of the Health and Safety at Work Act 1974.

THE ENVIRONMENT



The Group is committed to the protection of the environment by using renewable resources wherever possible and developing manufacturing processes and procedures such that any adverse effects on the environment are reduced to a practicable minimum.

Hunting PLC environmental logo

Group policy is:

- to include environmental issues in planning and decision making;
- that each operating unit develops and implements its own procedures and conducts regular reviews to ensure that they are maintained and refined;
- to encourage the reduction of waste and emissions;
- to pay special regard to environmental issues and requirements of the communities in which its operations are located;
- to encourage involvement in, and understanding of, environmental issues, particularly those relating to the industries in which it operates;
- to promote employee participation in voluntary environmental projects, such as recycling and waste reduction.

Safety and health management at AWE under Hunting-BRAE's stewardship maintains a high and improving standard. The achievements in these areas have been recognised by a Gold Award for Occupational Safety for the second successive year. Hunting-BRAE has also made important progress in the field of environmental management.

RESEARCH AND DEVELOPMENT

Group subsidiaries undertake, where appropriate, research and development to meet particular market and product needs. In the Defence Division, research and development is carried out under contract for the Ministry of Defence. Research is also undertaken into the feasibility of possible future requirements in the defence field. The amount borne and written off by the Group during the year was £1.6 million (1998 - £1.2 million).

Report of the Directors

continued

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group paid £75,000 (1998 – £79,000) to UK charitable organisations and £75,000 (1998 – £106,000) to overseas charities. No UK political donations were made (1998 – £Nil).

TANGIBLE FIXED ASSETS

Details of movements in tangible fixed assets are shown in note 15 to the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 26 April 2000. The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 24 April 2000 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the relevant register of securities after then shall be disregarded in determining the rights of any person to attend or vote at the Meeting. Details are set out in the Notice of Annual General Meeting accompanying this document.

PURCHASE OF OWN ORDINARY SHARES

The Directors are authorised to make market purchases of the Company's own Ordinary shares under an authority granted by the Annual General Meeting held on 29 April 1999. No such purchases were made during the year. The Directors will seek the renewal of this authority at the 2000 Annual General Meeting.

POLICY ON PAYMENT OF CREDITORS

The Company's and Group's policy is to pay all creditors in accordance with agreed terms of business. The Company has no material trade creditors. The total amount of Group trade creditors falling due within one year at 31 December 1999, represents 48 days' worth as a proportion of the total amount invoiced by suppliers during the year ended on that date.

SHARE CAPITAL

Details of the movements in the Company's share capital are shown in note 29 to the financial statements.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office as auditors. At the Annual General Meeting to be held on 26 April 2000, Resolution 5 will be proposed to reappoint them as auditors of the Company.

BASE SHARE VALUE FOR CAPITAL GAINS TAXATION

The following are the adjusted middle market quotations on 31 March 1982, as derived from the London Stock Exchange Daily Official List:

	Price
Ordinary 25p shares	91.25p
6% Cumulative Preference £1 shares	67.50p

By order of the Board
D.L. Clark FCCA
Secretary



16 March 2000

The Remuneration Committee's Report

The Remuneration Committee of the Board (the Committee) comprises the three non-executive directors of the Company, A. R. Fryer (chairman), D. G. S. Waterstone and Sir Patrick Brown all of whom served throughout the year. This Committee is responsible for determining the remuneration of the Chairman and executive directors, including the setting of annual performance targets and participation in the long-term share incentive plan. The Board determines fees payable to the non-executive directors who do not participate in the Group's share incentive plan or receive any other benefits.

The constitution and operation of the Committee during the year has complied with the Combined Code with respect to directors remuneration except for the recommended period of notice for executive directors as referred to below.

REMUNERATION POLICY

The Committee aims to ensure that the individual rewards and incentives are competitive and appropriate to attract, motivate and retain executives of high ability, experience and commitment. The Committee receives advice from external consultants, has access to surveys and consults with the Chief Executive where appropriate.

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

The Committee considers that the two year notice period for executive directors included in their service contracts is appropriate in order to attract and retain appropriately qualified executives.

SALARIES

Basic salaries are reviewed annually. In 1999, in considering appropriate salary levels the Committee took into account inflation, the remuneration paid by comparable companies in terms of sales, profits, number of employees, market capitalisation and the complexity and international spread of the Group's operations.

BONUSES

Annual bonuses are paid to executive directors based on factors which, depending on their role, include improvement in the Group's earnings per share, the increase in profit before taxation over the previous year, and the achievement against budget for the year. No bonuses were paid in respect of the year ended 31 December 1999.

The Remuneration Committee's Report

continued

EMOLUMENTS

In the year to 31 December 1999, the highest paid director received total emoluments of £235,058 as shown below.

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

	Salary and fees £000	Benefits £000	1999 Total £000	1998 Total £000
Executive directors				
R. H. Hunting (chairman)	115	10	125	118
K. W. Miller (chief executive)	220	15	235	255
D. L. Clark	158	14	172	181
R. J. Whysall (appointed 5 October 1998)	126	10	136	39
T. L. Grievson (retired 2 October 1998)	—	—	—	324
Non-executive directors				
A. R. Fryer	22	—	22	21
D. G. S. Waterstone	22	—	22	21
Sir Patrick Brown (appointed 20 March 1998)	22	—	22	16
Total	685	49	734	975

DIRECTORS' OPTIONS OVER ORDINARY SHARES

As at 31 December 1999, the following directors had outstanding options to acquire Ordinary shares of the Company under the share option schemes described in note 29 to the financial statements.

	At end of year	At start of year	Exercise price p	Date from which exercisable	Expiry date
K. W. Miller					
Lapsed 14 December 1999	—	59,823	200.88	—	—
Not yet exercisable(i)	7,039	7,039	148.00	1.06.02	30.11.02
D. L. Clark					
Lapsed 14 December 1999	—	47,858	200.88	—	—
Not yet exercisable(i)	7,039	7,039	148.00	1.06.02	30.11.02
R. J. Whysall					
Lapsed 27 January 2000	4,779	4,779	205.00	27.07.99	27.01.00
Not yet exercisable(i)	1,165	1,165	148.00	1.06.02	30.11.02

(i) Denotes savings related share options.

No options were granted under the above schemes during the year and no other director held any options during the year.

Between 31 December 1999, and 16 March 2000, there were no other changes in the interests of directors in options over the Ordinary shares of the Company other than as disclosed overleaf.

The Remuneration Committee's Report

continued

LONG-TERM EXECUTIVE SHARE INCENTIVE PLAN

The Company has in place a long-term performance-linked share plan. Awards under this plan, which commenced in 1996, take the form of nil cost options to acquire the Company's Ordinary shares provided firstly, that total shareholder return over a three year period exceeds the increase in an appropriate Financial Times sector return and secondly that relevant profit targets are met over a similar three year period. Shares deposited with the plan trustees for a further three years after the qualifying period may attract a bonus of one additional share for every four deposited with the trustees. The maximum market value of shares over which an award may be granted to an executive in any year cannot exceed 50% of his current annual rate of basic salary excluding benefits in kind. No options vested under this scheme during 1999.

On 1 January 1999, 599,500 nil cost options were granted under the Company's long-term executive share incentive plan of which 89,000 were granted to K. W. Miller, 64,000 to D. L. Clark and 52,500 to R. J. Whysall. The total options granted to date under this plan to directors are K. W. Miller 167,550, D. L. Clark 118,850 and R. J. Whysall 87,075. The right to exercise these options will not vest unless certain performance conditions are met. Subsequent to the year end the following options, granted in 1997, lapsed; K. W. Miller 32,050, D. L. Clark 22,350 and R. J. Whysall 12,475.

PENSIONS

Executive directors are eligible for membership of the Hunting Pension Scheme (the Scheme) which is a contracted in scheme available to the majority of UK employees, other than those at AWE.

Executive directors are provided with benefits from the Scheme at an enhanced level for which they pay increased member contributions. The retirement age for executive directors under the Scheme is 60 and provides, subject to Inland Revenue limits, a pension of up to two thirds of final salary. Pensionable salary is the annual salary less an amount equal to the State Lower Earnings Limit. Bonuses and benefits do not qualify as pensionable salary. Executive directors contribute to the Scheme at rates varying from 5.5% to 7.5% of their pensionable salary. The Scheme provides for a lump sum death in service benefit of four times basic salary and a spouse's pension of two thirds of the member's pension on the member's death. All members are granted post retirement increases which are guaranteed to increase annually in line with increases in the retail price index to a maximum of 5%.

DIRECTORS' PENSION BENEFITS

As required under the Stock Exchange Listing Rules, the following table sets out details of the transfer value of the increase in accrued benefits less member contributions for each executive director.

	Increase in accrued pension during the year excluding inflation £000	Transfer value of increase £000	Accumulated total of accrued pension at 31 December 1999 £000
R. H. Hunting	4	54	68
K. W. Miller	4	60	176
D. L. Clark	11	153	93
R. J. Whysall	25	356	70

Corporate Governance

COMBINED CODE

The Company has complied with the Combined Code ("the Code") throughout the financial year with the exception of certain matters referred to within this statement.

BOARD OF DIRECTORS

The Board of Directors comprises the Chairman, Chief Executive, two other executive directors and three non-executive directors. This composition with a separate Chairman and Chief Executive, ensures a balance of responsibilities and authorities.

The Board normally meets formally seven times a year and all directors have access to the company secretary and to independent professional advice, at the Company's expense, in the furtherance of their duties. All directors are subject to re-election by the shareholders at least every three years.

The Code requires the identification of a senior independent director. The Company considers its three non-executive directors to be of equal standing on the Board and accordingly has not nominated a senior independent director.

The recommended period for director's notice or contract periods is one year or less. The Remuneration Committee considers that the two-year notice period for executive directors is appropriate in order to attract and retain appropriately qualified executives.

The Board has delegated certain activities to committees namely the Audit, Remuneration and Nomination committees. The Audit and Remuneration committees consist exclusively of non-executive directors and the Nominations Committee comprises the non-executive directors together with the Chairman and the Chief Executive. The Audit Committee meets formally at least twice a year with the external auditors in attendance. Its role includes reviewing reports from management, internal and external auditors. The Remuneration Committee meets as required to determine executive directors' remuneration. The report of the Remuneration Committee is set out on pages 22 to 24. The Nominations Committee meets as required to consider main Board appointments.

INTERNAL CONTROLS

As permitted by the London Stock Exchange's letter dated 27 September 1999, the Board have chosen to adopt a phased implementation of the requirement to review the effectiveness of the Group's system of internal control. Therefore, as last year, the Board has restricted its review and report to internal financial controls.

The Board acknowledges its responsibility for the Group's system of internal financial control and for reviewing its effectiveness which aims to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any such system of internal financial control can however, only provide reasonable, but not absolute assurance against material misstatement or loss and of meeting internal financial control objectives. The directors have reviewed the effectiveness of the Group's system of internal financial control for the period covered by these financial statements. The key features of the Group's system of internal financial control, which have been in operation throughout the financial year, are as follows:

- a) Management structure-Within operational parameters set by the Board, the management of the Group is delegated to the Chief Executive and the Executive directors. Group subsidiaries in turn operate within clearly defined policies and authorities under a decentralised management structure. All senior management changes within the Group require the prior approval of the Chief Executive.

Corporate Governance

continued

INTERNAL CONTROLS (continued)

- b) Reporting-All Group subsidiaries submit detailed management information in accordance with a defined reporting timetable. This includes weekly treasury reports, monthly management accounts, annual budgets and three-year plans together with six month and full year statutory reporting. This data is subject to regular review and assessment by Group management through the monitoring of ratios and comparison to targets and budgets.
- c) Strategic planning and budgeting-The Group prepares three-year plans and annual budgets. These encompass comprehensive profit and loss, balance sheet and cash flow projections and are formally presented to the Board for adoption and approval and form the basis for monitoring performance. Clearly defined procedures exist for capital expenditure appraisal and authorisation.
- d) Monitoring process-The Audit Committee regularly receives and reviews reports from external auditors and from the internal auditors as part of the Group's internal audit and risk assessment programme.

All subsidiaries undertake an annual self-assessment of internal financial controls and their risk environment, the results of which are reported to the Board.

Following publication of the Turnbull guidance on Internal Control, the Board undertook a review of its procedures governing internal control in order to address compliance with the Code's internal control review requirement. As a result, a number of new procedures have been identified and implemented, which have enhanced and formalised the review process and enabled the Board to effectively monitor, periodically review and evaluate the system of internal control across the Group. The Board believe the enhanced internal control framework, which has been operating since 1 March 2000, is appropriate for the Group and meets the requirements of the Code.

GOING CONCERN

The directors, after having made appropriate enquiries, believe that the Company and the Group have adequate resources to continue in operation for the foreseeable future and have adopted the going concern basis in preparing the financial statements.

COMMUNICATIONS

All Ordinary shareholders are invited to the Annual General Meeting at which questions may be put to the Board. There is a regular dialogue with institutional shareholders on Group results and developments.

Directors' Responsibilities

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

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

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

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

Report of the Auditors

TO THE SHAREHOLDERS OF HUNTING PLC

We have audited the financial statements on pages 29 to 54 (including the additional disclosures on pages 23 to 24 relating to the remuneration of the directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out on pages 29 and 30.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 27 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 25 and 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.


BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse Coopers
PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
1 Embankment Place
London.

16 March 2000

Principal Accounting Policies

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold properties, long leasehold properties and terminals and in accordance with applicable accounting standards.

CONSOLIDATION

The Group accounts include the financial statements of the Company and its subsidiary undertakings, together with its share of associated and joint venture undertakings, for the year to 31 December.

GOODWILL

On the acquisition of a business, fair values are ascribed to the net assets acquired. Goodwill arises when the fair value of the consideration given for the business exceeds such net assets.

With effect from 1 January 1998 goodwill arising on the acquisition of a business is capitalised as an asset and amortised over its useful economic life which does not exceed twenty years.

Goodwill on acquisitions made prior to 31 December 1997 was charged to reserves. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill previously taken to reserves.

TURNOVER

Turnover represents the invoiced amount, excluding sales related taxes, of goods sold, services provided during the year and the value of work undertaken during the year on long term contracts.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost or valuation and depreciated in equal annual instalments over the estimated useful lives, by using the following rates:

Freehold property	2%-10%
Leasehold land and buildings	life of lease
Oil and gas exploration and development	unit of production
Pipelines, tanks and associated equipment	4%-20%
Aircraft, plant and equipment	6%-33½%

Fixed assets are regarded as impaired if their recoverable amount falls below their carrying value. Impairment losses are charged to the profit and loss account unless they arise on previously revalued assets, in which case they are recognised in the statement of total recognised gains and losses to the amount of the revaluation and thereafter in the profit and loss account.

FOREIGN CURRENCIES

Assets and liabilities of overseas subsidiary and associated and joint venture undertakings have been expressed in Sterling at the market rates ruling at 31 December. Trading results are translated at the average rates for the year. Exchange differences arising on the translation of the net assets of overseas subsidiary undertakings are dealt with through reserves, whilst those arising from trading transactions are dealt with in the profit and loss account.

Exchange differences on foreign currency borrowings used to finance overseas net equity investments are dealt with through reserves.

ASSOCIATED AND JOINT VENTURE UNDERTAKINGS AND TRADE INVESTMENTS

Associated undertakings are entities, not being subsidiary or joint venture undertakings, in which Group companies have an effective interest of not less than 20% and in whose commercial and policy decisions they exercise significant influence.

Joint venture undertakings are entities not being subsidiary or associated undertakings in which Group companies have an interest and jointly control the entity with one or more partners under a contractual arrangement.

Principal Accounting Policies

continued

ASSOCIATED AND JOINT VENTURE UNDERTAKINGS AND TRADE INVESTMENTS (continued)

The Group's share of profits of associated and joint venture undertakings is included in the consolidated profit and loss account. Loans to and the Group's share of net assets of associated and joint venture undertakings are included in the consolidated balance sheet as an investment.

Trade investments are included at cost.

DEFERRED TAXATION

Provision for deferred taxation is made using the liability method, on the excess of capital allowances over depreciation and other timing differences, to the extent that it is probable that a liability will crystallise in the foreseeable future.

STOCK AND WORK IN PROGRESS

Stock is stated at the lower of cost and estimated net realisable value. Work in progress is stated at the lower of cost and estimated net realisable value less payments received and receivable on account. Costs include production overheads and a proportion of administrative overheads in addition to direct labour and material costs. Interest costs are included in work in progress where financed by specific borrowings.

For long-term contract work in progress, where the supply of goods and services falls into more than one year, a due proportion of the estimated sales revenue, costs and attributable profits is included in each year's results. Profits on other contracts are taken on completion. If it appears likely that a contract will prove unprofitable, full provision is made for the anticipated loss.

LEASES

Assets acquired under finance leases have been recorded in the balance sheet as tangible fixed assets at their equivalent capital value and depreciated over the useful life of the asset. All other leases are operating leases, and the rental of these is charged to the profit and loss account on a straight-line basis over the life of the lease.

PENSIONS

The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes. Actuarial surpluses are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries.

FINANCIAL INSTRUMENTS

Derivative financial instruments are used to hedge exposures to fluctuations in interest and foreign exchange rates and in the selling price of crude oil inventories. The Group does not hold or issue derivative financial instruments for financial trading purposes.

Interest rate swap, cap and forward rate agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these instruments are recognised as adjustments to interest expense over the period of the contracts.

Forward foreign exchange contracts are used to hedge transaction exposures. Transactions covered by these contracts are retranslated at the balance sheet date using the forward contract rate and the net unrealised gain or loss is held within debtors or creditors and released to the profit and loss account when the hedged transaction occurs.

Crude oil futures and swap contracts are used to hedge against fluctuations in the selling price of crude oil inventory. Gains or losses on these contracts are recognised within the profit and loss account when the inventory is sold.

Currency options are used to hedge overseas profits from short-term currency movements. Option premiums on these instruments are written off as incurred and exchange profits recognised on maturity of the options.

RESEARCH AND DEVELOPMENT

Except where research and development costs are fully funded by customers, expenditure is written off as incurred.

Consolidated Profit and Loss Account

For the Year ended 31 December 1999

	Notes	1999 £m	1998 £m
Turnover			
Continuing operations, including share of joint venture		1,053.7	958.5
Less: share of joint venture		(2.1)	(2.3)
	1	<u>1,051.6</u>	<u>956.2</u>
Discontinued operations	1	<u>—</u>	<u>25.6</u>
Group turnover	1	<u>1,051.6</u>	<u>981.8</u>
Cost of sales		(907.7)	(834.0)
Gross profit		<u>143.9</u>	<u>147.8</u>
Net operating expenses	2	(110.2)	(108.7)
Continuing operations		<u>31.9</u>	<u>47.2</u>
Discontinued operations		<u>1.8</u>	<u>2.1</u>
Group operating profit		<u>33.7</u>	<u>49.3</u>
Share of operating profit in joint venture and associated undertakings	3	<u>2.0</u>	<u>1.7</u>
Total operating profit	1	<u>35.7</u>	<u>51.0</u>
Exceptional items:			
Loss on disposal or termination of discontinued operations	4	<u>—</u>	<u>13.1</u>
Loss on disposal of continuing operations	4	<u>—</u>	<u>(0.2)</u>
Less provisions	4	<u>—</u>	<u>(0.2)</u>
		<u>—</u>	<u>(5.1)</u>
Profit on ordinary activities before interest		<u>35.7</u>	<u>45.9</u>
Interest receivable and similar income	7	2.0	2.8
Interest payable and similar charges	8	(7.6)	(8.5)
Profit on ordinary activities before taxation	9	<u>30.1</u>	<u>(0.4)</u>
Taxation on profit on ordinary activities	10	(8.7)	(11.3)
Profit on ordinary activities after taxation		<u>21.4</u>	<u>(2.7)</u>
Equity minority interests		(7.5)	(7.5)
Profit for the financial year		<u>13.9</u>	<u>(2.6)</u>
Dividends (including non-equity)	12	(13.2)	(13.2)
Retained profit for the year	30	<u>0.7</u>	<u>8.4</u>
Basic earnings per 25p ordinary share	13	<u>10.0p</u>	<u>17.6p</u>
Diluted earnings per 25p ordinary share	13	<u>10.0p</u>	<u>17.5p</u>

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

Consolidated Statement of Total Recognised Gains and Losses

For the Year ended 31 December 1999

	Notes	1999 £m	1998 £m
Profit for the financial year		13.9	(2.6)
Currency translation differences on foreign currency net investments	30	<u>1.8</u>	<u>(3.8)</u>
Total recognised gains and losses for the year		<u>15.7</u>	<u>(6.4)</u>

Consolidated Balance Sheet

At 31 December 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Intangible assets	14	6.2	5.5
Tangible assets	15	124.1	118.8
Investment in joint venture:	16		
Share of gross assets		7.6	7.4
Share of gross liabilities		(6.3)	(6.6)
		1.3	0.8
Investments in associates	17	2.8	4.5
Other investments	18	18.6	14.2
		<u>153.0</u>	<u>153.8</u>
Current assets			
Stocks	21	108.2	107.7
Debtors	22	206.2	207.5
Investments	23	10.1	11.4
Cash at bank and in hand	34	28.3	41.7
		<u>352.8</u>	<u>368.3</u>
Creditors: amounts falling due within one year	24	(235.3)	(247.4)
Net current assets		<u>117.5</u>	<u>120.9</u>
Total assets less current liabilities		<u>270.5</u>	<u>232.7</u>
Creditors: amounts falling due after more than one year	25	(87.8)	(77.4)
Provisions for liabilities and charges	28	(5.9)	(6.5)
		<u>176.8</u>	<u>163.8</u>
Capital and reserves			
Called up share capital	29	73.8	73.8
Share premium	30	41.0	41.0
Revaluation reserve	30	20.2	11.1
Profit and loss account	30	(4.6)	(6.4)
Shareholders' funds			
Equity interests	31	81.8	79.2
Non-equity interests	31	48.6	40.5
	31	<u>130.4</u>	<u>119.7</u>
Equity minority interests		<u>46.4</u>	<u>46.4</u>
		<u>176.8</u>	<u>163.8</u>

Reconciliation of Movements in Consolidated Shareholders' Funds

For the Year ended 31 December 1999

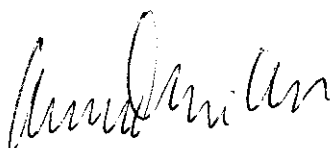
	Notes	1999 £m	1998 £m
Profit for the financial year		13.9	21.6
Dividends	12	(13.2)	(13.2)
Retained profit for the year		<u>0.7</u>	<u>8.4</u>
Currency translation differences on foreign currency net investments	30	1.8	(1.4)
New share capital subscribed		—	1.6
Goodwill written back on disposals	30	0.1	0.6
Net addition to shareholders' funds		<u>2.6</u>	<u>6.8</u>
Opening shareholders' funds		<u>127.8</u>	<u>121.0</u>
Closing shareholders' funds	31	<u>130.4</u>	<u>127.8</u>

Company Balance Sheet

At 31 December 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Investments	19	238.7	229.2
Current assets			
Debtors	22	24.8	24.3
Cash at bank and in hand		0.3	1.1
		25.1	25.4
Creditors: amounts falling due within one year	24	(33.3)	(21.0)
Net current (liabilities) assets		(8.2)	2.4
Total assets less current liabilities		230.5	231.6
Creditors: amounts falling due after more than one year	25	(96.8)	(105.2)
		133.7	126.4
Capital and reserves			
Called up share capital	29	73.8	73.8
Share premium	30	41.0	41.0
Profit and loss account	30	18.9	11.6
Shareholders' funds			
Equity interests	31	85.1	77.8
Non-equity interests	31	48.6	48.6
	31	133.7	126.4

K. W. Miller



D. L. Clark



Directors

Approved by the Board on 16 March 2000

Consolidated Cash Flow Statement

For the Year ended 31 December 1999

	Notes	1999 £m	1998 £m
Net cash inflow from operating activities	32	16.9	35.8
Dividends received from associated undertakings		—	0.1
Returns on investments and servicing of finance			
Interest received		2.1	2.9
Interest paid		(7.1)	(7.7)
Preference dividends paid		(4.0)	(4.0)
Dividends paid to minorities		(1.0)	(3.7)
Net cash (outflow) from returns on investments and servicing of finance		(10.0)	(12.5)
Taxation paid		(6.7)	(14.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(14.9)	23.0
Sale of tangible fixed assets		5.8	1.7
Purchase of own shares		—	(0.3)
Purchase of assets for resale		—	(3.5)
Purchase of trade investments		(0.4)	(1.2)
Net cash (outflow) from capital expenditure and financial investment		(9.5)	(26.5)
Acquisitions and disposals			
Purchase of subsidiary undertakings	36	(13.0)	(4.9)
Net cash (overdraft) acquired with subsidiary undertakings	36	1.3	(0.5)
Net proceeds from disposal of operations	37	1.5	35.6
(Cash) disposed of with subsidiary undertakings		—	(1.8)
Loans repaid by associated undertakings		0.2	—
Net cash (outflow) inflow from acquisitions and disposals		(10.0)	28.4
Equity dividends paid		(6.3)	(6.3)
Net cash (outflow) inflow before use of liquid resources and financing		(25.6)	24.3
Management of liquid resources			
Net movement in short term money market deposits	34	(8.7)	1.4
Financing			
Issue of ordinary share capital		—	1.6
Increase in borrowings due within one year	34	9.8	9.1
Increase (decrease) in borrowings due beyond one year	34	10.2	(14.1)
Capital element of finance leases	34	(0.3)	(0.6)
Net cash inflow (outflow) from financing	33	19.7	(4.0)
(Decrease) increase in cash	34	(14.6)	21.7

Notes to the Financial Statements

1. SEGMENTAL ANALYSIS

Turnover represents the total amount receivable in the ordinary course of business for services provided and for goods sold, after eliminating sales within the Group.

Turnover and operating profit, including associated and joint venture undertakings but before net interest costs, exceptional items and taxation, are shown below.

ACTIVITY	1999	1999	1999	1998	1998	1998
	Turnover	Operating profit (loss)	Net assets (liabilities)	Turnover	Operating profit	Net assets (liabilities)
	£m	£m	£m	£m	£m	£m
Continuing operations						
Oil	514.0	7.5	178.5	468.9	21.3	149.8
Less share of joint venture undertaking	(2.1)	—	—	(2.3)	—	—
Share of joint venture undertaking	—	1.2	1.3	—	1.4	0.8
Share of associate undertakings	—	0.8	2.8	—	0.3	4.5
	<u>511.9</u>	<u>9.5</u>	<u>182.6</u>	<u>466.6</u>	<u>23.0</u>	<u>155.1</u>
Defence	539.7	24.4	71.3	489.6	25.9	51.7
	<u>1,051.6</u>	<u>33.9</u>	<u>253.9</u>	<u>956.2</u>	<u>48.9</u>	<u>206.8</u>
Discontinued operations						
Aviation	—	1.8	—	25.6	2.1	—
Net funding	—	—	(73.8)	—	—	(43.2)
Central (liabilities) assets	—	—	(3.3)	—	—	0.2
	<u>1,051.6</u>	<u>35.7</u>	<u>176.8</u>	<u>981.8</u>	<u>51.0</u>	<u>163.8</u>
AREA OF OPERATION						
Continuing operations						
Europe – UK	530.8	21.0	76.8	514.8	27.0	61.7
– Continent	32.6	(1.7)	16.5	23.3	0.9	14.1
North America – Canada	437.4	11.4	105.6	354.3	11.2	83.9
Share of joint venture – Canada	—	1.2	1.3	—	1.4	0.8
Less share of joint venture – Canada	(2.1)	—	—	(2.3)	—	—
North America – US	42.2	(0.4)	46.1	53.8	6.4	38.7
Share of associates – US	—	—	—	—	—	2.4
– Continent	—	—	0.3	—	—	0.3
– UK	—	0.6	2.2	—	0.3	1.6
– Other	—	0.2	0.3	—	—	0.2
Other	10.7	1.6	4.8	12.3	1.7	3.1
	<u>1,051.6</u>	<u>33.9</u>	<u>253.9</u>	<u>956.2</u>	<u>48.9</u>	<u>206.8</u>
Discontinued operations						
Europe – UK	—	1.8	—	25.6	2.1	—
North America – US	—	—	—	0.3	—	—
	<u>—</u>	<u>1.8</u>	<u>—</u>	<u>25.6</u>	<u>2.1</u>	<u>—</u>
Net funding	—	—	(73.8)	—	—	(43.2)
Central (liabilities) assets	—	—	(3.3)	—	—	0.2
	<u>1,051.6</u>	<u>35.7</u>	<u>176.8</u>	<u>981.8</u>	<u>51.0</u>	<u>163.8</u>

Inter-divisional turnover is not material and turnover by destination is not materially different to the area of operation.

The turnover, operating profits and net assets of companies acquired during the year are not material to the results of the Group.

Most of the Group's financing is arranged centrally and is not specifically attributable to individual activities or geographic areas.

Notes to the Financial Statements

continued

2. NET OPERATING EXPENSES

	1999			1998		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m	£m
Distribution costs	4.5	—	4.5	3.7	0.1	3.8
Administrative expenses	108.9	(1.4)	107.5	107.9	1.0	108.9
Other operating income	—	—	—	(2.9)	—	(2.9)
Rental income	(1.4)	(0.4)	(1.8)	(1.2)	(0.1)	(1.3)
	112.0	(1.8)	110.2	107.5	1.0	108.5

3. SHARE OF OPERATING PROFIT IN JOINT VENTURE AND ASSOCIATED UNDERTAKINGS

	1999	1998
	£m	£m
Share of joint venture undertaking	1.2	1.4
Share of associated undertakings	0.8	0.3
	2.0	1.7

4. EXCEPTIONAL ITEMS

Exceptional items comprise:

	1999	1998
	£m	£m
(Loss) on disposal or termination of discontinued operations	—	(13.1)
(Loss) on disposal of continuing operations	—	0.2
Less provisions	—	8.2
	—	(5.1)

The loss on disposal of discontinued operations in 1998 principally related to losses and costs arising on the Aviation disposal programme.

The cash flow relating to 1998 exceptional items comprised an inflow of £35.6 million on the disposal of operations.

5. EMPLOYEES

The average weekly number of employees during the year by activity is made up as follows:

	1999	1998
	No.	No.
Oil	2,525	2,718
Defence	7,923	8,230
Aviation (discontinued)	—	225
	10,448	11,173

Staff costs during the year comprise:

	1999	1998
	£m	£m
Wages and salaries	214.0	219.7
Social security costs	19.7	19.3
Other pension costs (Note 40)	17.8	17.8
	251.5	256.8

Notes to the Financial Statements

continued

6. REMUNERATION OF DIRECTORS

Details of directors' emoluments and share options are shown within the Remuneration Committee's Report on pages 22 to 24.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	1999	1998
	£m	£m
Bank deposits and investments	1.5	1.9
Bank current accounts	0.5	0.8
Share of associated undertakings	—	0.1
	<u>2.0</u>	<u>2.8</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£m	£m
Bank loans and overdrafts repayable within 5 years	3.6	4.0
Other loans repayable within 5 years	3.4	3.8
Share of joint venture undertaking	0.5	0.5
Share of associated undertakings	0.1	—
	<u>7.6</u>	<u>8.3</u>

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999	1998
	£m	£m
Profit on ordinary activities before taxation is stated after charging (crediting) the following items:		
Depreciation – owned assets	13.3	13.2
– leased assets	0.1	0.4
Amortisation of goodwill	0.3	0.2
(Profit) on disposal of fixed assets	(1.2)	(1.0)
(Income) from unlisted investments	(0.1)	(0.2)
Research and development expenditure	1.6	1.2
Operating lease payments:		
Plant and machinery	2.0	3.7
Land and buildings	6.4	5.4
Finance lease payments	—	0.1
Auditors' remuneration:		
Audit of parent undertaking	0.1	0.1
Audit of subsidiary undertakings	0.7	0.6
Non-audit services (PricewaterhouseCoopers UK)	0.8	1.2

Notes to the Financial Statements

continued

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999	1998
	£m	£m
UK Corporation tax at 30% (1998 - 31%)	7.3	6.7
Double taxation relief	(2.4)	—
Overseas taxation at various rates	3.4	4.1
Deferred taxation – UK	0.2	—
– Overseas	(0.3)	1.1
Exceptional items	—	(0.5)
	<u>8.2</u>	<u>11.4</u>
Share of joint venture undertaking	0.3	—
Share of associated undertakings	<u>0.2</u>	<u>—</u>
	<u>8.7</u>	<u>11.4</u>

11. RESULTS FOR THE FINANCIAL YEAR

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. A profit of £20.5m (1998 - £4.7m) has been dealt with in the accounts of Hunting PLC.

12. DIVIDENDS

	Pence per share	1999 £m	Pence per share	1998 £m
Preference dividends (non-equity):				
Paid	4.2	0.1	4.2	0.1
Paid	8.25	3.9	8.25	3.9
		<u>4.0</u>		<u>4.0</u>
Ordinary dividends (equity):				
Interim paid	—	—	3.0	3.0
Interim declared (1998 second interim declared)	3.0	3.0	5.75	5.7
Final proposed	6.25	6.2	0.5	0.5
		<u>9.2</u>		<u>9.2</u>
		<u>13.2</u>		<u>13.2</u>

Notes to the Financial Statements

continued

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of outstanding Ordinary shares is adjusted to assume conversion of all dilutive potential Ordinary shares. The Group has three categories of share option schemes. The dilutive potential Ordinary shares are those options where the exercise price is less than the average market price of the Company's Ordinary shares during the year.

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

	Earnings £m	1999 Weighted average number of Ordinary shares millions	Earnings per Ordinary share pence	Earnings £m	1998 Weighted average number of Ordinary shares millions	Earnings per Ordinary share pence
Profit attributable to shareholders	13.9	—	—	21.6	—	—
Less: preference dividends	(4.0)	—	—	(4.0)	—	—
Basic EPS						
Earnings attributable to Ordinary shareholders	9.9	100.2	10.0	17.6	99.9	17.5
Effect of dilutive shares						
Options	—	—	—	—	0.6	(0.1)
Diluted EPS						
Adjusted earnings	9.9	100.2	10.0	17.6	100.5	17.5

14. INTANGIBLE ASSETS

	Goodwill on acquisitions £m
GROUP	
Cost:	
At 1 January 1999	3.7
Exchange adjustments	0.3
Additions (Note 36)	2.7
At 31 December 1999	6.7
Amortisation:	
At 1 January 1999	0.2
Charge for the year	0.3
At 31 December 1999	0.5
Net book amount:	
At 31 December 1999	6.2
At 31 December 1998	3.5

Notes to the Financial Statements

continued

15. TANGIBLE ASSETS

	Land and buildings	Oil and gas exploration and development	Pipelines, tanks and associated equipment	Aircraft, plant and equipment	Total
	£m	£m	£m	£m	£m
GROUP					
Cost or Valuation:					
At 1 January 1999	44.1	9.5	45.0	98.1	196.7
Exchange adjustments	0.7	0.3	4.2	2.4	7.6
Additions	0.9	2.4	3.6	7.1	14.0
Acquisitions	1.3	—	1.3	7.3	9.9
Disposals	(5.2)	—	(0.2)	(9.2)	(14.6)
Reclassifications	(0.3)	—	—	0.3	—
At 31 December 1999	41.5	12.2	53.9	106.0	213.6
Depreciation:					
At 1 January 1999	4.0	5.0	11.5	62.4	82.9
Exchange adjustments	0.2	0.2	0.7	0.9	2.0
Charge for the year	1.3	0.7	3.1	8.3	13.4
Disposals	(1.0)	—	(0.1)	(7.7)	(8.8)
At 31 December 1999	4.5	5.9	15.2	63.9	89.5
Net book amount:					
At 31 December 1999	37.0	6.3	38.7	42.1	124.1
At 31 December 1998	40.1	4.5	33.5	35.7	113.8

Land and buildings comprise:

	Cost or valuation £m	Accumulated depreciation £m
Freehold land and buildings	28.7	1.1
Long leasehold property	3.4	0.3
Short leasehold property	9.4	3.1
	41.5	4.5

The freehold and long leasehold properties in the UK occupied by Group companies were valued at 31 December 1997 by Wood & Co. Chartered Surveyors, acting as external valuers on the basis of existing use value in accordance with the Royal Institution of Chartered Surveyors appraisal and valuation manual.

Overseas freehold and long leasehold properties occupied by Group companies were also valued at 31 December 1997 on this basis. The properties in Canada have been valued by American Appraisal Canada Inc., appraisers and business valuers, acting as external valuers, and DDL Real Estate Group Inc., appraisers and business valuers, acting as independent valuers and in Italy by Wood & Co Chartered Surveyors. Properties not occupied by Group companies have been valued on the basis of open market value in the US by WCS Realty Appraisal Services, property appraisers, acting as independent valuers and in Canada by American Appraisal Canada Inc.

These valuations are recognised in the accounts with freehold land and buildings recorded at a net book value of £20.6m, leasehold land and buildings at a net book valuation of £6.4m and terminals at a net book valuation of £17.4m. The remaining freehold and long leasehold properties are recorded at cost less accumulated depreciation and the directors consider that the valuation on an existing use basis would show a value in excess of their book value.

The properties subject to a revaluation have an historical cost of £23.7m and accumulated depreciation provision of £11.1m.

There is a contingent liability to capital gains tax if properties were to be disposed of at their revalued amounts but the directors do not anticipate this liability arising in the foreseeable future and therefore no provision has been made in the accounts.

Tangible assets include £0.3m (1998 – £0.4m) being the net book amount of the capital element of assets held under finance leases after accumulated depreciation of £0.8m (1998 – £0.7m).

Notes to the Financial Statements

continued

16. INVESTMENTS IN JOINT VENTURE AND ASSOCIATED UNDERTAKINGS

	Investment in joint venture £m	Investments in associated undertakings £m
GROUP		
At 1 January 1999	0.8	4.5
Exchange adjustments	0.1	0.2
Conversion from associate to subsidiary undertaking* (Note 36)	—	(2.2)
Loan repaid by associated undertaking	—	(0.2)
Share of profits after taxation and dividends	0.4	0.5
At 31 December 1999	<u>1.3</u>	<u>2.8</u>

*During the year the Group increased its 50% associate investment in Hunting Custom Packaging Inc to a 100% subsidiary holding.

17. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	1999 £m	1998 £m
Shares in associated undertakings	2.8	4.3
Loans to associated undertakings	—	0.2
	<u>2.8</u>	<u>4.5</u>

18. OTHER INVESTMENTS

	Trade investments £m	Investment in own shares £m	Total £m
GROUP			
At 1 January 1999	17.4	0.8	18.2
Additions	0.4	—	0.4
At 31 December 1999	<u>17.8</u>	<u>0.8</u>	<u>18.6</u>

The investment in own shares represents 350,150 (1998 - 350,150) Ordinary shares of the Company held by the Company's Employee Share Trust at a cost of £807,468 (1998 - £807,468) and a nominal value of £87,538 (1998 - £87,538). The market value of these shares at 31 December 1999 was £397,420. These shares are held for the benefit of directors and senior executives, subject to various performance criteria for future payment of bonuses arising under the long-term executive share incentive plan, further details of which can be found in the Remuneration Committee's Report on page 24.

Trade investments include an investment in Conemsco Inc., an unlisted US corporation, of 1,149,767 common stock shares representing a 5.89% holding with a book value of £9.0m at 31 December 1999.

19. INVESTMENTS

	Investments in subsidiary undertakings £m	Investment in own shares £m	Total £m
COMPANY			
At 1 January 1999	228.4	0.8	229.2
Loans granted (net)	9.5	—	9.5
At 31 December 1999 (Note 20)	<u>237.9</u>	<u>0.8</u>	<u>238.7</u>

Notes to the Financial Statements

continued

20. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	1999 £m	1998 £m
COMPANY		
Shares at cost	166.6	166.6
Advances to subsidiary undertakings	71.3	71.3
	237.9	237.9

Details of principal subsidiary undertakings are given on pages 53 and 54.

21. STOCKS

	1999 £m	1998 £m
GROUP		
Raw materials and consumables	10.1	10.1
Work in progress	14.3	15.2
Long term contract work in progress	46.5	47.1
Finished goods and goods for resale	40.5	39.6
Payments on account	(3.2)	(3.2)
	108.2	109.2

The replacement cost of stocks is not materially different from the balance sheet amount.

22. DEBTORS

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Due within one year:				
Trade debtors	171.6	122.3	—	—
Amounts owed by subsidiary undertakings	—	—	12.5	12.5
Amounts owed by joint venture and associated undertakings	0.3	0.1	—	—
Other debtors	11.7	7.1	0.2	0.1
Corporation tax	0.4	0.8	12.0	13.0
Prepayments and accrued income	5.1	7.0	0.1	0.1
	189.1	137.8	24.8	24.8
Due after one year:				
Other debtors	2.6	2.1	—	—
Advance corporation tax (Note 28)	—	—	—	1.9
Pension fund prepayment	14.5	13.6	—	—
	17.1	15.7	—	1.9
	206.2	153.5	24.8	24.3

23. CURRENT ASSET INVESTMENTS

	Group	
	1999 £m	1998 £m
Short term cash deposits	10.1	1.4

Notes to the Financial Statements

continued

24. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Secured bank loans and overdrafts (Note 26)	0.4	0.6	—	—
Unsecured bank and other loans (Note 26)	31.2	20.8	—	—
Unsecured bank overdrafts (Note 26)	4.2	3.9	21.5	14.4
	<u>35.8</u>	<u>25.3</u>	<u>21.5</u>	<u>14.4</u>
Obligations under finance leases (Note 39)	0.2	0.2	—	—
Trade creditors	121.9	66.2	—	—
Amounts due to subsidiary undertakings	—	—	1.3	1.2
Other creditors	31.1	43.5	—	0.2
Other taxes and social security costs	13.6	11.6	—	—
Accruals and deferred income	23.5	40.4	1.3	1.0
Proposed dividends	9.2	6.2	9.2	6.2
	<u>235.3</u>	<u>193.4</u>	<u>33.3</u>	<u>23.0</u>

25. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Secured bank loans (Note 26)	0.5	0.7	—	—
Unsecured bank and other loans (Note 26)	75.4	60.5	—	—
Obligations under finance leases (Note 39)	0.3	0.6	—	—
Amounts owed to subsidiary undertakings	—	—	95.5	103.6
Accruals and deferred income	—	0.1	—	—
Other creditors	11.6	11.5	1.3	1.6
	<u>87.8</u>	<u>73.4</u>	<u>96.8</u>	<u>105.2</u>

26. SECURED AND UNSECURED BANK, OTHER LOANS AND OVERDRAFTS

	Group	
	1999 £m	1998 £m
Secured loans and overdrafts are repayable as follows:		
Within one year (Note 24)	0.4	0.6
Between one and two years (Note 25)	0.3	0.3
Between two and five years (Note 25)	0.2	0.4
	<u>0.9</u>	<u>1.3</u>

The secured loans and overdrafts are secured by charges over some of the assets of certain subsidiary undertakings.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Unsecured loans and overdrafts are repayable as follows:				
Within one year	35.4	24.7	21.5	14.4
Between one and two years	10.0	16.4	—	—
Between two and five years	49.9	44.0	—	—
After five years at 7.4%-7.7% (1998 - 3%)	15.5	0.1	—	—
	<u>110.8</u>	<u>85.2</u>	<u>21.5</u>	<u>14.4</u>

Notes to the Financial Statements

continued

26. SECURED AND UNSECURED BANK, OTHER LOANS AND OVERDRAFTS (continued)

An analysis of the Group's net debt including lease finance is set out below:

	1999	1998
	£m	£m
US dollar 7.837% loan notes 1999	—	1.0
US dollar 6.36% loan notes 2000	2.1	—
US dollar 6.84% loan notes 2000	13.7	11.0
US dollar 8.419% loan notes 2002	9.3	—
US dollar 7.41% loan notes 2005	6.2	—
US dollar 7.71% loan notes 2007	9.3	—
Committed bank and other loans	52.1	31.0
Uncommitted bank and other loans	14.7	11.0
	<hr/>	<hr/>
Borrowings (Note 33)	107.4	53.0
Bank overdrafts	4.3	1.0
Lease finance	0.5	1.0
	<hr/>	<hr/>
Gross borrowings	112.2	55.0
(Less) cash and short term investments	(38.4)	(11.0)
	<hr/>	<hr/>
Net debt (Note 34)	73.8	44.0

An analysis of the Group's gross borrowings maturity profile is set out below:

	1999	1998
	£m	£m
Within one year	36.0	24.0
Between one and two years	10.6	17.0
Between two and five years	50.1	11.0
After five years	15.5	—
	<hr/>	<hr/>
	112.2	52.0

The Group has £25.3m of undrawn committed borrowing facilities available which expire within two to five years - £19.0m expiring within two to five years.

27. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Narrative disclosures required by FRS 13 are included below, in the accounting policies and in the Treasury section within the Financial Review.

Currency analysis of net assets

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

	Net foreign currency monetary assets (liabilities)					Total £m
	Sterling £m	US dollars £m	Can dollars £m	Euro £m	Others £m	
Functional currency of Group operations:						
Sterling	—	0.2	(4.7)	(4.2)	1.1	(7.6)
US dollars	(1.9)	—	—	—	—	(1.9)
Canadian dollars	(0.1)	1.7	—	—	—	1.6
Euro	(0.1)	(0.1)	—	—	(0.4)	(0.6)
Other currencies	(0.7)	0.5	—	—	—	(0.2)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	(2.8)	2.3	(4.7)	(4.2)	0.7	(8.7)

Notes to the Financial Statements

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27. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial liabilities

The Group's financial liabilities comprise borrowings of £112.2m (note 26), £10.8m of other creditors due after more than one year (note 25) and £3.7m of provisions (note 28).

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

Currency	1999				1998			
	Total £m	Floating rate £m	Fixed rate £m	Interest free £m	Total £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	40.9	30.5	—	10.4	34.9	23.2	—	11.7
US dollars	26.1	15.6	10.3	0.2	25.2	0.1	25.1	—
Canadian dollars	51.9	31.0	20.0	0.9	40.0	20.6	19.5	0.9
Euro	7.7	7.0	0.6	0.1	1.9	0.9	0.8	0.2
Other currencies	0.1	0.1	—	—	1.5	1.6	—	—
	126.7	84.2	30.9	11.6	103.6	46.4	44.4	12.8

Currency	1999		1998	
	Weighted average fixed interest rate (%)	Weighted average fixed rate period (years)	Weighted average fixed interest rate %	Weighted average fixed rate period years
US dollars	8.3	2.9	8.0	2.1
Canadian dollars	5.3	1.0	5.0	1.6
Euro	3.0	4.5	3.0	5.5

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

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

	1999 £m	1998 £m
Within one year	36.0	25.5
Between one and two years	22.1	29.8
Between two and five years	50.1	44.7
After five years	18.5	3.6
	126.7	103.6

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables as they are of a short term nature and do not meet the definition of a financial liability. The above information does not include the Company's preference shares which are shown in note 29.

Interest rate risk profile of financial assets

The composition of the Group's financial assets is set out below:

Currency	1999	1998
	Cash and deposits £m	Cash and deposits £m
Sterling	20.6	33.8
US dollars	6.2	7.0
Canadian dollars	3.6	0.1
Euro	7.7	2.5
Other currencies	0.3	0.7
	38.4	44.1

All of the Group's financial assets are of a floating rate nature and earn interest based on relevant national LIBID equivalents and are all recoverable within one year.

All the Group's debtors due within one year are excluded from the above table as they are of a short term nature and do not meet the definition of a financial asset.

Notes to the Financial Statements

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27. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Fair values of financial assets and liabilities

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

	1999 Book value £m	1999 Fair value £m
Short-term borrowings including overdrafts	(35.8)	(35.8)
Long-term borrowings	(75.9)	(75.5)
Cash at bank and in hand	28.3	28.3
Short-term deposits	10.1	10.1
Other financial liabilities	(15.0)	(15.0)
Derivative financial instruments:		
Linked currency exchange and interest rate swaps	—	(1.4)
Interest rate swaps and caps	—	(0.3)
Foreign exchange forward contracts	—	—
Foreign exchange swaps	—	—
Oil price futures	—	0.1
Oil price swaps	—	(0.5)

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

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

Linked currency exchange and interest rate swaps provide a hedge against US\$23.0m of borrowings which mature 3 months from the balance sheet date.

Interest rate swaps and caps which hedge against increases in Canadian and US interest rates mature up to March 2007.

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

Foreign exchange swaps repay foreign currency borrowings with surplus cash. They mature up to 4 months from the balance sheet date.

Oil price futures and swaps hedge against any decline in the selling price of Canadian crude oil inventories which mature up to 13 months from the balance sheet date.

Hedging of future transactions

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

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of hedges at the end of the year.

	Unrecognised total net (losses) £m
(Losses) arising in year ended 1999 that were not recognised in 1999	(2.1)
(Losses) on hedges at 31 December 1999	(2.1)
Which:	
(Losses) will be recognised in 2000	(1.8)
(Losses) will be recognised in 2001 or later	(0.3)
	(2.1)

These unrecognised net losses will be fully offset on maturity by the underlying transaction being hedged.

Notes to the Financial Statements

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28. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Property provisions £m	Losses on disposal provisions £m	Deferred tax £m	Total £m
At 1 January 1999	3.5	2.0	1.0	6.5
Credited to profit and loss account	—	—	(0.1)	(0.1)
Utilised during year	(0.5)	(1.3)	—	(1.8)
Transfer from corporation tax	—	—	1.8	1.8
Other movements	—	—	(0.5)	(0.5)
At 31 December 1999	<u>3.0</u>	<u>0.7</u>	<u>2.2</u>	<u>5.9</u>

The Group has commitments in respect of leasehold properties, some of which are not used for Group trading purposes and are either sublet or are vacant. Provision is made on a discounted basis for the net rental deficit on these properties over an appropriate period.

Provisions for losses on disposal of operations represent the remaining provisions from the disposal of the Group's Aviation division in 1998.

Deferred taxation	1999 £m	1998 £m
Provision has been made at 30% (1998 - 30%) as follows:		
Accelerated capital allowances	0.6	0.8
Other timing differences	1.6	1.8
ACT recoverable (Note 22)	—	1.6
	<u>2.2</u>	<u>4.2</u>

Deferred taxation of £8.5m (1998 - £6.1m) in respect of accelerated capital allowances and other timing differences, and the potential capital gains tax on the revaluation of properties (Note 15) has not been provided.

Deferred taxation is not provided in respect of liabilities which might arise on the distribution of unappropriated profits of overseas subsidiary, associated and joint venture undertakings.

29. SHARE CAPITAL

	Ordinary shares of 25p each	Ordinary shares of 25p each	6% Cumulative Preference shares of £1 each	8.25% Cumulative Convertible Preference shares of £1 each	Total
GROUP AND COMPANY	No.	£m	£m	£m	£m
Authorised	<u>125,024,616</u>	<u>31.3</u>	<u>0.7</u>	<u>50.5</u>	<u>82.5</u>
Allotted and fully paid at 1 January 1999	100,588,264	25.2	0.7	47.9	73.8
Exercise of options	1,569	—	—	—	—
Conversion of Preference shares	31	—	—	—	—
At 31 December 1999	<u>100,589,864</u>	<u>25.2</u>	<u>0.7</u>	<u>47.9</u>	<u>73.8</u>

The rights attached to each class of non-equity share capital are summarised below:—

6% Cumulative Preference shares of £1 each:

The holders of the 6% Cumulative Preference shares are entitled to a fixed cumulative preferential dividend at the rate of 6% (gross) per annum payable half yearly on 30 June and 31 December in priority to any payment by way of dividend in respect of any other class of shares. The rate of 6% (gross) reverted back from 4.2% (net) as a consequence of the repeal of section 255 of the Taxes Act 1988 by paragraph 23 of Schedule 3 of the Finance Act 1998. This is a legislative change resulting from the abolition of advance corporation tax with effect from 6 April 1999.

These shares confer on the holder a right in winding up or on a return of capital, in priority to any payment in respect of any other class of shares, to repayment of the capital at the highest of par or market value together with, in either case, any arrears of the fixed dividend. A resolution to cancel the shares and repay the capital will be proposed at the Annual General Meeting details of which are set out in the Notice of Annual General Meeting accompanying this report.

Notes to the Financial Statements

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29. SHARE CAPITAL (continued)

8.25% Cumulative Convertible Preference shares of £1 each:

The 8.25% Cumulative Convertible Preference shares ("Convertible Preference shares") carry the right to a fixed cumulative preferential dividend at the rate of 8.25% (net) per annum payable half yearly on 31 May and 30 November.

These shares are convertible into fully paid Ordinary shares ("Ordinary shares") (ranking pari passu with existing Ordinary shares) on 1 July each year on the basis of 34 Ordinary shares for every £100 nominal of Convertible Preference shares converted. The Convertible Preference shares are repayable at par and have no fixed redemption date.

On 1 July 1999 an aggregate of 93 Convertible Preference shares were converted.

On a winding up or other return of capital each Convertible Preference share carries a right in priority to a payment to a holder of any other class of shares except the 6% Cumulative Preference shares.

The holders of either class of Preference shares are not entitled to receive notice, attend or vote at general meetings of the Company, unless the dividend on the relevant class of shares is six months or more in arrears, or, if a resolution is to be proposed considering the winding up of the Company or a resolution is to be proposed, which changes any of the rights of the holders of those shares.

Options outstanding under the Company's share option schemes at 31 December 1999 were:

	No. of Options	Exercise price range p	Exercise Period
Executive Share Options No. 3 scheme	181,616	173-215	15.04.94-23.11.05
Savings Related Share Options	1,069,614	148-205	25.08.99-30.11.02
Long-Term Share Incentive Plan	1,103,975	nil	01.01.00-30.06.02
Total Options Outstanding	<u>2,355,205</u>		

The maximum number of Ordinary shares of 25p in the Company in respect of which executive share options may be granted in a ten year period is the lesser of 7,639,137 or 5% of the issued share capital of the Company from time to time. The maximum number of Ordinary shares in the Company in respect of which savings related share options may be granted in a ten year period is the lesser of 15,671,587 or 10% of the issued share capital of the Company from time to time. The maximum number of options which may be issued when aggregated with the shares issued or which may be issued in respect of options granted in any three year period, shall not exceed 3% of the issued share capital of the Company at that time.

No options were granted under either scheme during the year.

Options under the No. 3 Scheme granted in June 1992, June 1994, and November 1995 are subject to the achievement of at least 80% of the aggregate profit budget of the relevant business unit over a three year period.

Options to acquire 599,500 shares were granted at nil cost to senior executives on 1 January 1999 under the long-term share incentive plan.

Notes to the Financial Statements

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30. RESERVES

	Share premium £m	Revaluation reserve £m	Profit and loss account £m	Total £m
GROUP				
At 1 January 1999	41.0	18.4	(5.4)	54.0
Currency translation differences*	—	0.6	1.2	1.8
Goodwill written back on disposals (Note 37)	—	—	0.1	0.1
Transfer to profit and loss account	—	1.2	(1.2)	—
Retained profit for the year	—	—	0.7	0.7
At 31 December 1999	41.0	20.2	(4.6)	56.6
COMPANY				
At 1 January 1999	41.0	—	11.6	52.6
Retained profit for the year	—	—	7.3	7.3
At 31 December 1999	41.0	—	18.9	59.9

* Currency translation differences include a charge for the year of £4.0m to reserves in respect of differences arising on the retranslation of foreign currency borrowings used to hedge equity investments in overseas subsidiaries (1998 - £2.0m credit to reserves).

Group reserves include £3.4m (1998 - £2.9m) in respect of the Group's share of the post acquisition reserves of associated and joint venture undertakings.

The cumulative amount of goodwill, since the merger in 1989, charged to reserves, net of amounts reinstated in respect of disposals is £40.9m (1998 - £41.0m).

31. SHAREHOLDERS' FUNDS

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
EQUITY SHAREHOLDERS' FUNDS				
Ordinary share capital	25.2	25.2	25.2	25.2
Share premium	41.0	41.0	41.0	41.0
Revaluation reserve	20.2	18.4	—	—
Profit and loss account	(4.6)	(5.4)	18.9	11.6
	81.8	79.2	85.1	77.8
NON-EQUITY SHAREHOLDERS' FUNDS				
Preference share capital	48.6	48.6	48.6	48.6
	130.4	127.8	133.7	126.4

32. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1999 £m	1998 £m
Operating profit	35.7	31.0
Depreciation and amortisation	13.7	14.8
(Profit) on disposal of fixed assets	(1.2)	1.0
Share of operating (profits) less losses of associated and joint venture undertakings	(2.0)	1.7
(Increase) in stocks	(5.9)	(0.3)
(Increase) decrease in debtors	(48.2)	23.9
Increase (decrease) in creditors	26.6	37.9
(Decrease) increase in provisions	(1.8)	1.0
Net cash inflow	16.9	55.8

Notes to the Financial Statements

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33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1999 £m	1998 £m
At 1 January	198.2	211.7
Net cash inflow (outflow) from financing	19.7	(4.2)
Loans acquired with subsidiary undertakings (Note 36)	0.5	0.5
Finance leases acquired with subsidiary undertakings	—	0.2
Exchange rate movements	4.3	(0.5)
At 31 December	<u>222.7</u>	<u>198.2</u>
The balance at 31 December comprises:		
Share capital (including premium)	114.8	114.8
Borrowings (Note 26)	107.4	81.5
Finance lease creditors	0.5	0.6
	<u>222.7</u>	<u>198.2</u>

34. ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 1999 £m	Cash flow £m	Acquisitions and disposals (excluding cash and overdrafts) £m	Exchange movements £m	At 31 Dec 1999 £m
Cash at bank and in hand	42.7	(14.2)	—	(0.2)	28.3
Overdrafts	(3.9)	(0.4)	—	—	(4.3)
		<u>(14.6)</u>			
Borrowings due after one year	(61.2)	(10.2)	(0.5)	(4.0)	(75.9)
Borrowings due within one year	(21.4)	(9.8)	—	(0.3)	(31.5)
Finance leases	(0.8)	0.3	—	—	(0.5)
		<u>(19.7)</u>			
Money market deposits	1.4	8.7	—	—	10.1
Total net debt (Note 26)	<u>(43.2)</u>	<u>(25.6)</u>	<u>(0.5)</u>	<u>(4.5)</u>	<u>(73.8)</u>

35. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £m	1998 £m
(Decrease) increase in cash during the year	(14.6)	21.7
(Increase) decrease in debt and lease financing	(19.7)	5.6
Increase (decrease) in liquid resources	8.7	(1.4)
Change in net debt resulting from cash flows (Note 34)	<u>(25.6)</u>	<u>25.9</u>
Loans acquired with subsidiary	(0.5)	(0.5)
Finance leases acquired with subsidiary undertakings	—	(0.2)
Foreign currency translation differences	(4.5)	3.0
Movement in net debt for the year	<u>(30.6)</u>	<u>28.2</u>
Net debt at 1 January (Note 34)	<u>(43.2)</u>	<u>(71.4)</u>
Net debt at 31 December (Note 34)	<u>(73.8)</u>	<u>(43.2)</u>

Notes to the Financial Statements

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36. PURCHASES OF SUBSIDIARY UNDERTAKINGS

During the year Gibson Petroleum Company Ltd purchased a number of natural gas businesses for an aggregate consideration of £7.7m. On 30 April 1999 Hunting Engineering Ltd acquired 50% of Euro-Shelter SA for a consideration of £2.0m. On 19 August 1999 Hunting Oilfield Services acquired AMS Inc. for a consideration of £1.2m.

These and other acquisitions have been accounted for under the acquisition method and details of the net assets acquired are shown below:

	Gibson's natural gas plants	Euro-Shelter	AMS Inc.	Others	Total 1999
	£m	£m	£m	£m	£m
Net assets acquired					
Tangible fixed assets	6.2	0.3	0.1	1.6	8.2
Stocks	—	2.9	—	0.6	3.5
Debtors	—	1.1	0.2	3.0	4.3
Cash at bank and in hand	—	0.4	0.1	0.8	1.3
Creditors and provisions	—	(2.7)	—	(0.5)	(3.2)
Loans	—	—	(0.2)	(0.3)	(0.5)
Minority interests	—	(1.0)	—	(1.4)	(2.4)
Shares in associated undertaking (Note 16)	—	—	—	(2.2)	(2.2)
	<u>6.2</u>	<u>1.0</u>	<u>0.2</u>	<u>1.6</u>	<u>9.0</u>
Fair value adjustments*	1.1	—	0.1	0.5	1.7
Fair value of assets acquired	<u>7.3</u>	<u>1.0</u>	<u>0.3</u>	<u>2.1</u>	<u>10.7</u>
Deferred consideration	—	—	—	(0.4)	(0.4)
Goodwill (Note 14)	<u>0.4</u>	<u>1.0</u>	<u>0.9</u>	<u>0.4</u>	<u>2.7</u>
Consideration paid in cash	<u>7.7</u>	<u>2.0</u>	<u>1.2</u>	<u>2.1</u>	<u>13.0</u>

*The fair value adjustments represent the revaluation of certain fixed assets in accordance with Group accounting principles, principally gas plant and equipment acquired by Gibson Petroleum Ltd. The goodwill arising on the acquisition of these companies is being amortised on a straight line basis over twenty years. This is the period over which the directors estimate that the fair values of the underlying businesses acquired are expected to exceed the fair value of the underlying assets.

The deferred consideration consists of a £0.2m loan note repayable in equal annual instalments over the next five years and £0.2m in respect of commissions payable on sales over the first three years of trading from the date of acquisition.

37. DISPOSALS OF SUBSIDIARY UNDERTAKINGS

During the year the business and certain assets of Leach Colour Group Ltd (Leach) were sold for a net consideration of £1.5m. This included the sale on 31 March 1999 of the Leach photographic services division in the form of a management buy out for a consideration of £0.7m to a company majority owned by two former directors of Leach, A. J. Leach and R. A. Leach. £0.5m of the consideration was paid in cash on completion and is included within the £1.3m below. The balance of £0.2m is being paid in equal annual instalments over a six year period. The business and assets of P. J. Yachts were also sold during the year for a net consideration of £0.2m.

	Leach £m	P. J. Yachts £m	Total 1999 £m
Net assets disposed of			
Tangible fixed assets	1.2	—	1.2
Stocks	0.2	0.2	0.4
	<u>1.4</u>	<u>0.2</u>	<u>1.6</u>
Goodwill written back (Note 30)	—	0.1	0.1
Profit (loss) on disposal	0.1	(0.1)	—
Deferred consideration	(0.2)	—	(0.2)
Net consideration received in cash	<u>1.3</u>	<u>0.2</u>	<u>1.5</u>

Notes to the Financial Statements

continued

38. CAPITAL COMMITMENTS

Group capital expenditure committed but not provided for in these financial statements amounted to £3.6m (1998 - £1.1m).

39. LEASES

The Group has net obligations payable under finance leases as follows:

	1999 £m	1998 £m
Amounts due within one year (Note 24)	0.2	0.2
Amounts due between one and two years (Note 25)	0.3	0.3
Amounts due between two and five years (Note 25)	—	0.2
	<u>0.5</u>	<u>0.7</u>

	Land and buildings		Other	
	1999 £m	1998 £m	1999 £m	1998 £m
Operating lease rentals payable during the next year are as follows:				
Commitments expiring:				
Within one year	0.5	0.5	0.3	0.3
Between two and five years	2.3	1.6	1.5	1.1
After five years	3.3	3.8	—	0.2
	<u>6.1</u>	<u>5.9</u>	<u>1.8</u>	<u>1.6</u>

40. PENSION COMMITMENTS

Within the UK the Group operates funded defined benefits schemes of which the majority of employees are members. Pension arrangements are also in place for most overseas employees, principally in the form of money purchase schemes.

The Group's main UK scheme was subject to a valuation by Lane Clark & Peacock, consulting actuaries, as at 5 April 1999. The actuarial method used to derive the pension cost was the projected unit method. The major assumptions were, a discount rate for liabilities before retirement of 7.5% (1998 - 8.5%) per annum and a discount rate for liabilities after retirement of 6.5% (1998 - 8.5%), salary rates would increase at an average of 5.5% (1998 - 6%) per annum, pensions would increase at 3% (1998 - 4.25%) per annum and dividend income would grow at 4% (1998 - 4.75%) per annum. The market value of the scheme's assets at 5 April 1999 was £231.0m and the actuarial value, measured on the actuarial assumptions used for accounting, represented 114% of the value of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries, and for increases to pension payments.

Employees of Hunting-BRAE employed at AWE are in a separate defined benefits scheme to which Hunting-BRAE Limited makes contributions, but under which Hunting-BRAE does not participate in surpluses or deficits. The pension cost in relation to this scheme therefore equates to the employer's contributions paid.

The total pension cost to the Group for all schemes was £17.8m (1998 - £17.8m) of which £2.1m (1998 - £1.8m) relates to schemes outside the UK. The pension cost in respect of the Group's main UK scheme amounted to £0.7m (1998 - £0.5m) which includes allowances for amortisation of surpluses arising at each of the valuations since 1990. These surpluses are being amortised over the expected average remaining service life of the members at the date of the valuation using the straight-line method of amortisation. During 1999 employer contributions totalling £1.3m (1998 - £1.6m) were made. The prepayment of £12.2m (1998 - £11.6m) representing the excess of the amounts funded over the pension charge is included as part of the total prepayment included in debtors. There are no other significant post-retirement benefits.

41. CONTINGENT LIABILITIES

There are contingent liabilities arising in the ordinary course of business in respect of litigation and guarantees for which the directors believe adequate provisions have been made in the accounts. The Company has guaranteed borrowings of £104.7m (1998 - £79.4m) by Group companies.

42. POST BALANCE SHEET EVENT

On 20 January 2000, Hunting Oilfield Services Holdings Inc. acquired Iberia Threading Inc. for a consideration of £22.4m.

Principal Subsidiary, Associated and Joint Venture Undertakings

OIL	Country of incorporation and operations	Business
Gibson Petroleum Company Limited (64%)†	Canada	Oil marketing and distribution
ECHO Pipeline Company Ltd (50%)†‡	Canada	Pipeline operator
Hunting Oilfield Services (International) Limited	England	Oilfield services
Hunting Oilfield Services (UK) Limited (60%)	England & Holland	Oilfield services
Hunting Oilfield Services Limited	England	Oilfield services
Hunting Oilfield Services Holdings Inc.	USA & Venezuela	Oilfield services
Hunting Chase Inc.	Canada	Oilfield services
Iberia Threading Inc (acquired 20 January 2000)	USA	Tubular products for the directional drilling industry
Hunting Oilfield Services (International) Pte Limited	Singapore	Oilfield services
Tenkay Resources Inc.	USA	Oil and natural gas exploration
Hunting Petroleum France SA†	France	Holding company
Société Internationale d'Équipements et de Réalisations Pétrolières et Chimiques SA†	France	Refinery and pipeline equipment
Larco SA†	France	Petroleum equipment
Investissement Conception Réalisation (60.62%)‡	France	Oil facilities consultancy
Hunting Industrial Coatings Limited	England & USA	Industrial coatings
Hunting Custom Packaging Inc.	USA	Customised packaging
E. A. Gibson Shipbrokers Limited	England	Shipbroking
Hunting Industries Limited (74.3%)	Zimbabwe	Engineering
Field Aviation Company Inc.	Canada	Aircraft engineering services
Reed Aviation Limited (50%)†‡	England	Airport services

Principal Subsidiary, Associated and Joint Venture Undertakings

continued

DEFENCE	Country of incorporation and operations	Business
Hunting Defence Limited*	England	Holding company
Hunting Engineering Limited	England	Defence and secure communication systems
Kudos 2000 Limited	England	Manufacture of temporary accommodation
Euro-Shelter SA (50%)†	France	Military shelters
Irvin Group Limited	England, Canada, USA & Italy	Retarder and decoy systems
Hunting Contract Services	England	On-site management services
Hiberna FM Limited (50%)	England	On-site management services
Hunting Technical Support	England	Manpower provision
Hunting-BRAE Limited (51%)	England	Management services
AWE PLC	England	Facilities management
OTHER ACTIVITIES		
Huntaven Properties Limited*	England	Group properties
Hunting Knightsbridge Holdings Limited*	England	Finance
Hunting Knightsbridge US Finance Limited	England	Finance
Hunting U.S. Holdings Inc.	USA	Holding company
Hunting America Corporation	USA	Finance
Dubai International Reinforced Plastics (L.L.C) (49%)‡	UAE	Composites manufacture

Notes

- 1 Certain subsidiary and associated undertakings have been excluded from the above where in the opinion of the directors they do not have a material bearing on the profits or assets of the Group.
- 2 Except where otherwise stated companies are wholly-owned being incorporated and operating in the countries indicated.
- 3 Interests in companies marked * are held directly by Hunting PLC.
- 4 Subsidiary associated and joint venture undertakings marked † are audited by firms other than PricewaterhouseCoopers.
- 5 Associated and joint venture undertakings are marked ‡ above.

Financial Record

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover					
Continuing operations	1,051.6	956.2	1,190.4	1,145.9	1,005.0
Discontinued operations	—	25.6	126.3	136.3	122.9
	1,051.6	981.8	1,316.7	1,282.2	1,127.9
Operating profit					
Continuing operations	33.9	48.9	55.0	47.6	39.3
Discontinued operations	1.8	2.1	3.2	(43.7)	31.2
	35.7	51.0	58.2	3.9	70.5
Exceptional items	—	(5.1)	(5.9)	11.4	0.2
	35.7	45.9	46.8	15.3	68.7
Finance charges	(5.6)	(5.5)	(8.0)	(8.5)	(7.2)
Profit before taxation	30.1	40.4	38.8	6.8	34.3
Taxation	(8.7)	(11.3)	(12.1)	(8.9)	(9.7)
Profit (loss) after taxation	21.4	29.1	26.7	(2.1)	24.6
Equity minority interests	(7.5)	(7.5)	9.2	(9.1)	5.6
Profit (loss) for the year	13.9	21.6	17.5	(11.2)	15.8
Basic earnings per share	10.0p	17.6p	13.7p	(15.4p)	13.3p
Dividend per share	9.25p	9.25p	9.25p	6.0p	10.0p
Fixed assets	153.0	140.8	131.2	147.4	133.3
Net current assets	117.5	102.9	116.2	90.7	123.3
	270.5	243.7	259.4	238.1	265.8
Financed by:					
Shareholders' funds (including minorities)	176.8	163.8	155.3	146.5	163.3
Long term creditors and provisions	93.7	79.9	104.0	91.6	100.3
	270.5	243.7	259.4	238.1	265.8
Net assets per share	175.8p	162.8p	155.8p	148.7p	168.5p

Shareholder Information

FINANCIAL CALENDAR

APRIL 26 2000	Annual General Meeting
MAY 31	8.25% Preference Dividend Payment
JUNE 16	Proposed repayment of 6% Preference capital with dividend payment
JULY 3	Final Ordinary Dividend Payment
SEPTEMBER 7	Announcement of Interim Results
NOVEMBER 30	8.25% Preference Dividend Payment
JANUARY 3 2001	Ordinary Interim Dividend Payment

ANALYSIS OF ORDINARY SHAREHOLDERS

The Company has 1,898 Ordinary shareholders (1999) (1998) who hold 100.6 million (1999) (100.0 million) Ordinary shares between them, analysed as follows:

	1999 % of total shareholders	1999 % of total shares	1998 % of total shareholders	1998 % of total shares
SIZE OF HOLDINGS				
1– 4,000	76.03	1.45	76.99	1.50
4,001– 20,000	14.49	2.39	12.97	2.13
20,001– 40,000	2.37	1.31	2.25	1.21
40,001–200,000	3.64	6.65	3.77	6.01
200,001–500,000	1.63	9.75	2.11	10.10
500,001 and over	1.84	78.45	3.86	67.03

SHARE INFORMATION

The Shares of the Company are quoted on London Stock Exchange Limited

Ordinary Shares
Tel: 0906 0032942
Convertible Preference Shares
Tel: 0906 0035244

MARKET MAKERS

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

Credit Suisse First Boston
Merrill Lynch International
Winterflood Securities

1000

Banken

Banken

Mechanische Banken

Banken

Banken

Banken

Banken

Banken