Company number: 06492082

# EXPRO HOLDINGS UK 3 LIMITED

Unaudited Condensed Consolidated
Financial Statements

Quarterly Report

Three months to 30 June 2011

# Contents

# Financial highlights

| | 3 months to June 2011 $'000 | 3 months to March 2011 $'000 | Change |
|---|---|---|---|
| Adjusted revenue on a constant currency basis[1] | 271,140 | 248,004 | 9.3% |
| Adjusted revenue | 271,140 | 242,858 | 11.6% |
| Adjusted operating profit[2] | 58,335 | 51,062 | 14.2% |
| Adjusted operating margin[3] | 21.5% | 21.0% | 0.5pts |
| Revenue | 303,032 | 242,858 | 24.8% |
| Operating profit/(loss) | 36,976 | (102,492) | (136.1%) |
| Operating margin | 12.2% | (42.2%) | 54.4pts |

| | 3 months to June 2011 $'000 | 3 months to June 2010 $'000 | Change |
|---|---|---|---|
| Adjusted revenue on a constant currency basis[1] | 271,140 | 244,762 | 10.8% |
| Adjusted revenue | 271,140 | 232,709 | 16.5% |
| Adjusted operating profit[2] | 58,335 | 64,443 | (9.5%) |
| Adjusted operating margin[3] | 21.5% | 27.7% | -6.2pts |
| Revenue | 303,032 | 232,709 | 30.2% |
| Operating profit | 36,976 | 9,764 | 278.7% |
| Operating margin | 12.2% | 4.2% | 8.0pts |

| | 30 June 2011 $'000 | 31 March 2011 $'000 | Change |
|---|---|---|---|
| Cash | 249,464 | 66,525 | 275.0% |
| Net debt[4] | (2,044,384) | (2,135,346) | (4.3%) |

1 "Adjusted revenue" is defined as revenue excluding items that either distort the underlying trends of the business or are not considered by management to be part of the core operations of the Group. Further details are set out in note 3. Results for the comparative periods have been restated on a constant currency basis by converting each underlying transaction that arose in the period and applying the average monthly foreign exchange rate that prevailed in each month of the current period.

2 "Adjusted operating profit" is defined as operating profit excluding depreciation and amortisation and other similar non-cash items, together with other items that either distort the underlying trends of the business or are not considered by management to be part of the core operations of the Group. Further details are set out in note 3.

3 "Adjusted operating margin" is the ratio of adjusted operating profit over adjusted revenue.

4 Net debt" is defined within the business review.

# Business review

**Introduction**
This report represents the quarterly results for Expro Holdings UK 3 Limited and its consolidated subsidiaries (the "Group").

**Financial and operating results**
The business review in the quarterly report presents financial and operating results for the following periods:

- Three months to 30 June 2011 compared to three months to 31 March 2011; and
- Three months to 30 June 2011 compared to three months to 30 June 2010.

**Key points arising**
In order to facilitate an understanding of the Group's performance and progression over prior periods, segmental revenue and adjusted measures have been provided to identify key trends over the periods under review. We would like to highlight the following points in this report:

*Equity injection*
To support growth, the Group received an equity injection of $223.6m on 16 June 2011 and a further $26.4m on 18 August 2011. In addition, the Group increased its revolving credit facility by $60m to $160m and covenants on both the revolving credit facility and mezzanine loan were amended, resulting in additional headroom. Early settlement provisions were also amended in respect of the mezzanine loan.

*Use of adjusted measures*
Adjusted items, be that revenue, costs or operating profit exclude depreciation and amortisation and other similar non-cash items together with other items that either distort the underlying trends of the business or are not considered by management to be part of the core operations of the Group. In summary, the exclusion of non-cash charges such as depreciation, amortisation and impairment means that this measure is similar to EBITDA. Full details are set out in note 3.

*Restatement of comparative segmental information*
The Group concluded the acquisition of the business of Production Testers International ("PTI") on 1 September 2010. PTI specialises in delivering early production facilities, production enhancement and well-testing services to its customers in Asia, predominantly in Thailand and Vietnam. The Group's existing operations in these countries were similar in nature and as a result have been integrated into the acquired business to create the Expro PTI business unit ("Expro PTI"). The Group has updated its segmental reporting as a result of the acquisition and, accordingly, comparative segmental financial information for the period ended 30 June 2010 has been restated to reflect this change.

*Expro Meters*
The Expro Meters business unit was classified as an adjusted item in previous reporting periods on the basis that operations were focused on product development, and therefore not considered by management to be part of the core operations of the Group. As the Expro Meters business is no longer in the development stage, the results are now reported in the underlying results of the Group. All comparative segmental financial information has been updated to reflect this change.

**Three months to 30 June 2011 compared to three months to 31 March 2011**

| | 3 months to June 2011 $'000 | 3 months to March 2011 $'000 | Change |
|---|---|---|---|
| Adjusted revenue – constant currency[1] | **271,140** | 248,004 | 9.3% |
| Adjusted revenue | **271,140** | 242,858 | 11.6% |
| Adjusted operating profit[2] | **58,335** | 51,062 | 14.2% |
| Adjusted operating margin[3] | **21.5%** | 21.0% | 0.5pts |
| Revenue | **303,032** | 242,858 | 24.8% |
| Operating profit/(loss) | **36,976** | (102,492) | (136.1%) |

***Overall trading performance***

Adjusted revenues in the three months to June 2011 of $271.1m were up 9.3% compared to the prior quarter on a constant currency basis, or $23.1m. Increased activity was seen across all regional businesses, with activity in Europe CIS improving after

# Business review

the adverse winter weather in the North Sea, South and West Africa benefitted from increased activity in Ghana and Cameroon and higher levels of activity were seen in the North America Offshore region, predominantly in the Gulf of Mexico.
The adjusted operating margin was 0.5pts higher reflecting the overall increase in activity across the Group. The operating leverage was reduced by increased investment in the Group's product line support structure and a $2.1m increase in administration costs.

### *Segmental revenue*

| | 3 months to June 2011 $'000 | 3 months to March 2011 constant currency $'000 | Change constant currency % |
|---|---|---|---|
| ***Regional businesses*** | | | |
| Europe CIS | **73,502** | 65,523 | 12.2% |
| South and West Africa | **56,709** | 49,325 | 15.0% |
| Middle East North Africa | **16,447** | 15,243 | 7.9% |
| Asia | **15,309** | 14,332 | 6.8% |
| North America Land | **18,842** | 17,828 | 5.7% |
| North America Offshore | **20,697** | 16,350 | 26.6% |
| Latin America | **23,397** | 21,697 | 7.8% |
| | | | |
| ***Global businesses*** | | | |
| Connectors and Measurements | **26,455** | 29,565 | (10.5%) |
| Expro PTI | **13,241** | 11,713 | 13.0% |
| Equipment Sales | **6,171** | 6,101 | 1.1% |
| Expro Meters | **909** | 1,229 | (26.0%) |
| Eliminations of intra-group sales | **(539)** | (902) | (40.2%) |
| | | | |
| **Adjusted revenue[1]** | **271,140** | 248,004 | 9.3% |
| | | | |
| AX-S | 31,892 | - | - |
| | | | |
| **Revenue** | **303,032** | **248,004** | **22.2%** |

### *Regional Businesses*

*Europe CIS*
Revenues in the three months to June 2011 of $73.5m were 12.2% higher after the winter slow down in the previous quarter. The majority of the increased revenue came from wireline activity in Norway and to a lesser extent subsea in the UK. Activity levels across the remainder of the region were in line with the previous period.

*South and West Africa*
Revenues in the three months to June 2011 of $56.7m were 15.0% higher, with lower activity seen in Angola following the variation orders on the block 31 subsea landing string sale to bp in the previous quarter. The lower revenues in Angola were more than offset by increased activity across multiple product lines, customers and countries, notably in Ghana with Tullow and in Cameroon with Bowleven.

*Middle East North Africa*
Revenues in the three months to June 2011 of $16.5m were 7.9% higher, with well test activity in Algeria accounting for the majority of the increase. Whilst activity in Egypt increased following the end of the unrest, activities in Libya were suspended.

*Asia*
Revenues in the three months to June 2011 of $15.3m were 6.8% higher, reflecting increased subsea and well test activity in Malaysia.

# Business review

*North America Land*
Revenues in the three months to June 2011 of $18.8m were 5.7% higher, following the unusually bad weather experienced in the previous quarter.

*North America Offshore*
Revenues in the three months to June 2011 of $20.7m were 26.6% higher as a result of increased well test activity in Alaska and subsea work in the Gulf of Mexico following the increase in drilling permits issued.

*Latin America*
Revenues in the three months to June 2011 of $23.4m were 7.8% higher, as a result of increased levels of call out subsea and well test activity in Brazil, whilst activity in Argentina remained relatively flat.

***Global Businesses***

*Connectors and Measurements*
Revenues in the three months to June 2011 of $26.5m were $3.1m lower than the previous quarter following the strong end to the financial year. The levels of activity seen were in line with those seen in the third quarter of the prior year.

*Expro PTI*
Revenues in the three months to June 2011 of $13.2m were $1.5m higher, reflecting an increase in production optimisation activity in Thailand, predominantly with Chevron.

*Equipment Sales*
Revenues in the three months to June 2011 of $6.2m were $0.1m higher, with fewer sales in Saudi Arabia and the US being offset by increased sales into China.

*Other Global businesses*
Revenues in the Expro Meters business were broadly in line with the prior quarter, after adjusting for inter-company sales.

**Three months to 30 June 2011 compared to three months to 30 June 2010**

| | **3 months to June 2011 $'000** | **3 months to June 2010 $'000** | **Change** |
|---|---|---|---|
| Adjusted revenue – constant currency[1] | **271,140** | 244,762 | 10.8% |
| Adjusted revenue | **271,140** | 232,709 | 16.5% |
| Adjusted operating profit[2] | **58,335** | 64,443 | (9.5%) |
| Adjusted operating margin[3] | **21.5%** | 27.7% | -6.2pts |
| Revenue | **303,032** | 232,709 | 30.2% |
| Operating profit | **36,976** | 9,764 | 278.7% |

***Overall trading performance***

Adjusted revenues for the three months to June 2011 of $271.1m were up 10.8% on a constant currency basis, compared to the same period in the prior year, or $26.4m. Despite the impact of the civil unrest seen in Libya which significantly impacted the Middle East and North Africa region and a reduction in the level of call off work in Australia which affected the Asia results, increased activity in Europe CIS, South and West Africa and the acquisition of Expro PTI more than offset those shortfalls.

The adjusted operating margin was 6.2pts lower reflecting the operational impact of civil unrest in the Middle East and North Africa, start up costs associated with planned operations in Iraq and end of certain higher margin projects and start up costs relating to new projects in South and West Africa. Investment in the Group's product line support structure and increased administration costs of $5.9m also impacted the margin, primarily reflecting adverse foreign exchange revaluations and other charges.

# Business review

### *Segmental revenue*

| | 3 months to June 2011 $'000 | 3 months to June 2010 constant currency $'000 | Change constant currency % |
|---|---|---|---|
| ***Regional businesses*** | | | |
| Europe CIS | **73,502** | 65,985 | 11.4% |
| South and West Africa | **56,709** | 43,010 | 31.9% |
| Middle East North Africa | **16,447** | 23,779 | (30.8%) |
| Asia | **15,309** | 21,368 | (28.4%) |
| North America Land | **18,842** | 17,100 | 10.2% |
| North America Offshore | **20,697** | 20,106 | 2.9% |
| Latin America | **23,397** | 21,984 | 6.4% |
| | | | |
| ***Global businesses*** | | | |
| Connectors and Measurements | **26,455** | 25,169 | 5.1% |
| Expro PTI | **13,241** | 2,376 | 457.3% |
| Equipment Sales | **6,171** | 4,928 | 25.2% |
| Expro Meters | **909** | 225 | 304.0% |
| Elimination of intra-group sales | **(539)** | (1,268) | (57.5%) |
| | | | |
| **Adjusted revenue**[1] | **271,140** | 244,762 | 10.8% |
| | | | |
| AX-S | 31,892 | - | - |
| | | | |
| **Revenue** | **303,032** | 244,762 | 23.8% |

### *Regional Businesses*

*Europe CIS*
Revenues in the three months to June 2011 of $73.5m were 11.4% higher, reflecting increased wireline revenues in Norway and higher subsea and well test activity in the Netherlands. Lower well test activity in Kazakhstan and subsea work in Azerbaijan was partially offset by increased well test work in Russia.

*South and West Africa*
Revenues in the three months to June 2011 of $56.7m were 31.9% higher, reflecting higher levels of activity across multiple product lines in Cameroon, Equatorial Guinea and Ghana.  The current period also included the on-going design and build of an early production facility for Aker in Angola.

*Middle East North Africa*
Revenues in the three months to June 2011 of $16.5m were 30.8% lower, as the effects of the civil unrest, most notably in Libya, affected activities. The results of the region were also impacted by reduced levels of well test activity in Saudi Arabia due to the transitioning of work over to other service providers.

*Asia*
Revenues in the three months to June 2011 of $15.3m were 28.4% lower.  Well test and data acquisition activity with Conoco Phillips in Australia in the same period last year was not repeated or replaced. The current quarter was also behind as a result of the completion of an exploration and appraisal campaign with Husky in China and lower wireline activity across Brunei.

*North America Land*
Revenues in the three months to June 2011 of $18.8m were 10.2% higher, reflecting the increased rig count across the US land markets.

# Business review

*North America Offshore*
Revenues in the three months to June 2011 of $20.7m were 2.9% ahead of the same period in the prior year, with the end of the subsea and well test contract with EnCana in Canada being more than offset by increased levels of activity in the Gulf of Mexico.

*Latin America*
Revenues in the three months to June 2011 of $23.4m were $1.4m higher than the same period in the prior year, reflecting increased well test and subsea activity with YPF in Argentina.

***Global Businesses***

*Connectors and Measurements*
Revenues in the three months to June 2011 of $26.5m were 5.1% higher than that of the same period in the prior year.

*Expro PTI*
The Expro PTI business in the same period in the prior year reflects the legacy Expro Thailand and Vietnam businesses, so is not comparable to the current period revenue. Performance of the Expro PTI business in the three months to June 2011 was in line with expectations.

*Equipment Sales*
Revenues in the three months to June 2011 of $6.2m were $1.2m higher than the same period last year, reflecting increased sales into China.

*Other Global businesses*
Expro Meters revenues increased from $0.2m to $0.9m, reflecting the growing traction of this product line.

**Foreign exchange rates**

*Foreign exchange rates at the reporting date*

| | 30 June 2011 $1 equals | 31 March 2011 $1 equals | Change % |
|---|---|---|---|
| AUD (Australian Dollar) | 0.9437 | 0.9698 | (2.7%) |
| BRL (Brazilian Real) | 1.5730 | 1.6360 | (3.9%) |
| EUR (Euro) | 0.6949 | 0.7093 | (2.0%) |
| GBP (Pound Sterling) | 0.6242 | 0.6237 | 0.1% |
| NOK (Norwegian Kroner) | 5.4083 | 5.5897 | (3.2%) |

*Average foreign exchange rates*

| | 3 months to June 2011 $1 equals | 3 months to March 2011 $1 equals | 3 months to June 2010 $1 equals |
|---|---|---|---|
| AUD (Australian Dollar) | 0.9430 | 0.9907 | 1.1185 |
| BRL (Brazilian Real) | 1.6008 | 1.6690 | 1.7867 |
| EUR (Euro) | 0.6968 | 0.7387 | 0.7705 |
| GBP (Pound Sterling) | 0.6119 | 0.6324 | 0.6693 |
| NOK (Norwegian Kroner) | 5.4403 | 5.7781 | 6.1300 |

# Business review

### Financial position, liquidity and capital resources

#### *Net debt and liquidity*

| | 30 June 2011 $'000 | 31 March 2011 $'000 | 30 June 2010 $'000 | Change to prior quarter $'000 | Change to prior year $'000 |
|---|---|---|---|---|---|
| Finance leases | (39,056) | (39,552) | (36,786) | 496 | (2,270) |
| Senior secured notes | (1,329,987) | (1,327,633) | (1,321,117) | (2,354) | (8,870) |
| Bank and other interest bearing loans | (924,805) | (834,686) | (791,357) | (90,119) | (133,448) |
| Less cash | 249,464 | 66,525 | 103,425 | 182,939 | 146,039 |
| **Total net debt excluding shareholder loan** | **(2,044,384)** | **(2,135,346)** | **(2,045,835)** | **90,962** | **1,451** |

The movement in cash since 31 March 2011 relates to the issue of share capital for $223.6m and the drawdown of the revolving credit facility of $75.8m, offset by capital expenditure and interest payments during the period.

At 30 June 2011, the Group had total liquidity headroom of $249.5m (31 March 2011: $142.3m). After the reporting date, the Group increased its revolving credit facility by a further $60m to $160m and further share capital was issued for $26.4m.

#### *Net finance costs*

| | 3 months to June 2011 $'000 | 3 months to March 2011 $'000 | 3 months to June 2010 $'000 | Change to prior quarter $'000 | Change to prior year $'000 |
|---|---|---|---|---|---|
| **Net finance costs** | (176,742) | (164,059) | (158,825) | (12,683) | (17,917) |

The Group's net finance costs of $176.7m in the three months to June 2011 were $12.7m higher compared to the three months to March 2011 due to a higher fair value loss on cash flow hedges. Net finance costs were $17.9m higher compared to the same period last year, primarily due to the compounding of the shareholder loan interest plus interest on new shareholder loans issued in September and December 2010.

### Taxation

The Group's tax charge of $4.8m for the three months to June 2011 is representative of the nature of the Group's operations, which have a wide geographic coverage, resulting in differing taxation regimes depending on the location in which those activities take place. The tax charge reflects this broad geographic spread of profits, irrecoverable losses in certain territories, a variety of imputed and higher rate overseas tax regimes, non-deductible items and limitations on the geographical spread of the Group's external interest payments.

# Condensed consolidated income statement

Period ended 30 June 2011

| | Note | 3 months to June 2011 Adjusted $'000 | 3 months to June 2011 Adjustments[5] $'000 | 3 months to June 2011 Total $'000 | 3 months to June 2010 Adjusted $'000 | 3 months to June 2010 Adjustments[5] $'000 | 3 months to June 2010 Total $'000 |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 3 | 271,140 | 31,892 | 303,032 | 232,709 | - | 232,709 |
| Cost of sales | | (200,201) | (46,406) | (246,607) | (161,386) | (52,576) | (213,962) |
| **Gross profit** | | **70,939** | **(14,514)** | **56,425** | **71,323** | **(52,576)** | **18,747** |
| Administration expenses | | (12,604) | (6,845) | (19,449) | (6,880) | (2,103) | (8,983) |
| **Operating profit** | 3 | **58,335** | **(21,359)** | **36,976** | **64,443** | **(54,679)** | **9,764** |
| Post tax share of results from joint venture | | | | 2,243 | | | 959 |
| | | | | **39,219** | | | **10,723** |
| Net finance costs | 4 | | | (176,742) | | | (158,825) |
| **Loss before tax** | | | | **(137,523)** | | | **(148,102)** |
| Tax | 5 | | | (4,786) | | | (4,146) |
| **Loss after tax** | | | | **(142,309)** | | | **(152,248)** |
| **Attributable to Equity holders of the parent** | | | | **(142,309)** | | | **(152,248)** |

[5] Details of adjustments are included in note 3.

# Condensed consolidated statement of comprehensive income

Period ended 30 June 2011

| | Note | 3 months to June 2011 $'000 | 3 months to June 2010 $'000 |
|---|---|---|---|
| **Loss for the period** | | **(142,309)** | **(152,248)** |
| Fair value loss on cash flow hedges | | - | (23,107) |
| Transferred to income statement on cash flow hedges | 4 | 3,293 | 17,096 |
| Actuarial gain/(loss) on defined benefit pension | | - | (8,395) |
| **Other comprehensive income/(loss) for the period, net of tax** | | **3,293** | **(14,406)** |
| **Total comprehensive loss for the period, net of tax** | | **(139,016)** | **(166,654)** |
| Attributable to Equity holders of the parent | | **(139,016)** | **(166,654)** |

# Condensed consolidated statement of financial position

At 30 June 2011

| | Note | 30 June 2011 $'000 | 31 March 2011 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | 2,293,673 | 2,293,673 |
| Intangible assets | | 1,121,514 | 1,147,560 |
| Property, plant and equipment | 6 | 341,388 | 327,928 |
| Interest in joint venture | | 21,223 | 18,980 |
| Deferred tax assets | | 15,400 | 13,609 |
| | | **3,793,198** | **3,801,750** |
| **Current assets** | | | |
| Inventories | | 48,110 | 41,391 |
| Trade and other receivables | | 307,249 | 263,298 |
| Cash | | 249,464 | 66,525 |
| Asset held for sale | | 463 | 463 |
| | | 605,286 | 371,677 |
| **Current liabilities** | | | |
| Derivative financial instruments | 9 | (47,592) | (46,665) |
| Trade and other payables | | (195,007) | (249,405) |
| Finance leases | | (3,695) | (3,689) |
| Tax liabilities | | (64,460) | (61,024) |
| Provisions | 7 | (38,208) | (32,841) |
| | | (348,962) | (393,624) |
| **Net current (liabilities)/assets** | | **256,324** | **(21,947)** |
| **Non-current liabilities** | | | |
| Finance leases | | (35,361) | (35,863) |
| Derivative financial instruments | 9 | (66,127) | (65,831) |
| Senior secured notes | 8 | (1,329,987) | (1,327,633) |
| Other interest bearing loans | 8 | (924,805) | (834,686) |
| Shareholder loan | 8 | (3,273,099) | (3,171,531) |
| Provisions | 7 | (3,273) | (2,856) |
| Deferred tax | | (324,018) | (329,750) |
| Pension deficit | 10 | (5,174) | (8,586) |
| | | **(5,961,844)** | **(5,776,736)** |
| Total assets less total liabilities | | (1,912,322) | (1,996,933) |
| **Total assets less total liabilities excluding shareholder loan[6]** | | **1,360,777** | **1,174,598** |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 11 | 200 | 200 |
| Share premium | 11 | 223,627 | - |
| Translation reserve | | (53,404) | (53,404) |
| Hedging reserve | | (3,332) | (6,625) |
| Equity reserve | | 4,710 | 4,710 |
| Retained earnings | | (2,084,123) | (1,941,814) |
| Total equity | | (1,912,322) | (1,996,933) |
| **Total equity and shareholder loan[6]** | | **1,360,777** | **1,174,598** |

The financial statements were approved by the directors and authorised for issue on 26 August 2011.

[6] Non-statutory measure in line with management's view of the capital structure of the Group to aid the users of the financial statements.

# Condensed consolidated cash flow statement

Period ended 30 June 2011

| | Note | 3 months to June 2011 Total $'000 | 3 months to June 2010 Total $'000 |
|---|---|---|---|
| **Operating profit** | | **36,976** | **9,764** |
| Non cash items before movements in working capital | 12 | 46,596 | 43,962 |
| **Operating cash flows before movements in working capital** | | **83,572** | **53,726** |
| (Increase)/decrease in inventories | | (6,719) | 84 |
| Increase in receivables | | (47,323) | (15,110) |
| Decrease in payables | | (26,156) | (15,628) |
| Increase/(decrease) in provisions, and defined benefit contributions | | 1,027 | (5,346) |
| **Cash generated by operations** | | **4,401** | **17,726** |
| Income taxes paid | | (9,502) | (13,597) |
| Interest paid | | (79,041) | (80,537) |
| **Net cash from operating activities** | | **(84,142)** | **(76,408)** |
| **Investing activities** | | | |
| Interest received | | 74 | 29 |
| Purchase of property, plant and equipment | 6 | (32,499) | (5,217) |
| Proceeds on disposal of property, plant and equipment | | - | 16 |
| Purchase of intangible assets | | (1,244) | (1,629) |
| Payment of deferred consideration | | (17) | - |
| Dividend received from joint venture | | 1,113 | 1,055 |
| **Net cash used in investing activities** | | **(32,573)** | **(5,746)** |
| **Financing activities** | | | |
| Issue of share capital | 11 | 223,627 | - |
| Proceeds from borrowings | 8 | 75,837 | - |
| Payment of transaction costs | | (22) | (6,358) |
| Repayment of finance leases | | (679) | (611) |
| **Net cash from financing activities** | | **298,763** | **(6,969)** |
| Net increase/(decrease) in cash | | 182,048 | (89,123) |
| Cash at beginning of year | | 66,525 | 193,086 |
| Effect of foreign exchange | | 891 | (538) |
| **Cash at end of year** | | **249,464** | **103,425** |

# Condensed consolidated statement of changes in equity

Period ended 30 June 2011

| | Share capital $'000 | Share premium $'000 | Translation reserve $'000 | Hedging reserve $'000 | Equity reserve $'000 | Retained Earnings $'000 | Attributed to equity holders of parent $'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2011 | 200 | - | (53,404) | (6,625) | 4,710 | (1,941,814) | (1,996,933) |
| Comprehensive income/(loss) | - | - | - | 3,293 | - | (142,309) | (139,016) |
| Share issue (note 11) | - | 223,627 | - | - | - | - | 223,627 |
| **At 30 June 2011** | **200** | **223,627** | **(53,404)** | **(3,332)** | **4,710** | **(2,084,123)** | **(1,912,322)** |

Period ended 30 June 2010

| | Share capital $'000 | Share premium $'000 | Translation reserve $'000 | Hedging reserve $'000 | Equity reserve $'000 | Retained Earnings $'000 | Attributed to equity holders of parent $'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2010 | 200 | - | (53,404) | (26,734) | 235 | (962,289) | (1,041,992) |
| Comprehensive income/(loss) | - | - | - | (6,011) | - | (160,643) | (166,654) |
| **At 30 June 2010** | **200** | **-** | **(53,404)** | **(32,745)** | **235** | **(1,122,932)** | **(1,208,646)** |

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

## 1. Corporate information

The condensed consolidated financial statements of the Group for the three months ended 30 June 2011 were authorised for issue by the Company's directors on 26 August 2011. The Company is a limited company incorporated in Great Britain and domiciled in England and Wales.

## 2. Basis of preparation and accounting policies

**Basis of preparation**

The basis of preparation and accounting policies set out in the annual report and accounts for the year ended 31 March 2011 have been applied in the preparation of these condensed consolidated financial statements as disclosed below. The condensed consolidated financial statements for the three months ended 30 June 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2011.

The figures for the three months ended 30 June 2011 and three months ended 30 June 2010 are unaudited and do not constitute full accounts within the meaning of s.435 of the Companies Act 2006. The financial statements for the year ended 31 March 2011, which have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report, did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

The financial risks are detailed in the business review of the Group's annual financial statements as at 31 March 2011. Having considered these risks and the current economic environment it is expected that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the condensed consolidated financial statements have been prepared on a going concern basis.

**Accounting policies**

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011.

## 3. Adjustments

**Adjusted revenue**

Adjusted revenue is defined as revenue excluding items that either distort the underlying trends of the business or are not considered by management to be part of the core operations of the Group.

| | **3 months to June 2011 $'000** | **3 months to June 2010 $'000** |
|---|---|---|
| **Revenue** | **303,032** | **232,709** |
| AX-S | (31,892) | - |
| **Adjusted revenue** | **271,140** | **232,709** |

*AX-S*

During the year to March 2011, the Group sold the AX-S lightweight, deepwater intervention prototype to Expro AX-S Technology Limited, a company under common control. The earn-out was pre-paid by Expro AX-S Technology Limited to the Group during the year to March 2011, and was recognised in revenue during the period to June 2011 once conditions of the earn-out were met.

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

**Adjusted operating profit**

Adjusted operating profit is defined as operating profit excluding impairment, depreciation and amortisation and other similar non-cash items, together with other items that either distort the underlying trends of the business or are not considered by management to be part of the core operations of the Group.

| | 3 months to June 2011 $'000 | 3 months to June 2010 $'000 |
|---|---|---|
| **Operating profit** | **36,976** | **9,764** |
| Amortisation of intangible assets | 27,291 | 26,522 |
| Property, plant and equipment depreciation | 19,653 | 18,959 |
| Loss on disposal of property, plant and equipment | 86 | 25 |
| AX-S | (31,892) | 7,852 |
| Business rationalisation | 1,372 | - |
| Business improvement initiatives | 735 | - |
| Acquisition related costs | - | 1,321 |
| Other costs | 4,114 | - |
| **Adjusted operating profit** | **58,335** | **64,443** |

*Business rationalisation*

Business rationalisation costs relate to redundancy and other costs primarily associated with the closure of the Italian business and the withdrawal from Libya following the civil unrest.

*Business improvement initiatives*

Costs during the period relate primarily to consultancy fees in relation to specific projects focussed on facilitating structural changes.

*Acquisition related costs*

Costs in the prior period relate to the acquisition of PTI.

*Other costs*

Costs during the period relate to a provision in connection with the adverse outcome of claims in relation to the acquisition of Expro International Group PLC (note 7).

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

## 4. Net finance costs

| | 3 months to June 2011 $'000 | 3 months to June 2010 $'000 |
|---|---|---|
| Finance income: | | |
| Bank interest receivable | 74 | 29 |
| Expected return on defined benefit pension assets | 2,800 | 2,182 |
| Other interest receivable | - | 2,515 |
| **Total finance income** | **2,874** | **4,726** |
| Finance Costs: | | |
| Senior secured notes interest | (29,750) | (29,750) |
| Revolving credit facility interest | (291) | - |
| Mezzanine loan cash settled interest | (9,861) | (9,200) |
| Mezzanine loan payment in kind interest | (14,060) | (13,170) |
| Shareholder loan interest | (101,569) | (87,221) |
| Amortisation of financing costs | (3,093) | (2,852) |
| Commitment fees | (223) | (352) |
| Finance leases | (655) | (485) |
| Other payable | (12) | - |
| **Total interest expense** | **(159,514)** | **(143,030)** |
| Fair value loss on cash flow hedges | (12,832) | (1,331) |
| Transferred to income statement on cash flow hedges | (3,293) | (17,096) |
| Finance cost on defined benefit pension obligation | (2,315) | (2,094) |
| Discount on contingent consideration | (1,568) | - |
| Other payable | (94) | - |
| **Total finance costs** | **(179,616)** | **(163,551)** |
| **Net finance costs** | **(176,742)** | **(158,825)** |

## 5. Tax

| | 3 months to June 2011 $'000 | 3 months to June 2010 $'000 |
|---|---|---|
| Current tax: | | |
| Current period | (12,464) | (13,478) |
| Prior period | 111 | 2,094 |
| | (12,353) | (11,384) |
| Deferred tax: | | |
| Current period | 7,567 | 7,238 |
| | **(4,786)** | **(4,146)** |

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

The effective income tax rate in the period to June 2011 before the inclusion of post tax profits from joint ventures and associates is -3.5% (period to June 2010: -2.8%). The tax charge has been calculated by categorising income and applying the best estimate of the annual effective income tax rate for each category of income to the pre-tax income arising in that category for the three month period.

## 6. Property, plant and equipment

During the period to June 2011, the Group acquired plant and equipment with a cost of $33.3m (year ended March 2011: $74.6m additions of which $36.7m related to finance leases).

Assets with a net book value of $0.2m were disposed of by the Group during the period to June 2011 (year ended March 2011: $1.9m).

As at 30 June 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment with an expected capitalised value of $50.5m (March 2011: $56.3m).

## 7. Provisions

| | **Deferred and contingent consideration $'000** | **Legal and other provisions $'000** | **Total $'000** |
|---|---|---|---|
| **At 1 April 2011** | **27,956** | **7,741** | **35,697** |
| Payments or amounts utilised | (16) | (586) | (602) |
| Increase | 1,997 | 4,391 | 6,388 |
| Exchange difference | (2) | - | (2) |
| **At 30 June 2011** | **29,935** | **11,546** | **41,481** |
| Included in current liabilities | 28,993 | 9,215 | 38,208 |
| Included in non-current liabilities | 942 | 2,331 | 3,273 |
| | **29,935** | **11,546** | **41,481** |

Legal and other provisions comprise management's best estimate of potential costs, penalties and fines in respect of the review of certain issues resulting from the acquisition process, and arising from the potential adverse outcome of various legal claims and unfavourable tax assessments in foreign jurisdictions.

Deferred and contingent consideration includes primarily the contingent consideration recognised on the acquisition of PTI with a present value of $28.9m as at 30 June 2011 (31 March 2011: $27.3m). The undiscounted earn-out of $30.0m is expected to be paid during September 2011.

Except for the items disclosed above, the Group had no material contingent liabilities as at 30 June 2011.

# Notes to the condensed consolidated financial statements
Period ended 30 June 2011

## 8. Interest bearing loans

| | Effective interest rate % | Maturity date | June 2011 $'000 | March 2011 $'000 |
|---|---|---|---|---|
| **Senior secured notes** | | | | |
| Principal | 9.91% | 15 December 2016 | (1,400,000) | (1,400,000) |
| Original issue discount | | | 44,479 | 45,935 |
| Transaction costs | | | 25,534 | 26,432 |
| | | | **(1,329,987)** | **(1,327,633)** |
| **Loans** | | | | |
| Mezzanine | USD LIBOR +10.75% | 15 July 2018 | (869,774) | (855,715) |
| Revolving credit facility | USD LIBOR +3% | 21 December 2014 | (75,837) | - |
| Principal | | | (945,611) | (855,715) |
| Transaction costs | | | 20,806 | 21,029 |
| | | | **(924,805)** | **(834,686)** |
| **Total interest bearing loans (excluding shareholder loan)** | | | **(2,254,792)** | **(2,162,319)** |
| **Shareholder loan** | 14% | 15 July 2019 | (3,236,115) | (3,136,463) |
| | 25% | 15 July 2019 | (36,984) | (35,068) |
| | | | **(3,273,099)** | **(3,171,531)** |
| **Total interest bearing loans (including shareholder loan)** | | | **(5,527,891)** | **(5,333,850)** |

On 20 April 2011, $15.0m of the revolving credit facility was drawn, with a further $60.8m being drawn on 25 May 2011. The balance was repaid in full on 25 July 2011.

After the reporting date, the Group increased its revolving credit facility by a further $60m to $160m. Covenants on both the revolving credit facility and the mezzanine loan were amended, resulting in additional headroom. Early settlement provisions were also amended in respect of the mezzanine loan.

## 9. Derivative financial instruments

The Group's mezzanine term loan is at a floating rate and bears interest fixed for periods of three months, based upon 3 month US Dollar LIBOR. As a result, the Group is exposed to cash flow interest rate risk.

As at 30 June 2011, the Group held interest rate swaps designated as cash flow hedges with a fixed swap rate of 6.27%. Interest payable or receivable under the swap is the difference between the prevailing 3 month US Dollar LIBOR rate and the fixed swap rate. The swaps re-price on a quarterly basis when contractual cash flows fall due.

The Group assessed the hedge effectiveness of its swaps both prospectively and retrospectively at 31 March 2011; the swaps were assessed to be ineffective retrospectively and as a result, hedge accounting ceased from 1 January 2011. The hedging reserve relating to the swaps is being amortised through profit and loss over the remaining life of the instruments. A fair value loss of $12.8m has been recognised in the income statement in the three month period to June 2011.

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

## 10. Retirement benefit schemes

In the three months to June 2011, the Group has accounted for its defined benefit obligation using the assumptions in the IAS 19 valuation at March 2011. The defined benefit plan assets have been calculated in line with expected returns at the start of the year and allowing for actual cash flows. Defined benefit obligations have been calculated allowing for expected interest costs, service cost and cash flows. This method does not include actual market returns and does not allow for any changes in market conditions since the IAS 19 valuation at March 2011.

The amount included in the statement of financial position arising from the Group's obligations in respect of its defined retirement benefit schemes is as follows:

| | **30 June 2011 $'000** | **31 March 2011 $'000** |
|---|---|---|
| Present value of defined benefit obligations | (177,558) | (174,570) |
| Fair value of scheme assets | 172,384 | 165,984 |
| Deficit recognised in the statement of financial position under non-current liabilities | **(5,174)** | **(8,586)** |

## 11. Share capital and share premium

To support growth, the Group received an equity injection of $250m from its shareholders. During the period to June 2011, the first tranche was issued and Expro Holdings UK 3 Limited issued one £1 ordinary share to the immediate parent company, Expro Holdings UK 2 Limited, at a premium of $223.6m.

## 12. Non-cash items before movements in working capital

| | **3 months to June 2011 Total $'000** | **3 months to June 2010 Total $'000** |
|---|---|---|
| Adjustments for: | | |
| Amortisation of intangible asset | 27,291 | 26,522 |
| Depreciation of property, plant and equipment | 19,653 | 18,959 |
| Loss on disposal of property, plant and equipment | 86 | 25 |
| Retirement benefit | 125 | 395 |
| Unrealised foreign exchange | (559) | (1,939) |
| **Non-cash items** | **46,596** | **43,962** |

## 13. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period to June 2011, costs of $0.2m (period to June 2010: $0.2m) were charged to the Group by Goldman Sachs, Arle Capital Partners (formerly Candover Partners Ltd until 16 June 2011) and AlpInvest (the "Investors"), in accordance with the terms of the Consortium Deed between the Company's subsidiary Expro Holdings UK 4 Ltd and the Investors, dated 6 November 2008. Costs include directors' fees incurred by the Investor-nominated directors of, and board observers connected to, Expro International Group Holdings Ltd, the Company's principal holding company.

At 30 June 2011, the Group held a 50% stake in a joint venture, COSL – Expro Testing Services (Tianjin) Co. Ltd ("CETS") and a 49% stake in a joint venture, PV Drilling Production Testers International Company Limited ("PVD-PTI").

# Notes to the condensed consolidated financial statements

Period ended 30 June 2011

**Trading transactions**

During the period to June 2011, the Group entered into transactions with related parties who were not members of the Group:

| | | Goods and services provided to related party $'000 | Goods and services provided by related party $'000 | Amounts owed by related party $'000 | Amounts owing to related party $'000 |
|---|---|---|---|---|---|
| Umbrellastream Ltd Partnership Inc | Ultimate parent company | - | - | 195 | - |
| Expro International Group Holdings Ltd | Company under common control | 65 | - | 82 | - |
| Expro AX-S Technology Ltd | Company under common control | 797 | 121 | 1,609 | - |
| CETS | Joint venture | 171 | 22 | 685 | - |
| PVD-PTI | Joint venture | 68 | - | - | - |
| Group directors | Key management personnel | - | - | 1,477 | - |
| **At 30 June 2011** | | **1,101** | **143** | **4,048** | **-** |
| Expro AX-S Technology Ltd | Company under common control | 64 | 5,263 | 494 | 4,374 |
| CETS | Joint venture | 1,486 | 22 | 1,808 | - |
| **At 30 June 2010** | | **1,550** | **5,285** | **2,302** | **4,374** |

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

At 30 June 2011, the Group owed $3,273.1m (March 2011: $3,171.5m) to the immediate parent company, Expro Holdings UK 2 Ltd, of which $101.6m of interest has been expensed during the period (period to June 2010: $87.2m).

During the year to 31 March 2011, the Group sold the AX-S lightweight, deepwater intervention prototype to Expro AX-S Technology Ltd. The sale agreement included an earn-out of $31.9m conditional on future events that was pre-paid to the Group at the year end. As the earn-out was still conditional on future events at 31 March 2011, the payment was recorded against amounts owed to related party. The earn-out has been recognised in revenue during the three month period to June 2011 once the earn-out conditions were met.

## 14. Events after the reporting date

Following the retirement of Graeme Coutts as Chairman and as a director of Expro Holdings UK 3 Limited on 31 July 2011, the Group has commenced a process to appoint a non-executive Chairman.

To support growth, the Group received an equity injection of $250m from its shareholders. On 18 August 2011, the final tranche of the $250m equity injection was received from shareholders and Expro Holdings UK 3 Limited issued one £1 ordinary share to the immediate parent company, Expro Holdings UK 2 Limited, at premium of $26.4m.

# Quarterly summary
Period ended 30 June 2011

| | 3 months to June 2011 $'000 | 3 months to March 2011 $'000 | 3 months to December 2010 $'000 | 3 months to September 2010 $'000 | 3 months to June 2010 $'000 |
|---|---|---|---|---|---|
| Adjusted revenue | 271,140 | 242,858 | 245,162 | 245,453 | 232,709 |
| Adjusted operating profit | 58,335 | 51,062 | 59,652 | 61,276 | 64,443 |
| Adjusted operating margin | 21.5% | 21.0% | 24.3% | 25.0% | 27.7% |
| Adjustments[7]: | | | | | |
| Impairment of goodwill | - | 101,358 | 213,100 | - | - |
| Impairment of intangible | - | - | 15,000 | - | - |
| Impairment of slow moving inventory | - | - | 28,000 | - | - |
| Impairment of other assets | - | 2,619 | 489 | - | - |
| Amortisation of intangible assets | 27,291 | 27,195 | 27,931 | 27,091 | 26,522 |
| Property, plant and equipment depreciation | 19,653 | 20,231 | 19,632 | 19,455 | 18,959 |
| Loss on disposal of property, plant and equipment | 86 | 128 | 123 | 408 | 25 |
| Profit on disposal of asset held for sale | - | - | (187) | - | - |
| AX-S | (31,892) | 7 | (163) | (14,822) | 7,852 |
| Business improvement initiatives | 735 | 516 | 245 | 416 | - |
| Business rationalisation | 1,372 | 3,264 | (28) | (51) | - |
| Acquisition related costs/(income) | - | 18 | (126) | 912 | 1,321 |
| Formation costs in respect of the management incentive plan | - | 282 | 2,786 | - | - |
| Other costs/(income) | 4,114 | (6,774) | - | - | - |
| Share based payment | - | 4,710 | - | (235) | - |
| | 21,359 | 153,554 | 306,802 | 33,174 | 54,679 |
| Operating profit/(loss) | 36,976 | (102,492) | (247,150) | 28,102 | 9,764 |

[7] Details of adjustments are included in note 3.