

# Well positioned to capture market opportunities

2018 Annual Report and Accounts

REGISTERED NUMBER 974568



Hunting is a key supplier to the upstream oil and gas industry.

Our strategy is to manufacture products and deliver services to our customers wherever in the world they are operating.

Hunting's product offering extends across the life cycle of an oil and gas well, and this focus allows us to create, distribute and sustain value for our shareholders.

Hunting is quoted on the London Stock Exchange and is a constituent of the FTSE 250 index.

## Highlights

### Market highlights

**Average WTI crude oil price**

**\$65** per barrel  
(2017 – \$50 per barrel)

**Global average onshore rig count**

**1,990** units  
(2017 – 1,810 units)

**Global drilling and production expenditure**

**\$231.2bn**  
(2017 – \$201.2bn)

**Year-end WTI crude oil spot price**

**\$45** per barrel  
(2017 – \$60 per barrel)

**Global average offshore rig count**

**200** units  
(2017 – 198 units)

**US onshore drilling and production expenditure**

**\$133.5bn**  
(2017 – \$106.1bn)

### Financial highlights

**Revenue**

**\$911.4m**  
(2017 – \$724.9m)

**Underlying profit from operations\***

**\$104.7m**  
(2017 – \$14.3m)

**Underlying diluted earnings per share**

**49.6 cents**  
(2017 – 8.0 cents)

**Net cash**

**\$61.3m**  
(2017 – \$30.4m)

**Reported profit from operations**

**\$75.4m**  
(2017 – \$(24.8)m loss)

**Reported diluted earnings per share**

**52.3 cents**  
(2017 – (16.0) cents loss)

Source: Bloomberg/Spears & Associates

\* Non-GAAP measure ("NGM") see pages 161 to 165.

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## Summary of the year

# Operational and corporate highlights

### Record performance delivered by Hunting Titan, supported by strong US onshore completion activity.

- Increase in volume of H-1 Perforating Systems sold, as customers continue to adopt more efficient and safer perforating technology.
- Capacity expansion initiatives commenced at Milford and Pampa facilities to address demand.
- Rationalisation of distribution centres across North America to increase alignment with customer activity and general market outlook.

### US segment records increased volumes as US onshore market accelerated.

- Good customer acceptance of TEC-LOCK™ semi-premium connection, for use in onshore drilling operations.
- Modest increases in demand for MWD/LWD tools as key customers' replacement programmes recommenced.
- Increased volumes reported at Subsea as domestic and international deep water projects recommenced.
- Production of Hunting Titan products now occurring within Hunting Electronics, Hunting Specialty and US Manufacturing facilities, increasing utilisation and inter-segment sales.

### Sales volume improvement recorded within other international operating segments.

- Canada operations report increased OCTG volumes following new customer wins.
- European well intervention business recorded increased demand for pressure control and well testing equipment.
- Asia Pacific operations report modest increase in OCTG sales in domestic China.
- Middle East activity improved in the year as well intervention and OCTG sales into Northern Iraq recommenced.

### Capital investment mainly addressing production capacity constraints.

- \$30.1m spent in the year, including investment to support future demand for Hunting Titan products, targeted to reduce costs and increase efficiency.

### Group rationalisation continued in the year.

- Closure of one manufacturing facility in Kenya and three distribution centres in North America.

### Board changes.

- Carol Chesney appointed Director and Chair of the Audit Committee in April 2018.
- Keith Lough appointed Director in April 2018 and Senior Independent Director in August 2018.
- John Nicholas retired from the Board in April 2018 and John Hofmeister retired in August 2018, both completing nine years' service.

# Financial highlights

### Revenue increased 26% to \$911.4m (2017 – \$724.9m) supported by US onshore drilling market.

- Hunting Titan segment revenue increased 34% to \$418.2m (2017 – \$312.8m).
- US segment revenue increased 49% to \$327.1m (2017 – \$218.9m).

### EBITDA.

- Underlying EBITDA of \$142.3m (2017 – \$56.0m) and margin of 16% (2017 – 8%).
- Reported EBITDA of \$141.3m (2017 – \$53.6m) and margin of 16% (2017 – 7%).

### Profit from operations.

- Underlying profit from operations increased to \$104.7m (2017 – \$14.3m).
- Reported profit from operations increased to \$75.4m (2017 – \$(24.8)m loss).

### Earnings Per Share.

- Underlying diluted EPS of 49.6 cents (2017 – 8.0 cents).
- Reported diluted EPS of 52.3 cents per share (2017 – (16.0) cents loss per share).

### ROCE.

- Underlying ROCE in the year improved to 9% (2017 – 1%).

### Net cash of \$61.3m at year-end (2017 – \$30.4m).

- Net cash generation of \$30.9m (2017 – \$32.3m).

### Amend and extend exercise completed in December 2018 in respect of the Group's multi-currency revolving credit facility.

- Quantum of facility now \$160.0m with a maturity date of 2022.
- Facility can be increased to \$235.0m, with the maturity date extending to 2023, subject to agreement with lending group.

### Dividend distributions recommenced in the year, with an interim dividend of 4.0 cents per share paid in October 2018.

- Final dividend declared of 5.0 cents per share, to be paid on 10 May 2019 to shareholders on the register on 23 April 2019, subject to shareholder approval.
- Total dividends declared of 9.0 cents per share for the year (2017 – nil) absorbing \$14.8m of cash (2017 – \$nil).

# Hunting at a glance

## Our operations

Our operating facilities need to be close to our customers and are therefore based in or near the main oil and gas producing regions.

Group overview		Segmental revenue	
Operating sites	Distribution centres	Split of external revenue by segment	
34 <small>(2017 – 35)</small>	18 <small>(2017 – 21)</small>		
Countries of operation	Patents granted and pending		
11 <small>(2017 – 12)</small>	690 <small>(2017 – 596)</small>		
Employees (year-end)	Internal manufacturing reject rate		
2,772 <small>(2017 – 2,610)</small>	0.2% <small>(2017 – 0.3%)</small>		
		1 Hunting Titan	45%
		2 US	31%
		3 Asia Pacific	9%
		4 Europe	8%
		5 Canada	4%
		6 Middle East, Africa and Other	3%
		7 Exploration and Production	<1%



## Our products and services

### Oil Country Tubular Goods



The Group owns proprietary connection technology including the SEAL-LOCK™ and WEDGE-LOCK™ premium connections and the TEC-LOCK™ semi-premium connection. The Group manufactures couplings and accessories and applies premium threads to pipe for its customers throughout its global facilities.

### Perforating Systems



Hunting manufactures perforating guns, energetics charges and instrumentation used in well completion activities. Products are manufactured across our global network and sold through distribution points in Canada, China, Indonesia, UAE, UK and US.

### Advanced Manufacturing



Advanced Manufacturing includes precision machining and electronics manufacturing, both utilised in MWD/LWD tools. A range of non-oil and gas products are also engineered for the power generation, aviation, military and space sectors.

### Drilling Tools



Hunting's Drilling Tools business provides mud motor rental services for operators in the onshore oil and gas basins of the US.

### Intervention Tools



The Group manufactures a range of tools including Thru-Tubing, Slickline and Wireline tools and Pressure Control Equipment used for intervention activities.

### Subsea



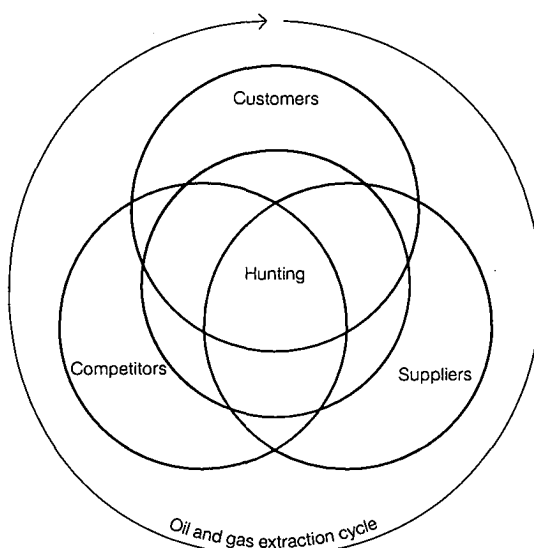
Hunting's Subsea business manufactures hydraulic couplings, valves and accessories for application to deep water drilling activities.

## Our business relationships

Hunting generates value through the manufacture of products, provision of related services and supply of rental equipment to the upstream energy sector used in the extraction of oil and gas.

Our strategic focus is on the manufacture of products used in the wellbore or forming part of the wellbore's infrastructure.

Oil and gas extraction requires a diverse range of products and services. The nature of the sector results in relationships with business partners who can be customers, suppliers and competitors at different points in the value chain.



## Investment highlights

- Robust fundamentals for the oil and gas industry
- Strategic focus on the wellbore
- Proprietary technologies and diverse product range
- World-class manufacturing facilities located close to our customers
- Proven track record of manufacturing excellence and reliability
- Experienced management team
- Focused on efficiency, cost control and cash generation
- Strong reputation with our customer base for delivering quality

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**Hunting had a positive year on many fronts and the Board remains focused on delivering a sustained performance, with a number of initiatives underway to continue to improve efficiency and increase shareholder value.**

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John (Jay) F. Glick  
Chairman

## Introduction

I am delighted to introduce our 2018 Annual Report and Accounts to shareholders. In the year, Hunting has seen very strong US onshore well completion activity in the first three quarters, as the average WTI oil price encouraged operators to commit significant capital to the development of new production from US shale basins. This has resulted in Hunting reporting improved levels of revenue and profitability compared to 2017. While the US offshore and international drilling markets have remained subdued, your Company has focused on in-sourcing more production in the year, which has improved facility utilisation and strengthened margins. In the final quarter, momentum within onshore US basins slowed marginally, impacting on the Group's onshore businesses; however, this was mitigated, in part, by the increase in demand for other product lines.

## Financial Performance

Revenue for the Group increased 26% in the year to \$911.4m, compared to \$724.9m in 2017, leading to an underlying profit before tax of \$104.0m (2017 – \$11.5m). Reported profit before tax was \$74.7m (2017 – \$(27.6)m loss).

Net cash at the year-end increased to \$61.3m (2017 – \$30.4m), which was another excellent result. This leaves Hunting with a strong and flexible balance sheet to meet the demands of the current market environment.

## Dividends

At the Group's half-year results in August 2018, the Board declared an interim dividend of 4.0 cents per share, which was paid in October 2018.

Given the sustained performance of the Company throughout the year, compared to the prior year, the Board is recommending a final dividend of 5.0 cents per share absorbing \$8.2m of cash, for approval by shareholders at the Company's Annual General Meeting on 17 April 2019. If approved, the final dividend will be paid on 10 May 2019, to shareholders on the register on 23 April 2019.

This distribution will bring the total dividends paid in respect of 2018 to 9.0 cents per share or a distribution of \$14.8m.

The Board remains committed to delivering sustainable dividends, but will continue to assess each dividend proposal on a case-by-case basis.

## Board Changes

Changes to the Board took place during the year, with John Nicholas and John Hofmeister retiring after nine years' service. We thank them both for their wise counsel and commitment to the Group through the challenging times the Company has faced.

- i. Results for the year, as reported under IFRS, adjusted for amortisation of intangible assets recognised as part of a business combination and exceptional items.

Carol Chesney and Keith Lough were both appointed to the Board in April 2018, following a thorough search process. Carol Chesney was appointed Chair of the Audit Committee following John Nicholas's retirement in April. Keith Lough was appointed Senior Independent Director following John Hofmeister's retirement in August and Annell Bay was appointed Chair of the Remuneration Committee.

## Governance

The Company has enhanced its governance framework in the year, with the creation of an Executive Committee. The Committee comprises the executive Directors and regional managing directors of each of the Group's operating segments.

In the year, the Board also completed its third externally facilitated effectiveness evaluation. More information on this process can be found in the Governance section of this report.

The Board has noted the publication of the new UK Corporate Governance Code in July 2018. Compliance initiatives are underway, which will include new employee engagement initiatives to be introduced across the Company that will be reported to the Board throughout the year. I am pleased to announce that Annell Bay has agreed to be the Company's designated non-executive Director for employee engagement matters, as encouraged by the new Code. Annell is located in the US where the majority of our workforce resides. Annell will be working with management to ensure suitable arrangements are put in place during 2019, ahead of Hunting reporting its new compliance in next year's Annual Report.

## Conclusion

Hunting had a positive year on many fronts and the Board remains focused on delivering a sustained performance, with a number of initiatives underway to continue to improve efficiency and increase shareholder value.

On behalf of the Board, I would like to thank all our stakeholders, including employees, shareholders, customers and suppliers, for their support during the past year.



**John (Jay) F. Glick**  
Chairman

28 February 2019

## Chief Executive's statement and Outlook

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**With a strong balance sheet, tightly managed cost base and a strong presence in our chosen upstream equipment and service markets, Hunting remains well positioned to capture opportunities in the current market.**

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Jim Johnson  
Chief Executive

## Introduction

2018 has seen the Group report monthly profitability throughout the year, as market stability within US onshore completions led to a strong year-on-year increase in performance. While the Group is still some way from reporting profitability across all of its international regions, Hunting's historic focus on the US market has allowed the Company to return to both underlying and reported profitability in the year. On the back of this improved trading environment, we have recommenced dividend distributions.

The performance of Hunting Titan in the year has clearly been the highlight for the Group, as demand for perforating systems, energetics and instruments have all exceeded management's expectations. Market momentum in the first half of the year was exceptionally strong, as operators increased drilling operations on the back of higher average oil prices and lower operating costs. A key to the success of Hunting Titan has been its strong and varied technology offering, which customers continue to embrace as the market seeks more cost-efficient and safe ways to extract oil and gas.

Activity in the US onshore basins has also had a positive impact on the Group's US operating segment, as demand for OCTG, accessories, downhole tools and other equipment has led to the US returning to profitability. During the year, some indications of a recovery in the US offshore market were noted, as the oil majors announced new investment in deep water projects; however, at this point, new activity remains patchy and is unlikely to gain any firm traction until the WTI oil price stabilises at a modest premium to the current oil price.

A key achievement in the year is the use of the Group's global manufacturing facilities to assist in meeting customer demand for Hunting Titan's products. Ten facilities across the Group have manufactured Titan products and components in the year, which enabled Hunting to retain margin within the Group and increase utilisation at a number of facilities, which were historically focused on offshore markets.

Elsewhere across the Group, all international businesses, except Europe, reported increased revenue and the narrowing of losses as broad-based market stability, coupled with ongoing cost-containment initiatives, positively impacted performance.

## Group Results Summary

The following table sets out a summary of the Group's results for the year. Hunting reports a 26% increase in revenue compared to the prior year. Underlying<sup>i</sup> EBITDA improved considerably as operations across Hunting's US markets increased with activity levels, to record an increase in the year to \$142.3m (2017 – \$56.0m). Reported EBITDA increased to \$141.3m (2017 – \$53.6m).

	Underlying <sup>i</sup>		Reported	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Revenue	911.4	724.9	911.4	724.9
EBITDA <sup>ii</sup>	142.3	56.0	141.3	53.6
Profit (loss) from operations	104.7	14.3	75.4	(24.8)
Profit (loss) before tax	104.0	11.5	74.7	(27.6)
Profit (loss) for the year	82.0	10.5	85.7	(28.6)
<b>Diluted EPS – cents</b>	<b>49.6</b>	<b>8.0</b>	<b>52.3</b>	<b>(16.0)</b>

- i. Results for the year, as reported under IFRS, adjusted for amortisation of intangible assets recognised as part of a business combination and exceptional items.  
 ii. Non-GAAP measure (see pages 161 to 165).

Underlying<sup>i</sup> profit from operations increased in the year to \$104.7m (2017 – \$14.3m). Reported profit from operations was \$75.4m (2017 – \$(24.8)m loss). This has led to underlying<sup>i</sup> diluted EPS improving from 8.0 cents per share in 2017 to 49.6 cents per share in 2018. Reported diluted EPS was 52.3 cents (2017 – (16.0) cents loss).

## Outlook

The Group's improved performance in 2018 and into early 2019, has been driven by US onshore-centric drilling activity and investment, while the results of Hunting's international businesses remain dependent on further market improvement. Given the ongoing commodity price and geopolitical volatility, the Board remains focused on the agility and flexibility of the business to respond to market conditions. Initiatives to further improve profitability and margins, and reduce losses, including in-sourcing of production, facility rationalisation and inter-segment manufacturing, will also continue in the year ahead.

The Company has a number of new products and technologies scheduled to launch in 2019, which will continue to broaden our market reach. Further, with the commissioning of new, higher-efficiency manufacturing, the potential for margin improvement in our key product lines is anticipated; however, it is also conditional on activity levels improving. The Board continues to review bolt-on acquisition opportunities, which, if concluded, will increase our presence in the wellbore and enhance our current product portfolio. Any potential acquisitions would need to complement our portfolio of onshore technologies as well as subsea completions within the oil and gas industry.

With a strong balance sheet, tightly managed cost base and a strong presence in our chosen upstream equipment and service markets, Hunting remains well positioned to capture opportunities in the current market, should the recovery across the industry continue.



Jim Johnson  
Chief Executive

28 February 2019

# Global market indicators

### Introduction

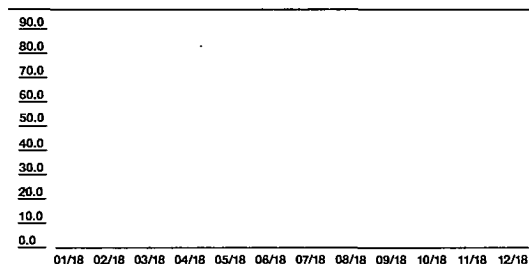
Hunting's performance is closely linked to the macro-economic drivers of the oil and gas industry, including the WTI crude oil and natural gas price, as well as regional drivers such as drilling spend and average rig counts.

### Commodity Prices

The WTI crude oil price started 2018 at \$60.4 per barrel and ended the year at \$45.4 per barrel, following the concerns of oversupply in the global market, which adversely impacted the sector during Q4 of the year.

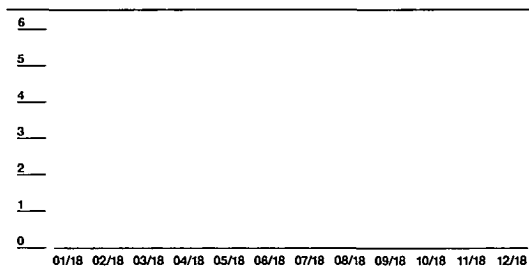
The average WTI price was c.\$65 per barrel in the year, which represents a 30% increase over 2017, and supported the continued increase in drilling and production spend, particularly across North America.

#### WTI Crude Oil Prices (\$/barrel)



The Henry Hub natural gas price has averaged \$3.05 per mmBtu in 2018 compared to \$3.04 per mmBtu in the prior year. This meant that gas drilling was maintained in the year.

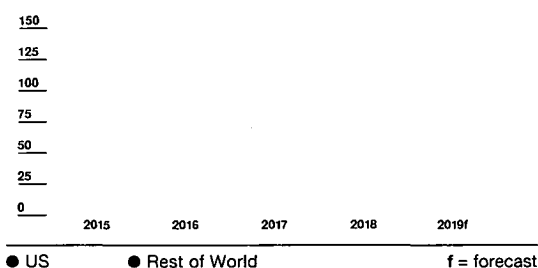
#### Henry Hub Natural Gas Price (\$/mmBtu)



### Industry Spend

On the back of an improving oil price towards the end of 2017 and the average oil price through 2018, the oil and gas industry increased global drilling and production spend by 15% to \$231.2bn (2017 – \$201.2bn). Of this increase, \$27.4bn was allocated to new US onshore drilling and production expenditure, underpinning the activity levels reported across the US market, with c.45% of US rig activity being located in the Permian basin.

#### Global Drilling and Production Expenditure (\$bn)



This increase in spend had a positive impact on the Hunting Titan and US operating segments, which both reported double-digit increases in revenue and were both profitable at the underlying and reported levels.

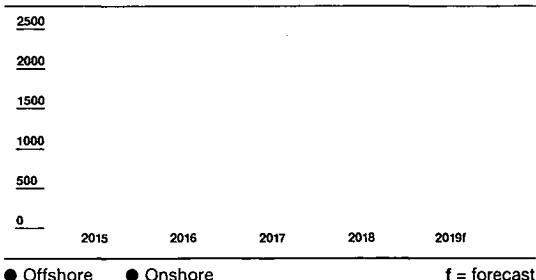
### Outlook

At the time of publication, industry commentators are projecting 2019 to be similar to 2018 in terms of global drilling and production spend, with offshore activity offsetting the marginal decline in onshore spend.

### Rig Count

Driven by the increasing average oil price and drilling spend, global rig counts averaged 9% higher in the year at 2,190 units compared to 2,008 units in 2017. This contributed to a generally higher level of industry stability in the year, albeit remaining focused on the US, where the additional spend was mostly allocated.

#### Global Average Rig Count



### Outlook

The global average rig count is projected to marginally decline in 2019 to 2,159 units given the projected slowing in the US onshore market.

# Regional market indicators

## US – Onshore

As noted previously, Hunting's performance in 2018 has been positively impacted by the continued increase in activity within the US onshore shale basins and, in particular, the Permian basin where nearly 45% of US domestic rig activity is focused.

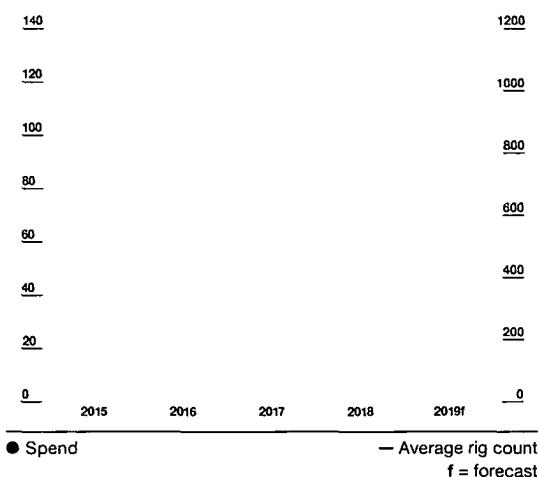
The average onshore rig count increased 18% to 1,013 active units, with the average drilling spend increasing 26% from \$106.1bn in 2017 to \$133.5bn in 2018.

This data supports the continued increase in revenue and profits within the Group's Hunting Titan and US operating segments.

### Outlook

Given the lower oil price in late 2018, which extended into early 2019, the average rig count and projected production and drilling spend are both forecast to decline by 7% and 4% respectively, based on lower completion activity being projected and oil off-take constraints in the Permian basin. Onshore industry spend is still forecast to be c.\$128.7bn, in the year ahead.

## Spend (\$bn)/Average Rig Count



## US – Offshore

In contrast to the US onshore market, the US offshore market remained subdued during the year, aside from those companies with remaining drilling commitments in the region.

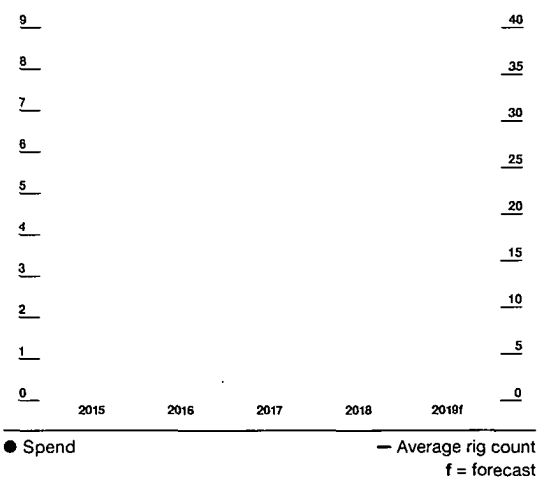
The average rig count was 19 in the year compared to 20 in the prior year, with drilling and production spend declining 7% to \$4.1bn.

This data led to the Group's businesses, which are more focused on the offshore market, remaining generally quiet in the year.

### Outlook

Market commentators are forecasting an improving US offshore market in 2019, with the average rig count expected to reach 22 and drilling spend increasing 17% to \$4.8bn.

## Spend (\$bn)/Average Rig Count



## Regional market indicators continued

### Canada

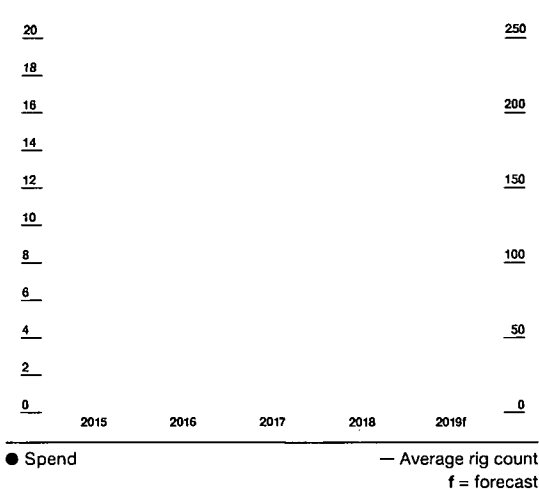
The Canadian market remains a highly competitive and challenging market environment, with the realised price for domestic western Canada crude oil selling at a material discount to the WTI crude oil price, which generally deterred clients from major new drilling programmes.

In the year, drilling and production spend increased 9% to \$18.1bn, which supported an increase in revenue for the Group's Canada segment and a narrowing of operating losses. In 2018, however, the average rig count declined 6% to 194 active units.

#### Outlook

The market environment in Canada is not anticipated to improve during 2019, with commentators forecasting a decline in the average rig count by 8% to 179 units and drilling spend declining at a similar rate to \$16.6bn, which reflects a similar level to 2017.

### Spend (\$bn)/Average Rig Count



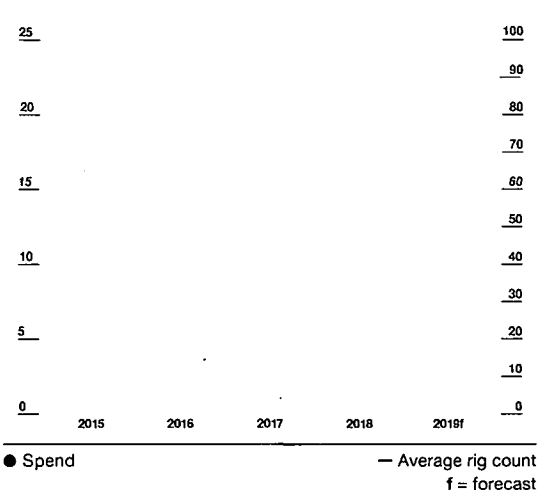
### Europe

The European oil and gas market in 2018 was, for the most part, unchanged from 2017. The average rig count declined by 3% to 67 active units across the year, while drilling spend was flat at \$13.2bn. In the UK region of the North Sea, the average rig count declined by 11% from 27 to 24 units in the year, as operators continued to divest assets, which slowed activity on key development projects. This deteriorating market has led to lower revenues and larger regional losses for the Group in the year.

#### Outlook

The average rig count across Europe is projected to increase to 72 units, or 7%, compared to 2018, of which three units are due to return to the North Sea. Average drilling spend is forecast to increase by 8% to \$14.3bn.

### Spend (\$bn)/Average Rig Count



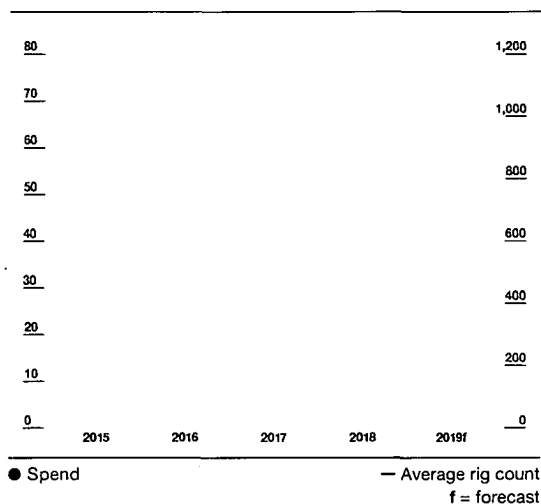


**Asia Pacific (inc. China)**

The Asia Pacific region reported an overall increase in the regional rig count of 7% in the year to 902 units and a 2% increase in spend to \$49.8bn. The Far East region, i.e. excluding China, reported an increase in the average rig count of 8% in the year to 216 units, as drilling across the region embraced the higher average oil price in the year. However, drilling spend actually declined by 10% to \$17.8bn. In China, rig counts increased 6% and drilling spend increased 9%.

**Outlook**

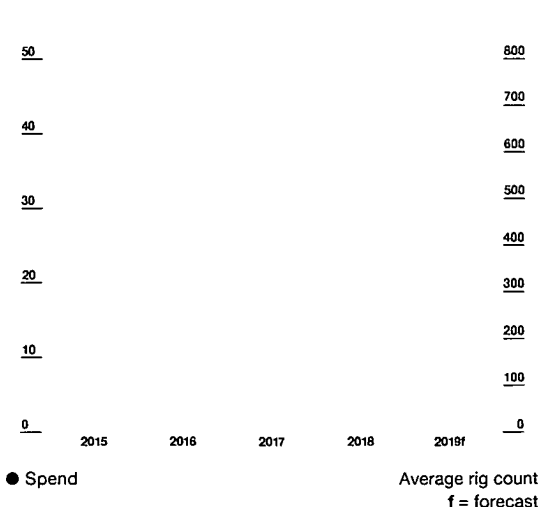
2019 is projected to show low, single-digit growth for rig counts and spend to 927 units and \$52.8bn respectively. This will remain predicated on the average oil price remaining at levels seen in 2018.

**Spend (\$bn)/Average Rig Count****Middle East and North Africa**

In 2018, activity across the region increased marginally compared to 2017, although activity levels have notably increased in Iraq following the improving security situation in the country. The average rig count across the Middle East increased 1% to 367 units and drilling spend increased 4% to \$22.5bn. In Iraq the average rig count increased 20% from 49 to 59 units, which supported the Group's increased revenues from operators in the country. Saudi Arabia's average rig count was 117 in the year, a decline of 1%. For the Middle East and North Africa regions as a whole, the average rig count increased 4% to 491 active units, with a total spend of \$30.0bn in the year.

**Outlook**

Going into 2019, for the Middle East and North Africa region, both the average rig count and drilling spend is forecast to increase in the year ahead, with the rig count averaging 511 (+4%) and industry spend approaching \$32.2bn (+7%).

**Spend (\$bn)/Average Rig Count**

Sources – commodity prices have been collected from Bloomberg. Average rig count and drilling and production expenditure data are based on Spears & Associates Drilling and Production Outlook Report – December 2018.

## Key performance indicators

A number of key performance indicators are used to compare the business performance and position of the Group. These are regularly reviewed to ensure they remain appropriate. For details on the movements of these metrics please refer to the Group Review on pages 14 to 18.

Financial performance is measured on an underlying basis from operations and, other than revenue, are non-GAAP measures (further information on financial Non-GAAP Measures ("NGM") can be found on pages 161 to 165).

IFRS 15 – Contracts with Customers, has been applied to financial data for 2017 and 2018.

<b>Revenue (\$m)</b>	
2018	911.4
2017	724.9
2016	455.8

Revenue is earned from products and services sold to customers from the Group's principal activities (see notes 2 and 3).

<b>Underlying EBITDA* (Loss) (\$m)</b>	
2018	142.3
2017	56.0
2016	(48.9)

Underlying results before share of associates' post-tax results, interest, tax, depreciation, impairment and amortisation (see NGM A).

<b>Underlying Profit (Loss) from Operations* (\$m)</b>	
2018	104.7
2017	14.3
2016	(92.2)

Underlying profit (loss) from operations before net finance costs and tax (see consolidated income statement and note 2).

<b>Underlying Operating Margin* (%)</b>	
2018	11
2017	2
2016	(20)

Underlying profit (loss) from operations as a percentage of revenue.

<b>Underlying Diluted Earnings (Loss) Per Share* (cents)</b>	
2018	49.6
2017	8.0
2016	(45.3)

Underlying earnings (loss) attributable to Ordinary shareholders, divided by the weighted average number of Ordinary shares in issue during the year adjusted for all potentially dilutive Ordinary shares (see note 11).

\* Non-GAAP measure ("NGM") (see pages 161 to 165).

**Capital Investment\*** (\$m)

2018	30.1
2017	11.4
2016	17.2

Cash spend on tangible non-current assets (see NGM J).

**Inventory Days\***

2018	185
2017	167
2016	221

Inventory at the year-end divided by underlying cost of sales for the last three months of the year multiplied by 92 days (see NGM D).

**Return on Average Capital Employed\*** (%)

2018	9
2017	1
2016	(8)

Underlying profit (loss) before interest and tax, adjusted for the share of associates' post-tax results, as a percentage of average gross capital employed (see NGM O).

**Free Cash Flow\*** (\$m)

2018	80.7
2017	49.3
2016	52.9

All cash flows before transactions with shareholders and tangible and intangible capital investment (see NGM L).

**Net Cash (Debt)\*** (\$m)

2018	61.3
2017	30.4
2016	(1.9)

Net cash (debt) comprises cash at bank and in hand, short-term deposits and Money Market Funds less bank overdrafts, current and non-current borrowings (see note 23).

\* Non-GAAP measure ("NGM") (see pages 161 to 165).

**Countries with active operations**

**11** (2017 – 12)

Countries in which Hunting has an active operating site or distribution centre. This does not include countries that only have a sales presence.

**Year-end employees**

**2,772** (2017 – 2,610)

The December headcount for Hunting employees, including part-time staff (see note 8).

**No. of recordable incidents**

**46** (2017 – 24)

An incident is recordable if it results in death, days away from work or transfer to another job, medical treatment beyond first aid or loss of consciousness, or if significant injuries or illnesses are diagnosed by relevant medical authorities.

**CO<sub>2</sub> intensity factor** (kg/\$k of revenue)

**38.6** (2017 – 43.6)

Scope 1 and 2 carbon dioxide equivalent metric, reported as kilograms per \$k of revenue.

**Operating footprint** (Million sq ft)

**2.9** (2017 – 3.0)

Operation and distribution site square footage at year-end. This closely corresponds to "roofline" and includes administrative space within operating units.

**ISO 9001 (Quality) accredited operating sites**

**71%** (2017 – 64%)

Percentage of operating sites with ISO 9001 accreditation.

**Incident rate** (OSHA method)

**1.49** (2017 – 0.89)

The US Occupational Safety and Health Administration ("OSHA") incident rate is calculated by multiplying the number of recordable incidents by 200,000 and then dividing that number by the number of labour hours worked.

**Internal manufacturing reject rate**

**0.2%** (2017 – 0.3%)

Percentage of parts rejected during manufacturing processes.

## Group review

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**The focus of the Group during the year has been to meet the demand for US onshore products and services, while retaining a solid financial footing.**

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**Jim Johnson**  
Chief Executive

**Peter Rose**  
Finance Director

### Group Results Summary

	Underlying		Reported	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Revenue	911.4	724.9	911.4	724.9
Gross Profit	275.1	175.4	275.1	165.4
EBITDA <sup>i</sup>	142.3	56.0	141.3	53.6
Profit (loss) from operations	104.7	14.3	75.4	(24.8)
Profit (loss) before tax	104.0	11.5	74.7	(27.6)
Profit (loss) for the year	82.0	10.5	85.7	(28.6)
<b>Diluted EPS – cents</b>	<b>49.6</b>	<b>8.0</b>	<b>52.3</b>	<b>(16.0)</b>

i. Non-GAAP measure.

## Introduction

2018 has been a year of record performance for the Hunting Titan operating segment, together with an improving performance by the Group's US operating segment, both driven by US onshore completion activity levels. Both segments contributed to the profitability of the Group for the year as a whole, as the US market environment remained stable and buoyant, particularly for operators within the major shale basins. Hunting's other international operating segments, with the exception of Europe, reported improving revenues and narrowing losses in the year, as the higher oil price reported in the first half of the year led to new activity.

## Market Summary

The average WTI crude oil price was c.30% higher in the year at \$65 per barrel, compared to an average price of \$50 per barrel in 2017. This encouraged operators to increase drilling and production expenditure within the lower-cost shale basins, with this additional investment focused almost entirely on the US onshore market.

Market commentators have estimated that global drilling and production expenditure increased by c.15% in the year to \$231.2bn (2017 – \$201.2bn), of which \$27.4bn of this increase was from US onshore drilling activity.

This result has led to the strong performance of the Group's US orientated businesses.

## Operational Initiatives

The focus of the Group during the year has been to meet the demand for US onshore products and services, as shale basins such as the Permian, Marcellus and Utica accelerated activity in the first half of the year, while retaining a solid financial footing.

Hunting Titan has reported record results in the year, due to strong demand for its perforating guns, energetics and instruments. Higher utilisation of its manufacturing facilities has been reported and, as a consequence of this, the Group began two major capital investment programmes at its Pampa and Milford facilities to expand production

capacity and, at the same time, reduce manufacturing costs and increase efficiency through the implementation of automated production for certain product lines. These projects are expected to complete by Q2 2019 and will significantly enhance capacity for the production of perforating guns and energetics charges.

Production of perforating guns has also increased at the Group's other facilities in Canada, China and the US, with these facilities contributing to c.44% of the total gun production reported in the year. Other Hunting Titan products have been manufactured by the Group's business units in the year, including Hunting Electronics, Hunting Specialty and US Manufacturing.

The Group has continued to launch new products and technology to customers during the year, as the industry continues its drive for better efficiencies and increased safety. Hunting Titan launched new release tools and new charges to customers in the year, which has supported its strong performance across the period. Hunting has also continued to launch new premium and semi-premium connections in the year. The Group has expanded its WEDGE-LOCK™ product family with the introduction of new sizes in the year. Hunting has also seen good market acceptance of its TEC-LOCK™ semi-premium connection, as onshore-focused customers increased their drilling plans in the shale basins across the US. Efforts to introduce the TEC-LOCK™ connection to Hunting's international customer base have begun in the year, with interest being shown in Canada and Asia Pacific for onshore projects.

At the end of the year, the Group reported 34 operating sites compared to 35 in 2017, following the closure of Hunting's facility in Mombasa, Kenya. Hunting's distribution centres numbered 18 at the end of 2018 (2017 – 21 centres) following the closure of two centres in Canada and one in the US.

## Group Segment Summary

Business Unit	2018			2017		
	Segment revenue \$m	Underlying <sup>i</sup> result from operations \$m	Reported result from operations \$m	Segment revenue \$m	Underlying <sup>i</sup> result from operations \$m	Reported result from operations \$m
Hunting Titan	418.2	106.9	80.8	312.8	66.4	40.5
US	327.1	15.6	12.4	218.9	(22.9)	(26.1)
Canada	44.8	(1.8)	(1.8)	36.5	(3.3)	(3.3)
Europe	86.2	(10.9)	(10.9)	89.2	(13.7)	(13.7)
Asia Pacific	107.0	(0.8)	(0.8)	88.1	(4.4)	(4.4)
Middle East, Africa and Other	24.2	(2.9)	(2.9)	18.6	(6.7)	(16.7)
Exploration and Production	2.6	(1.4)	(1.4)	3.3	(1.1)	(1.1)
Inter-segment elimination	(98.7)	–	–	(42.5)	–	–
<b>Group segment total</b>	<b>911.4</b>	<b>104.7</b>	<b>75.4</b>	<b>724.9</b>	<b>14.3</b>	<b>(24.8)</b>

ii. Results for the year, as reported under IFRS, adjusted for amortisation of intangible assets recognised as part of a business combination and exceptional items.

## Results from Operations

The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as of 1 January 2018. The 2017 financial statements have been restated for the adoption of IFRS 15 and IFRS 9 has been adopted without restating comparative information (see note 38).

The Group reports an increase in revenue of 26% to \$911.4m (2017 – \$724.9m). Performance in the year was equally balanced between the first and second half, with revenue in H1 2018 of \$442.8m (H1 2017 – \$318.1m). Revenue in the second half of the year was \$468.6m (H2 2017 – \$406.8m). Hunting Titan's segment revenue increased by 34% in the year to \$418.2m (2017 – \$312.8m) and the Group's US segment increased revenue by 49% to \$327.1m (2017 – \$218.9m) due to the strong activity within the US onshore market. All other segments, with the exception of Europe, also improved revenues and reduced operating losses in the year. Further details can be found in the Segmental Review on pages 20 to 27.

With the increase in sales volumes and some price increases being implemented, underlying gross profit improved to \$275.1m in the year (2017 – \$175.4m) with underlying gross margin improving to 30% (2017 – 24%). Reported gross margins improved in line with the underlying measures.

Given the performance of the Hunting Titan and US segments, the Group overall has reported a strong increase in underlying profit from operations to \$104.7m (2017 – \$14.3m), with the underlying operating margin also increasing from 2% in 2017 to 11%.

The charge in the year for the amortisation of intangible assets recognised as part of a business combination totalled \$29.3m, compared to \$29.1m in 2017. The net impact from exceptional items recorded in the year was \$nil. A \$2.0m reversal to impairment, relating to the Group's disposal of its facility in South Africa, was credited in the first half of the year. At the same time, \$2.0m of closure costs were charged in respect of the Group's Kenyan joint venture. In 2017, exceptional items totalled \$10.0m in relation to the closure of the Cape Town operation in South Africa.

The underlying net finance expense during the year was \$0.7m (2017 – \$1.5m), predominantly related to lower debt levels and bank fees.

The underlying profit before tax was \$104.0m (2017 – \$11.5m). After charges for intangible asset amortisation acquired as part of a business combination and exceptional items, the reported profit before tax was \$74.7m (2017 – \$(27.6)m loss).

The underlying tax rate was 21% (2017 – 9%). Deferred tax assets of \$26.6m in respect of US operations have been recognised in the year. This includes \$24.9m in respect of previously unrecognised US tax losses.

Of the total deferred tax asset recognised, \$25.3m has been shown as a credit against amortisation and exceptional items consistent with our treatment of tax on amortisation in prior years. In addition, a further \$1.3m has been recognised and credited to underlying operations. Management believe that the strong US performance in the year and the projections over the next two to three years support this recognition of deferred tax in full. The reported tax credit is \$11.0m (2017 – \$1.0m charge). The Group's underlying effective tax rate ("ETR") for 2019 is expected to be in the range of 24% to 26% depending on the regional mix of results. The ETR for 2019 is expected to increase over 2018 because the 2018 ETR benefited from the recognition of US tax losses from prior periods.

Underlying profit after tax was \$82.0m (2017 – \$10.5m) and reported profit after tax was \$85.7m (2017 – \$(28.6)m loss). Underlying diluted earnings per share was 49.6 cents in the year (2017 – 8.0 cents). Reported diluted earnings per share was 52.3 cents (2017 – (16.0) cents loss).

## Cash Flow

Summary Group Cash Flow	2018 \$m	2017 \$m
Underlying EBITDA (NGM A)	142.3	56.0
Share-based payments	13.2	11.9
	155.5	67.9
Working capital movements (NGM I)	(96.6)	(39.9)
Interest paid and bank fees	(2.0)	(2.4)
Net tax (paid) received	(2.6)	6.5
Proceeds from disposal of PPE	16.4	6.2
Pension scheme refund	10.6	9.7
Disposal of business	–	1.8
Other operating cash and non-cash movements (NGM K)	(0.6)	(0.5)
Free cash flow (NGM L)	80.7	49.3
Capital investment (NGM J)	(30.1)	(11.4)
Intangible assets investment	(6.6)	(5.5)
Dividends paid to equity shareholders	(6.6)	–
Purchase of treasury shares	(5.7)	–
Other	(0.8)	(0.1)
Movement in net cash	30.9	32.3

The strong performance of Hunting Titan and improved performance of the Group's US operating segment has led to EBITDA increasing in the year to \$142.3m compared to \$56.0m in 2017. The underlying EBITDA margin for the year was 16% compared to 8% in the prior year. When adjusted for non-cash share-based payment charges of \$13.2m (2017 – \$11.9m), operating inflow of \$155.5m was recorded in the year compared to \$67.9m in 2017.

The increase in demand for the Group's products, coupled with some forward purchasing of materials to mitigate the impact of international trade tariffs, has led to working capital outflow of \$96.6m (2017 – \$39.9m). At 31 December 2018, inventory days were 185 compared to 167 in 2017. Receivable days were 78 in 2018 compared to 72 in the prior period.

Net interest paid was \$2.0m in 2018 reducing from \$2.4m in 2017, due to the lower levels of net borrowing in the year. Net tax paid in the year was \$2.6m, and mainly arose in the UK and Asia, as no US federal tax was paid due to tax losses from previous years. In 2017, a US tax refund of \$7.9m was received, reflecting the carry-back of prior period losses.

Proceeds from the disposal of property, plant and equipment were \$16.4m (2017 – \$6.2m), and include \$8.0m received on the sale of the Cape Town facility. During the year, the Group received a further \$10.6m refund of pension surplus (2017 – \$9.7m) from the Company's UK pension scheme. This receipt fully realises the surplus that had arisen in the scheme and no further refunds will occur as the scheme has now been wound up. Free cash flow in the year was \$80.7m compared to \$49.3m in the prior period, which includes other items totalling \$0.6m cash outflow (2017 – \$1.3m net inflow).

Capital investment increased to \$30.1m in 2018 (2017 – \$11.4m) mainly relating to the capacity expansion programmes underway at the Group's Milford and Pampa facilities. Investment in intangible assets increased to \$6.6m from \$5.5m in 2017, mainly in relation to increased levels of technological development in the Group.

Following the recommencement of dividend distributions during the year, a \$6.6m outflow was recorded following the payment of the 2018 interim dividend in October 2018, which equates to 4.0 cents per share. No dividends were paid in 2017. Further, the Group purchased 750,000 Ordinary Hunting PLC shares, for a total consideration of \$5.7m, through its employee share trust. These shares will be used to partially satisfy future awards under the Group's long-term incentive plan. Other items in the year totalled \$0.8m (2017 – \$0.1m).

As a consequence of the above cash flows, the Group generated a net inflow of \$30.9m in the year, which resulted in a net cash position of \$61.3m as at 31 December 2018.

#### Balance Sheet

Summary Group Balance Sheet	2018 \$m	2017 \$m
Property, plant and equipment	360.2	383.3
Goodwill	229.9	230.3
Other intangible assets	99.8	125.4
Working capital (NGM C)	436.5	344.0
Taxation (current and deferred)	13.7	(6.0)
Provisions	(14.2)	(18.0)
Other net assets (NGM F)	3.9	22.7
Capital employed (NGM G)	1,129.8	1,081.7
Net cash	61.3	30.4
Net assets	1,191.1	1,112.1
Non-controlling interests	(14.0)	(18.8)
Equity attributable to owners of the parent	1,177.1	1,093.3

Property, plant and equipment has decreased by \$23.1m. Additions of \$30.0m and the reversal of impairment of \$2.0m in relation to the closure of the South Africa facility were offset by disposals of \$16.2m, depreciation of \$35.0m, an impairment charge of \$1.0m following the decision to close the Kenya joint venture and foreign exchange movements of \$2.9m. Goodwill was materially unchanged at \$229.9m. Other intangible assets have decreased by \$25.6m, with the amortisation charge for the year of \$31.9m and foreign exchange movements of \$0.3m being partly offset by the capitalisation of technology and software development costs of \$6.6m.

Working capital has increased by \$92.5m, mainly driven by increased inventories within Hunting Titan and other US businesses focused on onshore drilling in North America. Foreign exchange had a \$4.6m adverse impact on working capital, but this was offset by \$0.5m of adjustments.

Deferred tax assets have increased due to the recognition of assets in the US during 2018, as a result of the improved trading environment. Tax balances show net assets of \$13.7m (2017 – \$(6.0)m net liabilities). This is made up of net current tax liabilities of \$(11.1)m and net deferred tax assets of \$24.8m.

Other net assets have reduced by \$18.8m during the year, mainly due to the cash refund of the Group's UK pension scheme surplus.

As a result of the above changes, capital employed in the Group has increased by \$48.1m to \$1,129.8m. Net assets at 31 December 2018 were \$1,191.1m, which, after non-controlling interests of \$14.0m, result in equity shareholders' funds of \$1,177.1m (2017 – \$1,093.3m). This is an increase over 31 December 2017 and reflects the reported profits for the year attributable to equity shareholders of \$89.3m, a net \$12.3m credit in relation to share awards and other credits of \$1.7m being offset by foreign exchange losses of \$7.2m, dividends paid of \$6.6m and the purchase of treasury shares of \$5.7m.

With the Group's greater level of profitability in the year, the underlying return on average capital employed improved to 9% in 2018 compared to 1% in 2017.

#### Financial Capital Management

Hunting ended 2018 with a robust balance sheet and net cash of \$61.3m (31 December 2017 – \$30.4m net cash). In January 2018, the Group exited its revised bank covenants and terms, which were put in place on 20 July 2016, and reverted to its original facility covenants and terms, which include:

- The ratio of net debt to consolidated EBITDA permitted under the revolving credit facility must not exceed a multiple of three times.
- Consolidated EBITDA must also cover relevant finance charges by a minimum of four times.

For covenant testing purposes, the Group's definition of EBITDA is adjusted to exclude exceptional items, include the share of associates' post-tax results and exclude the fair value charge for share awards. Similarly, net cash/debt and finance expenses are adjusted to accord with the definition within the facility agreement. EBITDA, for covenant test purposes, is based on the previous 12-month period, measured twice yearly at 30 June and 31 December. At 31 December 2018, both these covenants were met.

In December 2018, the Group concluded an exercise to "amend and extend" its committed revolving credit facility. The quantum of the facility reduced to \$160.0m from \$200.0m, and the maturity date has been extended to 2022. The amended facility arrangements include an accordion feature that allows for the facility to be increased to \$235.0m, subject to the approval of its bank lending group, with the facility maturity date extending to 2023. As part of the exercise, the bank lending group reduced to four banks. The Group's funding position remains robust, with total borrowing facilities of \$164.9m in place (2017 – \$205.0m), of which \$159.5m (2017 – \$200.0m) is committed. Further details of the facility, including the terms and conditions, are in note 27.

	2018	2017
Total equity	1,191.1	1,112.1
Net cash	(61.3)	(30.4)
Capital employed	1,129.8	1,081.7

Capital employed is managed in order to ensure an appropriate level of financing is available for the Group's day-to-day operations. The balance of debt and equity is managed having due regard to the respective cost of funds and their availability. The Group operates a centralised treasury function, with policies and procedures approved by the Board. These cover funding, banking relationships, foreign currency and interest rate exposures and cash management, together with the investment of surplus cash.

The Group operates in a number of geographic territories and results are generated in a number of different currencies. The US dollar is the most significant functional currency; however, where this is not the case, the Group is subject to the effects of foreign exchange rate fluctuations with respect to currency conversions. Individual entities are generally required to borrow from the central treasury function in their functional currency. The treasury function's strategy is to manage its own currency exposure by using currency swaps to convert US dollars into the different currencies required by the entities. Spot and forward foreign exchange contracts are also used to cover the exposure of purchases and sales in non-domestic currencies. The Group's liquidity is monitored by the central treasury function on a daily basis and a variety of cash forecasts, looking at different time horizons, are prepared on a periodic basis.

Management's judgement is that the level of headroom available under the Group's total credit facilities provides ongoing flexibility and continues to support the business as outlined in this Strategic Report. Further detail on financial risks is provided within note 27.

### Dividends

Each dividend proposal considered by the Board is determined on its own merits taking into account the considerations outlined below. This flexible approach is influenced by the cyclical nature of the oil and gas sector which, as recent history demonstrates, can produce significant swings in activity levels and cash generation. Dividends will, therefore, reflect business performance over time and will not necessarily be progressive.

In assessing the level of dividend that is appropriate, the Board considers not only the results and position of the business for the financial year in question, but reviews mid-term projections and downside sensitivities for a three-year period as used in the Viability Assessment.

A company's dividend capacity is typically constrained either by distributable reserves or by liquidity. Hunting PLC has in excess of \$200m of distributable reserves and Hunting Energy Holdings Limited, a direct UK subsidiary of Hunting PLC, which directly or indirectly controls the operating businesses of the Group, has distributable reserves in excess of \$600m.

The Board considers that these distributable reserves are capable of servicing dividends for the foreseeable future and that any dividend constraints will be driven by liquidity.

### On behalf of the Board



**Jim Johnson**  
Chief Executive



**Peter Rose**  
Finance Director

28 February 2019



Hunting's Subsea business completes stringent quality assurance procedures on all hydraulic valves and couplings. This hyperbaric test chamber replicates the high pressure environment of deep water drilling.

## Segmental review

# Hunting Titan

		2018	2017
<b>Market indicators*</b>			
US onshore – average rig count	#	<b>1,013</b>	856
Canada – average rig count	#	<b>194</b>	206
Drilled-but-uncompleted wells	#	<b>8,594</b>	6,578
<b>Revenue</b>			
Perforating guns and hardware	\$m	<b>123.2</b>	102.0
Energetics	\$m	<b>140.6</b>	111.8
Instruments	\$m	<b>134.6</b>	87.5
Perforating Systems	\$m	<b>398.4</b>	301.3
Other product lines	\$m	<b>12.9</b>	7.4
External revenue	\$m	<b>411.3</b>	308.7
Inter-segment revenue	\$m	<b>6.9</b>	4.1
Segment revenue	\$m	<b>418.2</b>	312.8
<b>Profitability</b>			
Reported operating profit	\$m	<b>80.8</b>	40.5
Acquisition amortisation and exceptional items	\$m	<b>26.1</b>	25.9
Underlying operating profit	\$m	<b>106.9</b>	66.4
Underlying operating margin	%	<b>26</b>	21
<b>Other financial measures</b>			
Capital investment	\$m	<b>12.6</b>	2.6
Property, plant and equipment	\$m	<b>52.4</b>	45.8
Inventory	\$m	<b>140.0</b>	87.8
<b>Operational</b>			
Headcount (year-end)	#	<b>659</b>	587
Headcount (average)	#	<b>646</b>	491
Operating sites	#	<b>5</b>	5
Service and distribution centres	#	<b>16</b>	19
Operating footage	Kft <sup>2</sup>	<b>660</b>	655

\* Source – Spears and Associates.

### Introduction

Hunting Titan's business focuses predominantly on the US and Canadian onshore drilling and completion markets. The segment has five operating sites, with four in the US and one in Mexico. The business has a network of distribution centres throughout the US and Canada, from which the majority of the business' sales are derived. Hunting Titan utilises the global manufacturing footprint of the Hunting group to assist in meeting customer demand. In the year, perforating guns were manufactured in Canada, China and in the US, while other components were manufactured by the Group's Hunting Electronics, Hunting Specialty and the US Manufacturing facility in Houma, Louisiana.

A key feature of the onshore shale industry has been the drive for "plug and play" technology, to increase efficiency and reduce completion time. Hunting Titan has addressed this demand by the introduction of technology, including the H-1 perforating system and other tools, which have contributed to the success of the business in the year.

### Market Overview

2018 has seen a further year of market expansion in the US and Canada, in terms of average rig counts and drilling spend. As noted in the Market Review, average US onshore rig counts increased 18% to 1,013 units, while US

onshore drilling spend increased 26% to \$133.5bn. This increase in key market indicators has led to the strong improvement in performance of the segment during the year. In Canada, while the average rig count fell in the year by 6%, industry spend increased by 9%.

Further to these market KPIs, the industry continued to evolve throughout the year, with hydraulic fracturing processes increasing the number of completion stages per well drilled, which led to a commensurate increase in the number of perforating guns used per completion stage. This development also contributed to the increase in demand for Hunting Titan's perforating guns, energetics and instruments.

### Segment Performance and Development

2018 has been a record year for the segment in terms of revenue and gross profit generated by the business, driven by strong onshore US drilling and completion markets. Segment revenue increased 34% to \$418.2m (2017 – \$312.8m) with underlying operating profit increasing 61% from \$66.4m in 2017 to \$106.9m in 2018. As demand for certain product groups increased in the year, selective price increases were also implemented, which supported the growth reported in the year.

While the segment's revenue is predominantly generated in the US and Canada, international growth in South America and Asia Pacific has been recorded in the year, with sales outside of North America growing by 26% compared to the prior year.

Hunting Titan's revenue streams are divided into four sub-groups: (i) perforating guns and hardware; (ii) energetics; (iii) instruments; and (iv) other.

### Perforating Guns and Hardware

During the year, the number of perforating guns manufactured increased compared to 2017, leading to revenue improving 21% from \$102.0m to \$123.2m. Gun volumes incorporate Hunting Titan's conventional perforating guns and the H-1 perforating system. In the year, the number of conventional guns manufactured increased by 58%, while the number of H-1 systems manufactured increased by 400% as customers further embraced the safety and reliability features of the H-1 perforating system.

Hunting Titan manufactures H-1 perforating guns and conventional guns across a number of its facilities in the US and Mexico. Hunting's Canada and China facilities also manufacture conventional perforating guns on behalf of Hunting Titan as well as the Group's facility in Houma, Louisiana, US. As noted earlier, the business is investing in new manufacturing capacity at its Pampa facility, with automated manufacturing cells being commissioned.

### Energetics

In 2018, Hunting Titan manufactured a similar number of energetics charges compared to 2017; however, revenue increased to \$140.6m (2017 – \$111.8m), as new products were introduced to customers in the year.

Sales volumes of the EQUAfrac™ charge increased by 300%, as customers demanded more consistent perforating within completion operations.

To meet demand, automated manufacturing lines for charge production have been installed at the business' Milford facility, which will provide 48% of additional capacity.

#### Instruments

The segment's instruments business incorporates Hunting Titan's ControlFire™ panels, EBFire™ and ControlFire™ addressable switches and other tools used in the completion of onshore shale wells. Revenue in the year increased 54% from \$87.5m in 2017 to \$134.6m in 2018, reflecting the strong demand for the segment's hardware, as customers migrated to the Group's higher performance addressable switch product lines. The business also reported renewed orders for cased hole logging tools as older fleets were retired in the year.

#### Other Revenue

Hunting Titan also manufactures other tools and equipment for use in onshore basins. In the year, demand increased for these product lines, leading to an increase in revenue of 74% to \$12.9m compared to \$7.4m in 2017.

#### New Technology

Hunting Titan has a strong pipeline of new technologies, which will support its position in the market in the medium term.

The H-2 Perforating System™ was developed throughout 2018 and was launched to the market in February 2019 to address a broader segment of the perforating gun market, while complementing the addressable market of the H-1 Perforating System™. The new system is the shortest "plug and play" system available and allows for a higher number of guns per stage within hydraulic fracturing operations.

In 2018, Hunting Titan progressed its autonomous tool project with its partner ExxonMobil. In August 2018 a prototype tool was tested in the field. The project has been extended into 2019, with plans to launch a self-locating cutting tool. New charges and release tools are also to be introduced to customers in 2019.

#### Manufacturing and Distribution

The segment's manufacturing footprint has remained materially unchanged during the year, with five operating sites in the US and Mexico, supported by perforating gun manufacturing across the wider Group. The manufacture of electronics components continued at the segment's Wichita Falls facility, with further production outsourced to the Group's Electronics business.

The segment had 16 distribution centres at the year-end (2017 – 19), as three centres were closed across North America, to better align with market demand.

Depending on the implementation of trade tariffs between the US and China, a proportion of the manufacturing of perforating guns may be relocated to the US in the year ahead.

#### Other Financial Information

During the year, Hunting Titan recorded capital investment of \$12.6m (2017 – \$2.6m) mainly relating to the capacity expansion programmes at the segment's Pampa and Milford facilities.

Inventory increased by \$52.2m to \$140.0m in the year, reflecting demand for certain product groups.

With the increase in production at all the segment's facilities, headcount increased by 12% to 659 at the year-end.

## 1 The new H-2 Perforating System™.

The H-2 Perforating System™ was launched in February 2019 to address a broader segment of the market.

# US

		2018	2017
<b>Market indicators*</b>			
US onshore – average rig count	#	1,013	856
US offshore – average rig count	#	19	20
US E&P spend	\$bn	137.6	110.5
<b>Revenue</b>			
OCTG & Premium Connections	\$m	104.2	78.5
Advanced Manufacturing	\$m	91.9	58.1
Subsea	\$m	30.0	20.6
Drilling Tools	\$m	27.6	25.7
Intervention Tools	\$m	14.2	8.1
Other product lines	\$m	16.2	13.8
External revenue	\$m	284.1	204.8
Inter-segment revenue	\$m	43.0	14.1
Segment revenue	\$m	327.1	218.9
<b>Profitability</b>			
Reported operating profit (loss)	\$m	12.4	(26.1)
Acquisition amortisation and exceptional items	\$m	3.2	3.2
Underlying operating profit (loss)	\$m	15.6	(22.9)
Underlying operating margin	%	5	(10)
<b>Other financial measures</b>			
Capital investment	\$m	15.2	5.9
Property, plant and equipment	\$m	247.1	255.8
Inventory	\$m	110.4	90.3
<b>Operational</b>			
Headcount (year-end)	#	1,227	1,071
Headcount (average)	#	1,145	957
Operating sites	#	15	15
Service and distribution centres	#	1	1
Operating footage	Kft <sup>2</sup>	1,334	1,358

\* Source – Spears and Associates.

## Introduction

Hunting's US operations are the most diverse in the Group, generating revenues from OCTG and Premium Connections, Advanced Manufacturing, Subsea, Drilling Tools and Intervention Tools product lines. In addition, the segment includes the Trenchless business, which mainly services the telecommunications sectors.

The main area of focus for most businesses in the segment is the domestic US market, which accounts for c.85% of external revenues, with Subsea and Advanced Manufacturing more internationally orientated. In addition, the US segment manufactures perforating guns and switches for sale to Hunting Titan.

## Market Overview

The activity and performance of the segment remains linked to average onshore and offshore rig counts and industry spend.

During 2018, the US onshore average rig count increased by 18% to 1,013 units, which positively impacted the performance of the segment's OCTG,

Advanced Manufacturing, Drilling Tools and Intervention Tools product lines. Onshore spend also increased by 26% during the period to \$133.5bn, as well completion activities further increased demand.

Offshore activity, however, remained subdued during the period with average rig counts declining by 5% to 19 active units and industry spend reducing 7% to \$4.1bn.

## Segment Performance and Development

Segment revenue increased 49% from \$218.9m in 2017 to \$327.1m in 2018, as the onshore market increased demand across most product groups. The average WTI oil price in the year also generated more stability across the Group's US businesses, leading to all units reporting monthly operating profits by the year-end. Underlying operating profit for the segment was \$15.6m compared to an operating loss of \$(22.9)m in 2017.

A success in the year has been the continued insourcing of production, in particular the increase in the manufacture of Hunting Titan perforating guns at the Group's Houma facility in Louisiana and also addressable switches at the Hunting Electronics business. This has led to inter-segment revenue increasing from \$14.1m to \$43.0m in the year.

## OCTG and Premium Connections

This business incorporates the manufacturing and sale of OCTG including proprietary connections, casing, tubing and accessories. A success in 2018 has been the further commercialisation of Hunting's semi-premium TEC-LOCK™ connection. The connection has three variants, all of which are utilised in the onshore drilling market. During the year, approximately 49,000 TEC-LOCK™ connections were sold compared to approximately 1,000 in 2017.

Hunting's premium connection product portfolio includes the SEAL-LOCK™ and WEDGE-LOCK™ families. During the year, WEDGE-LOCK™ product lines were increased with the development and certification of four new sizes including 10, 14 and 18 inch variants for use in deep water applications. Key clients in the year included Walter Oil and Gas, Anadarko, Chevron and LLOG. While the offshore US rig count has declined in the year, these clients completed drilling activities in the region, which led to increased facility utilisation within the segment.

The Group's pipe sales and trading business has seen a marked increase in activity during the year, with 0.7 million feet of two-step tubing sold to customers compared to 0.4 million feet in 2017. The business has also increased sales of pipe thread protectors in the year, as the commercialisation of the TEC-LOCK™ connection increased.

In the year, revenue increased 33% from \$78.5m in 2017 to \$104.2m in 2018.

### Advanced Manufacturing

Advanced Manufacturing products are manufactured by the Hunting Electronics, Hunting Dearborn and Hunting Specialty businesses, together with some parts of our US Manufacturing operations. In the year there was a notable increase in demand for new MWD/LWD measurement tools, as clients increased their replacement programmes following the recent market downturn.

Hunting Electronics reported a strong increase in the demand for MWD/LWD printed circuit boards in the year, as major international service groups placed new orders. The business continued to receive orders from Asia Pacific for new components and reported renewed interest in the supply of integrated MWD/LWD tools, utilising the Group's electronics expertise and precision machining capabilities in Hunting Dearborn and US Manufacturing.

Hunting Dearborn has also reported increased demand in the year as both oil and gas, naval and military clients increased orders. Of note has been the increase in orders for rotor shafts for aerospace applications, in addition to a strong increase in new orders for MWD/LWD measurement tools.

Hunting Specialty has also benefited from the continued increase in the demand for onshore drilling components.

Both Hunting Electronics and Hunting Specialty have supported the strong increase in demand for Hunting Titan's product lines. Hunting Electronics assisted with the manufacture of firing switches during the year, while Hunting Specialty manufactured components for Titan's perforating gun products.

In the year, revenue increased 58% from \$58.1m in 2017 to \$91.9m in 2018.

### Subsea

Hunting Subsea has benefited from the increase in the average WTI oil price during the year, which encouraged client spending. Subsea completed orders for hydraulic couplings and valves and chemical injection systems for a number of US and international clients in the period.

Of note has been the increase in sales into the international energy markets, including West Africa and Asia Pacific.

In the year, revenue increased 46% from \$20.6m in 2017 to \$30.0m in 2018.

### Drilling Tools

Hunting's Drilling Tools business reported growth in the year, driven by the increasing US onshore rig count, which has led to higher demand for its mud motor fleet. In the year, revenue increased 7% from \$25.7m in 2017 to \$27.6m in 2018 as the oil price stabilised, allowing for some rental rate increases to be implemented within the busier onshore basins.

A key initiative in the year has been the further roll out of mud lube motors and higher torque motors which have reduced refurbishment costs and improved reliability, leading to a higher level of profitability in the year. By year-end, 60% of the Group's mud motor fleet utilised the new mud lube configuration and the higher torque motors are increasingly being employed by customers in the major land basins.

### Intervention Tools

Well intervention tools sales improved in the year mainly due to the market momentum in the US onshore arena. As demand accelerated, some price increases were implemented, contributing to revenue increasing 75% from \$8.1m in 2017 to \$14.2m in 2018.

### Other Financial Information

During the year, the US had capital investment of \$15.2m (2017 – \$5.9m), primarily due to the purchase of new mud lube motors and new machinery at Hunting Dearborn and US Manufacturing. Inventory increased by \$20.1m to \$110.4m mainly due to higher levels of intervention and MWD tools at US Manufacturing and raw materials at Hunting Electronics.

The year-end headcount increased to 1,227 (2017 – 1,071), as onshore drilling activity increased demand for products and services.

**1** Quality assurance checks are completed on all downhole tools.

**2** Hunting Subsea's products are deployed to US and international markets.

**Demand for high pressure/high temperature circuit boards has increased in the year as clients replaced their downhole tool fleets.**

**During the year, demand for Subsea's deep water valves and couplings also started to increase.**

# Canada

		2018	2017
<b>Market indicators*</b>			
Canada – average rig count	#	<b>194</b>	206
Canada E&P spend	\$bn	<b>18.1</b>	16.6
<b>Revenue</b>			
OCTG & Premium Connections	\$m	<b>35.2</b>	27.6
External revenue	\$m	<b>35.2</b>	27.6
Inter-segment revenue	\$m	<b>9.6</b>	8.9
Segment revenue	\$m	<b>44.8</b>	36.5
<b>Profitability</b>			
Reported operating loss	\$m	<b>(1.8)</b>	(3.3)
Acquisition amortisation and exceptional items	\$m	<b>–</b>	–
Underlying operating loss	\$m	<b>(1.8)</b>	(3.3)
Underlying operating margin	%	<b>(4)</b>	(9)
<b>Other financial measures</b>			
Capital investment	\$m	<b>0.9</b>	0.7
Property, plant and equipment	\$m	<b>2.7</b>	3.4
Inventory	\$m	<b>22.8</b>	23.2
<b>Operational</b>			
Headcount (year-end)	#	<b>123</b>	140
Headcount (average)	#	<b>133</b>	118
Operating sites	#	<b>1</b>	1
Service and distribution centres	#	<b>1</b>	1
Operating footage	Kft <sup>2</sup>	<b>113</b>	113

\* Source – Spears and Associates.

## Introduction

The Group's Canadian business comprises an OCTG threading and accessories manufacturing facility in Calgary, Alberta and a service facility in Nisku, Alberta. Canada's external sales are almost exclusively to its domestic market, however, as noted in the Hunting Titan segment review, the Calgary facility has been modified to support the manufacture of perforating guns for distribution across Canada and into the US.

## Market Overview

During 2018, the average rig count declined to 194 active units, or 6%, compared to 206 units in 2017. Despite this, drilling spend increased 9% in the year to \$18.1bn as the oil price stabilised in the early part of the year, which supported the improving revenue within the segment.

As reported in 2017, a key market constraint in Western Canada is that oil production outstripped export pipeline capacity. This limitation has led to an average discount for Western Canada Select to the WTI oil price across the year of c.\$27 per barrel, which has curtailed activity in Canada.

## Segment Performance and Development

Revenue from OCTG and Premium Connection product lines improved 28% from \$27.6m in 2017 to \$35.2m, as new customer wins throughout the year enabled the business to outperform the regional market. Further, the Group's domestic business also increased OCTG sales as new distribution channels were implemented, leading to new revenue streams for the segment. Inter-segment revenue also increased in the year from \$8.9m in 2017 to \$9.6m in 2018, as increased manufacturing capacity for perforating guns was brought online.

Segment revenue therefore increased 23% in the year to \$44.8m (2017 – \$36.5m). This increase in revenue has enabled the segment to narrow its losses from \$3.3m in 2017 to \$1.8m in 2018.

In the year, the segment introduced the semi-premium TEC-LOCK™ connection to customers, which has seen good acceptance.

## Other Financial Information

Equipment purchases of \$0.9m were made in the year, predominantly to support the increased manufacturing capability of perforating guns and to renew threading machinery.

Further, the year-end headcount declined in the year to 123 from 140 in 2017, as cost-containment initiatives continued.

# Europe

		2018	2017
<b>Market indicators*</b>			
North Sea – average rig count	#	24	27
North Sea – spend	\$bn	10.8	11.1
Total Europe – well count	#	636	649
<b>Revenue</b>			
OCTG & Premium Connections	\$m	46.3	59.7
Intervention Tools	\$m	16.0	15.1
Perforating Systems	\$m	3.0	2.9
Other product lines	\$m	9.2	5.6
External revenue	\$m	74.5	83.3
Inter-segment revenue	\$m	11.7	5.9
Segment revenue	\$m	86.2	89.2
<b>Profitability</b>			
Reported operating loss	\$m	(10.9)	(13.7)
Acquisition amortisation and exceptional items	\$m	–	–
Underlying operating loss	\$m	(10.9)	(13.7)
Underlying operating margin	%	(13)	(15)
<b>Other financial measures</b>			
Capital investment	\$m	0.4	1.0
Property, plant and equipment	\$m	10.4	13.5
Inventory	\$m	39.3	49.0
<b>Operational</b>			
Headcount (year-end)	#	247	268
Headcount (average)	#	254	276
Operating sites	#	7	7
Operating footage	Kft <sup>2</sup>	200	229

\* Source – Spears and Associates.

## Introduction

Hunting's European operations comprise operating businesses in the UK, Netherlands and Norway. These businesses provide OCTG (including threading, pipe storage and accessories manufacturing) and well intervention products in the UK; OCTG and well testing equipment manufacture in the Netherlands; and well intervention services and distribution in Norway. The region also has a perforating systems storage facility in Aberdeen, UK.

## Market Overview

The average rig count in the North Sea declined from 27 to 24 active units, despite the rising average Brent Crude oil price in the year. Industry investment was generally flat compared to the prior year, as was the total number of wells drilled. With this market environment backdrop, including stagnant investment, the segment continued to report losses in the year.

## Segment Performance and Development

Revenue from OCTG and Premium Connections reduced in the UK and the Netherlands as the general market continued to be subdued. In 2017, the business group completed a number of large non-recurring orders for customers in the US and Egypt, and which contributed to the reported year-on-year decline in revenue. In the year, segment revenue declined 3% from \$89.2m to \$86.2m.

Despite this, Hunting's well intervention and well testing business lines reported top-line growth in the year, as the global market environment stabilised, with the rising average price for crude oil leading to increased sales of Hunting's light weight pressure control equipment. The well intervention group increased sales by 6% to \$16.0m in the year, while the well testing group increased sales by 70% to \$9.1m.

In the year, a notable improvement in sentiment has been reported in the Norwegian oil and gas market, with new tenders being issued. Hunting has focused its efforts on well intervention sales in Norway, with some success being reported. A new leased facility is planned to be commissioned in early 2019 to meet the anticipated increase in business. The UK business group has also launched a new venture in Aberdeen to assist with the commercialisation of third-party technology into the European market. The Group's "TEK-HUB" has progressed new enhanced oil recovery technology and other high-potential projects during the year, generating customer interest.

Inter-segment sales, primarily attributed to the Group's well intervention product lines, also increased in the year from \$5.9m to \$11.7m.

## Other Financial Information

During the year, there was limited investment in property, plant and equipment as activity levels remained subdued. Efforts to reduce inventory were successful, leading to a net reduction of \$9.7m in the year to \$39.3m.

To further reduce costs, the headcount was reduced by 8% to 247 by the year-end.

## Asia Pacific

		2018	2017
<b>Market indicators*</b>			
Far East – average rig count	#	216	200
Far East – spend	\$bn	17.8	19.7
Central Asia – spend	\$bn	2.0	1.8
<b>Revenue</b>			
OCTG & Premium Connections	\$m	80.6	79.5
Other product lines	\$m	0.2	0.3
External revenue	\$m	80.8	79.8
Inter-segment revenue	\$m	26.2	8.3
Segment revenue	\$m	107.0	88.1
<b>Profitability</b>			
Reported operating loss	\$m	(0.8)	(4.4)
Acquisition amortisation and exceptional items	\$m	–	–
Underlying operating loss	\$m	(0.8)	(4.4)
Underlying operating margin	%	(1)	(5)
<b>Other financial measures</b>			
Capital investment	\$m	0.2	0.5
Property, plant and equipment	\$m	12.3	17.2
Inventory	\$m	34.7	28.7
<b>Operational</b>			
Headcount (year-end)	#	420	424
Headcount (average)	#	415	399
Operating sites	#	4	4
Operating footage	Kft <sup>2</sup>	533	533

\* Source – Spears and Associates.

### Introduction

Hunting's Asia Pacific business covers four operating facilities across China, Indonesia and Singapore. In China, the Group operates from a facility in Wuxi, which has OCTG threading and perforating gun manufacturing capabilities. In Indonesia and Singapore, Hunting manufactures OCTG premium connections and accessories.

### Market Overview

Due to the increase in the average WTI oil price in the year, activity levels have stabilised, but these increases have tended to be on a country-by-country basis rather than an increase throughout the whole region. Operators and major service groups remain focused on competitive pricing from suppliers.

In addition, Hunting's Asia Pacific businesses are also driven by average rig counts and drilling spend in the Far East and Central Asia, given the spread of its customer base and the general location of drilling activity.

In the Far East, key market indicators were mixed, with average rig counts increasing 8% year-on-year to 216 active units, while drilling spend actually declined 10% to \$17.8bn. Central Asia spend increased to \$2.0bn in the year, as the oil price increased in the early part of the year.

In China, both average rig counts and drilling spend increased in the year, 6% and 9% respectively, as operators continued to accelerate gas drilling in-country as part of the environmentally focused drive to move power generation plants from coal to gas-fired facilities.

### Segment Performance and Development

The segment reported an increase in revenue for its OCTG product lines as drilling in China, Vietnam and Thailand showed modest improvement, leading to year-on-year an increase of 21% to \$107.0m (2017 – \$88.1m).

Of note has been the higher sales of OCTG into the domestic Chinese market as activity increased; however, these sales were generally at a lower average gross margin.

Enquiries and drilling activity in Australia and New Zealand have increased in the year, with orders being secured for a number of clients in these countries. In the second half of the year, a major tender was won in Australia for a well programme led by Santos that will lead to orders being completed in the year ahead.

Despite the improvement in sales, the business continued to report losses as volumes remained below the levels required to cover the fixed cost base.

Of note was the increase in the Group's perforating gun manufacturing in the year, leading to a 216% increase in inter-segment sales to \$26.2m. In 2019, depending on the international trade tariffs being discussed by the US and China, regional production of perforating guns may be relocated to North America.

### Other Financial Information

Inventory increased during the year to \$34.7m (2017 – \$28.7m), primarily related to contracts in China and Middle East. Additions to PPE in the year were negligible.

The headcount was broadly unchanged compared to the prior year.



# Middle East, Africa and Other

		2018	2017
<b>Market indicators*</b>			
Middle East – spend	\$bn	22.5	21.6
Sub-Saharan Africa – spend	\$bn	4.6	3.3
Central Asia – spend	\$bn	2.0	1.8
<b>Revenue</b>			
Intervention Tools	\$m	13.4	9.4
OCTG & Premium Connections	\$m	7.4	6.7
Perforating Systems	\$m	2.0	1.2
Other revenue	\$m	0.1	0.1
External revenue	\$m	22.9	17.4
Inter-segment revenue	\$m	1.3	1.2
Segment revenue	\$m	24.2	18.6
<b>Profitability</b>			
Reported operating loss	\$m	(2.9)	(16.7)
Acquisition amortisation and exceptional items	\$m	–	10.0
Underlying operating loss	\$m	(2.9)	(6.7)
Underlying operating margin	%	(12)	(36)
<b>Other financial measures</b>			
Capital investment	\$m	0.1	0.3
Property, plant and equipment	\$m	3.2	12.6
Inventory	\$m	5.1	3.6
<b>Operational</b>			
Headcount (year-end)	#	60	79
Headcount (average)	#	72	83
Operating sites	#	2	3
Operating footage	Kft <sup>2</sup>	37	69

\* Source – Spears and Associates.

## Introduction

Hunting's Middle East and Africa manufacturing operations are located in Dubai, UAE and Dammam, Saudi Arabia. The Group also retains a sales office in Cape Town, South Africa. The Group's operations in Saudi Arabia are through a 60% joint venture arrangement with Saja Energy.

## Market Overview

Drilling spend in the Middle East has risen 4% in the year to \$22.5bn as general operating stability improved. The average rig count also increased marginally to 367 or 1%, as drilling plans were maintained throughout the region.

## Segment Performance and Development

Hunting's Middle East revenues have benefited from the recommencement of drilling and work-over operations in Northern Iraq, which created renewed demand for Hunting's products and services and added to momentum within the Group's joint venture operation in Saudi Arabia.

In 2018, segment revenue totalled \$24.2m (2017 – \$18.6m), of which 11% (2017 – 3%) was generated from the Saudi joint venture.

As the political situation improved in Kurdistan, DNO recommenced new drilling activity, with Hunting supplying OCTG and Thru-Tubing well intervention services. Further, OCTG sales into Oman also increased as new orders were won and completed in the year.

In-country product sourcing in Saudi Arabia has led to the increase in revenue as clients, including Halliburton, won new tenders for work, which includes servicing and re-certification of pressure control equipment. The facility has seen good improvement in its order-book as the year has progressed and anticipates this will continue in the year ahead.

The region has seen a good increase in customer interest in the Group's perforating systems products, which generated new sales for Hunting Titan.

In the year, the Group completed the sale of its manufacturing facility in Cape Town, South Africa, but has maintained a sales office to support the sub-Saharan region. Further, Hunting closed its Kenyan joint venture in the year, as clients pushed out drilling and capital expenditures, due to generally subdued international drilling sentiment.

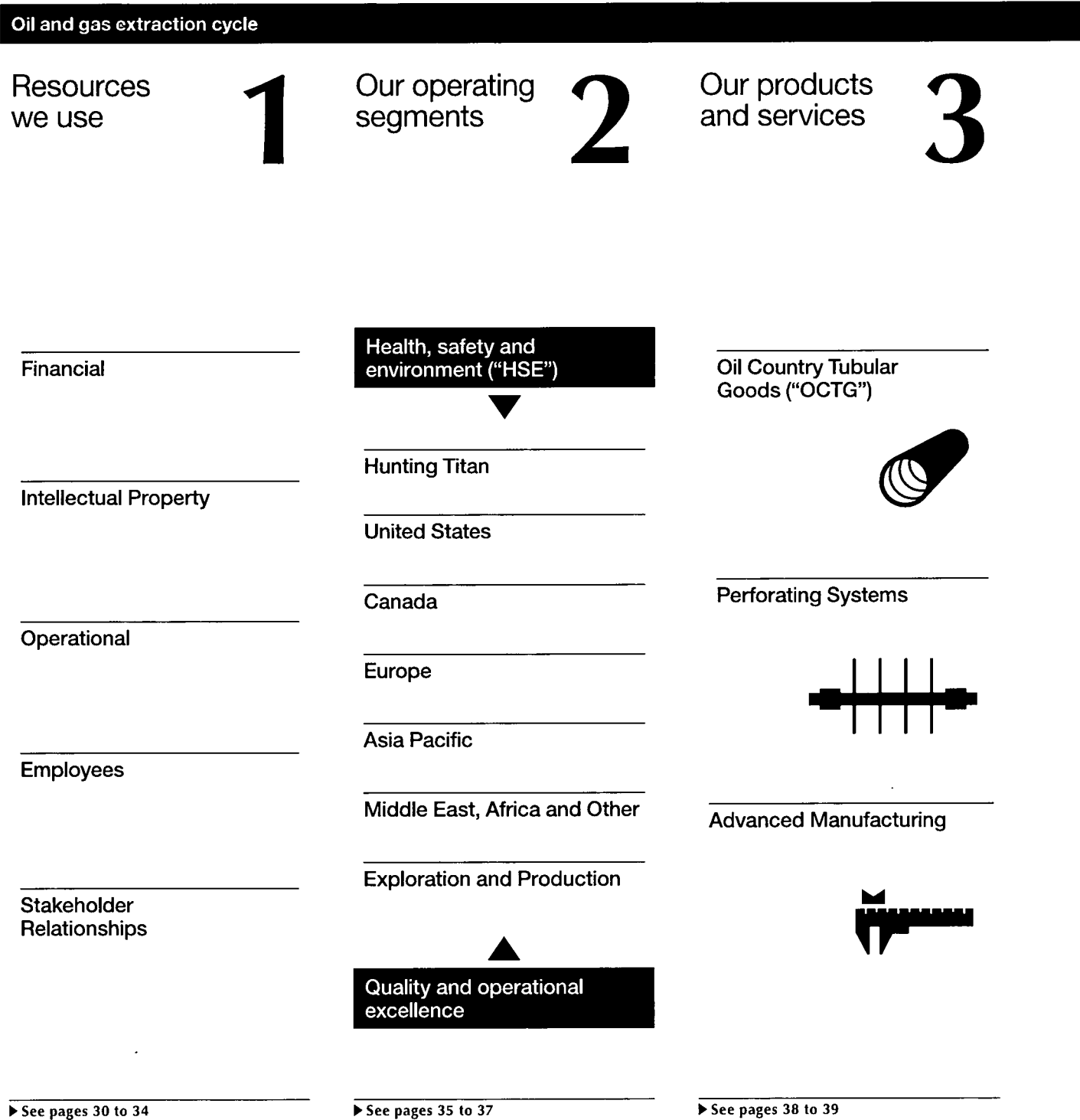
## Other Financial Information

Capital expenditure was kept to a minimum in the year, as the segment remained loss-making. In 2018, \$0.1m was spent on new Thru-Tubing rental tools, which were deployed throughout the region during the year. Inventory increased from \$3.6m to \$5.1m, as some sales were completed in January 2019.

The year-end headcount also reduced from 79 to 60, as cost control measures were also implemented. This incorporates the facility closures in Africa.

During 2019, the Middle East and Africa segment will be merged into the Group's Europe segment, following a planned restructuring to be completed in the first half of the year.

# How we create, distribute and sustain value



Our customers  
and channels  
to market

4

Sustainable  
value creation  
for our stakeholders

#### Drilling Tools



#### Operators



#### Employees

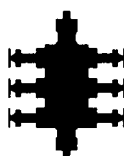
At year-end

**2,772**

Headcount increased in the year, as demand in the US accelerated.

See page 32

#### Intervention Tools



#### Service Companies



#### Shareholders

Dividends declared

**9.0 cents**

In 2018, the Group recommended dividend distributions.

See page 5

#### Customers and Suppliers

For the full year

**80%**

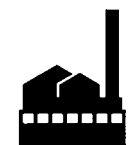
Oil service groups remain our primary route to market at c.80% of sales.

See page 40

#### Subsea



#### Steel Mills and Other



#### Communities and Environment

Intensity factor

**38.6**  
kg CO<sub>2</sub>/\$k

Our intensity factor decreased in the year due to more efficient facility utilisation.

See page 37

#### Governments

Tax paid

**\$2.6m**

With profits generated in the year, corporation taxes paid increased.

See page 17

► See page 40

# 1 Resources we use

## Financial

Net cash at 31.12.18	Annualised 3-year TSR ending 31.12.18
<b>\$61.3m</b>	<b>16.7%</b>
Market capitalisation at 31.12.18	Net bank fees & interest paid year to 31.12.18
<b>£0.8bn</b>	<b>\$2.0m</b>

## Intellectual Property

No. of patents granted	No. of new patents granted in year
<b>485</b>	<b>63</b>
No. of patents pending	No. of new patents pending in the year
<b>205</b>	<b>53</b>

## Operational

Operating sites	Distribution centres
<b>34</b>	<b>18</b>
Operating footprint (million sq ft)	Machines
<b>2.9</b>	<b>1,188</b>
Net book value of PPE	% of ISO 9001 accredited facilities
<b>\$360.2m</b>	<b>71</b>

## Financial

Hunting PLC is a Premium Listed public company quoted on the London Stock Exchange and, as such, adheres to the UK's highest standards of regulation and corporate governance, as published by the Financial Conduct Authority and Financial Reporting Council. Equity shareholders receive returns in the form of dividends and through capital appreciation, which can be measured as total shareholder return.

Financial capital is provided to the Group through equity invested by shareholders, cash reserves and debt facilities, provided by the Group's relationship banks. The balance of cash, debt and equity is managed with due regard to the respective cost of funds and their availability.

The Group has provided guidance on its approach to dividend distributions, which is detailed on page 18. Each dividend proposal will be assessed by the Board, based on the merits of actual and projected financial performance of the Company for the relevant period. Given the cyclical nature of the oil and gas industry, the Board remains committed to maintaining a low level of gearing and committing sufficient resource to working capital to maintain the Group's operational flexibility.

The Group has a \$160.0m committed multi-currency borrowing facility provided by four banks. The facility is available until December 2022, with an option to increase the facility size to \$235.0m and lengthen the maturity date to December 2023. The committed facilities have profit-based covenants linked to EBITDA/net interest and net debt/EBITDA ratios. The facility also includes security arrangements provided over certain trade receivables, inventories and specific properties, plant and equipment. During the year, the Group was fully compliant with all of its facility covenants.

## Intellectual Property

Following the market downturn between 2014 and 2017, there is now a strong focus in the industry on technological improvement and process innovation, which can help deliver cost efficiencies for customers while maintaining or improving margins for suppliers. The use of technology in our business illustrates the different ways we partner with participants in the supply chain:

## Hunting Proprietary Technology

Developing our own proprietary technologies has been a strategic focus for the Group. Through developing our technologies and proprietary know-how, we are well positioned to secure market share by protecting our intellectual property ("IP"). Our substantial IP portfolio provides us with a competitive advantage and allows us to enjoy better margins and more operational flexibility. In 2018 we filed 53 new patent applications, with 63 new patents granted in the year, bringing the total number of fully-registered patents owned by the Group to 485.

### Jointly Developed Technology

Some innovations involve collaborating with other partners within the industry. Hunting continues to work with ExxonMobil to develop an autonomous perforating tool with on-board navigation. This project has progressed well in 2018, with a new cutting tool targeted for launch to customers in 2019 based on this technology.

### Third-Party Technology

In some cases, we make use of third-party proprietary technologies in our operations. For certain product lines we are engaged as a specialist manufacturer using our customers' IP. In other areas we license technologies from third parties, such as non-Hunting thread forms for OCTG.

### Operational

We have an established global network of operating sites and distribution centres located close to our customers and within the main global oil and gas producing regions (see page 2).

Over the years, we have continued to refine our operating and manufacturing processes, established a highly specialised workforce and built considerable know-how to enable our business to evolve and meet changing customer needs.

Our operating sites are used for the manufacture, rental, trading and distribution of products. The manufacture of goods and the provision of related manufacturing services is, by far, the main source of income for the Group.

The bulk of our manufacturing occurs in high-end specialist facilities utilising sophisticated CNC machines.

In Hunting's rental businesses, it is critical that an appropriate range of equipment is stored and maintained. Generally this must be configured to meet specific customer requirements.

In certain product lines, particularly OCTG, Hunting holds inventory to support our customers' specific requirements and to take advantage of particular market opportunities.

Our distribution centres are primarily used in the Hunting Titan, Intervention Tools and Drilling Tools business groups, where close proximity to drilling operations is important.

## Management principles

**Our approach to managing the Group's operations is based on four core principles:**

### Develop Our People

People are at the heart of our business. Our broad product portfolio demands experienced machining and production engineers across our many manufacturing disciplines and facilities.

### Empower Our Business Units

The oil and gas industry is a fast-paced sector where product requirements and customer demands can operate on short lead-times. Our business leaders are empowered to react quickly to local market conditions as and when opportunities arise.

### Apply Unified Operating Standards and Procedures

Demanding health, safety and quality policies are developed centrally and then applied locally. We continually monitor and raise our operating standards.

### Maintain a Strong Governance Framework

The Group's senior managers and their teams operate within a tight framework of controls, monitored and directed at both a regional and central level but ultimately under the direction of the Board.

# 1 Resources we use

## Employees

Employees (year-end)	Total remuneration
<b>2,772</b> (2017 – 2,610)	<b>\$254.5m</b> (2017 – \$215.3m)

### Employees

Hunting's employees are key in fulfilling the Group's strategic objectives.

Hunting's reputation, which has been built over many years, is underpinned by our highly skilled workforce.

At 31 December 2018, the Group had 2,772 employees (2017 – 2,610) across its global operations. As US onshore activity levels continued to improve during the year, those businesses addressing this market continued to hire new staff to meet demand. Elsewhere within the Group, controls over recruitment remain in place.

Responsibility for our employees lies with local management, to enable local cultural differences to be taken into account, with all businesses complying with the Group's ethical employment and human rights policies as published in the Hunting PLC Code of Conduct (located at [www.huntingplc.com](http://www.huntingplc.com)).

The Group is committed to training and developing all employees, which includes health and safety training, professional development and general career development initiatives. In February 2018, Hunting rolled out a Group-wide Code of Conduct e-learning training programme for employees, to ensure awareness of our published ethics-focused policies. The programme incorporates anti-bribery and corruption, modern slavery, fraud and tax modules to ensure our employees understand their responsibilities on joining the Group.

Hunting targets full compliance with all relevant regional laws covering employment and minimum wage legislation. As a responsible employer, full and fair consideration is given to applications for positions from disabled persons. The Group's ethics policies support equal employment opportunities across all of Hunting's operations. The Group's gender diversity profile for 2018 is detailed on page 64.

Employees are offered benefits on joining the Group, including healthcare cover, post-retirement benefits and, in certain instances, when Group outperformance in terms of operational or financial targets has been delivered, participation in bonus arrangements.

Employees are encouraged to further their development and network of contacts within the global energy industry by membership of industry groups. In 2018, the following organisations were supported by Hunting's employees: American Petroleum Institute, Society of Petroleum Engineers and the Intervention and Coiled Tubing Association.

The Board of Hunting has established procedures in place whereby employees can raise concerns in confidence, by contacting the Chairman or Senior Independent Director. The Group also uses an independent whistleblowing service operated by SafeCall. Contact information for both these lines of reporting are published on staff noticeboards across the Group's facilities and within the Group's magazine published twice yearly – the Hunting Review – and available to all employees.

Employees receive regular HSE training with programmes in place at all the Group's facilities.

## Stakeholder Relationships

### Number of shareholders

# 1,516

(2017 – 1,618)

### Stakeholder Relationships

While the consideration of stakeholders, including employees, customers, suppliers, governments and the environment is a statutory duty of the Directors, the Hunting Board believe it is good business practice to nurture strong relationships with all participants, as it promotes the Group's standing in the industry, leads to better growth opportunities and develops benefits for all. Hunting constantly evaluates ways to strengthen links with investors, employees, customers, suppliers, governments and the communities in which its businesses operate.

#### Board Oversight

The Hunting Board receives regular feedback from the Chief Executive on relationships with key customers and suppliers at each Board meeting. A Health, Safety and Environment report is also submitted to each Board meeting. Further, shareholder feedback is regularly considered as reports from the Head of Investor Relations and the Company's brokers are discussed at most Board meetings. Through the work of the Audit Committee, Hunting's communication with customers and suppliers on the Group's ethical policies are monitored. Further, new stakeholder engagement proposals are being considered by the Board.

#### Shareholders

Communication with investors is a core activity of the Board, with a structured investor relations programme in place. The executive Directors meet existing or potential investors to explain our strategy and plans for future growth. The Chairman and Senior Independent Director also meet investors annually to discuss strategy and governance, with feedback being provided to the Board. Further, the Head of Investor Relations attends a number of investor conferences and individual investor meetings throughout the year, as part of the annual programme of work. The Company uses Stock Exchange announcements, the annual and half-year reports, webcasts and the Annual General Meeting to communicate and meet with shareholders.

#### Customers and Suppliers

Hunting's approach to its customers and suppliers is based on honesty and transparency, to provide best-in-class products and services delivered through a rigorous quality assurance programme. The Group's policies support a strong culture of building close client relationships, which are based on our reputation of industry-leading service and delivery and our drive to understand the needs of each customer and supplier to ensure absolute client satisfaction is achieved.

A number of our research and development programmes are implemented in collaboration with our customers to ensure industry-leading technology is developed by the Group. These programmes follow the stringent quality and safety certifications implemented by governments but also meet our customers' exacting demands. As new customers or suppliers are considered by the Group, "know-your-customer" forms, credit and sanction checks and "end-user" due diligence is undertaken to ensure Hunting complies with international trading laws and embargoes. Further, most new customers and suppliers are sent key ethics documents that outline Hunting's strong stance on ethical business dealings. For more information on our customers and channels to market see page 40. Our entertainment and hospitality policies ensure our business decisions are completed on an arms-length basis, with client entertaining closely monitored and proportionate.

#### Governments

Hunting is committed to developing good relationships with appropriate bodies within the governments of the countries in which we operate. Certain customers and suppliers of the Group are state-owned, therefore monitoring procedures for interaction with Public Officials are in place. Where appropriate, Hunting's business units participate in government-supported groups and "think-tanks". Hunting Titan regularly supports or has membership of groups that develop regulations on products used for hydraulic fracturing, particularly with regard to the handling of explosives. In line with Group policy, Hunting prohibits any form of political donations to be made. In 2018, the Group issued its "Payments to Governments" statement in compliance with legislation enacted in the UK. Further, Hunting is a signatory to the UK's Prompt Payment Code. In compliance with UK legislation, the Group's Tax Strategy is available on the Company's website at [www.huntingplc.com](http://www.huntingplc.com), and commits the Group and its subsidiaries to acting with integrity and transparency in all tax matters relating to the countries in which we operate.

#### Communities

Hunting operates in 11 countries and is committed to being a responsible corporate citizen. Each business unit across the Group is encouraged to promote good community relations and, where appropriate, to support causes including local sponsorships and communal events. Many of these initiatives are highlighted in the Hunting Review, the Company's corporate magazine published twice a year.

# 1 Resources we use

## Stakeholder Relationships continued

### Code of Conduct

The Group's Code of Conduct is the basis of its commitment to stakeholders. Hunting's policies on anti-bribery and corruption, ethical employment, responsible business partnerships and proportionate client entertaining are key commercial principles. The Code of Conduct is sent to the Group's major customers and suppliers to promote our values within our known supply chain. Hunting's policies on human rights and its approach to the issues of modern slavery and trafficking continue to be enhanced, to ensure our stance on responsible corporate behaviour is shared with our business partners. Every two years, each business unit within the Group sends to key customers and suppliers a summary of our modern slavery and human trafficking policies, along with our Code of Conduct, to ensure Hunting's clear stance on this subject is communicated.

### Anti-Bribery and Corruption ("ABC")

In line with the Group's ABC Policy, each business unit within the Group completes a twice-yearly ABC risk assessment, which is consolidated and reviewed by the Audit Committee. Where appropriate, the internal audit function reviews this assessment and provides feedback to the Committee on this risk profile. Mitigating controls are in place to ensure each business seeks approval for a new commercial relationship, which may increase the Group's ABC risk. In addition to these assessments, all high value entertainment is monitored, both locally and centrally, to ensure the Company is not seen to be unduly influencing a partner, with senior management and Board approvals required for all significant expenditures. All employees are made aware of the Group's ABC policies through its Code of Conduct training course, which is completed on induction to the Group, together with periodic updates.

## Supply Chain

As a participant in the global oil and gas industry, Hunting is part of a complex supply chain of customers and suppliers, whereby certain partners can also be competitors if there is overlap in the product and service offering. This necessitates appropriate due diligence to ensure we understand the nature of each commercial relationship. It also requires appropriate employee training and third-party communication of our ethical policies, to ensure all our partners understand the high standards expected by the Group. A number of our customers are state-owned enterprises and additional monitoring procedures are in place to ensure compliance with the UK's Bribery Act.

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**1** Perforating gun production at Pampa.

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**2** Sand filters being checked prior to shipping.

H-1 Perforating Systems in Pampa, Texas, are subject to quality assurance checks, throughout the manufacturing cycle.

The same rigorous assurance regime applies to the fabrication of Cyclone Wellhead Desanders at the Velsen Noord facility in the Netherlands.



## 2 Our operating segments

Hunting reports its performance based on its key geographic operating regions. Hunting Titan, as a large, separate business group is reported as a stand-alone segment. A description of each segment is noted below.

### Hunting Titan

Hunting Titan manufactures and distributes perforating products and accessories. The segment's products include the H-1 Perforating System™ and the EQUAfrac™ shaped charge technology. The business has four manufacturing facilities in the US and a facility in Mexico, supported by 16 distribution centres, primarily located in Canada and the US.

### US

The US businesses supply OCTG and Premium Connections, Drilling Tools, Subsea equipment, Intervention Tools, Electronics and complex deep hole drilling and precision machining services for the US and overseas markets. The US segment has 15 operating facilities mainly located in Texas and Louisiana.

### Canada

Hunting's Canadian business manufactures Premium Connections and accessories for oil and gas operators in Canada, often focused on heavy oil plays, which require specialist tubing technologies. Canada also manufactures perforating guns for Hunting Titan.

### Europe

The segment derives its revenue primarily from the supply of OCTG and Intervention Tools to operators in the North Sea. The Group has operations in the UK, Netherlands and Norway.

### Asia Pacific

Revenue from the Asia Pacific segment is primarily from the manufacture of Premium Connections and OCTG supply. Manufacturing is located in China, Indonesia and Singapore. The facility in China also manufactures perforating guns for Hunting Titan.

### Middle East, Africa and Other

Revenue from the Middle East and Africa is generated from the sale and rental of intervention tools across the region, with the operations also acting as sales hubs for other products manufactured globally by the Group, including OCTG and Perforating Systems.

In 2019, the segment will be integrated into the Europe segment, following an internal restructuring.

### Exploration and Production

The Exploration and Production business comprises the Group's exploration and production activities in the Southern US and offshore Gulf of Mexico. The segment is being wound down, with no further investment planned.

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## 3 OCTG manufacturing in the US.

A new range of TEC-LOCK™ connections led to strong growth in sales to the US onshore market.

## 2 Our operating segments

### Health and Safety

#### Incident rate (OSHA method)

**1.49**

(2017 – 0.89)

#### Incident rate

2018	1.49
2017	0.89
2016	1.15

### Quality and Operational Excellence

#### Internal manufacturing reject rate

**0.2%**

(2017 – 0.3%)

#### Quality assurance – internal manufacturing reject rate (%)

2018	0.2
2017	0.3
2016	0.6

#### Facilities with ISO 9001 accreditation (%)

2018	71
2017	64
2016	60

### Health and Safety

Across all of its global operations, the Group is committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public.

Hunting has a proven culture of aiming for best practice and employs rigorous health and safety practices. Health and safety policies include:

- Regular audit and maintenance reviews of facilities;
- Appropriate training and education of all staff;
- Regular reporting to Board level;
- Seeking accreditation and aligning long-standing internal programmes with internationally recognised standards; and
- Publication of the Group policy on health, safety and environmental matters on the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

Hunting's Director of Health, Safety and Environment ("HSE") reports directly to the Chief Executive and a report is considered by the Board at each meeting.

The Group's target is to achieve zero recordable incidents. Each local business is required to develop tailored policies to suit their environment. These incorporate the Group's approach to putting safety first and, at a minimum, to comply with local regulatory requirements. Training is given to employees throughout the Group.

During the year, there were no fatalities across the Group's operations, with 46 recordable incidents (2017 – 24). The incident rate, as calculated from guidance issued by the Occupational Safety and Health Administration ("OSHA") in the US, was 1.49 compared to 0.89 in 2017. This incident rate reflects a 67% year-on-year increase, as new employees were hired and trained in addition to the number of hours worked increasing by 17% to 6.3m hours (2017 – 5.4m hours). The industry average incident rate in 2018 was 4.0 (2017 – 3.6).

### Quality

The Group is committed to enhancing its production and operational quality, with a number of facilities being certified ISO 9001 (quality), ISO 14001 (environment) and ISO 18001 (health and safety) compliant, indicating that globally recognised standards and systems are in place.

More facilities across the Group are working towards these ISO accreditations, continuing the Group's commitment to monitor and reduce the environmental impact of its operations and improving HSE standards.

Operational and production excellence is a key driver of our relationship with customers. Quality assurance for each component manufactured is a key differentiator in our drive to be an industry-leading provider of critical components and measurement tools. In 2018, the Group continued its programme to introduce lean manufacturing processes into global operations. This resulted in efficiency gains in a number of key business units.

The internal manufacturing reject rate in 2018 was 0.2% (2017 – 0.3%).

## Environment

Hunting is committed to protecting the environment, by developing manufacturing procedures that minimise the Group's impact on the environment and communities in which we operate.

Hunting's environment policy is located at [www.huntingplc.com](http://www.huntingplc.com).

New facilities take into account environmental considerations, including storm and flooding protection, while utilising energy efficient materials, together with waste recycling and management initiatives.

The Group has active recycling programmes at the majority of its facilities for waste materials, including metal, plastics and wood. Nearly all manufacturing facilities maintain at least one recycling programme, with the accompanying chart noting the adherence of the Group's facilities to these three core material recycling programmes.

To monitor the impact of Hunting's operations on the environment, and in compliance with UK Company Law, the Group collates greenhouse gas ("GHG") data in accordance with the principles of the Kyoto Protocol. Hunting's 2018 Scope 1 and 2 emissions, as defined by reporting guidelines published by DEFRA in the UK and the International Energy Agency, have been collected and are reported in the accompanying chart.

Scope 1 and 2 emissions in 2018 totalled 35,171 tonnes (2017 – 31,603 tonnes) of carbon dioxide equivalent. The increase in the Group's emissions between 2017 and 2018 is due to higher activity levels, particularly within the Group's US businesses, with Scope 2 electricity usage increasing as additional shifts were added by our busier operating units. In the year, the Group consumed 54.7 GWh of electricity (2017 – 45.2 GWh).

The Group's intensity factor, based on total carbon dioxide emissions divided by Group revenue in 2018, was 38.6 kg/\$k of revenue, compared to 43.6 kg/\$k of revenue in 2017.

Water usage in the year was 221k cubic metres compared to 216k cubic metres in 2017.

## Environmental and Waste Management Data

### Carbon dioxide emissions

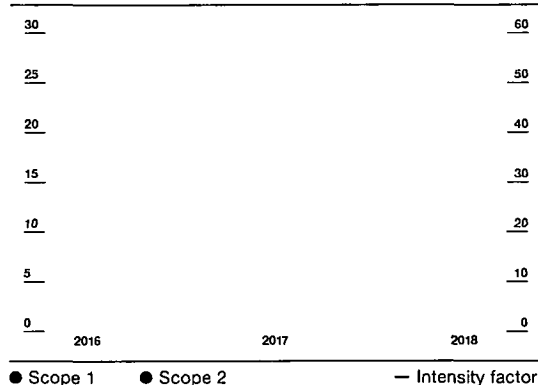
**35,171 tonnes equivalent**

(2017 – 31,603 tonnes equivalent)

### Facilities with recycling programmes in place (%)

Metal	96
Wood	42
Plastics	28

### GHG emissions (tonnes CO<sub>2</sub> equivalent) / Intensity factor (kg CO<sub>2</sub>/\$k revenue)





### Global electricity consumption (GWh)



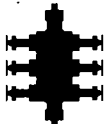

2018	54.7
2017	45.2
2016	42.7

### UK electricity consumption (GWh)

2018	1.9
2017	1.4
2016	1.8

# 3 Our products and services

Hunting's six major product groups		
	<b>Oil Country Tubular Goods ("OCTG")</b> 	<b>Perforating Systems</b> 
<b>Operating Basis</b>	<b>Manufacturing, trading</b>	<b>Manufacturing</b>
<b>Overview</b>	<p>OCTG are steel alloy products and comprise casing and tubing used in the construction and completion of the wellbore. Hunting machines threads to connect OCTG using flush or semi-flush joints and can manufacture premium and semi-premium connections and accessories using our own technologies such as SEAL-LOCK™, WEDGE-LOCK™ and TEC-LOCK™. We are licensed to apply a variety of third-party thread forms and generic API threads. We source OCTG products from a significant number of major global steel producers and have strong, long-term relationships in the US, Europe and Asia. Hunting trades pipe, which is a lower margin activity, to help support customer relationships.</p>	<p>Hunting Titan manufactures perforating systems, energetics, firing systems and logging tools. Products are mainly used in the completion phase of a well. The production, storage and distribution of energetics is highly regulated and there are significant barriers for new entrants to the market. The business mainly "manufactures to stock" and hence uses a wide distribution network. Some manufacturing is done to order, sourced from international telesales.</p>
<b>Differentiators</b>	<p>Hunting is one of the largest independent providers of OCTG connection technology, including premium connections.</p>	<p>Market-leading position in the US. Strong portfolio of patented and unpatented technology.</p>
<b>Global Operating Presence</b> Our business activities Pages 35 to 40.	<p>Hunting has extensive machining capacity in the US, Canada, Europe and Asia Pacific.</p>	<p>Manufacturing centres in the US, Canada, Mexico and China. Distribution centres in the US, Canada and Asia Pacific.</p>
<b>Related Strategic Focus Areas</b> Our business strategy Pages 42 and 43.	<p>New products – Broadened the WEDGE-LOCK™ and SEAL-LOCK XD™ premium connection range and introduced the semi-premium TEC-LOCK™ range.</p> <p>Cost control – Disposal of Cape Town facility and closure of Mombasa facility.</p>	<p>New capacity – Expansion of production facilities at Pampa and Milford in the US has commenced, with completion targeted for Q2 2019.</p> <p>Cost control – Three distribution centres closed in North America.</p> <p>New products – H-2 Perforating System launched in February 2019.</p>
<b>Related Principal Risks</b> More information on risk management Pages 44 to 52.	<p>Commodity prices, Shale drilling, Competition, Product quality.</p>	<p>Commodity prices, Shale drilling.</p>

Advanced Manufacturing	Drilling Tools	Intervention Tools	Subsea
			
Manufacturing	Equipment rental, trading	Manufacturing, equipment rental and trading	Manufacturing
Advanced Manufacturing includes the Hunting Dearborn business, which carries out deep hole drilling and precision machining of complex MWD/LWD and formation evaluation tool components, and the Hunting Electronics business, which manufactures printed circuit boards capable of operating in extreme conditions. These businesses work collaboratively with customers implementing their designs to their specifications.	Rental of a large portfolio of downhole tools, including mud motors, non-magnetic drill collars, vibration dampeners, reamers and hole openers. Tools are configured to the customers' specifications. This business is capital intensive and results are dependent on fleet utilisation and rental rates. In limited instances, rental equipment is sold outright.	A range of downhole intervention tools including slickline tools, e-line tools, mechanical plant, coiled tubing and pressure control equipment. This business is capital intensive and results are dependent on asset utilisation and rental rates.	Produces high quality products and solutions for the global subsea industry covering hydraulic couplings, chemical injection systems, specialty valves and weldment services.
Hunting Dearborn is a world leader in the deep drilling of high grade, non-magnetic components. As a Group, Hunting has the ability to produce fully integrated advanced downhole tools and equipment, manufactured, assembled and tested to the customer's specifications using its proprietary know-how.	Leaders in progressive cavity, positive displacement mud motors.	Hunting offers a comprehensive range of tools, including innovative and proprietary technologies.	For more than 30 years, a provider of high quality metal-to-metal sealing hydraulic coupling solutions to operate in the harshest environments with a strong, long-term patent base.
US.	US.	US, Europe, Asia and Middle East.	US.
Growth – Non-oil and gas business opportunities increased within naval, aerospace and space sectors. Insourcing of production of Hunting Titan firing switches. MWD/LWD tool replacement programmes with key oil and gas customers also increased in the year, with new interest in Hunting's integrated tool manufacturing capability.	Growth – Further implementation of mud-lube motors across fleet, leading to lower refurbishment costs and improved levels of profitability.	New products – Increased sales of Ezi-Shear valve.	New products – Continued development of soft metal seal product line for onshore drilling markets.
Commodity prices, Product quality.	Commodity prices, Shale drilling, Competition.	Commodity prices, Competition.	Commodity prices, Product quality.

# 4 Our customers and channels to market

## Hunting's customer groupings and channels to market

### Operators



Operators are the end consumers of our products and related services. These include National Oil Companies, International Oil Companies and Independents. Approximately 15% of our sales are made directly to operators.

Split of Group revenue

**c.15%**

Our top ten customers represent c.41% of revenue

### Service Companies



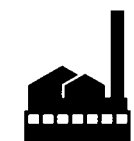
Our primary route to market is via other service providers, which generate c.80% of our revenue. These include "1st tier" service companies who can provide project management services to the operators. Key customers include Halliburton, Baker Hughes, Schlumberger and Weatherford.

Split of Group revenue

**c.80%**

Our largest customer represents c.13% of revenue

### Steel Mills and Other



Steel mills are key suppliers to our business, however, in some circumstances we can perform threading services for them or supply OCTG products. Other sales include oil and gas related sales through agents or intermediaries, together with non-oil and gas sector sales made by our Trenchless, Dearborn and Electronics operations.

Split of Group revenue

**c.5%**

Quality assurance procedures are central to our manufacturing processes and supports Hunting's reputation across the oil and gas industry.

## Our business strategy

Hunting's strategic priorities are based on a business model designed to deliver sustainable long-term shareholder value while recognising our corporate responsibilities.

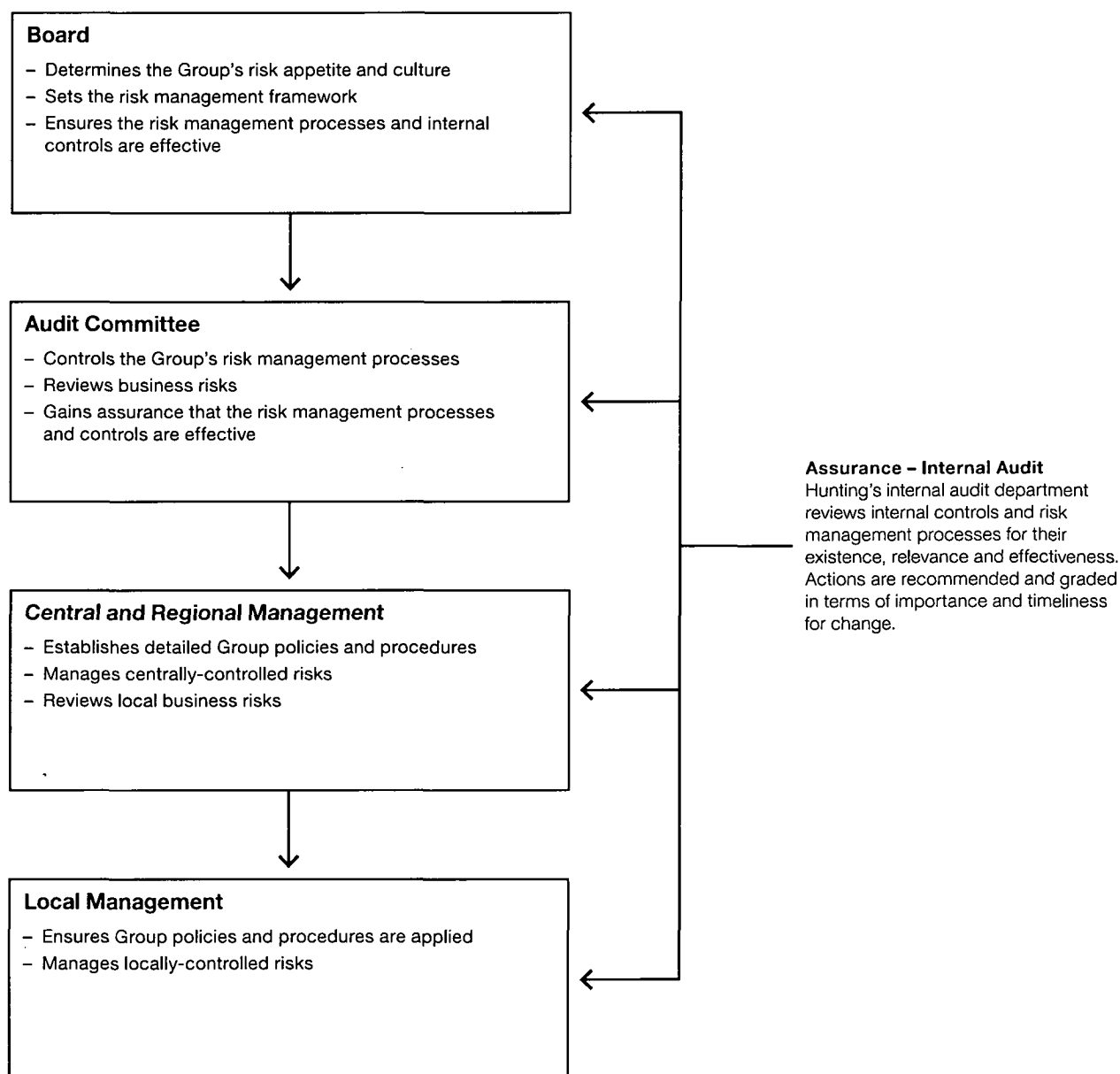
Strategic priority	Strategic focus areas	2018 progress
<b>Growth</b> Our aim is to continue to develop our global presence and supply a comprehensive range of products for use in the wellbore. We will grow through capital investment in existing businesses and through acquisitions.	<ul style="list-style-type: none"> <li>– Extend global presence</li> <li>– Acquire complementary businesses</li> <li>– Enhance existing capacity</li> <li>– Develop new products</li> </ul>	<ul style="list-style-type: none"> <li>– Expansion programmes commenced within Hunting Titan to increase and automate production capacity of energetics charges and perforating gun manufacturing.</li> </ul>
<b>Operational Excellence</b> We operate in a highly competitive and cyclical sector, which is high profile and strongly regulated. To be successful we must deliver high quality and reliable products and services cost effectively.	<ul style="list-style-type: none"> <li>– Leverage strong brand</li> <li>– Enhance quality control</li> <li>– Maintain operational flexibility</li> <li>– Leverage lean manufacturing</li> <li>– Strengthen relationships with customers and suppliers</li> </ul>	<ul style="list-style-type: none"> <li>– Rationalisation of North American distribution centres to align with market activity.</li> <li>– Lean manufacturing projects continued throughout the Group.</li> <li>– Patents granted over new generation Hunting Titan perforating gun system.</li> </ul>
<b>Strong Returns</b> In normal phases of the oil and gas cycle our business has the capability to produce high levels of profitability, strong cash generation, growing dividends for shareholders and good returns on capital.	<ul style="list-style-type: none"> <li>– Introduce new and proprietary products</li> <li>– Develop sales synergies</li> <li>– Enter new geographic markets</li> <li>– Maintain close cost control</li> </ul>	<ul style="list-style-type: none"> <li>– Gross margin improved to 30% in 2018 compared to 24% in prior year.</li> <li>– US revenues for Hunting Titan products increased, as the market environment improved and demand for efficient and reliable "plug and perf" technologies increased.</li> <li>– Closure of manufacturing facilities in Cape Town and Mombasa to save costs.</li> </ul>
<b>Corporate Responsibility</b> We are committed to act with high standards of integrity and to create positive, long-lasting relationships with our customers, suppliers, employees and the wider communities in which we operate.	<ul style="list-style-type: none"> <li>– Retain experienced senior management team</li> <li>– Skilled workforce</li> <li>– Safe operations</li> <li>– Protect the environment</li> <li>– Compliance</li> </ul>	<ul style="list-style-type: none"> <li>– As activity increased in North America, average employee numbers increased by 23% in the year to meet demand.</li> <li>– Group-wide Code of Conduct training course rolled out, covering all ethics policies.</li> </ul>



Related KPIs			Related risks
Revenue	Profit before tax	Operational footprint (million sq ft)	<ul style="list-style-type: none"> <li>– Geopolitics</li> <li>– Investment</li> <li>– Competition</li> <li>– Product quality</li> <li>– Commodity prices</li> <li>– Shale drilling</li> </ul>
<b>\$911.4m</b> (2017 – \$724.9m)	<b>\$104.0m</b> (2017 – \$11.5m)	<b>2.9</b> (2017 – 3.0)	
ISO 9001 (quality) accredited operating sites	Internal manufacturing reject rate	Countries in which we operate	
<b>71%</b> (2017 – 64%)	<b>0.2%</b> (2017 – 0.3%)	<b>11</b> (2017 – 12)	<ul style="list-style-type: none"> <li>– Product quality</li> <li>– Key executives</li> <li>– Competition</li> </ul>
Underlying gross margin	Free cash flow	Return on average capital employed	<ul style="list-style-type: none"> <li>– Commodity prices</li> <li>– Competition</li> </ul>
<b>30%</b> (2017 – 24%)	<b>\$80.7m</b> (2017 – \$49.3m)	<b>9%</b> (2017 – 1%)	
Incident rate	CO <sub>2</sub> emissions intensity factor (kg/\$k of revenue)	CO <sub>2</sub> tonnes equivalent emitted	<ul style="list-style-type: none"> <li>– Key executives</li> <li>– Health, safety and environment</li> </ul>
<b>1.49</b> (2017 – 0.89)	<b>38.6</b> (2017 – 43.6)	<b>35,171</b> (2017 – 31,603)	

# Risk management roles and responsibilities

The Board has defined risk management roles and responsibilities as illustrated below



## Introduction

The oil and gas industry is highly regulated and demands high specification products that meet stringent quality criteria, given the challenging environments in which these products are used. Hunting's risk management and internal control processes are therefore designed to appropriately mitigate the operating risks inherent in this sector, while allowing the Group to achieve its strategic objectives and deliver value to shareholders.

## The Board

The Board of Hunting has responsibility for developing and maintaining a robust risk management framework and for monitoring the Group's system of internal control to ensure it remains effective and fit for purpose. The Board is also responsible for developing the Group's strategic objectives. The balance between the Board's desire to meet these strategic objectives and its appetite for risk creates the risk culture within the Group.

The Board's appetite for risk is key to establishing effective systems of internal control and risk management processes. By reviewing and debating the relevant evidence, the Board develops an appreciation for the contributory factors that generate a particular risk. Subsequently, through delegation, the Board establishes the extent to which the risk should be mitigated and at what cost to the Group. The Board, for example, has little appetite for high levels of exposure to geopolitical risk and, consequently, the Group's expansion strategy has avoided countries that are considered to be significantly unstable or too high risk to maintain a physical presence, notwithstanding the potential benefits that may be generated.

Advice on risk management is sought by the Board from both internal and external sources. The risk management processes are further supported by:

- understanding the current and evolving market environment;
- challenging executive management on new growth opportunities; and
- reviewing proposed new product developments and capital investment projects.

## Audit Committee

Local management establishes and undertakes risk management processes that are relevant to the risk profile of each business unit. The key risks are reported to central management three times a year from which a Group Risk Register is maintained covering the key risks to the Group, including all financial, operational and compliance matters. On behalf of the Board, the Audit Committee seeks to ensure that risk management processes are established within the framework set out by the Board and, as part of this assessment, it conducts a formal review of the Group's Risk Register three times a year. The Group's Principal Risks are disclosed on pages 49 to 52. In addition, once a year, the Audit Committee seeks assurance with regard to the effectiveness of the internal financial controls based on a self-assessment exercise carried out by local management. The appropriateness of the self assessments is checked by Internal Audit, on a sample basis, following its programme of work.

The Internal Audit department reports directly to the Audit Committee. The relationship with external audit is controlled by the Audit Committee, who are responsible for completing the review of the effectiveness of the external auditors.

## Central and Regional Management

Hunting requires that all Group business units operate in accordance with the Hunting Group Manual, which sets out Group policies and procedures, together with related authority levels, and identifies matters requiring approval or notification to central management or to the Board. Included within the Group Manual are policies covering a range of areas, including general finance requirements, taxation responsibilities, information on Hunting's internal control and risk management framework and governance. Compliance is also monitored and subject to scrutiny by the Internal Audit department.

Central and regional management are responsible for ensuring the risk management processes established by the Audit Committee are implemented across the Group. Central management is also responsible for managing Group-wide treasury-related risks such as currency and interest rate exposures and managing the global insurance programme.

### Local Management

Management of each business unit has the responsibility of establishing an effective system of controls and processes for their business which, at a minimum, meet the requirements set out in the Group Manual and complies with any additional local requirements. Local management is empowered under Hunting's de-centralised philosophy to manage the risks in their market.

### Assurance

The Board uses a number of functions and reporting procedures to provide assurance that the risks identified by management are appropriate and proportionate for the Group as a whole. Hunting's Internal Audit function covers the Group's businesses addressing the following operational areas, raising control improvement recommendations, where necessary:

- inventory management;
- purchasing supply chain;
- large project risk;
- IT controls;
- customer credit risk; and
- ethics compliance, including bribery and corruption.

The Group's risk management processes are further supported by an internal Quality Assurance department that is headed by a HSE and Quality Assurance Director, who reports directly to the Chief Executive. This department also undertakes periodic audits that monitor quality control within the Group's product lines.

Hunting also receives guidance from a number of external advisers. In particular, guidance from the Group's principal insurance broker, which arranges worldwide credit insurance for the Group, has been implemented throughout the business units with respect to, for example, vetting new customers and maintaining appropriate creditworthiness data that further strengthens the Group's credit management processes. Hunting's external auditors provide assurance to the Board of the accuracy and probity of Hunting's financial statements. The auditors also read all of Hunting's non-financial statements, including governance disclosures included in the Annual Report, and provides recommendations on the financial controls in operation across the Group, based on the external audit.

Hunting's legal advisers assist in ensuring that Hunting is compliant with the UKLA's Listing Rules, Disclosure Guidance and Transparency Rules sourcebook and UK Company Law, and that there is an understanding across the Group of its obligations under current sanctions legislation. Additionally, Hunting relies on market and investor advice from its corporate brokers and financial advisers.

The Board is satisfied that the above sources of assurance have sufficient authority, independence and expertise to enable them to provide objective advice and information to the Board and also takes this into account when assessing the robustness of the risk management and control process.

# Risk management procedures

**The Board has reviewed its risk management and internal control procedures and confirms that the procedures in place are robust and proportionate to Hunting's global operations and position in its chosen market.**

Hunting's internal control system, which has been in place throughout 2018 and up to the date of approval of these accounts, is an ongoing evolutionary process designed to identify, evaluate and manage the significant risks to which the Group is exposed.

This system of internal control is designed to manage rather than eliminate risks, therefore it can only provide reasonable, but not absolute, assurance against material misstatement or loss in the financial statements and of meeting internal control objectives.

The Directors have reviewed the effectiveness of the Group's system of internal control and have taken into account feedback from the Audit Committee for the period covered by the financial statements. No significant failings or weaknesses were identified in the review process.

The key elements to understanding, establishing and assessing Hunting's internal control system are as follows:

## Business Risk Reporting

Three times a year, local management formally reviews the specific risks faced by their businesses, based on current trading, future prospects and the local market environment. The review is a qualitative assessment of the likelihood of a risk materialising and the probable financial impact if such an event were to arise. All assessments are performed on a pre- and post-controls basis, which allows management to continually assess the effectiveness of its internal controls with separate regard to mitigating the likelihood of occurrence and the probable financial impact. The risks are reported to central management. The local risks that have the greatest potential impact on the Group are identified from these assessments and incorporated into the Group Risk Register, which is also reviewed by the Audit Committee three times a year. An appropriate Director, together with local management, is allocated responsibility for managing each separate risk identified in the Group Risk Register.

## Financial Controls Self-assessment

Local management complete an annual self-assessment of the financial controls in place at their business unit. The assessment is qualitative and is undertaken in context with the recommended controls identified within the Group Manual. Gaps between the recommended controls and those in place are assessed and improvements are actioned within a targeted time frame when these are identified as a necessary requirement. Results of the assessments are summarised and presented to the Audit Committee.

## Reporting and Consolidation

All subsidiaries submit detailed financial information in accordance with a pre-set reporting timetable. This includes weekly, bi-monthly and quarterly treasury reports, annual budgets, monthly management accounts, periodic extended forecasts giving a medium-term view, together with half-year and annual statutory reporting.

The Group's financial accounting consolidation process is maintained and regularly updated, including distribution of a Group Manual to all reporting units. All data is subject to review and assessment by management through the monitoring of key performance ratios and comparison to targets and budgets. The Group monitors and reviews new UK Listing Rules, the Disclosure Guidance and Transparency Rules sourcebook, accounting standards, interpretations and amendments, legislation and other statutory requirements.

## Strategic Planning and Budgeting

Strategic plans, annual budgets and long-term viability financial projections are formally presented to the Board for adoption and approval and form the basis for monitoring performance. These are supported by regularly updated forecasts.

## Quality Assurance

Most of the business sectors in which the Group operates are highly regulated and subsidiaries invariably require to be accredited, by the customer or an industry regulator, to national or international quality organisations. These organisations undertake regular audits and checks on subsidiary procedures and practices, ensuring compliance with regulatory requirements. The Board monitors compliance by receiving Quality Assurance reports at each meeting from the Director of Quality Assurance who reports directly to the Chief Executive. The Group has received accreditations from many organisations including the American Petroleum Institute (for example API Spec 5CT and API Spec Q1 certifications), the International Organization for Standardization (for example ISO 9001 and ISO 14001 certifications) and the Occupational Health and Safety Assessment Series (for example OHSAS 18001 certification).

## Health, Safety and Environment ("HSE")

All facilities have designated HSE personnel appointed to ensure the Group's policies and procedures are adopted and adhered to. All local HSE personnel report to the Group's HSE and Quality Assurance Director, who in turn reports to the Chief Executive. All facilities arrange regular training and review sessions to ensure day-to-day risks are managed and shared with the wider workforce.

## Expenditure Assessment and Approval Limits

All significant capital investment (business acquisitions and asset purchases) and capital divestments require approval of the Chief Executive. Major capital investments or divestments require approval by the Board. Detailed compliance and assurance procedures are completed during a capital investment programme and project reviews and appraisals are completed to ensure each capital investment has delivered the forecast value for the Group.

Updates to the Group's policies and procedures are communicated to the relevant personnel by way of periodic revisions to the Group Manual, which is issued to all business units.

## Current status of the Group's principal risks

The status of Hunting's exposure to each of its principal risks, the movement in these risks (post-controls) during the year and the effectiveness of the Group's internal controls in mitigating risks are summarised in the accompanying two graphs.

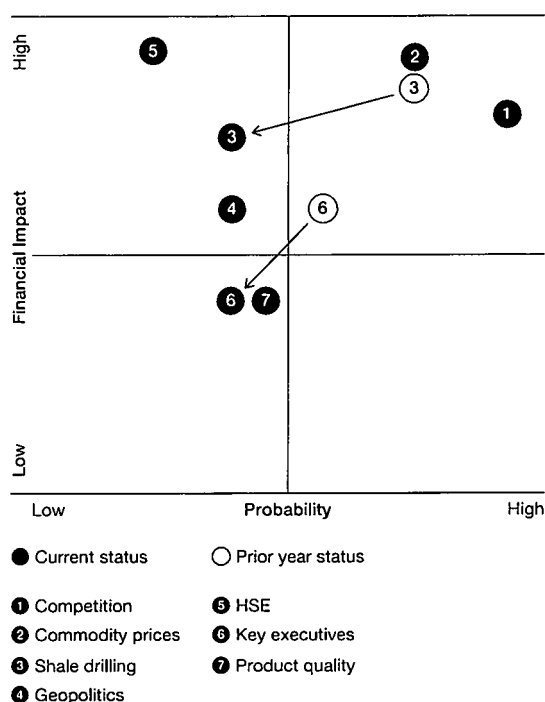
The extent of Hunting's exposure to any one risk may increase or decrease over a period of time. This movement is due either to a shift in the profile of the risk arising from external influences, or is due to a change in the effectiveness of the Group's internal control processes in mitigating the risk.

A detailed description of each principal risk, the controls and actions in place and the movement in the year are given in the following section.

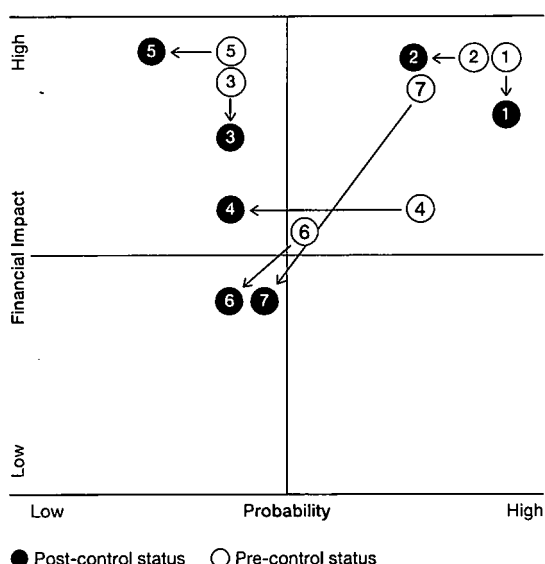
### UK Leaving the European Union ("Brexit")

The Board has continued to consider the potential consequences to the Group of the United Kingdom's decision to withdraw from the European Union and remains of the opinion that, given its limited exposure to this market, Brexit will not have a material impact on the business. Consequently, this is not a principal risk to the Group.

**Movement in risks (post-controls) during the year**



**Effectiveness of internal controls**



# Principal risks

The Group's principal risks are identified below. While we have presented these as separately identified risks, discrete events will often affect multiple risks and this is considered by the Board when assessing the impact on the Group.

No movement in risk	↔
Increase in risk	↑
Decrease in risk	↓

## 1. Competition ↔

### Nature of the risk

The provision of goods and services to oil and gas drilling companies is highly competitive. In current market conditions, pricing pressures remain a feature of the current trading environment. Competitors may also be customers and/or suppliers, which can increase the risk of any potential impact.

Technological advancements in the oil and gas industry continue at pace and failure to keep ahead will result in lost revenues and market share.

Looking further ahead, advancements in alternative energy sources are considered a possible risk to the oil and gas market in the long term.

### Movement in the year

During the year, the competitive environment within the markets that Hunting serves remained strong and therefore Hunting's exposure to this risk is unchanged since last year. The improved trading environment has reduced the likelihood of price reductions by extant competitors, however, new competitors are entering the market with lower pricing within certain product lines.

### Controls and actions

Hunting has a number of high specification proprietary products that offer operational advantages to its customers. The Group continually invests in research and development that enables it to provide technological advancement and a strong, ever widening, product offering. Hunting continues to maintain its standards of delivering high quality products, which has gone some way in sheltering the pricing pressure impact on margins.

Hunting's operations are established close to their markets, which enables the Group to offer reduced lead times and a focused product range appropriate to each region. Local management maintains an awareness of competitor pricing and product offering. In addition, senior management maintains close relationships with key customers and seeks to maintain the highest level of service to preserve Hunting's reputation for quality. The Group has a wide customer base that includes many of the major oil and gas service providers and no one customer represents an overly significant portion of Group revenue.

Alternative energy sources have been considered but are not believed to be a threat within the short term.

► The Group's operating activities are described in detail on pages 35 to 39.

## 2. Commodity prices ↔

### Nature of the risk

Hunting is exposed to the influence of oil and gas prices as the supply and demand for energy is a key driver of demand for Hunting's products.

Oil and gas exploration companies may reduce or curtail operations if prices become, or are expected to become, uneconomical and therefore continuation of prices above these levels is critical to the industry and the financial viability of the Hunting Group.

Adverse movements in commodity prices may also heighten the Group's exposure to the risks associated with shale drilling (see the risks associated with shale drilling).

### Movement in the year

Hunting's exposure to this risk has remained high during the year due to the relative instability in spot oil prices. Although they do remain volatile, prices are expected to increase over the next 12 months due to sustained growth in global demand.

### Controls and actions

Working capital, and in particular inventory levels, are closely managed to ensure the Group remains sufficiently adaptable to meet changes in demand.

The Group's products are used throughout the life cycle of the wellbore and each phase within the life cycle generates demand for a different range of products and services. The Board and management closely monitor market reports on current and forecast activity levels associated with the various phases of the life cycle of the wellbore in order to plan for and predict improvements or declines in activity levels.

In addition, management has reduced production costs and developed new technologies that would help mitigate the impact of any further downturn in commodity prices in the future.

► Further information on the movement in commodity prices during the year is detailed on page 8.

# Principal risks

The Group's principal risks are identified below. While we have presented these as separately identified risks, discrete events will often affect multiple risks and this is considered by the Board when assessing the impact on the Group.

No movement in risk	↔
Increase in risk	↑
Decrease in risk	↓

## 3. Shale drilling



### Nature of the risk

The Group provides products to the oil and gas shale drilling industry. Although shale drilling is now an established activity in the US, significant sections of the public continue to view it as high risk. Any consequent moratorium or new laws may unfavourably impact shale drilling activity levels and subsequently reduce demand for the Group's products that service the operators in this industry. In addition, oil and gas produced from shale remains a relatively expensive source of hydrocarbons, despite recent advances in technology that have reduced these costs. Consequently, shale drilling is more sensitive to a decline in commodity prices compared with conventional sources so it is more likely to be curtailed and therefore negatively impact what has become a steadily increasing revenue stream for the Group (see the risks associated with commodity prices).

### Movement in the year

Hunting's exposure to this risk has reduced from last year due to the continued drive in completion activity within the US shale basins and the more stable oil price.

### Controls and actions

The Board monitors public and political opinion and maintains an awareness of the potential for changes to legislation, especially with regard to the US where the Group is mainly exposed.

The Group maintains a diverse portfolio of products that extends beyond supplying the shale drilling industry, including products for conventional drilling and the manufacture of high-precision and advanced technology components for both the onshore and offshore markets.

Many of the Group's facilities have the flexibility to reconfigure their manufacturing processes to meet a change in the pattern of demand.

► The Group's operating activities are described in detail on pages 35 to 39.

## 4. Geopolitics



### Nature of the risk

The location of the Group's markets are determined by the location of Hunting's customers' drill sites – Hunting's products must go where the drilling companies choose to operate. To compete effectively, Hunting often establishes a local operation in those regions, however, significantly volatile environments are avoided.

The Board has a strategy to develop its global presence and diversify geographically.

Operations have been established in key geographic regions around the world, recognising the high growth potential these territories offer. The Group carefully selects which countries to operate from, taking into account the differing economic and geopolitical risks associated with each geographic territory.

### Movement in the year

Geopolitical issues remain a feature of the modern world in which the Hunting Group operates. The Board monitors geopolitical events around the world through media channels and assesses these relative to Hunting's operations.

The Group has relatively little exposure to the European market and consequently the Board believes that the economic uncertainties associated with Brexit will not have a material adverse impact on the Group's trading activities. Consequently, the Board has concluded that there has been no reportable movement in the Group's geopolitical risk.

### Controls and actions

Areas exposed to high political risk are noted by the Board and are strategically avoided. Management and the Board closely monitor projected economic trends in order to match capacity to regional demand.

► The Group's exposure to different geographic regions is described on page 2.



## 5. Health, safety and the environment ("HSE")



## 6. Key executives



### Nature of the risk

Due to the wide nature of the Group's activities, it is subject to a relatively high number of HSE risks and the laws and regulations issued by each of the jurisdictions in which the Group operates.

The Group's exposure to risk therefore includes the potential for the occurrence of a reportable incident, the financial risk of a breach of HSE regulations, and the risk of unexpected compliance expenditure whenever a law or regulation is renewed or enhanced.

### Movement in the year

The Group's manufacturing and other operating processes have not materially changed during the year. Consequently, the Group's potential exposure to HSE incidents remains materially unchanged. The Group experienced a number of minor HSE incidents in the year, which is significantly below the industry average and is similar to the Group's record in prior years.

### Controls and actions

The Board targets to achieve a record of nil incidents and full compliance with the laws and regulations in each jurisdiction in which the Group operates.

Every Group facility is overseen by a health and safety officer with the responsibility for ensuring compliance with current and newly issued HSE standards.

The Board receives a Group HSE compliance report at every Board meeting.

### Nature of the risk

The Group is highly reliant on the continued service of its key executives and senior management, who possess commercial, engineering, technical and financial skills that are critical to the success of the Group.

### Movement in the year

This risk has decreased from last year due to the improving results of the Group, which has enabled the Company to end the Group-wide pay freeze programme and to procure new incentives for key employees to remain with the Group.

### Controls and actions

Remuneration packages are regularly reviewed to ensure that key executives are remunerated in line with market rates. External consultants are engaged to provide guidance on best practice.

Senior management regularly reviews the availability of the necessary skills within the Group and seeks to engage suitable staff where they feel there is vulnerability.

► The Group's HSE performance is detailed on page 36.

► Details of executive Director remuneration are provided in the Remuneration Committee report on pages 68 to 85.

# Principal risks

The Group's principal risks are identified below. While we have presented these as separately identified risks, discrete events will often affect multiple risks and this is considered by the Board when assessing the impact on the Group.

No movement in risk	↔
Increase in risk	↑
Decrease in risk	↓

7. Product quality ↔

**Nature of the risk**  
The Group has an established reputation for producing high quality products capable of withstanding the hostile and corrosive environments encountered in the wellbore.

A failure of any one of these products could adversely impact the Group's reputation and demand for the Group's entire range of products and services.

**Movement in the year**  
The risk of poor product quality or reliability has remained unchanged during the year with no significant issues raised by the Group's customers or during the Board's internal monitoring process.

**Controls and actions**  
Quality assurance standards are monitored, measured and regulated within the Group under the authority of a Quality Assurance Director, who reports directly to the Chief Executive.

► The Group's commitment to product quality is detailed on page 36.

# Viability Assessment and Going Concern Basis

## Viability Assessment

Hunting has a wide, global customer base underpinned by strong, long-term relationships. The Group provides a large range of products and services through its manufacturing and distribution facilities, which are located in a number of countries across the globe.

In considering the Group's long-term viability, the Board regularly assesses the risks to its business model, strategy, future performance, solvency and liquidity. These assessments are supported by the risk management processes described on pages 44 and 47 and include a review of the Group's exposure to the oil and gas industry, competitor action, customer plans and the robustness of the supply chain.

## Assessment Period

The Group's customers are principally involved in the exploration for and production of oil and gas. Given the nature of the industry and the planning cycles involved, these activities can cover periods of no more than several weeks up to several years from start to end. Hunting's management works closely with its customers over this period, discussing their operational plans and reviewing their longer-term capital expenditure programmes. The outlook for the Group beyond this period is generated from management's assessment of industrial data and projections published by industry commentators and analysts, including statistics on exploration and production expenditure, footage drilled and rig activity. The Board believes that a three-year forward-looking period, commencing on the date the annual accounts are approved by the Board, is the appropriate length of time to reasonably assess the Group's viability. The Group's annual budget process and mid-term projections cover this period and help to support the Board's assessment.

## Consideration of Principal Risks

The nature of the Group's operations expose the business to a variety of risks, which are noted on pages 48 to 52. The Board regularly reviews the principal risks and assesses the appropriate controls and further actions as described on pages 44 and 45, given the Board's appetite for risk as disclosed on page 45. The Board has further considered their potential impact within the context of the Group's viability.

## Assumptions

In assessing the long-term viability of the Group, the Board made the following assumptions:

- Demand for energy service products continues to improve in the medium to long term, given the global outlook for oil and gas demand, which is driven by growth within emerging markets and sustained demand from developed markets. These are the fundamental drivers of Hunting's core business of manufacturing, supplying and distributing products and services that enable the extraction of oil and gas.
- The Group's reduced cost base enables the business to remain competitive within the weaker sectors of the global energy markets, particularly within the offshore and international markets.
- North American onshore well completion activity levels, particularly those requiring Hunting perforating systems, continue to improve.

- The Group will continue to have a medium to low exposure to higher risk countries given the proportion of its current revenues and profits derived from stable regions such as North America, Europe and South East Asia.

In addition, the three-year financial projections were stress tested to simulate a further deterioration in market conditions.

## Conclusion

The Board believes that the Group's strategy for growth, its diverse customer and product base, and the improving outlook for the oil and gas industry in the medium term provide Hunting with a strong platform on which to continue in business. The Directors therefore have a reasonable expectation that Hunting will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

## Going Concern Basis

The Group's principal cash outflows include capital investment, labour costs and inventory purchases. The timing and extent of these cash flows are controlled by local management and the Board. The Group's principal cash inflows are generated from the sale of its products and services, the level of which is dependent on the overall market conditions, the variety of its products and ability to retain strong customer relationships. Cash inflows are further supported by the Group's credit insurance cover against customer default that, at 31 December 2018, covered the majority of its trade receivables, subject to certain limits. Current and forecast cash/debt balances are reported on a weekly basis by each of the business units to a centralised treasury function that uses the information to manage the Group's day-to-day liquidity and longer-term funding needs.

The Group continues to have access to sufficient financial resources including the \$160m secured committed bank borrowing facility which was undrawn at 31 December 2018. The Group's internal financial projections indicate that the Group will retain sufficient liquidity to meet its funding requirements over the next 12 months.

## Review

In conducting its review of the Group's ability to remain as a going concern, the Board assessed the Group's recent trading performance and its latest forecasts and took account of reasonably predictable changes in future trading performance. The Board also considered the potential financial impact of the estimates, judgements and assumptions that were used to prepare these financial statements. The Board is satisfied that no material uncertainties have been identified.

## Conclusion

The Board is satisfied that it has conducted a robust review of the Group's going concern and has a high level of confidence that the Group has the necessary liquid resources to meet its liabilities as they fall due. Consequently, the Board considered it appropriate to adopt the going concern basis of accounting in preparing these consolidated financial statements.

## Corporate governance overview

Hunting's governance procedures have remained robust, with the Company becoming fully compliant to the 2016 UK Corporate Governance Code in the year. Further, a number of improvements were implemented during 2018, including the formation of an Executive Committee, comprising senior operational managers of the Group.

After a relationship extending nearly 30 years, PricewaterhouseCoopers will retire as external auditors at the Company's AGM in April 2019, with Deloitte being proposed as new auditors, following completion of a tender process in 2017. The Board wish to record their thanks to PwC for their many years of service.

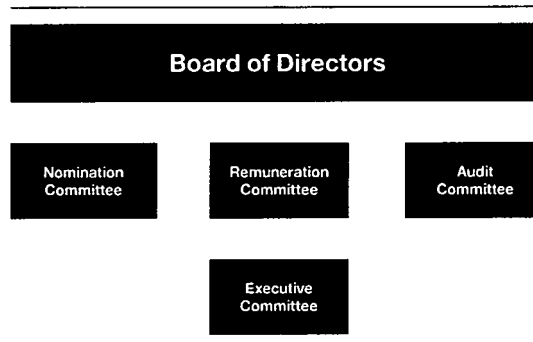
The Board has evaluated the new 2018 version of the UK Corporate Governance Code and is currently reviewing proposals for compliance. New stakeholder engagement initiatives are planned, with reporting to commence in 2019.

John (Jay) F. Glick  
Chairman

### Introduction

Hunting's governance framework has remained strong during 2018, with key initiatives to enhance the Group's structure being put in place in the second half of the year, including the formation of an Executive Committee. This Committee was formed on 30 August 2018 as part of Hunting's strategic planning. The Committee reports directly to the Board and its members align with the reporting segments introduced in 2017. Members of the Executive Committee are noted on page 58.

Governance Framework – Company Board and Committees



The Executive Committee meets four times a year and members of the Committee periodically present to the Board, providing a detailed overview to the Directors on the business strategy for each region of the Group.

### Board Composition and Diversity

During the year, two non-executive Directors retired from the Board after nine years of service to the Company. John Nicholas retired in April, also stepping down as Chair of the Audit Committee. John Hofmeister retired as Senior Independent Director and Chair of the Remuneration Committee in August.

Recruitment of new Directors commenced in H2 2017. The Board was keen to maintain the very strong industry knowledge and representation within the skills profile of the Directors, which led to the appointment of Keith Lough, who sits on the boards of a number of UK listed exploration and production companies. Following John Hofmeister's retirement, Keith has been appointed Senior

# 29%

Percentage of female Directors on the Board

Independent Director. Carol Chesney was appointed alongside Keith in April 2018 and was appointed Chair of the Audit Committee, following John Nicholas's retirement. Carol is a qualified Chartered Accountant and Chairs the Audit Committees of two other FTSE 350 companies and brings strong financial and UK governance expertise to the Board. Additionally, Annell Bay has been appointed Chair of the Remuneration Committee, following John Hofmeister's retirement. Annell has been a member of the Committee since 2015.

The Company's Directors now include two female members, representing 29% of the Board.

#### Board Evaluation

During the year, the Board undertook its third externally facilitated performance and effectiveness evaluation. Recommendations raised from the process have been discussed by the Board for implementation.

#### External Auditors Rotation

After nearly 30 years, PricewaterhouseCoopers LLP will retire as auditors to the Group at Hunting's AGM on 17 April 2019, following an audit tender completed in 2017 which led to the selection of Deloitte LLP. Deloitte's appointment will be tabled for shareholders' approval at the AGM. Deloitte has attended a number of meetings of the Audit Committee during 2018 as transition arrangements were implemented. On behalf of the Directors of the Company and its shareholders we thank PwC for their excellent work over this long period of time.

# 99%

## Shareholder approval for 2018 Directors' Remuneration Policy

#### Remuneration Policy

On 18 April 2018, shareholders approved, with a 99% vote in favour, a new Directors' Remuneration Policy, incorporating changes which better align Hunting's remuneration framework with best practice UK governance principles. The annual bonus for the executive Directors now incorporates a bonus deferral mechanism by share retention, while the Hunting Performance Share Plan has a two-year mandatory holding period for all vested shares for awards granted from 2018, giving a total of a five-year cycle from grant to final award.

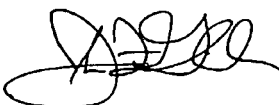
# 100%

## Compliance with the 2016 Code

#### New Governance Developments

With the publication of the new UK Corporate Governance Code in July 2018, the Board of Hunting is considering new governance procedures to enhance stakeholder engagement and comply with the new requirements. As part of these new arrangements, Annell Bay has been appointed the designated non-executive Director for employee engagement, as recommended by section 1, provision 5, of the new 2018 Code. Annell will be working with the Group's Chief Executive and Chief Human Resources Officer to develop initiatives and appropriate Board reporting to address this important area. Further, new disclosures in the 2019 Annual Report are planned, to enable the Company to report its compliance with the new Code.

On behalf of the Board, I would like to thank all shareholders and stakeholders for their support over the past year.



John (Jay) F. Glick  
Chairman

28 February 2019

## Board of Directors and Company Secretary

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**John (Jay) F. Glick**  
Non-executive Chairman

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**Nationality**  
American.

**Length of service**  
4 years; appointed to the Board as a non-executive Director in 2015. In 2017, Jay was appointed non-executive Chairman.

**Skills and experience**  
Jay was formerly the president and chief executive officer of Lufkin Industries Inc and, prior to that, held several senior management roles within Cameron International Corporation.

**External appointments**  
Jay is currently a non-executive director of TETRA Technologies Inc.

**Committee membership**  
Nomination Committee (Chair) and by invitation.

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**Arthur James (Jim) Johnson**  
Chief Executive

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**Nationality**  
American.

**Length of service**  
27 years; appointed to the Board as a Director and Chief Executive in 2017.

**Skills and experience**  
Jim held senior management positions within Hunting from 1992 up to his appointment as Chief Operating Officer of the Group in 2011. In this role he was responsible for all day-to-day operational activities of the Company. Jim is a member of, and Chairs, the Executive Committee.

**External appointments**  
None.

**Committee membership**  
By invitation.

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**Peter Rose**  
Finance Director

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**Nationality**  
British.

**Length of service**  
22 years; appointed to the Board as Finance Director in 2008.

**Skills and experience**  
Peter is a member of the Institute of Chartered Accountants of Scotland. Before joining Hunting he held senior financial positions with Babcock International and, prior to that, spent several years with PwC working in the UK and Hong Kong. Peter is a member of the Executive Committee.

**External appointments**  
None.

**Committee membership**  
By invitation.

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**Annell Bay**  
Non-executive Director

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**Nationality**  
American.

**Length of service**  
4 years; appointed to the Board as a non-executive Director in 2015 and was re-appointed for a second three-year term in February 2018. On 30 August 2018, Annell was appointed Chair of the Remuneration Committee.

**Skills and experience**  
Annell was formerly a vice-president of global exploration at Marathon Oil Corporation and, prior to that, vice-president of Americas Exploration at Shell Exploration and Production Company.

**External appointments**  
Annell is currently a non-executive director of Apache Corporation and Verisk Analytics Inc.

**Committee membership**  
Nomination Committee.  
Remuneration Committee (Chair).  
Audit Committee.

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**Carol Chesney**  
 Non-executive Director
 

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**Nationality**

Joint American and British citizenship.

**Length of service**

1 year; appointed to the Board as a non-executive Director and Chair of the Audit Committee on 23 April 2018.

**Skills and experience**

Carol is a Fellow of the Institute of Chartered Accountants in England and Wales. Mrs Chesney was formerly the Group Financial Controller and, latterly, the Company Secretary, of Halma PLC.

**External appointments**

Carol is currently a non-executive director of Renishaw plc and Biffa plc.

**Committee membership**

Nomination Committee.  
Remuneration Committee.  
Audit Committee (Chair).

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**Richard Hunting C.B.E.**  
 Non-executive Director
 

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**Nationality**

British.

**Length of service**

46 years; elected an executive Director in 1989 and was Chairman from 1991 to 2017. In 2017, Richard retired as Chairman, and remains on the Board as a non-independent, non-executive Director.

**Skills and experience**

Richard has previously held a variety of management positions around the Hunting Group.

**External appointments**

None.

**Committee membership**

By invitation.

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**Keith Lough**  
 Senior Independent Non-executive Director
 

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**Nationality**

British.

**Length of service**

1 year; appointed to the Board as a non-executive Director on 23 April 2018 and appointed Senior Independent Director on 30 August 2018.

**Skills and experience**

Keith was formerly the non-executive Chairman of Gulf Keystone Petroleum plc and previously held a number of executive positions within other energy-related companies including British Energy plc and LASMO plc.

**External appointments**

Keith is currently a non-executive director of Cairn Energy plc, Rockhopper Exploration plc and the UK Gas and Electricity Markets Authority.

**Committee membership**

Nomination Committee.  
Remuneration Committee.  
Audit Committee.

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**Ben Willey**  
 Company Secretary
 

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**Nationality**

British.

**Length of service**

9 years; joined Hunting in 2010 and was appointed Company Secretary in 2013.

**Skills and experience**

Ben is a Fellow of the Institute of Chartered Secretaries and Administrators. He was formerly a partner at Buchanan, a WPP company and, prior to that, worked in investment banking with Evolution Securities plc.

**External appointments**

None.

**Committee membership**

Audit Committee (Secretary).  
Nomination Committee (Secretary).  
Remuneration Committee (Secretary).

## Executive committee

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**Rick Bradley**  
Chief Operating Officer

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**Nationality**  
American.

**Length of service**  
8 years; joined Hunting in 2011 and was appointed Chief Operating Officer in 2017.

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**Jason Mai**  
Managing Director –  
Hunting Titan

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**Nationality**  
American.

**Length of service**  
4 years; joined Hunting in 2015 and was appointed Managing Director in 2017.

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**Scott George**  
Managing Director –  
US Operations

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**Nationality**  
American.

**Length of service**  
9 years; joined Hunting in 2010 and was appointed Managing Director in 2011.

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**Randy Walliser**  
Managing Director –  
Canada Operations

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**Nationality**  
Canadian.

**Length of service**  
Joined Hunting and appointed Managing Director in February 2019.

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**Bruce Ferguson**  
Managing Director –  
Europe Operations

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**Nationality**  
British.

**Length of service**  
25 years; joined Hunting in 1994 and was appointed Managing Director in 2013.

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**Sean O'Shea**  
Managing Director –  
Middle East & Africa Operations

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**Nationality**  
Irish.

**Length of service**  
22 years; joined Hunting in 1997 and was appointed Managing Director in 2013.

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**Daniel Tan**  
Managing Director –  
Asia Pacific Operations

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**Nationality**  
Singaporean.

**Length of service**  
11 years; joined Hunting in 2008 and was appointed Managing Director in 2011.

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The Board of Directors and members of the Executive Committee are all designated PDMRs.

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# Corporate governance report

## Compliance

The Board of Hunting PLC has adopted governance principles aligned with the 2016 UK Corporate Governance Code (the "Code"), which can be found at [www.frc.org.uk](http://www.frc.org.uk). The Company is reporting its corporate governance compliance against this Code.

Hunting became fully compliant with all the provisions of the Code in the year, following changes to the composition of the Audit Committee in April 2018.

Following the publication of the revised UK Corporate Governance Code in July 2018, the Company is establishing initiatives to address the additional requirements of the Code. Hunting will be reporting its compliance with the new Code in its 2019 Annual Report.

## Governance Framework

Subject to the Company's Articles of Association, UK legislation and any directions prescribed by resolution at a general meeting, the business of the Company is managed by the Hunting PLC Board. The Board is responsible for the management and strategic direction of the Company and to ensure its long-term success, as prescribed by UK law.

The Board has three main committees to which it delegates governance and compliance procedures: the Nomination Committee, whose report can be found on pages 66 and 67, the Remuneration Committee, whose report can be found on pages 68 to 85, and the Audit Committee, whose report can be found on pages 86 to 90.

An Executive Committee comprising of the executive Directors and Managing Directors of each segment of the Group was formed on 30 August 2018 and details of its operation are noted on page 62.

## Responsibilities of the Board

The Board of Hunting PLC has clearly defined areas of responsibility, which are separate to those of the Chairman, executive management and of the Committees of the Board. The Directors approve the strategic aims and objectives of the Company, as set by executive management, and approves all major acquisitions, divestments, dividends, capital investments and annual budgets.

The Board has overall leadership of the Company, setting the values of the Hunting Group and providing a strong tone from the top, to which all businesses within the Group and its employees are encouraged to adopt.

The Directors monitor Hunting's trading performance, including progress against the Annual Budget, reviewing monthly management accounts and forecasts, comparing forecasts to current market consensus and reviewing other financial matters. They review and approve all public announcements, including financial results, trading statements and set the dividend policy of the Group.

The internal control and risk management framework and associated procedures are reviewed by the Board, however, key monitoring procedures are delegated to the Audit Committee.

There is a clear division of responsibilities between the Chairman and Chief Executive, as noted in the following tables:

### Responsibilities of the Chairman

- lead and build an effective and balanced Board;
- chair meetings of the Board, ensuring agendas and materials are fit for purpose;
- ensure the Directors are provided with accurate, timely and relevant information;
- encourage good dialogue between all Directors, with strong contributions encouraged from all Board members;
- meet the non-executive Directors without the executive Directors present;
- discuss training and development with the non-executive Directors;
- arrange Director induction programmes; and
- arrange an annual board evaluation and to act on its findings.

### Responsibilities of the Chief Executive

- manage the day-to-day activities of the Group;
- recommend and implement the strategic direction of the Group to the Board;
- identify and execute new business opportunities, acquisitions and disposals;
- ensure appropriate internal controls are in place;
- report to the Board regularly on the Group's performance and position; and
- present to the Board an annual budget and operating plan.

The Board approves all key recommendations from the Nomination, Remuneration and Audit Committees and approves all appointments to these Committees.

Governance principles of the Company are set by the Board and key Group-level policies are reviewed and approved by the Directors.

## Board Composition

The Board comprises the non-executive Chairman, Chief Executive, Finance Director, three independent non-executive Directors, one of whom is the Senior Independent Director, and one non-independent, non-executive Director. Profiles of each Director are found on pages 56 to 57.

The independent non-executive Directors are a key source of expertise and contribute to the delivery of the Company's strategic goals.

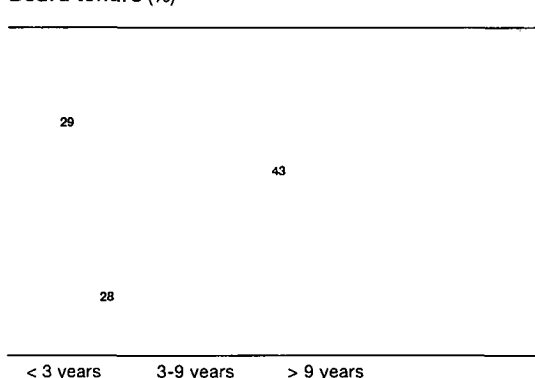
## Corporate governance report continued

Non-executive Directors are chosen from the oil and gas industry and regulatory sectors in which Hunting operates. The expertise and competencies of the non-executive Directors are noted in the table below, and underpin the balance of skills and knowledge of the Board:

Director	Expertise
<b>Annell Bay</b>	Upstream oil and gas, US energy market development and US quoted companies.
<b>Carol Chesney</b>	Accounting, UK Corporate Governance, Ethics Compliance and UK quoted companies.
<b>Jay Glick</b>	Oilfield services and manufacturing, US energy market development and US quoted companies.
<b>Richard Hunting</b>	UK Corporate Governance, Investor Relations.
<b>Keith Lough</b>	Accounting, upstream oil and gas, UK energy regulation and market development and UK quoted companies.

The tenure of the Board, including both executive and non-executive Directors, is shown in the chart below. The average tenure of the Directors as at 28 February 2019 is 7.4 years.

### Board tenure (%)



### Board Independence and Conflicts of Interest

As at 31 December 2018, excluding the Chairman, the Board comprised 50% independent non-executive Directors. Including the Chairman, 57% of the Board comprises independent Directors.

All the non-executive Directors, including the Chairman, have access to professional advisers, at the Company's expense, to fulfil their various Board and Committee duties.

The Group has procedures in place to manage conflicts of interest. Each Director is required to declare any potential conflicts that exist, or may arise, which are formally recorded by the Company Secretary. Appropriate decision making, in light of this declaration, is undertaken, which could include a Director not participating in a Board decision or vote. Each Director is required to complete a declaration of known conflicts of interest annually.

### Company Secretary

The Company Secretary is appointed by the Board and supports the Chairman in providing all materials and information flows between the executive and non-executive Directors, specifically on matters of governance and regulatory compliance. The Company Secretary is also available to the Board and all its Committees for advice and ensures that all procedures are followed.

### Work Undertaken by the Board During 2018

The Board met six times in 2018, as regularly timetabled. The attendance of the Directors at Board meetings during 2018 is detailed in the table below:

<b>Number of meetings held</b>	<b>6</b>
<b>Number of meetings attended (actual/possible):</b>	
Annell Bay	6/6
Carol Chesney (from 23 April 2018)	4/4
Jay Glick	6/6
John Hofmeister (to 30 August 2018)	4/4
Richard Hunting	6/6
Jim Johnson	6/6
Keith Lough (from 23 April 2018)	4/4
John Nicholas (to 18 April 2018)	2/2
Peter Rose	6/6

Each Board meeting follows a prescribed agenda and agreed schedule of matters.

At each meeting, the Chief Executive updates the Board on key operational developments, provides an overview of the market, reports on health and safety, and highlights important milestones reached towards the delivery of Hunting's strategic objectives.

The Finance Director provides an update on the Group's financial performance and position, banking arrangements, legal issues, analyst discussions and statutory reporting developments relevant to Hunting. These topics lead to discussion, debate and challenge among the Directors.

During 2018, the standing items and other items for regular Board meetings included the following business:

	Feb	Apr	Jun	Aug	Oct	Dec
<b>Standing items</b>						
Chief Executive Update	✓	✓	✓	✓	✓	✓
Finance Director Report	✓		✓	✓	✓	✓
Operational Reports	✓		✓	✓		✓
Quality Assurance and HSE Reports	✓		✓	✓		✓
Shareholder Report	✓	✓	✓	✓	✓	✓
<b>Other items</b>						
Annual and Half-Year Report and Accounts	✓			✓		
Board Evaluation	✓			✓		✓
Risk Review	✓					
AGM Preparation		✓				
Trading Statement		✓			✓	
Strategy			✓			✓
Organisation and Personnel Review, Development and Succession			✓			
Annual Budget						✓
Non-executive Director Remuneration						✓
Chairman/Senior Independent Director Investor Feedback						✓

#### Directors' and Officers' Liability Insurance

Hunting maintains insurance against certain liabilities, which could arise from a negligent act or a breach of duty by the Directors and Officers in the discharge of their duties. This is a qualifying third-party indemnity provision that was in force throughout the year.

#### Board Appointments

All appointments to the Board are in accordance with the Company's Articles of Association and the Code and are made on recommendation of the Nomination Committee.

In February 2018, Annell Bay was re-appointed for a second three-year term, following a rigorous evaluation in December 2017.

In April 2018, the Nomination Committee concluded a process to recruit two new independent non-executive Directors to succeed John Nicholas and John Hofmeister, both of whom were scheduled to retire from the Hunting Board in 2018 following completion of nine years' service. On 17 April 2018, the Nomination Committee recommended to the Board the appointments of Carol Chesney and Keith Lough, with the Board considering the recommendation at its meeting on 18 April 2018. Mrs Chesney and Mr Lough joined the Board as Directors on 23 April 2018, with Mrs Chesney being appointed Chair of the Audit Committee on the same date, following the retirement of Mr Nicholas on 18 April 2018. Mr Hofmeister retired from the Board on 30 August 2018, with Annell Bay being appointed Chair of the Remuneration Committee and Keith Lough being appointed the Company's Senior Independent Director on the same date.

More information on this process can be found in the Nomination Committee Report on pages 66 and 67.

For the appointment of executive Directors, the Company enters into a Service Contract with the Director, which reflects the terms of employment, remuneration and termination, taking into account country of residence and applicable local employment laws. For more information on the Service Contracts of the current executive Directors, please see the 2017 Remuneration Committee Report located at [www.huntingplc.com](http://www.huntingplc.com).

On appointment, each non-executive Director is provided with a letter of appointment, outlining the time commitments, responsibilities and fiduciary duties required under Company Law and, following Company policy, are normally appointed for a three-year term. All appointment letters are available for inspection at the Company's AGM or at Hunting's registered office. Due to the small size of the Hunting Board, non-executive Directors are paid fees that are above the UK market median, reflecting a high level of time commitment required for Company matters.

As prescribed by the Code, all the Directors submit themselves for annual re-election at the Company's AGM and at the 2018 AGM all Directors were re-elected by shareholders. John Nicholas retired from the Board at the AGM and did not offer himself for re-election. As prescribed by the Company's Articles of Association, Carol Chesney and Keith Lough will automatically retire and offer themselves for re-appointment by shareholders at the 2019 AGM. All other Directors will also retire and offer themselves for re-election, as recommended by the UK Corporate Governance Code.

#### Board Induction and Training

As part of the formal induction process for Mrs Chesney and Mr Lough, internal briefings were organised to introduce key finance personnel, following their appointments. In addition, facility tours to the Group's operations in the UK and US were organised in the year, where key members of the Group's leadership team gave presentations on each operating segment.

As part of the Group's regular programme of investor relations, Mr Lough's induction to the role of Senior Independent Director included meeting with institutional shareholders in January 2019.

The Chairman also met with the non-executive Directors throughout the year to discuss and agree, among other matters, training and development.

#### Board Evaluation

Annually, the Directors undertake an internal annual evaluation of the Board and its Committees, which includes completion of a detailed questionnaire on the operation and governance responsibilities in relation to the Company's governance framework. Both the executive and non-executive Directors are appraised collectively and individually, with the results of the process reported to the Board through the Chairman.

In 2018, the Board organised its third externally facilitated Board effectiveness evaluation which was undertaken by Clare Chalmers Limited. The process involved the review of Board and Committee papers and individual Director interviews. Ms Chalmers submitted the findings from the process to the Chairman, which were reviewed by the Board at its December meeting. The Board noted these findings, including areas for further improvement, which had been noted during the external evaluation process. Further, this process will be repeated in 2021. Clare Chalmers has no other connection to the Company.

Overall, the Chairman and the Board as a whole concluded that each Director, the Committees of the Board and the Board itself remained effective.

Furthermore, in December 2018 the Chairman's performance was evaluated in a separate exercise by the non-executive Directors led by Keith Lough, the Company's Senior Independent Director. The non-executive Directors concluded that Mr Glick had been an effective and able Chairman of the Company.

### Board Accountability

The Board has procedures in place to review all shareholder communications, including the financial statements and Stock Exchange announcements issued by the Company. Hunting's business model and strategy is detailed on pages 28 to 43. The Board has delegated the responsibility of assessing whether the financial statements are fair, balanced and understandable to the Audit Committee. Further details of the responsibilities of the Audit Committee can be found within its report on pages 86 to 90.

### Executive Committee

The Hunting Executive Committee was formed in August 2018 comprising the executive Directors and regional Managing Directors of the Group. Profiles of each member of the Executive Committee are found on pages 56 and 58. Under its terms of reference, which have been published on the Hunting website, [www.huntingplc.com](http://www.huntingplc.com), the Committee meets four times a year. Key matters for consideration by the Committee include:

- operational reports from each Managing Director, covering the performance of each operating segment during the previous quarter and capital investments currently being undertaken;
- segmental financial performance in the year to date;
- Health and Safety performance, including consideration of issues that have arisen and any reportable HSE incidents which may have occurred;
- Quality Assurance performance;
- Internal Control and Risk Register review;
- Human Resources reports, including key data from the previous quarter;
- IT infrastructure performance, cyber security, data protection and planned investment;
- compliance initiatives, including bribery and corruption; and
- other legal matters.

The Chief Executive and Finance Director subsequently report these activities to the Board of the Company and on any issues which arise from the Executive Committee.

As noted in the Company's Half-Year Results, all members of the Executive Committee are determined to be PDMRs of the Group.

### Going Concern Basis and Viability Statement

The Audit Committee and Board review the Going Concern Basis twice a year and the Group's Viability Statement annually, in parallel with supporting reports from the executive Directors and Hunting's central finance function.

On 26 February 2019, the Board approved the Going Concern Basis and Viability Statement for the 2018 year-end, which is detailed on page 53.

### Risk Management Procedures

The Board acknowledges its responsibility for monitoring the Group's principal risks and system of internal control and for reviewing its effectiveness as required by the Code, with key authorities being delegated to the Audit Committee. At the Board's February 2018 meeting, the Directors completed a robust assessment and review of the Group's risk management framework and the principal risks facing the Company.

Hunting's principal risks, risk management framework and systems of internal control are reviewed by the Board annually and are detailed in the Strategic Report on pages 44 to 52.

### Annual General Meeting ("AGM")

The AGM of the Company will take place on Wednesday, 17 April 2019 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS, commencing at 10.30 a.m. to which all shareholders are invited. Shareholder voting procedures follow the provisions of the Articles of Association and the UK Corporate Governance Code, including a separate resolution on each material item of business, the availability of voting via proxy and the offer of a "vote withheld". At the 2019 AGM, all resolutions will be voted on by way of a poll. Further details of the resolutions and voting procedures are set out in the Notice of AGM.

Shareholders can vote by completing the form of proxy sent with the Notice of AGM, or by submitting votes electronically via the Registrars' website [www.sharevote.co.uk](http://www.sharevote.co.uk) or via their online portfolio service, Shareview, if they are registered as a member. Alternatively, shares held in CREST may be voted through the CREST Proxy Voting Service. To be valid, all votes must be received no later than 48 hours before the time set for the meeting.

The Directors have been authorised to allot and issue Ordinary shares and to disapply statutory pre-emption rights. These powers are exercised under authority of resolutions of the Company passed at its AGM. During the financial year ended 31 December 2018, 900,000 Ordinary shares were issued pursuant to the Company's various share plans.

The Company has authority, renewed annually, to purchase up to 14.99% of the issued share capital, equating to 24,609,623 shares. Any shares purchased will either be cancelled, and the number of Ordinary shares in issue reduced accordingly, or held in Treasury. As noted below, through the Group's Employee Share Trust, 750,000 Ordinary shares were purchased in the year, under this authority.

These powers are effective for 15 months from the date of shareholder approval, or up to the next general meeting where new authorities are sought. The Directors will be seeking a renewal for these powers at the 2019 AGM.

### Employee Share Trust

The Group operates an Employee Share Trust (the "Trust") as a vehicle to satisfy share options and awards granted to employees who participate in the Company's share-based incentive schemes. At 31 December 2018, the Trust held 1,247,672 Ordinary shares in the Company (2017 – 656,808). The Trust has a policy to purchase shares in the market or subscribe for new shares to partially meet the future requirements of these incentive schemes.

In April 2018, the Trust subscribed for 900,000 Ordinary shares at the nominal value of 25 pence per share, to partially satisfy vested awards under the HPSP.

Further, in November 2018 the Trust purchased 750,000 Ordinary shares in the Company to satisfy future HPSP share vestings.

In accordance with Listing Rule 9.8.4C, the Trust has waived all dividends payable by the Company and voting rights in respect of the Ordinary shares held by it. Total dividends waived by the Trust in the financial year to 31 December 2018 were \$21,259 (2017 – \$nil), based on 531,482 Ordinary shares being subject to this waiver.

### Non-Financial Information Directive

In compliance with the European Union's Non-Financial Information reporting directive, the Group has provided relevant information throughout the Strategic Report. The Directors' Report on page 65 provides details on the location of this information.

### Shareholders

The Company uses a number of processes for communicating with shareholders, including Stock Exchange announcements, the annual and half-year reports, webcasts, trading statements and the AGM to which all shareholders are invited. In addition, the Chief Executive and Finance Director meet on a one-to-one basis with principal shareholders at least twice a year, following the Group's annual and half-year results, or when requested to update them on Group performance and strategy. The Board is in turn briefed by the Chief Executive, when appropriate, on matters raised by shareholders.

In January 2019, the Chairman and Senior Independent Director met with a number of shareholders to discuss strategy, governance and other matters. Their comments were passed on to the Board by the Chairman. The non-executive Directors are also available to meet shareholders.

The Company's major shareholders, as at 31 December 2018, are listed below:

Notes	Number of Ordinary shares	Percentage of issued Ordinary shares
Franklin Resources group of companies	12,291,521	7.4
Hunting Investments Limited (1/4/5)	11,003,487	6.7
BlackRock (6)	9,350,395	5.7
JP Morgan Chase & Co	8,543,374	5.2
Slaley Investments Limited (5)	6,411,679	3.9
Lazard Asset Management	6,144,957	3.7
J Trafford – as trustee (2/5)	5,970,864	3.6
Dimensional Fund Advisors	5,967,545	3.6
Barclays group of companies	5,725,272	3.5
David RL Hunting (5)	194,120	0.1
– as trustee (2/5)	2,549,117	1.5
– other beneficial (3/5)	2,484,583	1.5

#### Notes:

1. Included in this holding are 9,437,743 Ordinary shares held by Huntridge Limited, a wholly owned subsidiary of Hunting Investments Limited. Neither of these companies is owned by Hunting PLC either directly or indirectly.
2. After elimination of duplicate holdings, the total Hunting family trustee interests shown above amount to 5,970,864 Ordinary shares.
3. Arise because David RL Hunting and his children are or could become beneficiaries under the relevant family trusts of which David RL Hunting is a trustee.
4. Richard H Hunting (non-executive Director of Hunting PLC) and David RL Hunting are both directors of Hunting Investments Limited.
5. In 2014, Hunting Investments Limited, Slaley Investments Limited, certain Hunting family members, including Richard H Hunting and David RL Hunting and the Hunting family trusts, to which James Trafford is a trustee (together known as "the Hunting Family Interests") entered into a voting agreement. The voting agreement has the legal effect of transferring all voting rights of Hunting PLC Ordinary shares held by the Hunting Family Interests to a voting committee. The beneficial ownership of Hunting PLC Ordinary shares remains as per the table shown above. At 28 February 2019, the Hunting Family Interests party to the agreement totalled 25,388,715 Ordinary shares in the Company, representing 15.4% of the total voting rights.
6. On 7 January 2019, BlackRock notified the Company that its holding has decreased to 5.7% of the issued share capital. Further, on 10 January 2019, BlackRock notified the Company that its holding was less than 5% of the issued share capital.

Further information on share capital can be found in note 30 and on page 168.

### Diversity

Hunting's approach to diversity is based on policies that promote prejudice-free decision making and are focused on ensuring the right person is attached to the right role, to further all stakeholder interests. The Group's diversity policy is located at [www.huntingplc.com/environment-and-society/our-people.aspx](http://www.huntingplc.com/environment-and-society/our-people.aspx). The policy commits Hunting to building a working environment in which all individuals are able to make best use of their skills, free from unfair discrimination, victimisation, harassment and/or bullying, and in which all appointments are based on merit. Further, the objectives of the policy focus on recruitment, training and development, conditions of work and disciplinary procedures.

# Corporate governance report continued

While there are no senior management diversity targets in place, all recruitment policies require fair and prejudice-free appointments, regardless of gender.

## Gender

Gender diversity data of Hunting's Board, senior management and workforce is noted below:

### Board

2

5

Male (71%) Female (29%)  
(2017 – Male 86% : Female 14%)

### Senior Management

21

221

Male (91%) Female (9%)  
(2017 – Male 91% : Female 9%)

### Workforce

590

2,182

Male (79%) Female (21%)  
(2017 – Male 79% : Female 21%)

Senior management, in the context of the chart above, is defined as an employee holding a senior position within the Group, and has management oversight of a key operational function. For further information on the Group's workforce please refer to page 32.

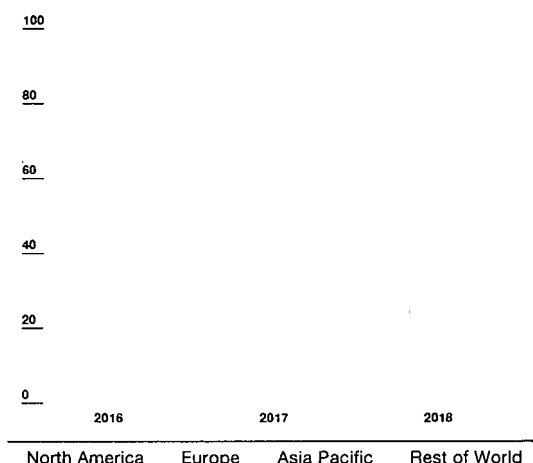
Further, the Board has noted the recommendations of the Hampton-Alexander and Parker Committees regarding gender diversity and ethnicity. Consideration to these recommendations will continue to be made as the Board is refreshed over the coming years. At 31 December 2018, the Executive Committee and direct reports to members of the Executive Committee (excluding the executive Directors) totalled 67 employees with a gender balance of 10% female and 90% male.

Further, the Board has noted the legislation to report on the Gender Pay Gap and CEO pay ratios for companies incorporated in the UK. Hunting confirms that none of the Group's UK-based companies meet the reporting thresholds.

## Ethnicity

Hunting's global operating footprint extends to 11 countries and, at 31 December 2018, employed 2,772 people. The Group remains North American focused with over 70% of employees from that region at 31 December 2018.

### Group ethnicity (%)



**John (Jay) F. Glick**  
Chairman

28 February 2019

## Directors' report

For the purpose of section 415 of the Companies Act 2006, the Directors present their report and the audited financial statements of Hunting PLC for the year ended 31 December 2018.

The Strategic Report, incorporating the Chairman's Statement, Chief Executive's Statement and Outlook, Market Review, Key Performance Indicators, Group Review, Segmental Review, Business Model and Strategy and Risk Management is located on pages 4 to 53. As permitted by legislation, the Board has chosen to set out within the Strategic Report some of the matters required to be disclosed in the Directors' Report, which it considers to be complementary to communicating Hunting's performance and position, as follows:

- changes in the Group and its interests (pages 14 to 18);
- future developments (page 7);
- risk management, objectives and policies (pages 44 to 47);
- bribery and corruption (page 34);
- employees (page 32);
- ethnicity and diversity (pages 63 and 64); and
- greenhouse gas emissions and environmental matters (page 37).

Up to the date of this report, there have been no post-balance sheet events that require disclosure.

In addition, information relating to the Directors' indemnity provisions, substantial shareholder interests and dividend waivers, as required by legislation, are disclosed within the Corporate Governance Report on pages 59 to 64. Investor-related information and further disclosures incorporated into the Directors' Report, such as information relating to the AGM, dividends, Directors' powers and interests, share capital, political donations, research and development and significant agreements, can be found within the Shareholders' Information section located on pages 167 to 169.

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and parent Company financial statements in accordance with IFRSs as adopted by the European Union. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group and parent Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Group and parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Confirmations

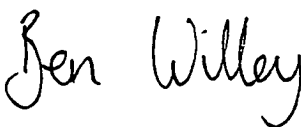
The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent Company's auditors are aware of that information.

### By order of the Board



**Ben Willey**  
Company Secretary

28 February 2019

## Nomination committee report

For the year ended 31 December 2018

**In 2018 the Committee's work focused on the recruitment of new non-executive Directors, following the planned retirement of John Nicholas and John Hofmeister, both of whom were appointed in 2009.**

**After a thorough search process, we were pleased to recommend to the Board the appointment of Carol Chesney and Keith Lough, which maintains the Board's strong governance and industry expertise required for the Company as it continues a new growth phase.**

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**John (Jay) F. Glick**  
Chair of the Nomination Committee

### Composition and Frequency of Meetings

The Committee currently comprises the Company Chairman and all the independent non-executive Directors of the Company and is chaired by John (Jay) Glick.

On 18 April 2018, John Nicholas retired from the Board and the Committee following completion of nine years' service as a Director.

On 23 April 2018, Carol Chesney and Keith Lough joined the Committee following their appointments as Directors.

On 30 August 2018, John Hofmeister also retired from the Board and the Committee following completion of nine years' service as a Director.

The Committee meets as required to discuss succession matters and to ensure that an orderly process of Board refreshing occurs.

In 2018, the Committee met three times, in February and April to consider and recommend new independent non-executive Directors, and in December to review its effectiveness.

The Committee operates under written terms of reference approved by the Board, which are published on the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

Attendance at the Nomination Committee meetings during the year is detailed in the table below:

	Member	Invitation
<b>Number of meetings held</b>	<b>3</b>	
<b>Number of meetings attended (actual/possible):</b>		
Annell Bay	3/3	–
Carol Chesney (from 23 April 2018)	1/1	–
Jay Glick (Committee Chair)	3/3	–
John Hofmeister (to 30 August 2018)	2/2	–
Richard Hunting	–	3/3
Jim Johnson	–	3/3
Keith Lough (from 23 April 2018)	1/1	–
John Nicholas (to 18 April 2018)	2/2	–
Peter Rose	–	3/3

### Re-appointment of Non-executive Director

In February 2018, Annell Bay was re-appointed for a second three-year term, following an evaluation process completed in December 2017.

### Appointment of New Non-executive Directors

In 2018, John Nicholas and John Hofmeister were both due to retire as Directors, following completion of nine years' service.

In anticipation of this, in H2 2017 the Committee commenced a process to recruit new independent non-executive Directors to succeed Messrs Nicholas and Hofmeister.



As part of the process, the Committee reviewed the skills profile required for the Company as the Group commenced a new phase of growth, following the industry downturn within the oil and gas sector, and also as the Group contemplated new governance recommendations published by the UK's Financial Reporting Council.

The Committee concluded that the Board needed to maintain its strong industry experience, given that the Group had successfully navigated the market depression between 2014 and 2017 and was now poised for new growth in its core markets. Additionally, the Committee reviewed the regulatory environment in which Hunting operated in, and also concluded that maintaining strong UK governance expertise was also imperative, as new initiatives were published in the year, to which Hunting is looking to comply fully over time. The Committee also recognised the need to maintain strong and relevant financial expertise, as recommended by the UK Corporate Governance Code.

The Committee engaged Boyden Associates to assist with the selection process, which culminated in candidate interviews with members of the Nomination Committee and with the wider Board. Boyden Associates does not have a connection with the Company aside from this brief.

Following a thorough process, the Nomination Committee recommended to the Board the appointment of Carol Chesney who brings strong financial and governance experience, given her Directorships at two other FTSE 350 companies, namely chairing the Audit Committees of Renishaw plc and Biffa plc. Keith Lough was also recommended to the Board for appointment, given his strong sector and financial experience, in particular with UK listed oil and gas exploration and production companies.

Mrs Chesney and Mr Lough were recommended for appointment by the Committee to the Board at its meeting on 17 April 2018, with both Directors joining the Board on 23 April 2018. Mrs Chesney assumed the role of Chair of the Audit Committee from this date. Mr Lough was appointed Senior Independent Director on 30 August 2018.

As noted elsewhere, Annell Bay was appointed Chair of the Remuneration Committee on 30 August 2018.

#### Senior Management Development and Succession

The Group appointed a global Chief Human Resources Officer during 2018. The new appointment will assist the executive Directors in furthering senior management development and succession, ensuring an appropriate pipeline of talent exists within the Group.

The Chief HR Officer will also develop reporting procedures to comply with the new principles contained within the revised UK Corporate Governance Code.

#### Board Evaluation

As noted in the Corporate Governance Report on pages 61 to 62, the Board undertook an externally facilitated Board evaluation in 2018. The process concluded that the skills and experience of the Directors was strong and appropriate for the size and profile of the Group.

#### Committee Effectiveness

At its December meeting the Committee reviewed its terms of reference and considered its effectiveness, concluding that its performance had been satisfactory during the year.

#### Gender Diversity

In 2012, the Company issued its gender diversity policy for new Director appointments. Hunting's diversity policy commits the Group to:

- an embedded culture of equal opportunities for all employees, regardless of gender;
- require external recruitment consultants to submit their diversity policies to the Group prior to appointment;
- ensure that external consultants appointed by Hunting provide candidate shortlists comprising of an appropriate gender balance for consideration by the Nomination Committee;
- a target of at least one female Director of the Company when practicable; and
- a periodic review by the Nomination Committee of its progress in complying with best practice recommendations.

Following the appointment of Annell Bay in 2015 and Carol Chesney in 2018, Hunting's Board comprises 29% of female Directors, which is close to the recommended UK gender target of 33%.



**John (Jay) F. Glick**  
Chair of the Nomination Committee

28 February 2019

# Remuneration committee report

For the year ended 31 December 2018

**In 2018 the Group received strong backing from shareholders for its revised Directors' Remuneration Policy, which has been applied throughout the year.**

**The levels of remuneration paid for the year reflect a strong return to growth for the Company, given the market momentum in the onshore US shale basins, leading to a financial performance well ahead of the Board's expectations, and exceeding the annual targets set at the start of the year.**

**The Committee will continue to listen to, and take into account, comments from shareholders and market regulators regarding management remuneration and seek to match reward with performance.**

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**Annell Bay**

Chair of the Remuneration Committee

## **Letter from the Chair of the Remuneration Committee**

### **Introduction**

On behalf of the Board I am pleased to present my first Remuneration Committee Report to shareholders for the year ended 31 December 2018. This letter provides a summary of the work completed by the Remuneration Committee ("the Committee") in the year, including the major decisions taken as it monitors executive remuneration and provides details on how the approved Directors' Remuneration Policy was implemented during the year. John Hofmeister retired as a Director in August 2018 and on behalf of the Board, I would like to thank John for his strong contribution as a Director, particularly over the past four years as Chair of the Remuneration Committee, where significant progress has been made in aligning Hunting's compensation practices to the evolving UK governance environment.

### **Major Decisions Made by the Committee**

**Implementation of new Policy:** At the Company's Annual General Meeting ("AGM") in April 2018, the Directors tabled a revised Directors' Remuneration Policy, which reflected a full review of the remuneration framework operated by the Company. New aspects of the revised Policy include the introduction of an annual bonus deferral mechanism, whereby a proportion of the annual bonus awarded to the executive Directors is converted into Ordinary shares in the Company, to be held for two years. The operation of the Hunting Performance Share Plan ("HPSP") was also amended to incorporate a two-year holding period on post-tax vested shares, which now means that Hunting's long-term incentive arrangements operate on a five-year time frame, as recommended by the new UK Corporate Governance Code. The Committee has also amended the performance conditions of both the annual bonus and HPSP, with a personal performance component being added to the annual bonus and a strategic scorecard being added to the HPSP. Shareholders gave strong support to these proposals, with the resolution to approve the new Policy receiving 99% votes in favour at the AGM.

**Base salary and fee review:** In April 2018 the Committee reviewed benchmarked base salary data, prepared by Mercer/Kepler ("Kepler"). Following discussion, the base salary of the Chief Executive remained unchanged and the base salary of the Finance Director was increased by 3%, with effect from 1 April 2018. This change in base salary was in line with the changes to Hunting's workforce pay for 2018. All future salary reviews will now take place in April each year.

In December 2017, the Board reviewed the fees paid to the non-executive Directors and the Chairman and following discussion, fees remained unchanged for 2018. In December 2018 the Committee reviewed benchmarked fee data for the Company Chairman and agreed a 5% increase to his annual fee to £183,750, effective from 1 January 2019. This was in line with the proposed average increase in workforce salaries.

**Annual bonus:** The Group's results continued to improve during 2018, driven by high completion activity levels within the US onshore shale basins. These activity levels led to strong increases in profitability within the Hunting Titan and US operating segments of the Group, with the annual targets set in December 2017 being materially exceeded. For the year ended 31 December 2018, underlying profit before tax ("PBT") was \$104.0m and underlying return on capital employed ("ROCE") was 9%. The annual targets agreed by the Board contained within the Group's Annual Budget were PBT of \$49.0m and ROCE of 4%. As both these key performance indicators exceeded the maximum targets set for 2018, a full vesting of these performance conditions was recorded.

Following the introduction of the revised annual bonus plan arrangements in April 2018, 20% of the bonus is based on the delivery of personal performance objectives set by the Committee. In February 2019 the Committee met to discuss the delivery of these targets and as noted on pages 80 and 81 of this report, the Committee agreed that each executive Director had delivered on their respective personal objectives in full and agreed to award a full vesting of this portion of the annual bonus.

Mr Johnson was therefore awarded an annual bonus of \$1.4m and Mr Rose was awarded \$651k. As required by the amended Directors' Remuneration Policy, 25% of the post-tax value of these awards will be converted to Ordinary shares in the Company to be held by the executive Directors for a minimum of two years.

**Vesting of HPSP Awards:** On 25 February 2019, the Committee reviewed the final vesting report for the 2016 share awards granted under the HPSP. Given the improved profitability of the Group through the three-year performance period, a full vesting of the EPS performance condition was recorded. Further, a nil vesting of the ROCE performance condition was recorded. The TSR performance condition was independently measured resulting in a top quartile ranking against Hunting's peer group comprising of 14 companies leading to a full vesting of this portion of the 2016 grant.

Peter Rose, as an executive Director on the date of grant, will be entitled to receive 111,328 Ordinary shares on 11 March 2019, being the vesting date of the 2016 award, which reflects a 66.7% vesting of the performance conditions noted above.

Jim Johnson, serving as Chief Operating Officer below Board on the date of grant, was subject to a fourth performance condition, based on the Group's internal manufacturing reject rate performance over the three-year period. This recorded a full vesting. Based on this outcome, Mr Johnson's 2016 award will record a 75.0% vesting, and he will be entitled to receive 179,745 Ordinary shares on the vesting date.

Dividends paid by the Company during the performance period, totalling 8.0 cents per share, will be added to the final award, in line with the rules of the HPSP.

#### 2018 AGM Result

As noted above, at the Company's AGM held on 18 April 2018, the Company received 99% votes in favour of the resolution to approve a new Directors' Remuneration Policy.

The Company also received 76% votes in favour of the resolution to approve the 2017 Annual Report on Remuneration. The Committee and the Hunting Board has considered the votes received in respect of the Annual Report on Remuneration, and given that the lower level of shareholder support was attributed to legacy remuneration arrangements in relation to the Group's former Chief Executive, the Committee considers the matter has been fully addressed with no further actions planned by the Board.

#### Context of Remuneration Awarded in 2018

The Group's strong performance in the year, as noted above, has led to an "Above Target" vesting of the annual bonus and HPSP. The single figure remuneration paid to Jim Johnson was therefore \$3.7m in 2018 (2017 – \$819k) and the remuneration paid to Peter Rose was \$2.1m (2017 – \$1.4m).

#### Activities Undertaken by the Remuneration Committee During 2018

The Committee's principal activities and matters addressed during 2018 are as follows:

	Feb	Apr	Aug	Dec
<b>Overall remuneration</b>				
Annual base salary review			✓	
Review senior management emoluments		✓		
Review total remuneration against benchmarked data			✓	
<b>Items specific to annual bonus</b>				
Approve annual bonus including delivery of personal performance targets		✓		
Review Annual Bonus Plan Rules				✓
Agree personal performance targets for year ahead				✓
<b>Items specific to long-term incentives</b>				
Approve HPSP vesting and new annual grant		✓		
Review HPSP performance conditions			✓	
Review HPSP grant performance targets				✓
<b>Governance and other matters</b>				
Approve Annual Report on Remuneration		✓		
Review and approve Remuneration Policy		✓		
Review governance voting reports			✓	
Review AGM proxy votes received for Annual Statement of Remuneration and Policy				✓
Review Committee Effectiveness and Terms of Reference				✓



**Ansell Bay**  
Chair of the Remuneration Committee

28 February 2019

# Remuneration at a glance

### Remuneration Policy

A summary of the Directors' Remuneration Policy is found on pages 72 to 76. The Policy was approved by shareholders on 18 April 2018, following a comprehensive review of Hunting PLC's remuneration framework in 2017. As part of the deliberations of the Committee, feedback and recommendations from major institutional shareholders were incorporated into the revised Policy, particularly in respect to the weightings of KPIs within the short- and long-term incentive structures.

The results of the remuneration-related resolutions at the Company's 2018 Annual General Meeting are noted on page 77 of the Annual Report on Remuneration, with a 99% approval gained for the new Policy.

### Link to Strategy and KPIs

The Group's Key Performance Indicators are noted on pages 12 to 13 and include financial measures including profit before tax, return on capital employed and net earnings growth. Non-financial measures were incorporated into HPSP awards in 2018 and include the Group's Quality Assurance and Safety performance. Both these metrics underpin Hunting's standing and reputation in the global energy industry and supports the Group's long-term strategy.

The Company's chosen financial and non-financial KPIs are therefore central to measuring Hunting's long-term success and are fully integrated into the remuneration framework approved by shareholders. The Committee also believes that these KPIs fully align executive remuneration to the broader shareholder experience.

### Fixed Pay

Jim Johnson was appointed Chief Executive on 1 September 2017, therefore his single figure remuneration for 2018 reflects his first, full year in the role. Benefits and pension arrangements for both the Chief Executive and Finance Director were materially unchanged during the year, however, the base salary of the Finance Director was increased 3% from 1 April 2018, in line with changes across the wider workforce. Given this increase was implemented part way through the year, the actual period-on-period increase was 2.2%.

### Company Performance Summary

The performance of the Group in the year, as noted in the Letter from the Chair of the Remuneration Committee, reported a strong return to growth compared to 2017 with results significantly exceeding the Annual Budget agreed in December 2017.

This performance, coupled with a top quartile TSR performance when benchmarked to its industry peers provides the basis of the remuneration paid in the year.

### Annual Bonus Policy

The annual bonus combines profit before tax, return on capital employed and personal performance targets as the basis of the short-term awards to the executive Directors.

Profit before tax (1-year)	ROCE (1-year)
<b>\$104.0m</b>	<b>9%</b>
212% of target	207% of target

### Annual Bonus

The underlying target PBT and ROCE performance, as agreed by the Board in December 2017, was \$49.0m and 4% respectively. Achieved PBT and ROCE was \$104.0m and 9% or 212% and 207% of budget, leading to a maximum vesting for the financial targets. The Committee set personal performance targets for both the Chief Executive and Finance Director and, as noted on pages 80 and 81 of the Annual Report on Remuneration, both executives achieved a full vesting. Based on these outcomes, the bonuses paid to the Chief Executive and Finance Director are \$1.4m and £488k (\$651k) respectively.

Chief Executive	Finance Director
<b>\$700k</b>	<b>£323k</b>
Unchanged	+2%

Chief Executive	Finance Director
<b>\$1,400k</b>	<b>£488k</b>
-8%	+3%

**Long-term Incentive Policy**

The Group's 2016 long-term incentive arrangements incorporated EPS, ROCE and TSR performance targets over a three-year period, divided equally into a one-third portion for each performance metric.

Relative TSR (3-year)	Diluted EPS growth (3-year)	Average ROCE (3-year)
<b>33%</b>	<b>33%</b>	<b>33%</b>

**Hunting Performance Share Plan**

As noted above, the 2016 awards to the executive Directors were based on the three performance conditions. The outcomes are presented below:

TSR (3-year)	EPS (3-year)
<b>Top quartile</b> 100% vesting	<b>152%</b> growth 100% vesting
ROCE (3-year)	Internal manufacturing reject rate (3-year)*
<b>0.9%</b> 0% vesting	<b>0.4%</b> 100% vesting

\* Jim Johnson's 2016 HPSP was granted when he was Chief Operating Officer, with his award being subject to four equally weighted performance conditions.

On this basis, 66.7% of the share awards to Peter Rose will vest and he will receive 111,328 Ordinary shares.

Jim Johnson's 2016 award (which was granted before his promotion to the Board) incorporated a fourth performance condition, based on the internal manufacturing reject rate, which has vested in full. Mr Johnson's award will therefore vest at 75.0% and he will receive 179,745 Ordinary shares.

Dividends paid by the Company during the vesting period, totalling 8.0 cents per share, will be added to the award.

Chief Executive	Finance Director
<b>179,745</b> Shares will vest	<b>111,328</b> Shares will vest

**Shareholder Experience**

Total shareholder return is measured and ranked against a peer group of 14 companies, all focused on upstream oil and gas services. For the three years ended 31 December 2018, Hunting had a top quartile ranking with a TSR of +79%, compared to the peer group median performance of 16%.

**Pay Scenarios****Chief Executive**

Maximum	16%	26%	58%	\$5,427k
Target	28%	22%	50%	\$3,152k
Fixed	100%			\$877k

**Finance Director**

Maximum	27%	31%	42%	\$2,136k
Target	42%	24%	34%	\$1,354k
Fixed	100%			\$570k

Fixed	Annual Bonus	HPSP
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**Pay In the Year Summary**

The remuneration outcomes for the executive Directors are therefore as follows:

Chief Executive		Finance Director	
\$1,438k	\$877k	\$691k	\$570k
\$3,715k			\$2,112k
	\$1,400k		\$651k
Fixed	Annual Bonus	HPSP	

This executive Director remuneration outcome is "Above Target" in respect to the scenarios table noted above.

# Directors' remuneration policy summary

## Policy Overview

The Hunting PLC Directors' Remuneration Policy (the "Policy"), was approved by shareholders on 18 April 2018, following a comprehensive review of the Directors' Remuneration framework in 2017. The full Policy can be found at [www.huntingplc.com/investors/corporate-governance](http://www.huntingplc.com/investors/corporate-governance). The Policy reflects evolutionary changes consulted on with shareholders including simplification of the Annual Bonus Plan through the removal of the personal performance adjustor, and the introduction of best practice features such as annual bonus share deferral and a holding period on vested HPSP shares. The Policy is designed to comply with the principles of the UK Corporate Governance Code and the Companies Act 2006 regarding remuneration and to ensure that the Company can attract, retain and motivate talented executive Directors to promote and deliver long-term success for the Group. The package comprises fixed and variable incentives and is structured to link total reward to both corporate and individual performance.

The remuneration structures of the Chief Executive and Finance Director are based on externally benchmarked data aimed at providing them with competitive levels of remuneration. The Chief Executive's remuneration is benchmarked to global peers who are mostly headquartered in the US, while the Finance Director is benchmarked to UK listed companies of similar size.

Non-executive Director fees are set at levels that take into account the time commitment and responsibilities of each role. Given the small size of the Hunting Board, each non-executive Director is required to give an above average time commitment to Group matters. The non-executive Directors do not receive cash bonuses or other variable emoluments. The fees are benchmarked to other companies of a similar size, profile and profitability and are reviewed annually by the executive Directors. The Chairman's fee is set by the Remuneration Committee. The Policy tables which follow below provide an overview of each element of the Directors' Remuneration Policy.

## Remuneration Committee Discretion

The Committee has defined areas of discretion within the Directors' Policy framework. Where discretion is applied, the Committee will disclose the rationale for the application of discretion. The Committee will operate the Annual Bonus Plan and HPSP in accordance with the relevant plan rules and this Policy. The Committee retains discretion as to the operation and administration of these plans as follows:

### Annual Bonus

- Discretion to adjust the amount of any bonus to reflect any fact or circumstance that the Committee considers to be relevant, and to ensure that the outcome is a fair reflection of performance.
- The assessment of part-year performance in the event of the exit of a Director, including but not limited to, reviewing forecast financial performance of the Group and the outlook of the business in the context of wider market conditions. Bonus awards for good leavers will generally be pro-rated for the proportion of the performance period completed.
- The Committee may apply discretion to vary the percentage of an award settled in cash or shares.

### HPSP

- Selection of the TSR comparator group for the HPSP. The Committee reviews the comparator group annually ahead of each grant made to the executive Directors under the HPSP. The Committee also retains the discretion to make adjustments to the comparator group for subsisting awards if it believes that a constituent of the comparator group has distorted the vesting outcome if, for example, a constituent company has been subject to a material corporate action.
- The Committee may amend the performance conditions applying to an award in exceptional circumstances if the new performance conditions are considered fair and reasonable, and are neither materially more nor materially less challenging than the original performance conditions when set. The oil and gas industry is a highly cyclical industry, where sentiment is driven by oil and gas commodity prices and activity levels across the industry. Given that these market conditions are outside management's control, the Committee retains the discretion to partially adjust the performance targets of the performance conditions adopted for the HPSP, to align with the general market outlook, while continuing to be a demanding and stretching incentive. Any upward discretion would be subject to prior shareholder consultation.

### Other

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the Policy outlined above where the terms of the payment were agreed either:

- before the Policy came into effect; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

## Relevance to Employee Pay

The Policy tables summarise the remuneration structure that operates within Hunting and which also applies to senior executives of the Group. While bonus and pension arrangements are in place for most of the Group's employees, lower aggregate remuneration operates at below the executive Director and senior manager level, with total remuneration driven by market comparatives and the individual responsibilities of each role.

## Consideration of Employment Conditions Elsewhere in the Group

The Committee considers the general basic salary increases for the broader employee population when determining the annual salary increases for the executive Directors. Employees have not been consulted in respect of the design of the Company's senior executive remuneration policy.

## Other Information

Details of the terms of employment of the Directors, including Service Contracts, Letters of Appointment, New Director Recruitment and Leaver Policies are located in the 2017 Annual Report and Accounts and on the Company's website at [www.huntingplc.com](http://www.huntingplc.com). Jim Johnson and Peter Rose have a one-year notice period contained within their respective Service Contracts. Further, while Mr Johnson and Mr Rose do not hold any external directorships, the shareholder approved Directors' Remuneration Policy makes provision for them to retain any fees for such directorships.

## Executive Director Remuneration Policy Table

### Fixed Emoluments

#### Base Salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>To attract, retain and reward executives with the necessary skills to effectively deliver the Company strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Base salaries are set at competitive rates, which take into account the individual's country of residence and primary operating location as well as pay for comparable roles in comparable companies.</li> <li>Aimed at the market mid-point.</li> <li>Annual increases take into account company performance, inflation in the UK, US and increases across the wider workforce.</li> <li>Relocation and tax equalisation agreements are also in place for employees working across multiple geographic jurisdictions.</li> </ul>	<ul style="list-style-type: none"> <li>There is no prescribed maximum annual increase. Increases will normally be guided by the general increase for the broader employee population, but on occasions may need to recognise, for example, development in role, change in responsibility, and/or specific retention issues.</li> </ul>	<ul style="list-style-type: none"> <li>Individual and Group performance are taken into account when determining appropriate salaries.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>

#### Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>To provide normal pension schemes appropriate to the country of residence.</li> </ul>	<ul style="list-style-type: none"> <li>The Group contributes on behalf of the Chief Executive (currently resident in the US), to a US 401K deferred savings plan and an additional deferred compensation scheme.</li> <li>The Finance Director (currently resident in the UK) receives an annual cash sum in lieu of contributions to a company pension scheme.</li> <li>Additional benefits may be provided to ensure the Group remains competitive within the relevant local market.</li> </ul>	<ul style="list-style-type: none"> <li>Pension contributions vary based on individual circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>

## Directors' remuneration policy summary continued

### Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>To provide normal benefits appropriate to the country of residence.</li> </ul>	<ul style="list-style-type: none"> <li>Each executive Director is provided with healthcare insurance and the option of a company car with fuel benefits.</li> <li>Additional benefits may be provided to ensure the Group remains competitive within the relevant local market.</li> </ul>	<ul style="list-style-type: none"> <li>There is no maximum value set on benefits. They are set at a level that is comparable to market practice.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>

### Variable Emoluments

#### Annual Bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>To incentivise annual delivery of financial and operational targets.</li> <li>To provide a high reward potential for exceeding demanding targets.</li> </ul>	<ul style="list-style-type: none"> <li>Awards are subject to the Annual Bonus Plan rules adopted by the Board in 2010 and amended in 2018.</li> <li>Bonus begins to accrue when 80% of the Annual Budget targets are achieved and increases on a straight-line basis to a maximum when 120% of Budget is achieved.</li> <li>For an on-target performance, defined as actual results equal to the Budget, the Chief Executive is paid 100% of base salary and the Finance Director is paid 75% of base salary.</li> <li>25% of the post-tax value of the annual bonus is payable in Hunting shares. These shares are required to be held for two years from the vesting date.</li> <li>Malus and clawback provisions are incorporated and allow the Committee to reduce the bonus, potentially down to zero, in cases of material financial misstatement, calculation error or gross misconduct.</li> </ul>	<ul style="list-style-type: none"> <li>The Chief Executive and Finance Director have a maximum annual bonus opportunity of 200% and 150% of salary, respectively.</li> </ul>	<ul style="list-style-type: none"> <li>The annual bonus is based 60% on underlying PBT, 20% on underlying ROCE and 20% on the delivery of Personal/Strategic objectives.</li> <li>The vesting of the Personal/Strategic component is subject to a financial underpin. Should the financial targets not be met, a 50% vesting cap of the Personal/Strategic component will be implemented.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>



## Hunting Performance Share Plan ("HPSP")

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>- To align the interests of executives with shareholders in growing the value of the business over the long term.</li> </ul>	<ul style="list-style-type: none"> <li>- The HPSP provides for annual awards of performance shares or nil cost options to eligible participants.</li> <li>- Vesting is based on a three-year performance period.</li> <li>- On vesting, awards are subject to an additional two-year holding period (subject to settlement of any tax charges on vesting).</li> <li>- Awards are subject to clawback and malus provisions.</li> <li>- The Committee has the ability to exercise discretion to override the HPSP outcome in circumstances where strict application of the performance conditions would produce a result inconsistent with the Company's remuneration principles. Any upward discretion would be subject to prior shareholder consultation.</li> </ul>	<ul style="list-style-type: none"> <li>- Chief Executive: 550% of base salary.</li> <li>- Finance Director: 450% of base salary.</li> <li>- The policy limit provides the Committee with flexibility in cases such as recruitment.</li> <li>- The Committee has set the current award levels for the Chief Executive and Finance Director of 450% and 210% of salary, respectively and does not currently intend to increase these.</li> <li>- Achievement of a threshold performance target results in a 25% vesting for any portion of the award.</li> </ul>	<ul style="list-style-type: none"> <li>- Awards vest on achievement of financial and strategic performance measures, measured over a three-year performance period.</li> <li>- Financial measures include EPS, ROCE and TSR and receive an aggregate weighting of 85% of each award. A fourth measure, in the form of a Strategic Scorecard, comprising a number of sub-measures, having an aggregate weighting of 15% of each award.</li> <li>- HPSP awards are based 35% on ROCE, 25% on EPS, 25% on relative TSR and 15% on a Strategic Scorecard. The Scorecard measures for 2018 include the Group's Quality Assurance and Safety outcome across the performance period.</li> </ul>	<ul style="list-style-type: none"> <li>- None.</li> </ul>

## Minimum Stock Ownership Requirement

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
<ul style="list-style-type: none"> <li>- To encourage the retention of shares under award to the executive Directors.</li> <li>- To align the long-term interests of the executive with shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>- Directors have five years to achieve the required holding level from the date of their appointment to the Board.</li> <li>- The Board has discretion to extend this time period if warranted by individual circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>- The target holding of the Chief Executive is equal to the market value of 500% of base salary and for the Finance Director 200% of base salary.</li> </ul>	<ul style="list-style-type: none"> <li>- None.</li> </ul>	<ul style="list-style-type: none"> <li>- None.</li> </ul>

## Directors' remuneration policy summary continued

### Non-executive Director Remuneration Policy Table

The remuneration of the non-executive Directors is designed to reflect the time and commitment of each to their respective roles.

#### Chairman and Non-executive Director Fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
– To attract and retain high-calibre non-executive Directors by offering a market competitive fee.	<ul style="list-style-type: none"> <li>– Fees for the Chairman and non-executive Directors are determined by the Board as a whole, following receipt of external fee information and an assessment of the time commitment and responsibilities involved.</li> <li>– The Chairman is paid a single consolidated fee of £183,750 (\$245,000) for his responsibilities including chairing the Nomination Committee.</li> <li>– The non-executive Directors are paid a basic fee of £60,000 (\$80,000).</li> <li>– The Directors who chair the Board's Audit and Remuneration Committees and the Senior Independent Director are paid an additional fee of £10,000 (\$13,333) to reflect their extra responsibilities.</li> <li>– The non-executive Directors and Chairman do not participate in the Group's share plans and do not receive a cash bonus or any other benefits.</li> </ul>	<ul style="list-style-type: none"> <li>– Fees paid to the non-executive Directors are benchmarked to other UK companies of a similar size and profile to the Group.</li> <li>– Given the small size of the Board, each non-executive Director is expected to give an above average time commitment to Group matters and fees are based on this increased commitment.</li> <li>– The Company's Articles of Association prescribe aggregate maximum fees for all non-executive Directors which is set at £750,000 (c.\$1.0m).</li> </ul>	– None.	– None.

#### Minimum Stock Ownership Requirement

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Change to policy for 2019
– To align the non-executive Directors' interests with the long-term interests of shareholders.	– Non-executive Directors are required to build up a holding of shares in the Company and have five years to achieve the required holding level from the date of their appointment to the Board.	– The target holding for the Chairman and non-executive Directors is equal to 100% of the annual fee.	– None.	– None.



**Annell Bay**  
Chair of the Remuneration Committee

28 February 2019

# Annual report on remuneration

## Introduction

The principles set out in the Directors' Remuneration Policy (the "Policy"), approved by shareholders in April 2018, have been applied throughout the year. The new Policy incorporates the following changes:

- the addition of a Personal Performance measure to the annual bonus, whereby up to 20% of the bonus is awarded, subject to the satisfactory delivery of objectives set by the Remuneration Committee (the "Committee") during the year;
- the performance measures of the annual bonus have been re-weighted, following consultation with major institutional investors, with the 2018 award based up to 60% on underlying Profit Before Tax ("PBT"); up to 20% on Return on Capital Employed ("ROCE"), and up to 20% on Personal Performance;
- the introduction of a share deferral mechanism to the annual bonus, whereby 25% of the post-tax value of the bonus is delivered to the executive Directors in Hunting shares, to be held for two years;
- the addition of a Strategic Scorecard to the Hunting Performance Share Plan ("HPSP"), whereby key non-financial performance indicators are measured, with the scorecard being up to 15% of the value granted annually to the executive Directors; and
- the performance measures of the HPSP have been re-weighted, following consultation with major institutional investors, with the 2018 grant based on 25% – Total Shareholder Return; 35% – Return on Capital Employed; 25% – Earnings Per Share; and 15% – Strategic Scorecard; and the addition of a two-year holding period for post-tax vested shares awarded under the HPSP.

Variable emoluments granted to the executive Directors from 2018 have therefore been based on this revised framework, with the outcomes recorded throughout this report.

## Role, Membership and Attendance

The Committee is responsible for setting the remuneration of the executive Directors and the Company Chairman. The Chairman and Chief Executive are consulted on proposals relating to the remuneration of the Finance Director and designated senior management. Where appropriate, the Chairman and other Directors are invited by the Committee to attend meetings, but are not present when their own remuneration is considered. The remuneration of the non-executive Directors is agreed by the Board as a whole. The full scope of the role of the Committee is set out in its terms of reference, which are reviewed annually, and can be found on the Group's website at [www.huntingplc.com](http://www.huntingplc.com). The Committee consists entirely of independent non-executive Directors. The Committee met four times during the year and attendance details are shown in the table below.

	Member	By invitation
<b>Number of meetings held</b>	<b>4</b>	
<b>Number of meetings attended (actual/possible):</b>		
Annell Bay (Committee Chair – from 30 August 2018)	4/4	–
Carol Chesney (from 23 April 2018)	2/2	–
Jay Glick	–	4/4
John Hofmeister (Committee Chair – to 30 August 2018)	3/3	–
Richard Hunting	–	4/4
Jim Johnson	–	4/4
John Nicholas (to 18 April 2018)	2/2	–
Keith Lough (from 23 April 2018)	2/2	–
Peter Rose	–	4/4

John Nicholas retired as a Director and member of the Committee on 18 April 2018. Carol Chesney and Keith Lough joined the Committee following their appointment as Directors of the Company on 23 April 2018. John Hofmeister retired as a Director and Chair of the Remuneration Committee on 30 August 2018, following completion of nine years' service. Annell Bay succeeded Mr Hofmeister as Chair of the Committee on the same date. At 31 December 2018 and up to the date of signature of the accounts, the members of the Committee and their unexpired term of office were:

Director	Latest appointment date	Unexpired term as at 28 February 2019
Annell Bay	2 February 2018	23 months
Carol Chesney	23 April 2018	26 months
Keith Lough	23 April 2018	26 months

## Shareholder Voting at the 2018 AGM

At the AGM of the Company held in April 2018, the resolutions to approve the Directors' Remuneration Policy and Annual Report on Remuneration received the following votes from shareholders:

	Directors' Remuneration Policy		Annual Report on Remuneration	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	134,833,215	98.92	102,139,351	75.71
Against	1,466,059	1.08	32,768,195	24.29
Votes withheld <sup>i</sup>	517,307	–	1,909,035	–
<b>Total votes cast</b>	<b>136,816,581</b>	<b>100.00</b>	<b>136,816,581</b>	<b>100.00</b>

i. A vote withheld is not a vote in law and is not included in the calculation of the % of votes cast.

The Committee and Board noted the number of votes against received for the resolution to approve the Annual Report on Remuneration. Given the feedback from shareholders, the Board believe that the reduced level of support related to the remuneration paid to the Group's former Chief Executive in 2017, which were in line with the Directors' Remuneration Policy and the legacy clauses contained in his Service Contract. The Board believes that these matters have been fully resolved, with no further actions planned.

# Annual report on remuneration continued

## Director Remuneration (audited)

	Fixed remuneration				Variable remuneration				Total remuneration 2018
	Base salary/fees <sup>i</sup> \$000	Benefits <sup>ii</sup> \$000	Pension <sup>iii</sup> \$000	Sub total \$000	Annual cash bonus <sup>iv</sup> \$000	HPSP awards <sup>vi</sup> \$000	Sub total \$000	Other remuneration <sup>vii</sup> \$000	
<b>2018</b>									
<b>Executives</b>									
Jim Johnson	700	51	126	877	1,400	1,438	2,838	–	3,715
Peter Rose	431	31	108	570	651	891	1,542	–	2,112
<b>Non-executives</b>									
Annell Bay <sup>ix</sup>	84	–	–	84	–	–	–	–	84
Carol Chesney (from 23 April) <sup>x</sup>	64	–	–	64	–	–	–	–	64
Jay Glick <sup>xi</sup>	233	–	–	233	–	–	–	–	233
John Hofmeister (to 30 August) <sup>xii</sup>	71	–	–	71	–	–	–	–	71
Richard Hunting <sup>xiii</sup>	80	–	–	80	–	–	–	–	80
Keith Lough (from 23 April) <sup>xiv</sup>	60	–	–	60	–	–	–	–	60
John Nicholas (to 18 April) <sup>xv</sup>	28	–	–	28	–	–	–	–	28
<b>Total</b>	<b>1,751</b>	<b>82</b>	<b>234</b>	<b>2,067</b>	<b>2,051</b>	<b>2,329</b>	<b>4,380</b>	<b>–</b>	<b>6,447</b>
	Fixed remuneration				Variable remuneration				Total remuneration 2017
	Base salary/fees <sup>i</sup> \$000	Benefits <sup>ii</sup> \$000	Pension <sup>iii</sup> \$000	Sub total \$000	Annual cash bonus <sup>iv</sup> \$000	HPSP awards <sup>vi</sup> \$000	Sub total \$000	Other remuneration <sup>vii</sup> \$000	
<b>2017 (restated)</b>									
<b>Executives</b>									
Jim Johnson (from 1 September)	233	16	42	291	467	61	528	–	819
Dennis Proctor (to 1 September)	524	65	120	709	1,047	530	1,577	1,688	3,974
Peter Rose	407	32	148	587	610	191	801	–	1,388
<b>Non-executives</b>									
Annell Bay	77	–	–	77	–	–	–	–	77
Jay Glick	126	–	–	126	–	–	–	–	126
John Hofmeister	103	–	–	103	–	–	–	–	103
Richard Hunting	112	–	–	112	–	–	–	–	112
John Nicholas	90	–	–	90	–	–	–	–	90
<b>Total</b>	<b>1,672</b>	<b>113</b>	<b>310</b>	<b>2,095</b>	<b>2,124</b>	<b>782</b>	<b>2,906</b>	<b>1,688</b>	<b>6,689</b>

### Notes:

- Jim Johnson was appointed Chief Executive on 1 September 2017, with an annual base salary of \$700,000. During 2018, Mr Johnson's base salary remained unchanged. On 1 April 2018, Mr Rose's base salary was increased by 3% to £325,532 (\$434,032) in line with salary increases implemented across the Group. The average £:\$ exchange rate in the year was 1.3333 (2017 – 1.2877).
- Benefits include the provision of healthcare insurance, a company car and fuel benefits.
- Jim Johnson's and Dennis Proctor's single figure pension remuneration represents Company contributions payable to their US pension arrangements. Peter Rose's pension figure represents a cash sum in lieu of Company pension contribution, which is set at 25% of his annual base salary.
- As noted in the Letter from the Chair of the Remuneration Committee, the operation of the annual bonus was revised during 2018, following approval of the new Directors' Remuneration Policy in April 2018. The financial targets for the bonus were set in December 2017 as part of the Annual Budget process, and the personal performance targets were confirmed with the executive Directors in January 2018. Given the strong performance of the Company during 2018, and as noted below, all targets set with the executive Directors were met, leading to a maximum vesting of the annual bonus. Jim Johnson was therefore awarded a bonus of \$1.4m, and Peter Rose was awarded \$651k. Under the revised rules of the Annual Bonus Plan, 25% of the post-tax value of the bonus is to be delivered to the executive Directors in Hunting shares. In the year, Jim Johnson received a bonus totalling \$466,690, reflecting his period of service as Chief Executive from 1 September 2017 and Peter Rose received a bonus totalling \$610,466. Dennis Proctor's bonus reflected a maximum payout, pro-rated for his period of service to 1 September 2017, totalling \$1,047,467.
- The share awards granted in 2016 under the HPSP had a three-year performance period to 31 December 2018. The awards were measured on this date against the performance conditions, with a 100% vesting recorded for the EPS performance condition and a nil vesting for the ROCE performance condition. The TSR performance condition was measured by Kepler in line with the HPSP rules, which resulted in a 100% vesting of this portion of the award. As an executive Director on the date of grant, Peter Rose will receive 111,328 Ordinary shares based on a 66.7% vesting. Jim Johnson's award was made when he was Chief Operating Officer and incorporated a fourth performance condition based on the Group's internal manufacturing reject rate. This performance condition has also vested in full, therefore Mr Johnson's 2016 award will vest at 75.0% and he will receive 179,745 shares. For the purposes of the single figure calculation, the average mid-market closing price of £6.16 during Q4 2018 has been applied to the number of vested shares and converted to \$ using the average £:\$ exchange during Q4 2018, being \$1.2865. Further, a cash payment equaling the dividends paid during the vesting period has been added to the single figure calculation, totalling 8.0 cents per vested share. The vesting date of the 2016 award is 11 March 2019, when the final values of the awards will be determined.
- The 2015 awards under the HPSP had a three-year performance period to 31 December 2017. The awards were measured on this date against the performance conditions, with a nil vesting recorded for the EPS and ROCE performance metrics. The TSR performance condition was measured by Kepler in line with the HPSP rules, which resulted in a 49% vesting of this portion of the award granted. On this basis, Jim Johnson received 24,733 shares; Peter Rose received 17,234 shares and Dennis Proctor received 47,579 shares. The vesting date of the 2015 award was 30 April 2018. The market price of a Hunting PLC Ordinary share on 30 April 2018 was £8.00 and converted to \$ using the spot rate of \$1.3527. Further, a cash payment equaling the dividends paid during the vesting period was added to the single figure calculation, totalling 30.9 cents per vested share. The value of Jim Johnson's 2015 HPSP award included in the single figure table has been pro-rated for his time as an executive Director being 1 September 2017 to the date of vesting. The 2017 single figure table has been restated to reflect the actual values of the awards made to the executive Directors.
- Following Dennis Proctor's retirement from the Group on 1 September 2017, a payment of \$1,688,350 was made reflecting a payment in lieu of notice and other legal entitlements due under US employment law.
- Annell Bay was appointed Chair of the Remuneration Committee from 30 August 2018, with her 2018 fees increasing to reflect this additional responsibility.
- Carol Chesney was appointed as a Director and Chair of the Audit Committee on 23 April 2018 with an annual fee of £70,000 (\$93,331).
- Jay Glick was appointed Company Chairman on 1 September 2017 with his annual fee increasing to £175,000 (\$233,328). Mr Glick does not receive any additional fee for chairing the Nomination Committee.
- John Hofmeister retired as a Director, Senior Independent Director and Chair of the Remuneration Committee on 30 August 2018.
- Richard Hunting retired as Company Chairman on 1 September 2017, with his annual fee reducing to £60,000 (\$80,000).
- Keith Lough was appointed as a Director on 23 April 2018 and subsequently Senior Independent Director on 30 August 2018, with an annual fee of £70,000 (\$93,331).
- John Nicholas retired as a Director and Chair of the Audit Committee on 18 April 2018.

The remuneration of Peter Rose and the non-executive Directors is originally denominated in Sterling and is as follows:

	Fixed remuneration				Variable remuneration				Other remuneration	Total remuneration
	Base salary/ fees £000	Benefits £000	Pension £000	Sub total £000	Annual cash bonus £000	HPSP awards £000	Sub total £000			
2018										2018 £000
Executives										
Peter Rose <sup>i</sup>	323	23	81	427	488	692	1,180	–		1,607
Non-executives										
Annell Bay <sup>ii</sup>	63	–	–	63	–	–	–	–		63
Carol Chesney (from 23 April) <sup>iii</sup>	48	–	–	48	–	–	–	–		48
Jay Glick <sup>iv</sup>	175	–	–	175	–	–	–	–		175
John Hofmeister (to 30 August) <sup>v</sup>	53	–	–	53	–	–	–	–		53
Richard Hunting <sup>vi</sup>	60	–	–	60	–	–	–	–		60
Keith Lough (from 23 April) <sup>vii</sup>	45	–	–	45	–	–	–	–		45
John Nicholas (to 18 April) <sup>viii</sup>	21	–	–	21	–	–	–	–		21

	Fixed remuneration				Variable remuneration				Other remuneration <sup>i</sup>	Total remuneration
	Base salary/ fees £000	Benefits £000	Pension £000	Sub total £000	Annual cash bonus £000	HPSP awards £000	Sub total £000			
2017 (restated)										2017 £000
Executives										
Peter Rose	316	25	115	456	474	141	615	–		1,071
Non-executives										
Annell Bay	60	–	–	60	–	–	–	–		60
Jay Glick <sup>iv</sup>	98	–	–	98	–	–	–	–		98
John Hofmeister	80	–	–	80	–	–	–	–		80
Richard Hunting <sup>vi</sup>	87	–	–	87	–	–	–	–		87
John Nicholas	70	–	–	70	–	–	–	–		70

**Notes:**

- In April 2018, Peter Rose's base salary was increased to £325,532 with effect from 1 April 2018.
- Annell Bay was appointed Chair of the Remuneration Committee on 30 August 2018, with her annual fee increasing to £70,000.
- Carol Chesney was appointed a Director and Chair of the Audit Committee on 23 April 2018, with her annual fee set at £70,000.
- Jay Glick was appointed Company Chairman on 1 September 2017, with his annual fee set at £175,000 for this role.
- John Hofmeister retired as a Director, Senior Independent Director and Chair of the Remuneration Committee on 30 August 2018.
- Richard Hunting retired as Chairman on 1 September 2017, with his annual fee reducing to £60,000, in line with other NEDs.
- Keith Lough was appointed as a Director on 23 April 2018 and subsequently Senior Independent Director on 30 August 2018, with his annual fee set at £70,000.
- John Nicholas retired as a Director and Chair of the Audit Committee on 18 April 2018.

**Salary and Fees**

On 1 April 2018, Mr Rose's base salary was increased by 3% to £325,532 (\$434,032), in line with the base salary increases implemented across the wider workforce of the Group. Mr Johnson's base salary remained unchanged during the year.

In December 2018, the Board reviewed the fee levels for non-executive Directors, which resulted in no changes being made for 2019. The Committee also reviewed benchmarked fee data for the Company Chairman and in line with the proposed base salary increases across the workforce, agreed to increase his annual fee to £183,750, effective 1 January 2019.

**Pensions (audited)**

Jim Johnson is a member of a deferred compensation scheme in the US, which is anticipated to provide a lump sum on retirement and contributes to a US 401K match deferred savings plan. Company contributions to the former arrangement were \$109,500 (2017 – \$42,001) in the year. There are no additional benefits provided on early retirement from this arrangement. In the year, the Group contributed to Mr Johnson's 401K saving plan, totalling \$16,500 (2017 – \$16,200, as Chief Operating Officer). Mr Proctor's pension contributions for 2017 are detailed in the 2017 Annual Report on Remuneration.

In 2018, the Company paid a cash sum in lieu of a pension contribution to Peter Rose totalling \$107,717 (£80,790) (2017 – \$101,485/£78,811) representing 25% of his annual base salary. In 2016, Peter Rose's pension arrangements were amended following the decision by the Group to cease contributions to the defined benefit section of the Hunting Pension Scheme (the "Scheme") operated in the UK. As a member of the Scheme, Mr Rose contributed to the Scheme up to 30 June 2016, the date on which all Group contributions ceased. No further benefits were built up during 2018 and during the year Mr Rose transferred the value of his benefits in the Scheme to his own pension arrangement meaning that there are \$nil benefits due from the Scheme as at 31 December 2018 (2017 – \$170,000 per annum). The Group has no further responsibility in relation to Mr Rose's previous pension benefits.

## Annual report on remuneration continued

### Annual Performance-Linked Bonus Plan (audited)

Following the Company's Annual General Meeting in April 2018, the executive Director annual performance-linked bonus plan was amended, as noted in the introduction of this report. The revised operation of the bonus plan is therefore:

Proportion of award	Performance metric
60%	Underlying Profit before Tax
20%	Underlying Return on Capital Employed
20%	Personal Performance Objectives

### Delivery of Financial Objectives

The financial performance targets for the 2018 annual bonus were as follows:

	Threshold vesting	Target vesting	Maximum vesting	Actual result
Underlying Profit before Tax	\$39.2m	\$49.0m	\$58.8m	\$104.0m
Underlying Return on Capital Employed	3%	4%	5%	9%

The financial elements of the annual bonus start to accrue when 80% of the Annual Budget targets are met, increasing on a straight-line basis up to 120% of the budget target. The Target Vesting values are the basis of the 2018 Annual Budget agreed by the Board in December 2017. In 2018, the Group delivered an underlying profit before tax of \$104.0m and an underlying return on capital employed of 9%. Based on this outcome, the financial targets exceeded 120% of the Annual Budget target, resulting in a maximum vesting of these components of the annual bonus award.

### Delivery of Personal Objectives

The Personal Performance objectives agreed by the Committee with the executive Directors with effect from January 2018 were as follows:

Jim Johnson (Chief Executive)	Peter Rose (Finance Director)
<ul style="list-style-type: none"> <li>Strategic Planning</li> <li>Portfolio optimisation including an M&amp;A framework</li> <li>Development and implementation of the succession planning process with agreed development plans for key individuals</li> </ul>	<ul style="list-style-type: none"> <li>Strategic Planning</li> <li>Implementation of Investor Relations Plans</li> <li>Implementation of systems and process standardisation plans across business units with timetables and milestones</li> </ul>

During the year, the Committee was updated on the progress of the objectives noted above – and for the year ending 31 December 2018 noted the following outcomes:

#### Strategic Planning and Portfolio Optimisation

In December 2017, the Board was presented a Strategic Plan by the Group's leadership team, which focused the direction of Hunting on targeted efficiencies and growth objectives. The main pillars of the Strategic Plan included focusing the Group on key product areas, which delivered proprietary and high value technologies, higher facility utilisation and the removal of historic business silos, to drive higher margins to increase profitability.

A restructuring of the Group's organisation was also undertaken to improve the alignment of management with these Strategic priorities. As noted in the Corporate Governance Report, an Executive Committee of the Board was formed, comprising the regional managing directors of the Group, which enabled further alignment and efficiencies to deliver the business strategy.

In addition, elements of the Strategic Plan presented to the Board in December 2017 were delivered ahead of schedule, creating a greater focus on key product lines and geographies, which included rationalisation of the Group's Africa operations, including the closure of facilities in Cape Town and Mombasa; and a performance review of the Group's business and products portfolio, to enhance capital allocation.

These initiatives contributed to the following outcomes:

- Revenue increases of 26%;
- Gross margin improvement of six percentage points to 30%;
- Strong levels of net cash – increasing \$30.9m in the year;
- Disciplined capital investments; and
- Restoration of dividends – 9.0 cents per share declared.

#### Succession Planning

Mr Johnson delivered a plan to the Board, which identified key personnel for leadership development and succession. A Chief HR Officer was recruited to enhance the management development process, including alignment to the Strategic Plan.

#### Investor Relations

The executive Directors delivered an Investor Relations programme, which broadened the Group's investor marketing initiatives. An international investor plan was implemented, with greater focus on the US and key European investor communities.

#### Process Standardisation

Mr Rose restructured the Group's financial management and reporting information, delivering efficiencies with better information flows and transparency to the Board and the investor community.

Further, the Committee noted the strong performance of the executive Directors through the year, following the leadership changes in 2017, providing stability to the senior management group and the re-inforcing of the strategic direction of the Group and the corporate values, which led to a successful performance in 2018. The Committee concluded that all Personal Performance objectives had been met during the year.

Based on this outcome the following bonus awards were made to the executive Directors:

Proportion of annual bonus available	Performance metric	Proportion of annual bonus awarded
60%	Underlying Profit before Tax	60%
20%	Underlying Return on Capital Employed	20%
20%	Personal Performance Objectives	20%

Mr Johnson was therefore awarded a bonus of \$1.4m (200% of base salary) and Mr Rose was awarded a bonus of \$651k (150% of base salary). In line with the revised operation of the Annual Bonus Plan rules 25% of the post-tax value of the bonus is delivered in Hunting shares, to be held for two years. The value of Mr Johnson's shares is c.\$212,275 and Mr Rose's shares is c.\$86,258, with the balance being delivered in cash.

In 2017 the annual bonus awards to the executive Directors were as follows: Mr Johnson – \$466,690 and Mr Rose – \$610,466.

#### 2016 HPSP Vesting (audited)

On 31 December 2018, the 2016 awards under the HPSP were measured against the performance conditions following completion of the three-year performance period. The executive Director performance metrics were based on underlying diluted EPS; underlying ROCE; and relative TSR against a comparator group of 14 companies. A summary of the three-year EPS and ROCE performance is detailed below:

	2015 (Base year)	2016	2017	2018	Reported three-year performance	Required threshold vesting target	Required maximum vesting target	% Vesting outcome
Underlying diluted EPS	3.1c	-45.3c	8.0c	49.6c	152%	4.0%	15.0%	100%
Underlying ROCE	n/a	-7.7%	1.1%	9.3%	Average = 0.9%	10.0%	17.0%	Nil

The EPS performance condition records a 100% vesting, based on the growth in underlying diluted EPS during the performance period. The average ROCE across the performance period was below the threshold vesting target, resulting in a nil vesting. The Total Shareholder Return performance condition was measured by Kepler in January 2019, following completion of the three-year performance period. Hunting's TSR performance against the 14 comparator companies was then ranked, resulting in an top quartile position corresponding to 100% vesting of the TSR portion of the 2016 HPSP award. Given the full vesting of the EPS and TSR portions of the 2016 grant, the total vesting of the 2016 award is 66.7% based on these three performance conditions. Peter Rose, as an executive Director across the whole performance period, will receive 111,328 shares. As noted in the Letter from the Remuneration Committee Chair, Mr Johnson's 2016 award was made when he was Chief Operating Officer and not an executive Director, with his award subject to a fourth performance condition based on the Group's recorded average internal manufacturing reject rate across the performance period. The three-year outcome for this performance condition was 0.4%, with a threshold vesting target of 1.2% and a maximum vesting target of <0.6%. Based on this recorded performance, a 100% vesting has been recorded, equating to a 75.0% vesting for Mr Johnson's 2016 award. On the vesting date, Mr Johnson will therefore receive 179,745 shares. A cash equivalent of dividends paid by the Company during the vesting period, totalling 8.0 cents per vested share, will be added to the award on the vesting date. The 2016 HPSP vesting has been calculated as follows:

	No. of shares granted in 2016	Vesting %	No. of shares vested	Value of vested shares at 31 December 2018*	Value of dividends at 8.0 cents per share	Total award value
Jim Johnson**	239,660	75.0	179,745	1,423,595	14,380	1,437,975
Peter Rose	166,991	66.7	111,328	881,727	8,906	890,633

\* As per the methodology for reporting the values of unvested awards, the average price of a Hunting PLC share during Q4 2018 has been applied and converted to \$ at the average \$:£ exchange rate for the period.

\*\* Jim Johnson's 2016 award, as Chief Operating Officer on the date of grant, was subject to a fourth performance condition which has vested in full, equating to a 75% vesting of his award.

Final award values will be determined on 11 March 2019, being the vesting date of the 2016 award, and will be reported in the 2019 Annual Report on Remuneration.

#### 2015 HPSP Vesting (audited)

On 31 December 2017, the 2015 awards under the HPSP were measured against the performance conditions following completion of the three-year performance period. The performance metrics were based on underlying diluted EPS; underlying ROCE; and relative TSR against a comparator group of 32 companies. A summary of the three-year EPS and ROCE performance is detailed below:

	2014 (Base year)	2015	2016	2017	Reported three-year performance	Required threshold vesting target	Required maximum vesting target	% Vesting outcome
Underlying diluted EPS	100.0c	3.1c	-45.3c	8.0c	Negative	6.0%	15.0%	Nil
Underlying ROCE	13.1%	1.1%	-7.7%	1.1%	Average = -1.8%	12.0%	17.0%	Nil

The Total Shareholder Return performance condition, as set out in the award, was measured by Kepler in January 2018 following completion of the three-year performance period. Hunting's TSR performance against the 32 comparator companies was then ranked, resulting in an above median position.

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On this basis, 49% of the TSR portion of the 2015 HPSP award vested on 30 April 2018, with Mr Johnson receiving 24,733 shares and Peter Rose receiving 17,234 shares. The share price on the day of vesting was 800 pence. A cash equivalent of dividends paid by the Company during the vesting period, totalling 30.9 cents per vested share, was added to the award in line with the plan rules. The 2015 HPSP vested awards are as follows:

	No. of shares granted in 2015	Vesting %	No. of shares vested	Value of vested shares at 30 April 2018 \$	Value of dividends at 30.9 cents per share \$	Restated award value \$
Jim Johnson*	151,429	16.3	24,733	59,475	1,698	61,173
Peter Rose	105,513	16.3	17,234	186,490	4,722	191,212

\* Jim Johnson's single figure 2017 HPSP award has been pro-rated from his appointment as Chief Executive on 1 September 2017. The gross value of the award was \$275,279.

The final award values were determined on 30 April 2018, being the vesting date of the 2015 award, with the 2017 single figure table restated to reflect the share price on the day of vesting.

### 2018 HPSP Grant (audited)

On 19 April 2018, the Committee approved the grant of nil-cost share awards to Jim Johnson and nil-cost options to Peter Rose under the rules of the HPSP. Awards will vest on 19 April 2021, subject to the achievement of the performance metrics detailed on page 75 of the Policy. Details of the grant are as follows:

Director	Award as % of base salary	Number of shares under grant	Face value of award at threshold vesting of 25% \$	Face value of maximum award vesting at 100% \$
Jim Johnson	450%	286,624	787,500	3,150,000
Peter Rose	210%	87,085	240,753	963,012

The Remuneration Committee has adopted absolute EPS, ROCE and TSR targets for the grants to the executive Directors in 2018. Following the approval by shareholders of the revised operation of the HPSP, the Committee has also added a Strategic Scorecard as a fourth performance metric for the awards to the executive Directors which is subdivided equally between two non-financial KPIs, namely Quality Assurance and Safety performance metrics published by the Group during the performance period.

The targets for each performance condition are as follows:

Performance condition <sup>i</sup>	Proportion of award	Threshold vesting target	Maximum vesting target
TSR	25%	Median	Upper quartile
EPS	25%	30 cents	50 cents
ROCE	35%	6%	15%
Strategic Scorecard			
– Quality Assurance	7.5%	0.8	0.5
– Safety	7.5%	2.00	<1.00

i. To be achieved in the three years ending 31 December 2020.

The following quoted businesses comprise the TSR comparator group for the 2018 award:

Aker Solutions	National Oilwell Varco	Tenaris
Dril-Quip	Oil States International	Vallourec
Flotek Industries	Schoeller-Bleckmann	Weatherford International
Forum Energy Technologies	Superior Energy Services	Weir Group
Frank's International	TechnipFMC	

The face value of the 2018 award is based on the closing mid-market share price on 18 April 2018, which was 785.0 pence.

### Other Payments to Past Directors and for Loss of Office (audited)

Dennis Proctor, the Group's former Chief Executive, retired from the Company on 1 September 2017 and was treated as a good leaver. With the exception of outstanding HPSP awards, no emoluments were paid to Mr Proctor in 2018. Mr Proctor's 2015 HPSP grant vested on 30 April 2018, where he received 47,579 Ordinary shares and a cash equivalent dividend of \$14,702. The value of Mr Proctor's award on 30 April 2018 was \$529,557. In the year there were no payments in relation to loss of office.

### Executive Director Remuneration and the Wider Workforce

The changes to the remuneration of the Chief Executive in 2018 compared to 2017 and those of the total workforce are as follows:

	Chief Executive	Average employee
Base salary	-8%	0%
Bonus	-8%	+33%
Benefits	-25%	+8%



**Directors' Shareholdings, Ownership Policy and Share Interests (audited)**

The beneficial interests of the Directors in the issued Ordinary shares of the Company are as follows:

Director <sup>i</sup>	At 31 December 2018 <sup>ii</sup>	At 31 December 2017 <sup>ii</sup>
<b>Executives</b>		
Jim Johnson	66,966	52,000
Peter Rose	97,028	87,923
<b>Non-executives</b>		
Annell Bay	11,840	11,840
Carol Chesney	2,000	–
Jay Glick	23,000	13,500
John Hofmeister	25,000	25,000
Richard Hunting	466,583	466,583
– as trustee	924,049	924,049
– as Director of Hunting Investments Limited	11,003,487	11,073,487
Keith Lough	2,000	–
John Nicholas	11,000	11,000

- i. Beneficial share interests are those Ordinary shares owned by the Director or spouse, which the Director is free to dispose of.  
 ii. Or cessation date.

There have been no further changes to the Directors' share interests in the period 31 December 2018 to 28 February 2019.

In 2014, the Group implemented a share ownership policy that requires Directors and certain senior executives within the Group to build up a holding in shares equal in value to a certain multiple of their base salary or annual fee. The multiple takes into account the post-tax value of vested but unexercised share awards or options. The required shareholding of each Director and the current shareholding as a multiple of base salary as at 31 December 2018 is presented below:

Director	Required holding expressed as a multiple of base salary or fee	Value of holding in shares including the post-tax value of vested but unexercised share awards and options expressed as a multiple of base salary or fee as at 31 December 2018	Requirement met?
Jim Johnson	5	0.5	N
Peter Rose	2	1.4	N
Annell Bay	1	0.8	N
Carol Chesney	1	0.1	N
Jay Glick	1	0.6	N
Richard Hunting	1	37.3	Y
Keith Lough	1	0.1	N

The interests of the executive Directors over Ordinary shares of the Group under the ESOP and HPSP are set out below. The vesting of options and awards are subject to performance conditions set out within the Policy on page 75.

Director	Interests at 1 January 2018	Options/ awards granted in year	Options/ awards exercised in year	Options/ awards lapsed in year	Interests at 31 December 2018	Exercise price p	Grant date	Date exercisable	Expiry date	Scheme
<b>Jim Johnson</b>	15,169	–	–	(15,169)	–	784.5	04.03.08	04.03.11	03.03.18	ESOP
Sub total	15,169	–	–	(15,169)	–					
	151,429	–	(24,733)	(126,696)	–	nil	28.04.15	28.04.18	–	HPSP
	239,660	–	–	–	239,660 <sup>^</sup>	nil	11.03.16	11.03.19	–	HPSP
	223,533	–	–	–	223,533 <sup>^</sup>	nil	03.03.17	03.03.20	–	HPSP
	–	286,624	–	–	286,624 <sup>^</sup>	nil	19.04.18	19.04.21	–	HPSP
Sub total	614,622	286,624	(24,733)	(126,696)	749,817					
<b>Total</b>	<b>629,791</b>	<b>286,624</b>	<b>(24,733)</b>	<b>(141,865)</b>	<b>749,817</b>					
<b>Peter Rose</b>	21,670	–	–	(21,670)	–	784.5	04.03.08	04.03.11	03.03.18	ESOP
Sub total	21,670	–	–	(21,670)	–					
	105,513	–	(17,234)	(88,279)	–	nil	28.04.15	28.04.18	27.04.25	HPSP
	166,991	–	–	–	166,991 <sup>~</sup>	nil	11.03.16	11.03.19	10.03.26	HPSP
	115,889	–	–	–	115,889 <sup>~</sup>	nil	03.03.17	03.03.20	02.03.27	HPSP
	–	87,085	–	–	87,085 <sup>~</sup>	nil	19.04.18	19.04.21	18.04.28	HPSP
Sub total	388,393	87,085	(17,234)	(88,279)	369,965					
<b>Total</b>	<b>410,063</b>	<b>87,085</b>	<b>(17,234)</b>	<b>(109,949)</b>	<b>369,965</b>					

- <sup>^</sup> Nil-cost share awards that are not yet vested or exercisable and still subject to the performance conditions being measured in accordance with the HPSP rules.  
<sup>~</sup> Nil-cost share options that are not yet vested or exercisable and still subject to the performance conditions being measured in accordance with the HPSP rules.

On 3 March 2018, the final awards under the Hunting ESOP expired. The average exercise price for the 2015 HPSP awards was 800.0 pence.

## Annual report on remuneration continued

### Relative Importance of Spend on Pay

The table below shows the relative importance of spend on employee remuneration in relation to corporate taxation, dividends and capital investment. The choice of performance metrics represents certain operating costs of the Group and the use of operating cash flows in delivering long-term shareholder value.

	2018 \$m	2017 \$m	Change
Employee remuneration <sup>i</sup>	254.5	215.3	+18%
Net tax (paid) received <sup>ii</sup>	(2.6)	6.5	n/a
Dividends paid <sup>ii</sup>	6.6	–	n/a
Capital investment <sup>ii</sup>	30.1	11.4	164%

i. Includes staff costs for the year (note 8) plus benefits in kind of \$32.7m (2017 – \$25.9m), which primarily comprises US medical insurance costs.

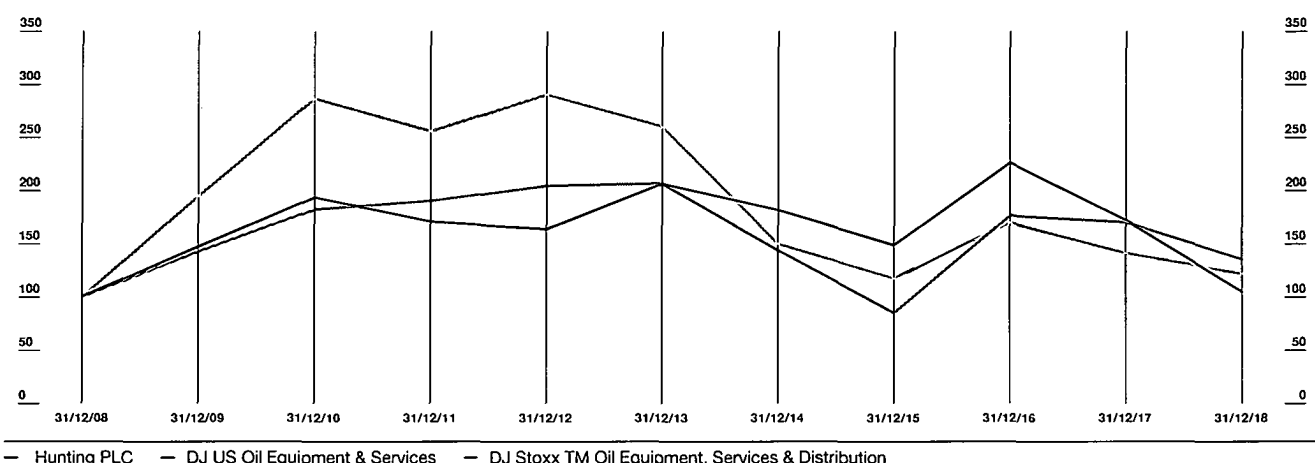
ii. Please refer to the Consolidated Statement of Cash Flows on page 102.

### Executive Director Remuneration and Shareholder Returns

The following chart compares the TSR of Hunting PLC between 2008 and 2018 to the DJ Stoxx TM Oil Equipment, Services and Distribution and DJ US Oil Equipment and Services indices. In the opinion of the Directors, these indices are the most appropriate indices against which the shareholder return of the Company's shares should be compared because they comprise other companies in the oil and gas services sector.

#### Total Shareholder Return

(Rebased to 100 at 31 December 2008)



### Summary Table of Chief Executive's Remuneration

The accompanying table details remuneration of the Chief Executive:

	Single figure remuneration <sup>i</sup> \$000	Annual cash bonus % <sup>ii</sup>	ESOP/PSP/ HPSP % vesting <sup>iii</sup>	LTIP % award <sup>iv</sup>
2018 – Jim Johnson	3,715	100	75	n/a
2017 – Jim Johnson (from 1 September) <sup>v</sup>	819	33	4	n/a
2017 – Dennis Proctor (to 1 September) <sup>v</sup>	3,974	67	13	n/a
2016 – Dennis Proctor	941	Nil	Nil	n/a
2015 – Dennis Proctor	1,031	Nil	Nil	Nil
2014 – Dennis Proctor	4,808	57	Nil	100
2013 – Dennis Proctor	4,442	42	Nil	100
2012 – Dennis Proctor	5,497	75	66	100
2011 – Dennis Proctor	3,261	100	Nil	31
2010 – Dennis Proctor	1,876	100	100	5
2009 – Dennis Proctor	2,363	17	100	62

i. Single figure remuneration reflects the aggregate remuneration paid to the Chief Executive as defined within the Directors' Remuneration Policy.

ii. Annual cash bonus percentages reflect the bonus received by the Chief Executive each year expressed as a percentage of maximum bonus opportunity.

iii. Percentage vesting reflects the % of the ESOP that vested in the financial year and the % of the PSP and HPSP where a substantial portion of the performance period was completed at the financial year-end. Messrs Johnson's and Proctor's awards have been pro-rated for their period of service as Chief Executive.

iv. LTIP award percentage reflects the award value expressed as a percentage of maximum award opportunity received each year measured at 31 December. The LTIP expired in 2015, with no further awards outstanding.

v. 2017 single figure data has been restated to reflect the final vesting values of the 2015 HPSP award.

**Implementation of Policies in 2019**

The remuneration policies for 2019 will be applied in line with those detailed on pages 73 to 82 of the 2017 Annual Report and Accounts.

**Salary and Fees**

In December 2018, the Board concluded that there would be no changes made to fees payable to the non-executive Directors for 2019. As noted in the letter from the Committee Chair, the Company Chairman's fee was increased by 5% with effect from 1 January 2019 to £183,750.

As noted above, the Remuneration Committee will meet in April 2019 to consider base salary changes for the executive Directors. Any changes are likely to align with Group-wide base salary increases.

**Annual Bonus**

The annual performance-linked bonus for 2019 will operate in line with the revised Remuneration Policy. The Committee will disclose details of the retrospective performance against the pre-set financial and personal performance targets, as the Board believes that forward disclosure of these targets is commercially sensitive. The annual bonus weightings will remain unchanged from 2018, being 60% PBT, 20% ROCE and 20% personal performance.

**HPSP**

The grants to the executive Directors for 2019 will be made in March 2019. The performance conditions, weightings and targets for the HPSP award will generally align with the 2018 HPSP grant. The performance targets will be included in the Stock Exchange announcement to be issued on award of the 2019 HPSP grant. Financial targets will be based on accounting policies before the adoption of IFRS 16, with the targets to be re-stated after the accounting impact of IFRS 16 Leases has been finalised.

**External Advisers**

During the year, Kepler and Pearl Meyer and Partners were engaged by the Committee to provide remuneration consultancy services. Both firms were subject to a formal tender process prior to appointment and are regarded as independent, having been appointed by and acting under direction of the Committee. The total cost of advice to the Committee during the year to 31 December 2018, which was wholly related to services provided by Kepler, was \$104,727 (2017 – \$131,617) and includes fees paid in respect of the review of the Directors' Remuneration Policy, share plans and remuneration reporting disclosure requirements.

**Compliance Statement**

The Directors' Remuneration Policy and 2018 Annual Report on Remuneration reflect the Remuneration Committee's reporting requirements under the amended Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The 2018 Annual Report on Remuneration, which includes the Letter from the Chairman of the Remuneration Committee, details how the approved Directors' Remuneration Policy was applied during 2018.



**Ansell Bay**

Chair of the Remuneration Committee

## Audit committee report

For the year ended 31 December 2018

2018 was a year in which the Company returned to underlying and reported profitability and restored dividend distributions to shareholders. While the Group's US-based businesses reported good results, other regions remained subdued and loss making. Therefore, detailed work to monitor possible impairments to the carrying values of these assets continued throughout the reporting period.

2018 was the final year for PwC as the Group's external auditors and the Committee would like to thank them for their professionalism and expertise provided to the Group over many years. Our relationship with Deloitte has started well, with oversight work completed in the year to ensure an orderly transition.

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**Carol Chesney**  
Chair of the Audit Committee

### Composition and Frequency of Meetings

The Committee currently comprises three independent non-executive Directors and is chaired by Carol Chesney.

John Nicholas stepped down as a Director and Chair of the Committee on 18 April 2018. John was succeeded by Mrs Chesney on 23 April 2018. On the same date Keith Lough joined the Committee on his appointment to the Board, and Richard Hunting stepped down from the Committee, at which point the Audit Committee became fully compliant with provision 3.1 of the 2016 UK Corporate Governance Code. John Hofmeister also stepped down from the Committee on his retirement from the Board on 30 August 2018. At the year-end, the Committee comprised only independent non-executive Directors.

Mrs Chesney is a qualified Chartered Accountant and is considered to have recent and relevant financial experience. Mr Lough and Ms Bay (Chair of the Remuneration Committee) have experience of the global energy industry, with particular expertise within the UK and US oil and gas markets. Further details of the Committee's experience can be found in the biographical summaries set out on pages 56 and 57.

The Committee usually meets four times a year and operates under written terms of reference approved by the Board, which are published on the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

In 2018, the Committee met four times, in February, April, August and December, and the attendance record of Committee members during the year is noted below.

	Member	Invitation
<b>Number of meetings held</b>	<b>4</b>	
<b>Number of meetings attended (actual/possible):</b>		
Annell Bay	4/4	–
Carol Chesney (Committee Chair from 23 April 2018)	2/2	–
Jay Glick	–	4/4
John Hofmeister (to 30 August 2018)	3/3	–
Richard Hunting	2/2	2/2
Jim Johnson	–	4/4
Keith Lough (from 23 April 2018)	2/2	–
John Nicholas (Committee Chair to 18 April 2018)	2/2	–
Peter Rose	–	4/4

The Chairman, Chief Executive, Finance Director, internal and external auditors are normally invited to attend meetings.

### Responsibilities

The principal responsibilities of the Audit Committee are to:

- monitor and review reports from the executive Directors, including the Group's financial statements and Stock Exchange announcements;
- provide the Board with a recommendation regarding the Half-Year and Annual Report and Accounts, including whether they are fair, balanced and understandable;
- review the Company's and Group's Going Concern and Viability Statements;

- monitor, review and assess the Group's systems of risk management and internal control;
- review reports from the Group's external and internal auditors, including details of the audit programmes and scope;
- consider and recommend to the Board the appointment or reappointment of the external auditors as applicable;
- agree the scope and fees of the external audit;
- monitor and approve engagement of the external auditors for the provision of non-audit services to the Group;
- review the external auditors' independence, effectiveness of the audit process, and assess the level and quality of service in relation to fees paid;
- monitor corporate governance and accounting developments;
- monitor the Group's Bribery Act compliance procedures; and
- review the procedures to comply with the UK Modern Slavery Act.

#### Work Undertaken by the Committee During 2018

The Committee discussed, reviewed and made a number of decisions on key areas throughout 2018, which are set out below:

	Feb	Apr	Aug	Dec
<b>Financial reporting</b>				
Annual Report and Full-Year Results announcement	✓			
Going Concern Basis	✓		✓	
Viability Statement	✓			
Interim Report and Interim Results announcement			✓	
Review Accounting Policies				✓
<b>Internal control and risk management</b>				
Risk management and internal control report	✓		✓	✓
Key risks and mitigating controls	✓			
Effectiveness of internal controls and internal audit function	✓			
Internal Audit Report	✓		✓	✓
Procedures for preventing bribery and corruption		✓		✓
Procedures for complying with the Modern Slavery Act		✓		✓
Internal audit programme and resourcing				✓
<b>External auditors</b>				
Auditors' objectivity, independence and appointment	✓			
Full-year and Half-year report to the Audit Committee	✓		✓	
Final Management Letter on internal controls		✓		
Auditors' performance and effectiveness		✓		
Proposed year-end audit plan including scope, fees and engagement letter			✓	
Risk of auditor leaving the market				✓
<b>Other business</b>				
Whistleblowing and Bribery policy review		✓		
Committee effectiveness and Terms of Reference				✓

#### External Auditors' Transition Arrangements

In 2017, the Audit Committee undertook a tender process to appoint new external auditors to the Group, following the introduction of new legislation in the UK and EU, which required publicly listed companies to rotate its auditors, if they had exceeded a tenure of 20 years.

Following the tender process, the Committee recommended to the Board the appointment of Deloitte LLP, who will be proposed for appointment at the Company's AGM on 17 April 2019.

2018 is the final year for PricewaterhouseCoopers ("PwC") as the Group's auditors and, subject to Deloitte's appointment being approved by shareholders at the AGM, PwC will retire as auditors on the same date. As part of the transition arrangements between the incumbent and new audit firms, Deloitte has shadowed the year-end audit process and has observed several meetings of the Committee.

#### Review of the 2018 Financial Statements

The Committee reviews final drafts of the Group's Report and Accounts for both the half and full year. As part of this process, the performance of the Group's major segments is considered, with key judgements, estimates and accounting policies being approved by the Committee ahead of a recommendation to the Board. In addition to briefings and supporting reports from the central finance team on significant issues, the Committee engages in discussion with the Group's external auditors.

Significant issues reviewed by the Committee in connection with the 2018 Annual Report and Accounts were as follows:

#### Adoption of New Accounting Standards

During the year the Group adopted two new accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The Committee noted the work of the Group's central finance function in addition to the work of the external auditors who confirmed that the current and prior year financial statements have been prepared in accordance with the new accounting standards. Following discussion, the Committee was satisfied with the work completed and the financial statements as presented.

#### Impairment Reviews

In the year, the Group reported improved results driven by increased activity levels in the US onshore market, including strong completion activity within the established shale regions. The Committee noted that while the Hunting Titan and US operating segments reported profitability, the Group's other segments continued to report losses due to the subdued offshore and international drilling markets. Given this trading environment, management conducted a review for indicators of impairment on the carrying values of assets held on the Group's balance sheet for the half-year and year-end. This process concluded that no impairments were necessary in the year.

## Audit committee report continued

### Property, Plant and Equipment ("PPE")

The year-end balance sheet includes PPE of \$360.2m (2017 – \$383.3m). This represents approximately 30% of the Group's net assets (2017 – 34%). No impairments were charged to the income statement in the year. The Committee reviewed the PPE impairment tests and, following discussion, was satisfied that the assumptions and the disclosures in the year-end accounts were appropriate.

### Goodwill

The year-end balance sheet includes goodwill of \$229.9m (2017 – \$230.3m). This represents approximately 19% of the Group's net assets (2017 – 21%). Reviews for indicators of impairment to the carrying values of goodwill held by Hunting's relevant businesses were undertaken at the half and full year, which confirmed that Hunting's projections supported no need for impairment. The Committee considered the appropriateness of the assumptions and challenged the discount rates and the factors used in the review process. After discussion, it was satisfied that the assumptions and the disclosures in the year-end accounts were appropriate.

### Other Intangible Assets

The carrying value of the Group's other intangible assets was also reviewed resulting in no impairments (2017 – \$nil) being recorded in the year. The amortisation charge recorded in the income statement was \$31.9m (2017 – \$31.2m). As with the goodwill impairment review, the Committee considered and confirmed the appropriateness of the assumptions, discount rates and factors used in the review process.

### Inventory

At the year-end, the Group held \$348.2m of inventory (2017 – \$281.0m). The year-on-year increase is attributable to improved trading within Hunting's onshore-focused businesses in the US, which have seen substantial increases in activity during the year. Due to the improving outlook for the industry, the carrying values have been assessed to be adequate. Further, the Committee reviewed year-end inventory carrying values and the work undertaken by management in assessing and supporting the carrying values. Given this, and together with the improved market conditions, the Committee concluded that inventory carrying values were fairly stated.

### Taxation

In view of the international spread of operations, the Committee monitors tax risk, tax audits and provisions held for taxation. The Finance Director briefed the Committee on developments throughout the year.

As a consequence of the improved market and outlook, particularly in the US, the Group recognised deferred tax assets, which predominantly related to trading losses within the Group's US business units incurred during the market downturn between 2014 and 2017. These deferred tax assets have been reported in the amortisation and exceptional items column of the income statement, as the origin of the tax losses relates primarily to impairment losses and the amortisation of intangible assets incurred in prior years. The underlying tax charge for the year was \$22.0m and the reported tax credit for the year was \$11.0m.

### Exceptional Items Charged to the Consolidated Income Statement

The Committee considered the accounting policy definition of exceptional items and the items included within the financial statements to ensure consistency of treatment and adherence to policy.

Exceptional items recorded in respect of the Group's operations for the full year were \$nil (2017 – \$10.0m). At the Group's Half-Year Results in August 2018, a \$2.0m provision was reversed, relating to the closure costs of the Group's facility in Cape Town, South Africa. In addition, a \$2.0m provision was charged in respect of closure costs of the Group's Mombasa, Kenya, facility. As noted above, an exceptional tax credit was recorded in the year, predominately relating to the recognition of deferred tax assets.

### Going Concern Basis and Viability Statement

The Committee monitored assumptions around Going Concern at the half and full year, as well as those around the Group's Viability Statement for the full year. Driven by the improved profitability of the Group, led by the performance of the Hunting Titan and the US operating segments, the Committee concluded that good support to Hunting's longer-term viability exists. Further, the assessment is supported by the year-end net cash position of \$61.3m (2017 – \$30.4m).

These factors supported the Committee's assessment of the Going Concern Statement and the Viability Statement, as contained in the Risk Management section on page 53. The statements considered by the Committee were supported by reviews of the regular forecast updates provided by management and reviewing bank covenant compliance reports.

In the year, Hunting remained fully compliant with its bank covenants, with the Group reverting to its normal profit-based covenants in January 2018. Discussions with the Group's lenders commenced in September 2018 to "amend and extend" the Group's core revolving credit facility to 2022, which concluded in December 2018. Hunting agreed to the reduction in the facility from \$200m to \$160m, with an option to increase the facility by a further \$75m to \$235m and extend the facility's maturity date to 2023. In addition, the participating members of the lending group have reduced from five to four.

On 25 February 2019, the Audit Committee approved the Viability Statement, detailed on page 53 of the Strategic Report, noting that it presented a reasonable outlook for the Group for the next three years.

### Fair, Balanced and Understandable Assessment

The Committee has reviewed the financial statements, together with the narrative contained within the Strategic Report set out on pages 1 to 53, and believes that the 2018 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

In arriving at this conclusion the Committee undertook the following:

- review of early drafts of the Annual Report and Accounts, providing relevant feedback to the executive Directors;
- regular review and discussion of the financial results during the year, including briefings by Group finance and operational management; and
- receipt and review of reports from the external and internal auditors.

The Committee advised the Board of its conclusion that the 2018 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable at a Meeting of the Directors on 26 February 2019.

### Internal Audit

The Committee receives reports from the Internal Audit department and reviews the internal audit process and effectiveness as part of the Group's internal control and risk assessment programme. An annual programme of internal audit assignments is reviewed and approved by the Committee. The Committee met with the Head of Internal Audit, without the presence of the executive Directors, on three occasions during the year. The effectiveness of the Internal Audit function was also considered by the Committee at its February meeting, which concluded that the function remained effective.

### External Audit

The external auditors presented reports at the February, April, August and December meetings for consideration by the Audit Committee. In February 2019, a full-year report was considered ahead of publication of the Group's Annual Report and Accounts; in April 2018 an internal control report was presented, following the year-end audit, and in August 2018 an interim report was presented, which included the proposed full-year audit scope and fees. An update to the full-year plan was presented at the December 2018 meeting. The Committee meets with the external auditors, without executive Directors present, at the end of each formal meeting.

During the year, the Company complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

### External Auditors' Transition

As noted above, as part of transition arrangements agreed between the Company, PricewaterhouseCoopers and Deloitte, both firms attended Audit Committee meetings in August and December, ahead of finalising the 2018 Annual Report and Accounts at the Audit Committee meeting held on 25 February 2019. Deloitte also provided transition reports to the Audit Committee at the December 2018 and February 2019 meetings.

### Audit Scope

The Audit Committee considered the audit scope and materiality threshold. The audit scope addressed Group-wide risks and local statutory reporting, enhanced by desk-top reviews for smaller, low risk entities. Approximately 93% of the Group's reported revenue and over 82% of the result before tax from operations, adjusted for the impairment of goodwill and other non-current assets, was audited, covering 22 reporting units across six countries.

### Materiality

The Committee discussed materiality with the auditors regarding both accounting errors that will be brought to the Audit Committee's attention and amounts that would need to be adjusted so that the financial statements give a true and fair view. Overall audit materiality was set at \$4.4m (2017 – \$5.0m). This equates to approximately 5% of the Group's average absolute reported result before tax from operations, adjusted for the impairment of goodwill and other non-current assets, for the past five years. This is within the range for which audit opinions are considered to be reliable. Furthermore, the auditors agreed to draw to the Audit Committee's attention all identified, uncorrected misstatements greater than \$0.3m.

### Audit Effectiveness and Independence

The external auditors' full-year report includes a statement on their independence, their ability to remain objective and their ability to undertake an effective audit. The Committee considers and assesses this independence statement on behalf of the Board, taking into account the level of fees paid, particularly for non-audit services.

The effectiveness of the audit process is considered throughout the year, with a formal review undertaken at the April meeting of the Committee. The assessment considers the various matters including:

- the auditors' understanding of the Group's business and industry sector;
- the planning and execution of the audit plan approved by the Committee;
- the communication between the Group and audit engagement team;
- the auditors' response to questions from the Committee, including during private meetings without management present;
- the independence, objectivity and scepticism of the auditors;
- a report from the Finance Director and the Group Financial Controller; and
- finalisation of the audit work ahead of completion of the Annual Report and Accounts.

In addition, the Committee reviewed and took account of the reports from the Financial Reporting Council on PricewaterhouseCoopers LLP. After considering these matters, the Committee was satisfied with the effectiveness of the year-end audit process.

## Audit committee report continued

### Non-Audit Services

The Committee closely monitors fees paid to the auditors in respect of non-audit services. With the exception of audit-related assurance services which totalled \$0.1m (2017 – \$0.1m), there were no non-audit services fees paid during the year (2017 – \$nil). The scope and extent of non-audit work undertaken by the external auditors is monitored by, and requires prior approval from, the Committee to ensure that the provision of such services does not impair their independence or objectivity.

The Board received copies of all reports submitted to the Committee.

### Internal Controls

The Group has an established risk management framework and internal control environment, which was in operation throughout the year. The Committee monitors these arrangements on behalf of the Board and these are detailed in the Risk Management section of the Strategic Report on pages 44 to 53.

### Bribery Act

In compliance with the UK Bribery Act, Hunting has procedures in place, including the publication of Anti-bribery and Corruption policies and detailed guidelines on interacting with customers, suppliers and agents, including specific policies for gifts, entertainment and hospitality. Senior managers across the Group are required to report their compliance activities, including an evaluation of risk areas. The Group has completed a screening exercise to identify relevant employees who face a heightened risk of bribery, with all relevant personnel completing a formal training and compliance course, in line with the Group's procedures. The Committee reviews the compliance procedures relating to the Bribery Act at its April and December meetings, which incorporates risk assessments completed by each business unit and gifts and entertainment disclosures made during the reporting period. The Group's internal audit function reviews local compliance with the Bribery Act and reports control improvements and recommendations to the Committee, where appropriate.

### Modern Slavery Act

The Modern Slavery Act 2015 was enacted during 2016 and requires companies to evaluate internal and external risks related to human trafficking and modern slavery. Procedures were introduced during 2016 and continued in 2018, whereby each business unit across the Group completed due diligence on its workforce to highlight employment risks in relation to trafficking and slavery. All businesses within the Group also completed a risk-mapping exercise of their known supply chain to evaluate those customers and suppliers to the Group who operate in those jurisdictions where trafficking and slavery is more prevalent. Hunting published its second Modern Slavery Act report in March 2018, located at [www.huntingplc.com](http://www.huntingplc.com). During 2018, a new "Code of Conduct" training course was rolled out by the Group to all employees that incorporates information on modern slavery and trafficking.

### Code of Conduct

The Group's Code of Conduct contains policies and procedures covering how the Group conducts business and maintains its relationships with business partners. The Code of Conduct is available on the Group's website.

### Whistleblowing

The Company's Senior Independent Director, Keith Lough, is the primary point of contact for staff of the Group to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise. In addition, the Group engages the services of Safecall Limited to provide an independent and anonymous whistleblowing service available to staff across all of Hunting's operations. All employees have been notified of these arrangements through the corporate magazine, Group notice boards and the Group's website.

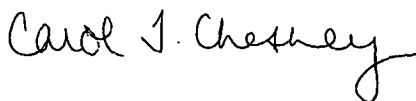
### Review of Committee Effectiveness

During the year, the Committee reviewed its effectiveness and the Committee Chairman reported these findings to the Board. No issues were identified in this review process.

### Financial Reporting Council ("FRC") – Review of Annual Report

As part of its remit, the FRC is authorised to review and investigate the Annual Accounts, Strategic Reports and Directors' Reports of public and large private companies for compliance with relevant reporting requirements. Although these reviews are carried out by personnel skilled in the relevant legal and accounting frameworks, they are based solely on published report and accounts and do not benefit from a detailed knowledge of the company or the underlying transactions entered into. The FRC therefore requests companies referring to these reviews to make clear the limitations of the review process and that the review provides no assurance that the report and accounts are correct in all material respects.

As part of its normal operating procedures, Hunting's report and accounts for 2017 were selected for review by the FRC. Based on this review, the FRC had no questions or queries that it wished to raise and informed the Company of this by letter. The letter did note a number of areas where the FRC felt disclosures could be improved. The Audit Committee welcomes the constructive feedback from the FRC and, as a result, has enhanced disclosures in a number of areas of the 2018 Report and Accounts.



**Carol Chesney**  
Chair of the Audit Committee

28 February 2019



# Independent auditors' report to the members of Hunting PLC

## Report on the Audit of the Financial Statements

### Opinion

In our opinion, Hunting PLC's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheet as at 31 December 2018; the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

### Our Audit Approach

#### Overview

<b>Materiality</b>	<ul style="list-style-type: none"><li>• Overall Group materiality: \$4.4m (2017 – \$5.0m), based on 5% of five-year average absolute profit or loss before tax from continuing operations adjusted for the impairment of goodwill and other non-current assets. We have used the absolute values for losses when calculating the five-year average as the Group has incurred both profits and losses for the financial year ended during the five years' benchmark period.</li><li>• Overall Company materiality: \$7.1m (2017 – \$7.1m), based on 1% of net assets.</li></ul>
<b>Audit scope</b>	<ul style="list-style-type: none"><li>• We conducted audit work in six countries covering 22 reporting units and visited a number of audit locations, including one financially significant component, Hunting Titan, Inc.</li><li>• Components where we performed audit work accounted for approximately 93% of Group revenues and over 82% of Group absolute adjusted profit or loss before tax from operations.</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>• Goodwill and non-current asset impairment assessment (Group).</li><li>• Inventory valuation (Group).</li><li>• Direct tax exposures and recognition of deferred tax assets (Group).</li></ul>

# Independent auditors' report to the members of Hunting PLC continued

## The Scope of our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### *Capability of the Audit in Detecting Irregularities, Including Fraud*

Based on our understanding of the Group/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health, safety and environment risks and the laws and regulations issued by each jurisdiction in which the Group operates (see pages 49 to 52 of the Annual Report and Accounts), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and profitability or reduce expenditure, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with regulatory authorities in relation to compliance with emissions testing regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of intangible fixed assets and inventory provisioning (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Review of significant component auditors' work.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

## Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## Key audit matter

**Goodwill and Non-current Asset Impairment Assessment**  
Refer to page 87 and 88 (Audit Committee report), note 37 (principal accounting policies) and notes 12, 13 and 14.

The Group holds \$229.9m of goodwill on the balance sheet which is tested at least annually for impairment. Intangible assets held by the Group include customer relationships, unpatented technology, and patents & trademarks, total \$99.8m and the Group has property, plant and equipment of \$360.2m. Other non-current assets are tested for impairment if impairment triggers are identified.

Determining the recoverable amount of non-current assets for impairment purposes is a judgemental and complex area as it depends on the future financial performance of the cash-generating unit ("CGU") and future market performance. While there have been signs of improvement in the oil and gas market in 2018, there remains uncertainty around the market stability, primarily due to fluctuations in oil and gas price driven by shifts in supply and demand and also ongoing geopolitical and international trading headwinds. As such, the key risk is around auditing management's impairment model and impairment trigger assessment, in particular judgemental areas such as the forecast revenue and margin growth rate, terminal growth rates and discount rates.

Management's calculated recoverable amounts exceed the carrying value of all CGUs. As a result, there have been no impairment charges recognised in the current year. Three CGU are sensitive to reasonably possible changes in key assumptions and, as such, sensitivity analysis has been included in notes 12, 13 and 14.

## How our audit addressed the key audit matter

We tested management's identification of the CGUs, considering business changes that would prompt a change to the classification of the CGUs. In order to test the impairment models, we challenged whether the future cash flow forecasts and the timing of the forecast recovery in performance of these forecasts for the identified CGUs were appropriate. More specifically, we challenged the key assumptions as follows:

- Forecast revenue and margin growth rate assumptions and how management has incorporated the impact of the decline in oil prices subsequent to year end, by comparing them to historical results, comparing the short- and medium-term growth rates to independent specialist third party published reports and considering the impact already observed within the market;
- Terminal growth rates by comparing them to economic and industry forecast; and
- Discount rates by comparing the cost of capital assumption for each CGU against comparable organisations and our independently calculated discount rates.

We found the above assumptions to be in line with our expectations and that management has followed a clear process for drawing up the future cash flow forecasts, which was subject to oversight and challenge by the Directors and which was consistent with Board approved budgets and mid-term forecasts.

In respect of all CGUs, we sensitised each key driver of the cash flow forecasts, including the underlying assumptions listed above, by determining what we considered to be a reasonably possible change in the assumptions, based on current market data and historical and current business performance. In addition we calculated the degree to which the key assumptions would need to change before an impairment was triggered. Where CGUs are sensitive to reasonably possible changes in key assumptions, we tested the sensitivity disclosures presented in the notes to the financial statements against underlying inputs used in the impairment models and discussed with the Audit Committee and concluded that the disclosures were appropriate.

Having satisfied ourselves on the key assumptions and sensitivities, we assessed the likelihood of movements in key assumptions required to trigger an impairment and by comparison to sensitised forecasts and possible change in discount rates and concluded that it was unlikely.

**Inventory Valuation**

Refer to page 88 (Audit Committee Report), note 37 (principal accounting policies) and note 18.

The Group holds inventory of \$348.2m. While there have been signs of improvement in the oil and gas market in 2018, there remains uncertainty around the market stability, primarily due to fluctuations in oil and gas price driven by shifts in supply and demand and also ongoing geopolitical and international trading headwinds. Pricing pressure continues to pose the risk of inventory being carried at an amount greater than its net realisable value.

Key to these judgements is management's expectations for future sales and inventory utilisation plans and the implications on the level of provisioning.

For all categories of inventory, we have critically reviewed the basis for the provision recorded to reduce the carrying value of inventory below cost, the consistency of provisioning in line with Group's accounting policy and the rationale for the recording of provisions.

We assessed the nature of the Group's inventory and the durability thereof through discussion with management, physical inspection of inventory and review of the utilisation of aged inventory products. We agreed with management that the evidence obtained demonstrated that the nature of the Group's inventory is not perishable and the risk of technical obsolescence by age is low. Specifically, we have:

- Considered the available support, including current sales transactions, used to determine an appropriate net realisable value;
- Understood the ageing profile of the Group's inventory and management's assessment for obsolescence; and
- Confirmed that where cost of inventory is higher than its net realisable value, an appropriate provision has been made.

From the procedures performed, we obtained evidence that the inventory was not carried at amounts higher than net realisable value and concluded that it was unlikely that additional inventory provision were required.

# Independent auditors' report to the members of Hunting PLC continued

Key audit matter	How our audit addressed the key audit matter
<p><b>Direct Tax Exposures and Recognition of Deferred Tax Assets</b> Refer to page 88 (Audit Committee Report), note 37 (principal accounting policies) and notes 10 and 17.</p> <p>The Group operates in a number of different countries and is therefore subject to many tax regimes around the world. Provisions are estimated for uncertain tax positions and disputes with tax authorities, including transactions between Group companies.</p> <p>In addition, following taxable losses incurred in the prior years, judgement and estimates are required in relation to timing and extent of recognition and subsequent recoverability of the deferred tax assets arising from such losses.</p> <p>Following continued strong performance from the Group's US segment in 2018 and the 2019 budget process showing significant taxable profits expected to be generated from 2019 and beyond, management's view is that the recognition criteria for the deferred tax asset have now been met.</p> <p>The Group has recognised deferred tax assets of \$24.9m in respect of the full amount of the unutilised tax losses arising from the US segment. We considered this an area of focus because of the judgement required by management to assess matters across multiple jurisdictions and to determine the extent and timing of recognition, valuation and recoverability of assets in the future.</p>	<p>We discussed potential direct tax exposures with senior Group management, and the basis for their positions with the Group's in-house tax specialists.</p> <p>We evaluated the calculations of the provisions, and considered:</p> <ul style="list-style-type: none"> <li>• The accuracy of the calculations and ensured that appropriate tax rates have been used; and</li> <li>• Key judgements made by management in determining the probability of potential outcomes.</li> </ul> <p>Our evaluation of these judgements included using our tax specialists, in the UK and overseas with experience in the oilfield services industry expertise, as well as our experience of similar challenges elsewhere.</p> <p>We evaluated the recognition of deferred tax assets in relation to tax losses and considered:</p> <ul style="list-style-type: none"> <li>• The accuracy of the calculations of total deferred tax assets available and ensured that appropriate tax rates have been used;</li> <li>• Key judgements made by management in determining the probability of future forecast taxable profits to utilise brought forward tax losses, consistent with the cash flow forecasts used for impairment assessments; and</li> <li>• Assessed the basis on which deferred tax assets have been recognised by comparison to forecast taxable profits.</li> </ul> <p>On the basis of the substantial utilisation of the previously unrecognised tax losses during 2018 as supported by management's approved extended forecast, we agree that the recognition criteria under IAS 12 has now been met. As the origin of the tax losses relates primarily to impairment losses and the amortisation of intangible assets incurred in prior years, which were presented within amortisation and exceptional items, we do consider the presentation of the tax credit within amortisation and exceptional items to be appropriate.</p> <p>Through these procedures we evaluated the level of the provisions recognised, the recognition of deferred tax assets and the disclosures included in the financial statements, which we consider to be in line with the Group's policies and relevant accounting standards.</p>

We determined that there were no key audit matters applicable to the Company to communicate in our report.

## How we Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of entities covering non-trading legal entities, centralised functions and operating units, totalling 57 reporting units.

In establishing the overall approach to the Group audit, we considered the type of work that needed to be performed at the operating units by us, as the Group engagement team, or component auditors within PwC UK and from PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the extent of audit work needed at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group's reporting units vary significantly in size and we identified 13 operating units that were subject to a full scope reporting on their complete financial information, due to their size or risk characteristics. Specific audit procedures over certain balances and transactions were performed at a further nine operating units, to give appropriate coverage of all material balances at the Group level. In doing so we conducted work in six countries and the Group audit team visited certain reporting locations in Aberdeen, Dubai, Singapore and the US, including visiting Hunting Titan, the one financially significant component. Together, the reporting units subject to audit procedures accounted for approximately 93% of Group revenues and 82% of Group adjusted absolute profit or loss before tax from operations. Further, specific audit procedures over central functions and areas of significant judgement, including taxation, treasury, pensions and impairment, were performed by the Group audit team centrally.

We designed our audit by determining materiality and assessing the risk of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. The risks of material misstatement that has the greatest effect on our audit, including the allocation of our resources and effort, are identified as "key audit matters" in the table above. We have also set out how we tailored our audit to address these specific areas to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	\$4.4m (2017 – \$5.0m).	\$7.1m (2017 – \$7.1m).
How we determined it	5% of five-year average absolute profit or loss before tax from continuing operations, adjusted for the impairment of goodwill and other non-current assets.	1% of net assets.
Rationale for benchmark applied	We applied this benchmark because, in our view, this is an appropriate metric against which the performance of the Group is measured and of the recurring Group performance. Consistent with the prior year audit, we continue to use a five-year average which is considered appropriate to normalise recent profit volatility across the underlying business operations. As a result, overall materiality has been calculated at \$4.4m.	The Company is a holding company, not a trading entity and therefore we have not used a profit based benchmark for determining materiality. Consistent with the prior year audit, we concluded that net assets is most appropriate given that the Company's balance sheet is predominantly made up of intercompany balances. We also noted that most income and expense items relate to intercompany transactions and recharges.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between \$0.6m and \$4.0m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.3m (2017 – \$0.3m) for both Group and Company as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

#### Going Concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the Annual Report about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	<p>We have nothing to report in respect of the above matters.</p> <p>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.</p>
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

# Independent auditors' report to the members of Hunting PLC continued

## Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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The Directors' Assessment of the Prospects of the Group and of the Principal Risks that Would Threaten the Solvency or Liquidity of the Group  
We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 47 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 53 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

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## Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 86 to 90 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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## Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the Financial Statements and the Audit

### Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 65, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditors](http://www.frc.org.uk/auditors) responsibilities. This description forms part of our auditors' report.

### Use of this Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Other Required Reporting

#### Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 7 August 1989 to audit the financial statements for the year ended 31 December 1989 and subsequent financial periods. The period of total uninterrupted engagement is 30 years, covering the years ended 31 December 1989 to 31 December 2018.

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### Kevin Reynard

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

28 February 2019

# Consolidated income statement

For the year ended 31 December 2018

	Notes	2018			Restated 2017		
		Before amortisation <sup>i</sup> and exceptional items \$m	Amortisation <sup>i</sup> and exceptional items (note 6) \$m	Total \$m	Before amortisation <sup>i</sup> and exceptional items \$m	Amortisation <sup>i</sup> and exceptional items (note 6) \$m	Total \$m
<b>Revenue</b>	3	<b>911.4</b>	<b>–</b>	<b>911.4</b>	724.9	–	724.9
Cost of sales		(636.3)	–	(636.3)	(549.5)	(10.0)	(559.5)
<b>Gross profit</b>		<b>275.1</b>	<b>–</b>	<b>275.1</b>	175.4	(10.0)	165.4
Other operating income	4	7.8	–	7.8	7.6	–	7.6
Operating expenses	5	(178.2)	(29.3)	(207.5)	(168.7)	(29.1)	(197.8)
<b>Profit (loss) from operations</b>	7	<b>104.7</b>	<b>(29.3)</b>	<b>75.4</b>	14.3	(39.1)	(24.8)
Finance income	9	2.6	–	2.6	3.3	–	3.3
Finance expense	9	(3.3)	–	(3.3)	(4.8)	–	(4.8)
Share of associates' post-tax losses		–	–	–	(1.3)	–	(1.3)
<b>Profit (loss) before tax from operations</b>		<b>104.0</b>	<b>(29.3)</b>	<b>74.7</b>	11.5	(39.1)	(27.6)
Taxation	10	(22.0)	33.0	11.0	(1.0)	–	(1.0)
<b>Profit (loss) for the year</b>		<b>82.0</b>	<b>3.7</b>	<b>85.7</b>	10.5	(39.1)	(28.6)
<b>Profit (loss) attributable to:</b>							
Owners of the parent		84.8	4.5	89.3	13.0	(39.1)	(26.1)
Non-controlling interests		(2.8)	(0.8)	(3.6)	(2.5)	–	(2.5)
		<b>82.0</b>	<b>3.7</b>	<b>85.7</b>	10.5	(39.1)	(28.6)
<b>Earnings (loss) per share</b>		<b>cents</b>		<b>cents</b>	<b>cents</b>		<b>cents</b>
Basic	11	51.6		54.4	8.0		(16.0)
Diluted	11	49.6		52.3	8.0		(16.0)

i. Relates to amortisation of intangible assets that arise on the acquisition of businesses (referred to hereafter as amortisation of intangible assets from business combinations).

The income statement for the year ended 31 December 2017 has been restated to reflect the adoption of IFRS 15 Contracts with Customers (see note 38).



# Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 \$m	Restated 2017 \$m
<b>Comprehensive income (expense)</b>			
Profit (loss) for the year		<b>85.7</b>	(28.6)
<b>Components of other comprehensive income (expense) after tax</b>			
<i>Items that have been reclassified to profit or loss:</i>			
Fair value gains and losses:			
– losses transferred to income statement on disposal of cash flow hedges	31	–	0.1
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange adjustments		<b>(8.4)</b>	12.7
Fair value gains and losses:			
– gains (losses) originating on fair value hedges arising during the year	31	–	(0.2)
– gains (losses) originating on cash flow hedges arising during the year	31	<b>0.2</b>	(0.2)
		<b>(8.2)</b>	12.3
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit pension schemes	32	<b>1.5</b>	(1.6)
Other comprehensive (expense) income after tax		<b>(6.7)</b>	10.8
<b>Total comprehensive income (expense) for the year</b>		<b>79.0</b>	(17.8)
<b>Total comprehensive income (expense) attributable to:</b>			
Owners of the parent		<b>83.8</b>	(17.3)
Non-controlling interests		<b>(4.8)</b>	(0.5)
		<b>79.0</b>	(17.8)

The statement of comprehensive income for the year ended 31 December 2017 has been restated to reflect the adoption of IFRS 15 Contracts with Customers (see note 38).

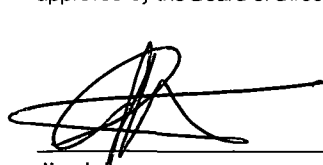
# Consolidated balance sheet

At 31 December 2018

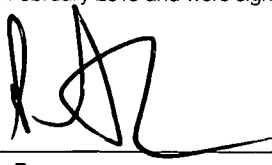
	Notes	2018 \$m	Restated 2017 \$m	Restated 1 January 2017 \$m
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	360.2	383.3	419.0
Goodwill	13	229.9	230.3	229.8
Other intangible assets	14	99.8	125.4	150.7
Investments in associates		0.7	0.7	3.2
Investments	15	1.7	1.8	10.2
Retirement benefit assets	29	–	–	18.5
Trade and other receivables	16	3.5	3.3	2.9
Deferred tax assets	17	26.0	4.2	7.0
		<b>721.8</b>	<b>749.0</b>	<b>841.3</b>
<b>Current assets</b>				
Inventories	18	348.2	281.0	255.7
Trade and other receivables	16	231.0	185.7	116.7
Cash and cash equivalents	21	67.9	36.4	63.5
Current tax assets		0.1	1.1	9.3
Investments	15	–	10.4	0.8
Retirement benefit assets	29	–	18.6	14.8
		<b>647.2</b>	<b>533.2</b>	<b>460.8</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	19	140.9	130.9	70.0
Current tax liabilities		11.2	5.1	7.1
Borrowings	22	2.7	2.1	54.3
Provisions	24	4.7	6.4	4.8
		<b>159.5</b>	<b>144.5</b>	<b>136.2</b>
<b>Net current assets</b>		<b>487.7</b>	<b>388.7</b>	<b>324.6</b>
<b>Non-current liabilities</b>				
Borrowings	22	3.9	3.9	11.9
Deferred tax liabilities	17	1.2	6.2	12.6
Provisions	24	9.5	11.6	10.9
Trade and other payables	19	3.8	3.9	12.1
		<b>18.4</b>	<b>25.6</b>	<b>47.5</b>
<b>Net assets</b>		<b>1,191.1</b>	<b>1,112.1</b>	<b>1,118.4</b>
<b>Equity attributable to owners of the parent</b>				
Share capital	30	66.7	66.4	66.3
Share premium	30	153.0	153.0	153.0
Other components of equity	31	75.8	91.7	78.8
Retained earnings	32	881.6	782.2	801.0
		<b>1,177.1</b>	<b>1,093.3</b>	<b>1,099.1</b>
<b>Non-controlling interests</b>		<b>14.0</b>	<b>18.8</b>	<b>19.3</b>
<b>Total equity</b>		<b>1,191.1</b>	<b>1,112.1</b>	<b>1,118.4</b>

The balance sheets at 1 January 2017 and 31 December 2017 have been restated to reflect the adoption of IFRS 15 Contracts with Customers (see note 38).

The notes on pages 103 to 151 are an integral part of these consolidated financial statements. The financial statements on pages 98 to 151 were approved by the Board of Directors on 28 February 2019 and were signed on its behalf by:



**Jim Johnson**  
Director



**Peter Rose**  
Director

Registered number: 974568

## Consolidated statement of changes in equity

		Year ended 31 December 2018						
	Notes	Share capital \$m	Share premium \$m	Other components of equity \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
<b>At 31 December 2017 as previously reported</b>								
Adjustment on adoption of IFRS 15	38	66.4	153.0	91.7	780.6	1,091.7	18.8	1,110.5
		–	–	–	1.6	1.6	–	1.6
<b>At 31 December 2017 restated</b>								
Adjustment on adoption of IFRS 9	38	66.4	153.0	91.7	782.2	1,093.3	18.8	1,112.1
		–	–	–	(0.2)	(0.2)	–	(0.2)
<b>At 1 January</b>								
		66.4	153.0	91.7	782.0	1,093.1	18.8	1,111.9
Profit (loss) for the year		–	–	–	89.3	89.3	(3.6)	85.7
Other comprehensive (expense) income		–	–	(7.0)	1.5	(5.5)	(1.2)	(6.7)
<b>Total comprehensive income</b>		–	–	(7.0)	90.8	83.8	(4.8)	79.0
Hedging losses transferred to the carrying value of inventory purchased in the year	31	–	–	(0.1)	–	(0.1)	–	(0.1)
Dividends to equity shareholders	33	–	–	–	(6.6)	(6.6)	–	(6.6)
Shares issued								
– share option schemes and awards	30	0.3	–	–	–	0.3	–	0.3
Treasury shares								
– purchase of treasury shares	32	–	–	–	(5.7)	(5.7)	–	(5.7)
Share options and awards								
– value of employee services	31	–	–	13.1	–	13.1	–	13.1
– discharge	31,32	–	–	(9.7)	9.2	(0.5)	–	(0.5)
– taxation		–	–	–	(0.3)	(0.3)	–	(0.3)
Transfer between reserves		–	–	(12.2)	12.2	–	–	–
<b>Total transactions with owners</b>		0.3	–	(8.8)	8.8	0.3	–	0.3
<b>At 31 December</b>		66.7	153.0	75.8	881.6	1,177.1	14.0	1,191.1
		Restated Year ended 31 December 2017						
		Share capital \$m	Share premium \$m	Other components of equity \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
<b>At 1 January as previously reported</b>								
Adjustment on adoption of IFRS 15	38	66.3	153.0	78.8	800.0	1,098.1	19.3	1,117.4
		–	–	–	1.0	1.0	–	1.0
<b>At 1 January restated</b>								
		66.3	153.0	78.8	801.0	1,099.1	19.3	1,118.4
Restated loss for the year		–	–	–	(26.1)	(26.1)	(2.5)	(28.6)
Other comprehensive income (expense)		–	–	10.4	(1.6)	8.8	2.0	10.8
<b>Total comprehensive expense</b>		–	–	10.4	(27.7)	(17.3)	(0.5)	(17.8)
Shares issued								
– share option schemes and awards	30	0.1	–	–	–	0.1	–	0.1
Share options and awards								
– value of employee services	31	–	–	11.6	–	11.6	–	11.6
– discharge	31,32	–	–	(9.1)	8.9	(0.2)	–	(0.2)
<b>Total transactions with owners</b>		0.1	–	2.5	8.9	11.5	–	11.5
<b>At 31 December</b>		66.4	153.0	91.7	782.2	1,093.3	18.8	1,112.1

The statement of changes in equity for the year ended 31 December 2017 has been restated to reflect the adoption of IFRS 15 Contracts with Customers (see note 38).

# Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	2018 \$m	Restated 2017 \$m
<b>Operating activities</b>			
Reported profit (loss) from operations		75.4	(24.8)
Acquisition amortisation and exceptional items	6	29.3	39.1
Depreciation and non-acquisition amortisation	7	37.6	41.7
Underlying EBITDA		142.3	56.0
Share-based payments expense		13.2	11.9
Net gain on disposal of property, plant and equipment		(1.0)	(0.5)
Gain on disposal of held for sale assets		–	(1.2)
Increase in inventories		(72.7)	(19.7)
Increase in receivables		(47.3)	(66.5)
Increase in payables		23.4	46.3
Decrease in provisions		(3.8)	(1.0)
Net taxation (paid) received		(2.6)	6.5
Proceeds from disposal of property, plant and equipment held for rental		3.9	4.4
Purchase of property, plant and equipment held for rental		(5.8)	(2.3)
Receipt of surplus pension assets		10.6	9.7
Payment of US pension scheme liabilities		(10.4)	–
Other non-cash flow items		2.9	2.2
<b>Net cash inflow from operating activities</b>		52.7	45.8
<b>Investing activities</b>			
Interest received		0.4	0.3
Proceeds from disposal of held for sale assets		–	1.2
Proceeds from disposal of associates		1.3	–
Proceeds from disposal of investments		10.4	–
Proceeds from disposal of property, plant and equipment		12.5	1.8
Purchase of property, plant and equipment		(24.3)	(9.1)
Purchase of intangible assets		(6.6)	(5.5)
Decrease in bank deposit investments		–	0.8
Net proceeds from disposal of subsidiaries		–	0.6
<b>Net cash outflow from investing activities</b>		(6.3)	(9.9)
<b>Financing activities</b>			
Interest and bank fees paid		(2.4)	(2.7)
Dividends paid to equity shareholders	33	(6.6)	–
Share capital issued		0.3	0.1
Purchase of treasury shares		(5.7)	–
Proceeds from new borrowings		0.9	–
Repayment of borrowings		–	(20.6)
<b>Net cash outflow from financing activities</b>		(13.5)	(23.2)
<b>Net cash inflow in cash and cash equivalents</b>		32.9	12.7
Cash and cash equivalents at the beginning of the year		34.3	20.3
Effect of foreign exchange rates		(1.1)	1.3
<b>Cash and cash equivalents at the end of the year</b>		66.1	34.3
<b>Cash and cash equivalents at the end of the year comprise:</b>			
Cash at bank and in hand	21	32.4	36.4
Money Market Funds	21	26.1	–
Short-term deposits	21	9.4	–
Bank overdrafts included in borrowings	22	(1.8)	(2.1)
		66.1	34.3

The statement of cash flows for the year ended 31 December 2017 has been restated to reflect the adoption of IFRS 15 Contracts with Customers (see note 38).

# Notes to the consolidated financial statements

## 1. Basis of Preparation

Hunting PLC is a premium-listed public company limited by shares, with its Ordinary shares quoted on the London Stock Exchange. Hunting PLC was incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is shown on page 167. The principal activities of the Group and the nature of the Group's operations are set out in note 2 and in the Strategic Report on pages 1 to 53. The financial statements consolidate those of Hunting PLC (the "Company") and its subsidiaries (together referred to as the "Group"), include the Group's interests in associates and are presented in US dollars, the currency of the primary economic environment in which the Group operates.

The consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and those International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union. The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of the defined benefit pension asset and those financial assets and financial liabilities held at fair value. The Board's consideration of the applicability of the going concern basis is detailed further in the Strategic Report on page 53.

The principal accounting policies applied in the preparation of these financial statements are set out in note 37. These policies have been consistently applied to all the years presented.

Other than certain sensitivity assumptions for the purposes of impairment testing (see notes 12, 13 and 14) and judgements made regarding the recognition of deferred tax assets in the US (see note 17), management believe that there are no other critical judgements or estimates applied in the preparation of the financial statements.

### Adoption of New Standards, Amendments and Interpretations

The following standards have been adopted and are effective for the financial year beginning as of 1 January 2018. The Group has changed its accounting policies and made retrospective adjustments as a result of adopting IFRS 15. The impact of adopting these accounting standards has been shown in note 38.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 Revenue from Contracts with Customers

A number of amendments to other IFRS became effective for the financial year beginning on 1 January 2018, however the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The following standards, amendments and interpretations are effective subsequent to the year-end, which have not been early adopted, and are being assessed to determine whether there is a significant impact on the Group's results or financial position:

- IFRS 17 Insurance Contracts<sup>i</sup>
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle<sup>i</sup>
- Amendment to IAS 19: Plan Amendment, Curtailment or Settlement<sup>i</sup>
- Amendment to IAS 1 and IAS 8: Definition of Material<sup>i</sup>
- Amendment to IFRS 3 Business Combinations<sup>i</sup>

i. Not yet endorsed by the European Union.

In addition to the above, IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments are effective for the Group on 1 January 2019. An assessment of the impact of adopting IFRS 16 is shown on the following page. A preliminary assessment of the potential impact of adopting IFRIC 23 Uncertainty over Income Tax Treatments on 1 January 2019 has been carried out and there is no material impact on the Group's results or financial position.

# Notes to the consolidated financial statements continued

## 1. Basis of Preparation continued

### IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases and its related interpretations. IFRS 16 establishes new principles for the recognition, measurement, presentation and disclosure of leases and is effective for the Group on 1 January 2019.

Throughout the years ended 31 December 2017 and 31 December 2018, all of the Group's leases, as a lessee, were operating leases. Consequently, the Group recognised a lease charge in the income statement in 2018 of \$13.8m (2017 – \$11.9m) based on straight-line recognition of the lease payments payable on each lease after adjustment for lease incentives received.

IFRS 16 requires lessees to recognise a lease liability in respect of the obligation to make lease payments and a right-of-use asset in respect of the lessee's right to the exclusive use and control of the asset. In the income statement, the operating lease charge as recognised under the current rules will be replaced with a straight-line depreciation charge on the right-of-use asset and an interest cost on the lease liability. Under IFRS 16, the lease payments will be charged directly against the lease liability.

The Directors have elected to apply both of the IFRS 16 exemptions that permit lessees, under pre-defined conditions, to not recognise a lease liability and a right-of-use asset in respect of certain leases. The exemptions, which are voluntary, will be applied to all leases:

- that have a lease term of 12 months or less; or
- that are in respect of assets that have a low value purchase price when new, typically US\$5,000 or less.

The recognition of these "exempted" leases will therefore continue unchanged – an operating lease charge will be recognised in the income statement based on straight-line recognition of the lease payments payable on each lease after adjustment for lease incentives received.

The Directors have selected the modified retrospective approach for the adoption of IFRS 16. Using this approach, together with management's selected practical expedients that accompany it, the Group will:

- not restate the 2018 or earlier financial information.
- apply IFRS 16 to leases previously identified in accordance with IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.
- calculate a lease liability as at 1 January 2019 based on the remaining lease payments payable after that date.
- calculate the lease term according to management's appetite for exercising any available extension/break/purchase options.
- discount the remaining gross lease payments using the applicable interest rate, which will generally be the incremental borrowing rate, as at 1 January 2019 applicable to each relevant business unit, asset type, currency of the arrangement and weighted average length of the lease term starting on the commencement date.
- recognise right-of-use assets as at 1 January 2019 as if IFRS 16 had always been applied.
- exclude any initial direct costs from the measurement of the right-of-use assets that are recognised on adoption of IFRS 16 as at 1 January 2019.
- recognise the net difference between the carrying values of the right-of-use assets and the lease liabilities as an adjustment to equity as at 1 January 2019.
- recognise an impairment charge against right-of-use assets that are impaired in value by virtue of being unused by the Group in its usual business operations and that generate rental income lower than the rental payments.

The expected impact on the year ended 31 December 2018 of adopting IFRS 16 as at 1 January 2018, applying the same modified retrospective approach as described above, would have been, approximately to:

- recognise a right-of-use asset as at 31 December 2018 of between \$37m and \$43m;
- recognise a lease liability of between \$46m and \$52m, with a consequent increase in net debt;
- reduce total equity as at 31 December 2018 by between \$3m and \$9m;
- increase underlying EBITDA, as defined by the Group in NGM A, for the year ended 31 December 2018 by between \$7m and \$11m;
- increase operating profit for the year ended 31 December 2018 by between \$1m and \$3m; and
- increase finance costs for the year ended 31 December 2018 by between \$1m and \$3m.

The tax effects of the adoption of IFRS 16 are still being assessed pending the finalisation of the tax treatment in certain jurisdictions.

## 2. Segmental Reporting

For the year ended 31 December 2018, the Group reports on seven operating segments in its internal management reports, which are used to make strategic decisions by the Hunting PLC Board, the Group's Chief Operating Decision Maker ("CODM"). The Group's operating segments are strategic business units that offer different products and services to international oil and gas companies and undertake exploration and production activities.

The Board assesses the performance of the operating segments based on revenue and operating results. Operating results is a profit-based measure and excludes the effects of amortisation of intangible assets recognised as part of a business combination and any exceptional items (see note 6). The Directors believe that using the underlying operating result provides a more consistent and comparable measure of the operating segment's performance.

Interest income and expenditure are not allocated to segments, as this type of activity is overseen by the central treasury function, which manages the funding position of the Group.

Inter-segment sales are priced in line with the Group's transfer pricing policy on an arms-length basis. Costs and overheads are apportioned to the operating segments on the basis of time attributed to those operations by senior executives.

Further, the Board is also provided revenue information by product group, in order to help with an understanding of the drivers of Group performance trends.

**Hunting Titan:** This segment manufactures and distributes perforating products and accessories. The segment's products include the H-1 Perforating System and the EQUAfrac™ shaped charge technology. The business has manufacturing facilities in the US and Mexico, and is supported by strategically located distribution centres across North America.

**US:** The US businesses supply premium connections, oil country tubular goods ("OCTG"), drilling tools, subsea equipment, intervention tools, electronics and complex deep hole drilling and precision machining services for the US and overseas markets. The segment also produces perforating system products for Hunting Titan.

**Canada:** Hunting's Canadian business manufactures premium connections and accessories for oil and gas operators in Canada, often focused on heavy oil plays which require specialist tubing technologies. Canada also manufactures perforating guns.

**Europe:** This segment derives its revenue primarily from the supply of OCTG and well intervention equipment to operators in the North Sea.

**Asia Pacific:** Revenue from the Asia Pacific segment is primarily from the manufacture of premium connections and OCTG supply. Asia Pacific also manufactures perforating guns.

**Middle East, Africa and Other:** Revenue from this segment is generated from the sale and rental of in-field well intervention products across the region, and the operations also act as sales hubs for other products manufactured globally by the Group, including OCTG and Perforating Systems.

**Exploration and Production:** The Exploration and Production business comprises the Group's exploration and production activities in the Southern US and offshore Gulf of Mexico.

Due to its size and nature of operations, Hunting Titan's activities are reported separately. Hunting's non-core Exploration and Production business unit is also reported separately as its activities are different in nature to the Group's other reporting segments. Although the Canada and Exploration and Production segments do not meet the quantitative thresholds required by IFRS 8 for reportable segments, these segments are separately reported and monitored by the Board.

Accounting policies used for segmental reporting reflect those used for the Group.

The UK is the domicile of Hunting PLC.

## Notes to the consolidated financial statements continued

### 2. Segmental Reporting continued

The following tables present the results of the operating segments on the same basis as that used for internal reporting purposes to the CODM.

#### (a) Segment Revenue and Profit

	2018					
	Segment revenue \$m	Inter-segment revenue \$m	Total external revenue \$m	Underlying result \$m	Amortisation and exceptional items \$m	Reported result \$m
Hunting Titan	418.2	(6.9)	411.3	106.9	(26.1)	80.8
US	327.1	(43.0)	284.1	15.6	(3.2)	12.4
Canada	44.8	(9.6)	35.2	(1.8)	–	(1.8)
Europe <sup>1</sup>	86.2	(11.7)	74.5	(10.9)	–	(10.9)
Asia Pacific	107.0	(26.2)	80.8	(0.8)	–	(0.8)
Middle East, Africa and Other	24.2	(1.3)	22.9	(2.9)	–	(2.9)
Exploration and Production	2.6	–	2.6	(1.4)	–	(1.4)
<b>Total</b>	<b>1,010.1</b>	<b>(98.7)</b>	<b>911.4</b>	<b>104.7</b>	<b>(29.3)</b>	<b>75.4</b>
Net finance expense				(0.7)	–	(0.7)
<b>Profit before tax from operations</b>				<b>104.0</b>	<b>(29.3)</b>	<b>74.7</b>

	Restated 2017					
	Segment revenue \$m	Inter-segment revenue \$m	Total external revenue \$m	Underlying result \$m	Amortisation and exceptional items \$m	Reported result \$m
Hunting Titan	312.8	(4.1)	308.7	66.4	(25.9)	40.5
US	218.9	(14.1)	204.8	(22.9)	(3.2)	(26.1)
Canada	36.5	(8.9)	27.6	(3.3)	–	(3.3)
Europe <sup>1</sup>	89.2	(5.9)	83.3	(13.7)	–	(13.7)
Asia Pacific	88.1	(8.3)	79.8	(4.4)	–	(4.4)
Middle East, Africa and Other	18.6	(1.2)	17.4	(6.7)	(10.0)	(16.7)
Exploration and Production	3.3	–	3.3	(1.1)	–	(1.1)
<b>Total</b>	<b>767.4</b>	<b>(42.5)</b>	<b>724.9</b>	<b>14.3</b>	<b>(39.1)</b>	<b>(24.8)</b>
Net finance expense				(1.5)	–	(1.5)
Share of associates' post-tax losses				(1.3)	–	(1.3)
<b>Profit (loss) before tax from operations</b>				<b>11.5</b>	<b>(39.1)</b>	<b>(27.6)</b>

i. Revenue from external customers attributable to the UK, the Group's country of domicile, is \$55.9m (2017 – \$65.0m restated).

The information for the year ended 31 December 2017 has been restated to take into account the change in accounting policy following the adoption of IFRS 15 Revenue from Contracts with Customers (see note 38) and for a change in the calculation of central costs. Previously, certain segmental costs had been identified as central costs.

A breakdown of external revenue by products and services is presented below:

	2018 \$m	Restated 2017 \$m
Perforating Systems	404.1	305.6
OCTG	277.4	254.8
Advanced Manufacturing	98.5	61.1
Intervention Tools	46.4	34.3
Subsea	30.5	20.8
Drilling Tools	27.6	25.8
Other	24.3	19.2
Exploration and Production	2.6	3.3
<b>Total</b>	<b>911.4</b>	<b>724.9</b>



**2. Segmental Reporting** continued**(b) Other Segment Items**

	2018 charge (credit)			2017 charge (credit)		
	Depreciation \$m	Amortisation \$m	Impairment <sup>i</sup> \$m	Depreciation \$m	Amortisation \$m	Impairment <sup>i</sup> \$m
Hunting Titan	5.3	26.7	1.3	5.2	26.4	2.1
US	20.0	4.1	2.6	21.8	3.6	1.3
Canada	1.3	–	–	1.4	–	(0.2)
Europe	2.5	0.9	0.9	3.7	0.8	2.4
Asia Pacific	3.7	0.2	0.5	4.8	0.4	–
Middle East, Africa and Other	1.3	–	(1.0)	1.9	–	7.8
Exploration and Production	0.9	–	–	0.8	–	–
<b>Total</b>	<b>35.0</b>	<b>31.9</b>	<b>4.3</b>	<b>39.6</b>	<b>31.2</b>	<b>13.4</b>

i. Impairment comprises impairment of property, plant and equipment \$1.0m (2017 – \$7.6m), reversal of impairment of property, plant and equipment \$2.0m (2017 – \$nil), trade and other receivables \$1.1m (2017 – \$0.6m) and inventories \$4.2m (2017 – \$5.2m).

**(c) Geographical Non-current Assets**

Information on the physical location of non-current assets is presented below. The allocated non-current assets below exclude deferred tax assets.

	2018 \$m	2017 \$m
Hunting Titan – US	311.6	337.6
Hunting Titan – Canada	1.5	1.7
Hunting Titan – Other	0.7	1.0
Hunting Titan	313.8	340.3
US	307.6	308.4
Canada	4.6	5.3
Europe <sup>i</sup>	49.6	55.1
Asia Pacific	12.7	18.2
Middle East, Africa and Other	3.2	12.8
Exploration and Production – US	4.3	4.7
	<b>695.8</b>	<b>744.8</b>
<b>Unallocated assets</b>		
Deferred tax assets	26.0	4.2
<b>Total non-current assets</b>	<b>721.8</b>	<b>749.0</b>

i. The value of non-current assets located in the UK, the Group's country of domicile, is \$42.5m (2017 – \$46.1m).

**(d) Major Customer**

The Group received revenue of \$117.1m (2017 – \$67.9m) from the Halliburton Company Group, which is 13% (2017 – 9%) of the Group's revenue from external customers. All of Hunting's core operating segments have benefited from trading with Halliburton.

**3. Revenue**

The Group has recognised the following amounts relating to revenue in the income statement, with revenue disaggregated by geographical markets. The table also includes a reconciliation of the disaggregated revenue with the revenue for the Group's seven operating segments.

	2018			
	Revenue from contracts with customers \$m	Rental revenue \$m	Other revenue \$m	Total external revenue \$m
Hunting Titan	411.3	–	–	411.3
US	254.5	29.6	–	284.1
Canada	35.1	0.1	–	35.2
Europe	69.9	4.6	–	74.5
Asia Pacific	80.8	–	–	80.8
Middle East, Africa and Other	17.9	5.0	–	22.9
Exploration and Production	–	–	2.6	2.6
<b>Total</b>	<b>869.5</b>	<b>39.3</b>	<b>2.6</b>	<b>911.4</b>

## Notes to the consolidated financial statements continued

### 3. Revenue continued

	2017			
	Revenue from contracts with customers \$m	Rental revenue \$m	Other revenue \$m	Total external revenue \$m
Hunting Titan	308.7	–	–	308.7
US	176.9	27.9	–	204.8
Canada	27.4	0.2	–	27.6
Europe	78.1	5.2	–	83.3
Asia Pacific	79.8	–	–	79.8
Middle East, Africa and Other	13.6	3.8	–	17.4
Exploration and Production	–	–	3.3	3.3
<b>Total</b>	<b>684.5</b>	<b>37.1</b>	<b>3.3</b>	<b>724.9</b>

There is no material difference in the timing of revenue recognition between contracts with customers at a point in time and contracts with customers over time, as the majority of Hunting's performance obligations are relatively short. Invoices for products are issued when the product is delivered and invoices for services are issued either on completion of the service or, at a minimum, monthly for services covering more than one month.

### 4. Other Operating Income

	2018 \$m	2017 \$m
Operating lease rental income	1.5	0.7
Gain on disposal of property, plant and equipment	3.0	3.0
Gain on disposal of held for sale asset	–	1.2
Foreign exchange gains	2.1	1.8
Other income <sup>i</sup>	1.2	0.9
	<b>7.8</b>	<b>7.6</b>

i. Includes fair value gains on derivatives not designated in a hedge of \$nil (2017 – \$0.1m).

### 5. Operating Expenses

	2018 \$m	2017 \$m
Administration expenses <sup>i</sup> before amortisation <sup>ii</sup> and exceptional items	117.4	112.8
Distribution and selling costs	58.8	53.4
Loss on disposal of property, plant and equipment	2.0	2.5
Operating expenses before amortisation <sup>ii</sup> and exceptional items	178.2	168.7
Amortisation <sup>ii</sup> and exceptional items (note 6)	29.3	29.1
	<b>207.5</b>	<b>197.8</b>

i. Includes foreign exchange losses of \$1.1m (2017 – \$1.8m) and a fair value loss on derivatives not designated in a hedge of \$0.5m (2017 – \$nil).

ii. Relates to amortisation of intangible assets acquired as part of a business combination.

### 6. Amortisation and Exceptional Items

	2018 \$m	2017 \$m
Closure of South African facility	(2.0)	10.0
Closure of Kenya joint venture	2.0	–
Charged to cost of sales	–	10.0
Amortisation of intangible assets charged to operating expenses	29.3	29.1
Total amortisation and exceptional items charged to profit (loss) from operations	29.3	39.1
Taxation on amortisation and exceptional items (note 10)	(33.0)	–
	<b>(3.7)</b>	<b>39.1</b>

In December 2017, the Board completed a review of the Group's operating presence in South Africa and decided to close its manufacturing facility in Cape Town, given the poor market outlook for the medium term and the continuing drive to reduce losses around the Group. An impairment of property, plant and equipment totalling \$7.6m was recorded in the 2017 financial statements, together with other costs of \$2.4m relating to the closure of the facility.

In 2018, the Group has reversed \$2.0m of the impairment provision for property, plant and equipment in relation to the closure of the South African facility in Cape Town. The Group received \$8.0m in relation to the disposal of property, plant and equipment from the South African facility. Hunting will retain a small sales office for the foreseeable future.

**6. Amortisation and Exceptional Items continued**

Given the modest drilling activity forecast for East Africa in the medium term, the Board has made the decision to close its Kenyan joint venture in Mombasa. An impairment of property, plant and equipment totalling \$1.0m, a loss on disposal of Kenya's rental fleet of \$0.5m and a provision for costs of \$0.5m relating to the closure of the facility have been recognised in the year, totalling \$2.0m.

**7. Profit (Loss) from Operations**

The following items have been charged (credited) in arriving at profit (loss) from operations:

	2018 \$m	2017 \$m
Staff costs (note 8)	221.3	189.0
Depreciation of property, plant and equipment (note 12)	35.0	39.6
Amortisation of intangible assets from business combinations	29.3	29.1
Amortisation of other intangible assets	2.6	2.1
Amortisation of intangible assets (included in operating expenses) (note 14)	31.9	31.2
Impairment of property, plant and equipment – exceptional items (included in cost of sales) (note 6)	1.0	7.6
Gain on disposal of held for sale asset	–	(1.2)
Net gain on disposal of property, plant and equipment – underlying	(1.0)	(0.5)
Loss on disposal of property, plant and equipment – exceptional items (note 6)	0.5	–
Net gain on disposal of property, plant and equipment – reported	(0.5)	(0.5)
Operating lease payments (note 35)	13.8	11.9
Research and development expenditure	3.4	3.7

Fees payable to the Group's independent auditors PricewaterhouseCoopers LLP and its associates for:

	2018 \$m	2017 \$m
The audit of these financial statements	1.7	1.8
The audit of the financial statements of the Company's subsidiaries	0.4	0.4
Total audit	2.1	2.2
Audit-related assurance services	0.1	0.1
<b>Total audit and audit-related services</b>	<b>2.2</b>	<b>2.3</b>

**8. Employees**

	2018 \$m	2017 \$m
Wages and salaries (including annual cash bonuses)	183.7	156.0
Social security costs	15.1	13.1
Share-based payments (note 34)	13.2	11.9
Other pension costs		
– defined contribution schemes (note 29)	7.6	7.1
– defined benefit schemes (note 29)	2.5	1.6
Pension income – net interest included in net finance expense (note 29)	(0.3)	(0.3)
<b>Staff costs for the year</b>	<b>221.8</b>	<b>189.4</b>

Staff costs for the year are included in the financial statements as follows:

	2018 \$m	2017 \$m
Staff costs included in profit (loss) from operations (note 7)	221.3	189.0
Staff costs included in net finance expense	(0.3)	(0.3)
Staff costs capitalised as R&D	0.8	0.7
	<b>221.8</b>	<b>189.4</b>

The average monthly number of employees by geographical area (including executive Directors) during the year was:

	2018 Number	2017 Number
US	1,798	1,451
Canada	149	133
Europe	274	288
Asia Pacific	430	425
Middle East, Africa and Mexico	76	87
	<b>2,727</b>	<b>2,384</b>

## Notes to the consolidated financial statements continued

### 8. Employees continued

The average monthly number of employees by operating segment (including executive Directors) during the year was:

	2018 Number	2017 Number
Hunting Titan	646	491
US	1,145	957
Canada	133	118
Europe	254	276
Asia Pacific	415	399
Middle East, Africa and Other	72	83
Exploration and Production	4	4
Central	58	56
	<b>2,727</b>	<b>2,384</b>

The actual number of employees at the year-end was:

	2018 Number	2017 Number
Male	2,182	2,071
Female	590	539
	<b>2,772</b>	<b>2,610</b>

Key management comprises the Board and the Executive Committee that was formed on 30 August 2018. Their aggregate compensation in the year was:

	2018 \$m	Restated 2017 \$m
Salaries, annual cash bonuses and short-term employee benefits	5.4	3.9
Payment in lieu of notice and other legal entitlements	–	1.7
Social security costs	0.3	0.1
Post-employment benefits	0.3	0.3
Share-based payments	2.7	0.9
	<b>8.7</b>	<b>6.9</b>

The 2018 numbers for the Executive Committee are pro-rata from formation on 30 August 2018 to 31 December 2018. The 2017 numbers have been restated for the Key Management bonuses that were omitted in error.

Remuneration of the Board, included as part of Key Management compensation, can be found in the Annual Report on Remuneration on page 78. The Annual Report on Remuneration disclosures do not include Executive Committee members who are not part of the Board and discloses share scheme remuneration on a vested rather than accruals basis.

Short-term employee benefits comprise healthcare insurance, company cars and fuel benefits. Post-employment benefits comprise employer pension contributions. Share-based payments comprise the charge to the income statement.

### 9. Net Finance Expense

	2018 \$m	2017 \$m
<b>Finance income:</b>		
Bank balances and deposits	0.2	0.3
Pension interest income	0.4	0.5
Foreign exchange gains	0.9	0.6
Fair value gains on derivative financial instruments	0.9	–
Fair value gains on Money Market Funds	0.1	–
Other finance income	0.1	1.9
	<b>2.6</b>	<b>3.3</b>
<b>Finance expense:</b>		
Bank overdrafts	–	(0.1)
Bank borrowings	(0.1)	(0.9)
Bank fees and commissions	(1.2)	(2.3)
Foreign exchange losses	(1.4)	(1.1)
Other finance expense <sup>i</sup>	(0.6)	(0.4)
	<b>(3.3)</b>	<b>(4.8)</b>
<b>Net finance expense</b>	<b>(0.7)</b>	<b>(1.5)</b>

i. Includes fair value losses on derivatives not designated in a hedge of \$0.1m (2017 – \$nil).

## 10. Taxation

	2018			2017		
	Before amortisation <sup>i</sup> and exceptional items \$m	Amortisation <sup>i</sup> and exceptional items \$m	Total \$m	Before amortisation <sup>i</sup> and exceptional items \$m	Amortisation <sup>i</sup> and exceptional items \$m	Total \$m
Current tax						
– current year charge	13.4	–	13.4	3.4	–	3.4
– adjustments in respect of prior years	(3.7)	–	(3.7)	(3.8)	–	(3.8)
	9.7	–	9.7	(0.4)	–	(0.4)
Deferred tax						
– origination and reversal of temporary differences	17.1	(7.7)	9.4	2.3	–	2.3
– recognition of US deferred tax	(3.6)	(25.3)	(28.9)	–	–	–
– change in tax rate	(0.4)	–	(0.4)	(0.4)	–	(0.4)
– adjustments in respect of prior years	(0.8)	–	(0.8)	(0.5)	–	(0.5)
	12.3	(33.0)	(20.7)	1.4	–	1.4
<b>Taxation charge (credit)</b>	<b>22.0</b>	<b>(33.0)</b>	<b>(11.0)</b>	<b>1.0</b>	<b>–</b>	<b>1.0</b>

i. Relates to amortisation of intangible assets acquired as part of a business combination.

The weighted average applicable tax rate to operations before amortisation and exceptional items is 21% (2017 – 9%).

A tax credit of \$7.7m (2017 – \$nil) has been included in the income statement in respect of current year amortisation of intangible assets recognised as part of amortisation and exceptional items. A further credit of \$25.3m relates to the recognition of US deferred tax and shown as a credit against amortisation and exceptional items consistent with our treatment of tax on amortisation in prior years. This has been recognised for the US due to strong performance in the year and current projections for the next two years.

The adjustment in respect of prior years of \$3.7m (2017 – \$3.8m) for current tax includes the release of provisions for uncertain tax positions that are no longer required.

The total tax credit (2017 – charge) for the year is higher (2017 – higher) than the standard rate of UK corporation tax of 19% (2017 – 19.25%) for the following reasons:

	2018 \$m	Restated 2017 \$m
<b>Reported profit (loss) before tax</b>	<b>74.7</b>	<b>(27.6)</b>
Tax at 19% (2017 – 19.25%)	14.2	(5.3)
Permanent differences including tax credits	2.6	2.4
Higher rate of tax on overseas results	5.7	(0.7)
Current year losses not recognised	0.5	9.3
Tax losses recognised	(29.1)	–
Change in tax rates	(0.4)	(0.4)
Adjustments in respect of prior years	(4.5)	(4.3)
<b>Taxation</b>	<b>(11.0)</b>	<b>1.0</b>

Tax effects relating to each component of other comprehensive income were as follows:

	2018			2017		
	Before tax \$m	Tax (charged) credited \$m	After tax \$m	Before tax \$m	Tax (charged) credited \$m	After tax \$m
Exchange adjustments	(8.4)	–	(8.4)	12.8	(0.1)	12.7
Fair value gains (losses) originating on fair value hedge arising during the year	–	–	–	(0.3)	0.1	(0.2)
Fair value gains (losses) originating on cash flow hedge arising during the year	0.3	(0.1)	0.2	(0.2)	–	(0.2)
Fair value losses transferred to the income statement on disposal of cash flow hedges	–	–	–	0.1	–	0.1
Remeasurement of defined benefit pension schemes	1.1	0.4	1.5	(1.6)	–	(1.6)
	(7.0)	0.3	(6.7)	10.8	–	10.8

A number of changes to the UK corporation tax system were announced in the Chancellor's Autumn Budget on 29 October 2018. The Finance Act 2019 was enacted on 12 February 2019. The Finance Bill 2016, which received Royal Assent on 15 September 2016, included reductions to the main rate of corporation tax to reduce the rate to 17% from 1 April 2020. The changes are not expected to have a material impact on the Group's deferred tax balances.

## Notes to the consolidated financial statements continued

### 11. Earnings per Share

Basic earnings per share ("EPS") 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 dilution in respect of share options applies where the exercise price is less than the average market price of the Company's Ordinary shares during the year and the possible issue of shares under the Group's long-term incentive plans.

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

	2018 \$m	Restated 2017 \$m
<b>Reported earnings (loss) attributable to Ordinary shareholders</b>	<b>89.3</b>	<b>(26.1)</b>
Add: amortisation <sup>i</sup> and exceptional items after taxation (note 6)	(4.5)	39.1
<b>Underlying earnings attributable to Ordinary shareholders</b>	<b>84.8</b>	<b>13.0</b>
	millions	millions
<b>Basic weighted average number of Ordinary shares</b>	<b>164.1</b>	<b>163.3</b>
Long-term incentive plans	6.6	6.8
<b>Adjusted weighted average number of Ordinary shares</b>	<b>170.7</b>	<b>170.1</b>
	cents	cents
<b>Reported earnings (loss) per share</b>		
Basic EPS	54.4	(16.0)
Diluted EPS <sup>ii</sup>	52.3	(16.0)
<b>Underlying earnings per share</b>		
Basic EPS	51.6	8.0
Diluted EPS <sup>ii</sup>	49.6	8.0

i. Relates to amortisation of intangible assets acquired as part of a business combination.

ii. For the year ended 31 December 2017, the effect of dilutive share options and long-term incentive plans was anti-dilutive and, therefore, they have not been used to calculate diluted earnings per share.

## 12. Property, Plant and Equipment

	Year ended 31 December 2018				
	Land and buildings \$m	Plant, machinery and motor vehicles \$m	Rental tools \$m	Oil and gas exploration and development \$m	Total \$m
<b>Cost:</b>					
At 1 January	262.3	336.2	87.3	181.8	867.6
Exchange adjustments	(2.7)	(4.7)	(1.2)	–	(8.6)
Additions	3.6	20.1	5.8	0.5	30.0
Disposals	(13.2)	(10.3)	(9.7)	–	(33.2)
Reclassification to inventories	–	(0.1)	(1.2)	–	(1.3)
Reclassification	–	0.1	(0.1)	–	–
At 31 December	250.0	341.3	80.9	182.3	854.5
<b>Accumulated depreciation and impairment:</b>					
At 1 January	46.2	218.0	41.4	178.7	484.3
Exchange adjustments	(0.8)	(3.8)	(1.1)	–	(5.7)
Charge for the year	6.4	23.6	4.1	0.9	35.0
Impairment of assets (note 6)	–	1.0	–	–	1.0
Reversal of impairment of assets	(1.9)	(0.1)	–	–	(2.0)
Disposals	(4.4)	(6.8)	(5.8)	–	(17.0)
Reclassification to inventories	–	(0.4)	(0.9)	–	(1.3)
Reclassification	–	0.1	(0.1)	–	–
At 31 December	45.5	231.6	37.6	179.6	494.3
<b>Net book amount</b>	<b>204.5</b>	<b>109.7</b>	<b>43.3</b>	<b>2.7</b>	<b>360.2</b>

In 2018, the Group has reversed \$1.9m of the impairment provision for the Cape Town property and \$0.1m for plant and machinery, which were sold in 2018 following the Board's decision to close the South African facility. The reversal of the impairment has been recorded in the 2018 financial statements as an exceptional item (see note 6) and it is shown in the Middle East, Africa and Other operating segment (note 2).

Given the modest drilling activity forecast for East Africa in the medium term, the Board has made the decision to close its Kenyan joint venture in Mombasa. Plant, machinery and motor vehicles were impaired by \$1.0m in the year. The impairment has been recorded in the 2018 financial statements as an exceptional item (see note 6) and it is shown in the Middle East, Africa and Other operating segment (note 2).

Included in the net book amount is expenditure relating to assets in the course of construction of \$2.5m (2017 – \$0.2m) for buildings and \$7.1m (2017 – \$3.6m) for plant and machinery.

Group capital expenditure committed for the purchase of property, plant and equipment, but not provided for in these financial statements, amounted to \$15.0m (2017 – \$0.9m).

The net book amount of land and buildings of \$204.5m (2017 – \$216.1m) comprises freehold land and buildings of \$202.4m (2017 – \$213.1m) and capitalised leasehold improvements of \$2.1m (2017 – \$3.0m).

In accordance with the amendments made to the Group's core committed bank facility in July 2016, security has been granted over specific properties, plant and equipment in the UK and US, which have a carrying value of \$229.6m (2017 – \$230.8m).

Oil and gas productive and development assets are tested for impairment at least annually. Following a valuation of oil and gas reserves at 31 December 2018, performed for impairment purposes, no impairment charges were required (2017 – \$nil). The recoverable amount of oil and gas development expenditure is based on value-in-use. These calculations use discounted cash flow projections based on estimated oil and gas reserves, future production and the income and costs in generating this production. Cash flows are based on productive lives between one and 15 years and are discounted using a nominal pre-tax rate of 10% (2017 – 10%).

The carrying value of PPE assets in certain CGUs remains sensitive to reasonably foreseeable declines in future revenue growth as measured by changes in compound annual growth rates ("CAGRs"). These sensitivities are based on the impairment test process described in note 13.

- For Canada, if the CAGR for 2018 to 2023 is below 4% this will result in impairment (2017 – 11% CAGR for 2017 to 2022). An increase in discount rates of 60 basis points would also trigger impairment. The net book value of PPE in Canada is \$2.7m (2017 – \$3.4m).
- For Aberdeen/Netherlands OCTG if the CAGR for 2018 to 2023 is below 6% this will result in impairment (2017 – 2% CAGR for 2017 to 2022). The net book value of PPE in Aberdeen/Netherlands OCTG is \$5.7m (2017 – \$7.6m).

There are no other reasonably foreseeable changes in revenue growth rates that would give rise to impairment charges in other CGUs.

## Notes to the consolidated financial statements continued

### 12. Property, Plant and Equipment continued

	Year ended 31 December 2017				Total \$m
	Land and buildings \$m	Plant machinery and motor vehicles \$m	Rental tools \$m	Oil and gas exploration and development \$m	
<b>Cost:</b>					
At 1 January	255.9	329.1	92.9	181.6	859.5
Exchange adjustments	4.3	6.8	1.0	–	12.1
Additions	1.7	7.5	2.1	0.2	11.5
Disposals	(0.2)	(6.8)	(7.9)	–	(14.9)
Reclassification from (to) inventories	–	0.2	(0.8)	–	(0.6)
Reclassification	0.6	(0.6)	–	–	–
At 31 December	262.3	336.2	87.3	181.8	867.6
<b>Accumulated depreciation and impairment:</b>					
At 1 January	34.2	188.7	39.7	177.9	440.5
Exchange adjustments	1.1	5.1	0.7	–	6.9
Charge for the year	6.8	26.8	5.2	0.8	39.6
Impairment of assets (note 6)	4.3	2.9	0.4	–	7.6
Disposals	(0.1)	(5.6)	(3.5)	–	(9.2)
Reclassification to inventories	–	–	(1.1)	–	(1.1)
Reclassification	(0.1)	0.1	–	–	–
At 31 December	46.2	218.0	41.4	178.7	484.3
<b>Net book amount</b>	216.1	118.2	45.9	3.1	383.3

The net book amount of property, plant and equipment at 1 January 2017 was \$419.0m.

### 13. Goodwill

	2018 \$m	2017 \$m
<b>Cost:</b>		
At 1 January	518.1	515.1
Exchange adjustments	(3.0)	3.0
At 31 December	515.1	518.1
<b>Accumulated impairment:</b>		
At 1 January	287.8	285.3
Exchange adjustments	(2.6)	2.5
At 31 December	285.2	287.8
<b>Net book amount</b>	229.9	230.3

The net book amount of goodwill at 1 January 2017 was \$229.8m.

#### (a) Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

CGU	2018 \$m	2017 \$m
Hunting Titan	180.4	180.5
Hunting Stafford "Subsea" (formally National Coupling Company)	15.0	15.0
Dearborn	12.5	12.5
US Manufacturing	12.5	12.5
Hunting Specialty	5.0	5.0
European Well Intervention (Welltonic acquisition)	4.5	4.8
At 31 December	229.9	230.3



### 13. Goodwill continued

#### (a) Impairment Tests for Goodwill continued

The recoverable amount for each CGU has been determined using a fair value less costs of disposal ("FVLCD") method, which represents the value of the CGU in a sales transaction on an arm's-length basis. As there is no active market for the Group's CGUs, the FVLCD is determined using discounted cash flow techniques based on the estimated future gross cash flows that are expected to be generated by the CGU and are discounted at a rate that is determined for each CGU in isolation by consideration of their business risk profiles. This method allows approved capital projects that are in progress to be included. The recoverable amount calculations use discounted pre-tax nominal cash flow projections. The FVLCD is a Level 3 measurement as per the fair value hierarchy as defined within IFRS 13 due to unobservable inputs used in the valuation.

The key assumptions for the recoverable amount calculations are revenue growth rates, taking into account the impact these have on margins, terminal growth rates and the discount rates applied.

For 2019, cash flows are based on the approved Board budget. For 2020 to 2023, management has made revenue projections using Spears and Associates "Drilling and Production Outlook" independent reports as a default basis, selecting the most appropriate geographic markets and drivers (rig count, footage drilled or E&P spend) for each CGU. Management has then applied judgemental changes to revenue growth expectations, if appropriate, to reflect circumstances specific to the CGU. Having determined the projected revenues, management has then modelled the expected impact on margins and cash flow from the resulting revenue projections.

2018 has seen a continuation of the recovery for the Group, in particular as a result of the growth of the US onshore market and has seen modest improvements in US offshore and some international markets. This mixed picture impacts CGUs differently depending on their exposure to these markets and compound annual growth rates ("CAGR") for revenue for the CGUs from 2018 to 2023 vary between 3% and 13% (2017 – CAGR from 2017 to 2022 between 9% and 19%). These growth rates should be seen in the context of the year-on-year declines in revenue in 2015 and 2016, which were 42% and 44% respectively, and the growth in revenue during 2017 and 2018 of 59% and 26% respectively. After 2023, a terminal value has been calculated assuming growth of 50 basis points above assumed inflation, giving nominal growth rates between 2% and 3% (2017 – between 2% and 3%).

Cash flows have been discounted using nominal pre-tax rates between 10% and 11% (2017 – 9% and 11%). The discount rates reflect current market assessments of the equity market risk premiums, the volatility of returns, the risks associated with the cash flows, the likely external borrowing rate of the CGU and expected levels of leverage. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

No impairment charges have been recorded as a result of the impairment review carried out in the year (2017 – \$nil).

#### (b) Material CGU

Hunting Titan – Hunting Titan represents 78% of the goodwill balance at the year-end (2017 – 78%) and has a carrying value, including amounts recognised on consolidation such as goodwill, of \$500.8m (2017 – \$459.5m). Projected annual growth rates from 2018 to 2023 vary between 2% and 5% (2017 – growth rates from 2017 to 2022 between 2% and 12%). Growth rates are lower following the record performance during 2018. Cash flows have been discounted at a nominal pre-tax rate of 11% (2017 – 10%). There is no reasonably foreseeable change in revenue growth rates, or terminal growth rates, or discount rates, which will give rise to impairment charges.

#### (c) Sensitivities

Management has reviewed various downside sensitivities versus the base case assumptions used in our projections. These covered revenue growth rates, terminal revenue growth rates and discount rates.

For our European Well Intervention CGU, if our CAGR from 2018 to 2023 is below 6% this will result in an impairment to the \$4.5m goodwill carrying value.

For the other CGUs, management has concluded that there are no reasonably possible changes in key assumptions that will give rise to an impairment.

## Notes to the consolidated financial statements continued

### 14. Other Intangible Assets

	2018				
	Customer relationships \$m	Unpatented technology \$m	Patents and trademarks \$m	Other \$m	Total \$m
<b>Cost:</b>					
At 1 January	247.1	72.8	57.3	22.0	399.2
Exchange adjustments	(0.2)	(0.3)	(0.1)	(0.3)	(0.9)
Additions	–	5.4	0.9	0.3	6.6
At 31 December	246.9	77.9	58.1	22.0	404.9
<b>Accumulated amortisation and impairment:</b>					
At 1 January	172.1	35.6	45.1	21.0	273.8
Exchange adjustments	(0.2)	(0.1)	–	(0.3)	(0.6)
Charge for the year	21.7	6.8	2.6	0.8	31.9
At 31 December	193.6	42.3	47.7	21.5	305.1
<b>Net book amount</b>	<b>53.3</b>	<b>35.6</b>	<b>10.4</b>	<b>0.5</b>	<b>99.8</b>

	2017				
	Customer relationships \$m	Unpatented technology \$m	Patents and trademarks \$m	Other \$m	Total \$m
<b>Cost:</b>					
At 1 January	246.8	69.2	55.0	21.6	392.6
Exchange adjustments	0.3	0.3	0.1	0.4	1.1
Additions	–	5.0	0.5	–	5.5
Disposals	–	(1.7)	1.7	–	–
At 31 December	247.1	72.8	57.3	22.0	399.2
<b>Accumulated amortisation and impairment:</b>					
At 1 January	150.0	29.5	42.5	19.9	241.9
Exchange adjustments	0.3	0.1	–	0.3	0.7
Charge for the year	21.8	6.2	2.4	0.8	31.2
Reclassification	–	(0.2)	0.2	–	–
At 31 December	172.1	35.6	45.1	21.0	273.8
<b>Net book amount</b>	<b>75.0</b>	<b>37.2</b>	<b>12.2</b>	<b>1.0</b>	<b>125.4</b>

The net book amount of other intangible assets at 1 January 2017 was \$150.7m.

Other intangible assets of \$0.5m (2017 – \$1.0m) include software of \$0.4m (2017 – \$0.7m).

Internally generated intangible assets have been included within unpatented technology. The carrying value at the beginning of the year was \$17.1m (restated) (2017 – \$12.8m restated). Additions during the year were \$5.4m (2017 – \$4.7m restated) and the amortisation charge for the year was \$1.4m (2017 – \$0.7m restated). After foreign exchange losses of \$0.3m (2017 – \$0.3m gains), the carrying value at the end of the year was \$20.8m (2017 – \$17.1m restated).

Internally generated intangible assets have also been included within patents. The carrying value at the beginning of the year was \$4.5m (2017 – \$3.5m). Additions during the year were \$0.9m (2017 – \$1.6m) and the amortisation charge for the year was \$0.9m (2017 – \$0.7m). After foreign exchange losses of \$0.1m (2017 – \$0.1m gains), the carrying value at the end of the year was \$4.4m (2017 – \$4.5m).

All intangible assets are regarded as having a finite life and are amortised accordingly. All amortisation charges relating to intangible assets have been charged to operating expenses.

Included in other intangible assets are balances for CGUs which may be subject to impairment sensitivities as follows: European Well Intervention \$2.8m (2017 – \$2.8m), Canada \$1.9m (2017 – \$1.9m) and Aberdeen/Netherlands OCTG \$0.1m (2017 – \$0.4m). Details of the sensitivity for the European Well Intervention CGU can be found in note 13 and for Canada and Aberdeen/Netherlands OCTG details can be found in note 12.

#### Individual Material Intangible Assets

Included in the table above are customer relationships, purchased as part of the Titan acquisition with a net book value of \$51.5m (2017 – \$70.5m). The cost brought forward and at the year-end was \$190.2m (2017 – \$190.2m). Following the amortisation charge of \$19.0m for the year (2017 – \$19.0m), accumulated amortisation at the year-end was \$138.7m (2017 – \$119.7m). The intangible asset has a remaining amortisation period at the year-end of 2.8 years (2017 – 3.8 years).

**15. Investments**

	2018 \$m	2017 \$m
Listed equity investments and mutual funds	1.7	12.2

The listed equity investments and mutual funds are presented on the balance sheet as non-current investments of \$1.7m (2017 – \$1.8m) and current investments of \$nil (2017 – \$10.4m). The listed equity investments and mutual funds are equity instruments measured at fair value through profit or loss. Returns on the listed equity investments and mutual funds of \$nil (2017 – \$1.9m) have been included in other finance income in note 9.

**16. Trade and Other Receivables**

	2018 \$m	2017 \$m
<b>Non-current:</b>		
Loan note	0.6	1.3
Prepayments	2.5	1.7
Other receivables	0.4	0.3
	3.5	3.3

	2018			
	Contracts with customers \$m	Rental receivables \$m	Other receivables \$m	Total \$m
<b>Current:</b>				
Contract assets	11.8	–	–	11.8
Trade receivables	172.1	12.6	0.3	185.0
Accrued revenue	5.3	2.6	–	7.9
Gross receivables	189.2	15.2	0.3	204.7
Less: provision for impairment	(2.7)	(0.3)	–	(3.0)
Net receivables	186.5	14.9	0.3	201.7
Prepayments	–	–	22.5	22.5
Loan note	–	–	0.6	0.6
Other receivables <sup>i</sup>	–	–	6.2	6.2
<b>Net book amount</b>	<b>186.5</b>	<b>14.9</b>	<b>29.6</b>	<b>231.0</b>

i. Other receivables include a provision for impairment of \$0.1m.

	Restated 2017			
	Contracts with customers \$m	Rental receivables \$m	Other receivables \$m	Total \$m
<b>Current:</b>				
Contract assets	6.8	–	–	6.8
Trade receivables	139.9	12.9	–	152.8
Accrued revenue	4.5	1.7	–	6.2
Gross receivables	151.2	14.6	–	165.8
Less: provision for impairment	(4.4)	(0.4)	–	(4.8)
Net receivables	146.8	14.2	–	161.0
Prepayments	–	–	17.6	17.6
Other receivables	–	–	7.1	7.1
<b>Net book amount</b>	<b>146.8</b>	<b>14.2</b>	<b>24.7</b>	<b>185.7</b>

Trade receivables of \$185.0m (2017 – \$152.8m), accrued revenue of \$7.9m (2017 – \$6.2m) and the loan note of \$1.2m (2017 – \$1.3m) are financial assets measured at amortised cost. Interest income on the loan note is included within other finance income in note 9. The amount is immaterial in 2018 and 2017. Interest charged on the loan is based on three-month LIBOR plus 2.75%.

Other receivables generally arise from transactions outside the usual operating activities of the Group and comprise receivables from associates of \$0.4m (2017 – \$0.5m), receivable on liquidation of associate of \$nil (2017 – \$1.3m), tax receivables (VAT, GST, franchise taxes, and sales and use taxes) of \$4.1m (2017 – \$3.8m), derivative financial assets \$0.7m (2017 – \$nil) and other receivables of \$1.4m (2017 – \$1.8m). Receivables from associates, the receivable on liquidation of an associate and other receivables are financial assets measured at amortised cost. Derivative financial assets of \$0.5m (2017 – \$nil) are held for trading measured at fair value through profit or loss and derivative financial assets of \$0.2m (2017 – \$nil) are designated in a hedge measured at fair value.

The Group does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held. In accordance with the amendments made to the Group's core committed bank facility in July 2016, security has been granted over certain trade receivables and other receivables in the UK, US and Canada, which have a gross value of \$153.6m (2017 – \$125.4m). For the receivables pledged as security, their carrying value approximates their fair value.

## Notes to the consolidated financial statements continued

### 16. Trade and Other Receivables continued

#### Impairment of Trade and Other Receivables

The Group has chosen to apply lifetime expected credit losses ("ECLs") to trade receivables, accrued revenue, contract assets and lease receivables, both short term and long term, upon their initial recognition. Each entity within the Group uses provision matrices for recognising ECLs on its receivables, which are based on actual credit loss experience over the past two years, at a minimum. Receivables are appropriately grouped by geographical region, product type or type of customer, and separate calculations produced, if historical or forecast credit loss experience shows significantly different loss patterns for different customer segments. Actual credit loss experience is then adjusted to reflect differences in economic conditions over the period the historical data was collected, current economic conditions, forward-looking information and the Group's view of economic conditions over the expected lives of the receivables.

The Group assesses, on a forward-looking basis, the ECLs at each balance sheet date associated with its loan note that is carried at amortised cost. The impairment methodology applied, following the adoption of the general model under IFRS 9, will depend on whether there has been a significant increase in credit risk. To assess whether there has been a significant increase in credit risk, the risk of default occurring on the loan as at 31 December 2018 is compared with the risk of default occurring as at the date of initial recognition, being 31 March 2015. Indications of a significant increase in credit risk include events that have a negative impact on the estimated future cash flows and if any payments under the terms of the debt are more than 30 days overdue. Macroeconomic information is also considered, including the current state of the tanker shipping market. The terms of the loan note were revised during 2017. There have been no breaches of the revised terms during 2018. Therefore, the Group does not consider there to have been a significant increase in credit risk.

During the year, the movements on the provision for impairment were as follows:

	2018			
	Contracts with customers \$m	Rental receivables \$m	Other receivables \$m	Total \$m
At 1 January (calculated under IAS 39)	4.4	0.4	–	4.8
Amounts restated through opening retained earnings (note 38(b))	0.2	–	–	0.2
At 1 January restated (calculated under IFRS 9)	4.6	0.4	–	5.0
Exchange adjustments	(0.1)	–	–	(0.1)
Charge to the income statement – lifetime expected credit losses	0.9	0.6	0.1	1.6
Unused provisions released to the income statement	(0.3)	(0.2)	–	(0.5)
Utilised against receivables written off	(2.4)	(0.5)	–	(2.9)
	2.7	0.3	0.1	3.1

	2017			
	Contracts with customers \$m	Rental receivables \$m	Other receivables \$m	Total \$m
At 1 January	4.1	0.3	–	4.4
Charge to the income statement	1.7	0.1	–	1.8
Unused provisions released to the income statement	(1.2)	–	–	(1.2)
Utilised against receivables written off	(0.2)	–	–	(0.2)
	4.4	0.4	–	4.8

Default on a financial asset is usually considered to have occurred when any contractual payments under the terms of the debt are more than 90 days overdue and no further deliveries are made or services provided to that customer unless there is a valid reason to do so.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that receivables are generally not recoverable include the failure of the debtor to engage in a repayment plan, failure to make contractual payments for a period greater than 180 days past due and the debtor being placed in administration. Where receivables have been written off, the entity will continue to try and recover the outstanding receivable. Impairment losses on receivables are presented net of unused provisions released to the income statement within operating expenses.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's wide and unrelated customer base. The Group's maximum exposure to any single trade debtor does not exceed \$9.8m. The maximum exposure to credit risk is the carrying amount of each class of financial assets mentioned above. The carrying value of each class of receivable approximates their fair value as described in note 26.

## 17. Deferred Tax

Deferred income tax assets and liabilities are only offset when there is a legally enforceable right to offset, when the deferred income taxes relate to the same fiscal authority and there is an intention to settle the balance net. The offset amounts are as follows:

	2018 \$m	2017 \$m
Deferred tax assets	26.0	4.2
Deferred tax liabilities	(1.2)	(6.2)
	24.8	(2.0)

The movement in the net deferred tax asset (liability) is as follows:

	2018 \$m	2017 \$m
At 1 January	(2.0)	(5.6)
Exchange adjustments	0.4	(0.3)
Credit (charge) to the income statement <sup>i</sup>	20.3	(1.8)
Change in tax rates	0.4	0.4
Taken direct to equity	0.2	–
Other movements	5.5	5.3
<b>At 31 December</b>	<b>24.8</b>	<b>(2.0)</b>

i. The credit (2017 – charge) to the income statement comprises a charge of \$9.4m (2017 – \$2.3m charge) for the origination and reversal of temporary differences, a credit for the recognition of US deferred tax of \$28.9m (2017 – \$nil) and a credit of \$0.8m (2017 – \$0.5m credit) for adjustments in respect of prior years (note 10).

The change in tax rates relates to the rate at which UK deferred tax balances are recorded. Other movements of \$5.5m (2017 – \$5.3m) include \$5.8m for the release of the deferred tax liability to offset tax withheld at source by the UK pension scheme following the repayment of a net \$10.6m surplus to the Company.

Deferred tax assets of \$35.4m gross and \$8.1m tax (2017 – \$174.0m gross and \$39.8m tax) have not been recognised as realisation of the tax benefit is not probable. This includes \$34.4m gross and \$7.9m tax (2017 – \$164.5m gross and \$37.1m tax) in respect of trading losses, which have no expiry date. Deferred tax assets of \$26.0m (2017 – \$4.2m) are expected to be recovered after more than 12 months. Deferred tax liabilities of \$1.2m (2017 – \$6.2m) are expected to be released within 12 months.

A deferred tax asset of \$19.1m (2017 – \$2.8m) has been recognised in respect of tax losses in various locations on the basis of forecast future taxable profits against which those tax losses could be utilised. Post-retirement benefits include \$nil (2017 – \$6.5m) in respect of the tax that will be withheld at source on the future refunds of the surplus from the pension scheme.

The movements in deferred tax assets and liabilities, prior to taking into consideration the offsetting of balances within the same tax jurisdictions, are shown below:

	At 1 January 2018 \$m	Exchange adjustments \$m	(Charge) credit to income statement \$m	Change in tax rates \$m	Taken direct to equity \$m	Other movements \$m	31 December 2018 \$m	At 31 December 2018 \$m	Net deferred tax assets \$m	Net deferred tax liabilities \$m
Tax losses	2.8	0.1	11.9	(0.1)	–	4.4	19.1	19.1	–	–
Inventory	5.2	–	6.0	–	–	(4.9)	6.3	6.3	–	–
Goodwill and intangibles	11.7	–	10.2	–	–	(11.9)	10.0	10.2	(0.2)	(0.2)
Post-retirement benefits	(4.8)	0.3	–	0.4	0.4	4.0	0.3	0.3	–	–
Asset decommissioning provision	1.2	–	1.1	–	–	(1.2)	1.1	1.1	–	–
Accumulated tax depreciation	(14.5)	0.1	(16.9)	–	–	14.1	(17.2)	(16.0)	(1.2)	(1.2)
Share-based payments	0.8	–	3.3	–	(0.2)	–	3.9	3.9	–	–
Other	(4.4)	(0.1)	4.7	0.1	–	1.0	1.3	1.1	0.2	0.2
	(2.0)	0.4	20.3	0.4	0.2	5.5	24.8	26.0	(1.2)	(1.2)

	At 1 January 2017 \$m	Exchange adjustments \$m	(Charge) credit to income statement \$m	Change in tax rates \$m	Taken direct to equity \$m	Other movements \$m	31 December 2017 \$m	At 31 December 2017 \$m	Net deferred tax assets \$m	Net deferred tax liabilities \$m
Tax losses	5.6	0.3	(3.2)	0.1	–	–	2.8	2.8	–	–
Inventory	7.3	–	–	–	–	(2.1)	5.2	0.3	4.9	–
Goodwill and intangibles	19.1	–	(0.5)	–	–	(6.9)	11.7	–	11.7	–
Post-retirement benefits	(8.8)	(0.7)	0.3	0.3	–	4.1	(4.8)	–	(4.8)	–
Asset decommissioning provision	2.1	–	–	–	–	(0.9)	1.2	–	1.2	–
Accumulated tax depreciation	(23.5)	–	0.5	–	–	8.5	(14.5)	0.6	(15.1)	–
Share-based payments	0.5	–	0.3	–	–	–	0.8	–	0.8	–
Other	(7.9)	0.1	0.8	–	–	2.6	(4.4)	0.5	(4.9)	–
	(5.6)	(0.3)	(1.8)	0.4	–	5.3	(2.0)	4.2	(6.2)	–

## Notes to the consolidated financial statements continued

### 17. Deferred Tax continued

Now that deferred tax assets have been recognised in full for the US, the net adjusted tax assets for goodwill and intangibles is shown as a net deferred tax asset. For 2017, deferred tax assets were not recognised in respect of assets above deferred tax liabilities and consequently is shown in net deferred tax liabilities.

### 18. Inventories

	2018 \$m	Restated 2017 \$m
Raw materials	113.8	98.7
Work in progress	67.7	47.4
Finished goods	191.2	163.1
Gross inventories	372.7	309.2
Less: provisions for losses	(24.5)	(28.2)
<b>Net inventories</b>	<b>348.2</b>	<b>281.0</b>

The net inventory balance comprises \$295.2m of inventory carried at cost (2017 – \$226.7m restated) and \$53.0m of inventory carried at net realisable value (2017 – \$54.3m). In determining an estimate of net realisable value, management makes judgements in respect of the durability and general high quality of the Group's products, which provide a degree of protection against adverse market conditions and competitor product development and pricing activity.

Gross inventories have increased \$63.5m from \$309.2m (restated) at 31 December 2017 to \$372.7m at 31 December 2018. Additions to inventories were \$670.4m (2017 – \$534.2m), which were offset by foreign exchange losses of \$6.8m (2017 – \$8.0m gains), inventories expensed to cost of sales of \$592.8m (2017 – \$514.7m restated), inventories written off of \$7.3m (2017 – \$4.2m) against the inventory provision and inventories transferred to PPE of \$nil (2017 – \$0.5m).

The inventory provision has decreased by \$3.7m from \$28.2m (restated) at 31 December 2017 to \$24.5m at 31 December 2018, as a result of an impairment charge included in cost of sales of \$6.2m (2017 – \$6.6m), offset by foreign exchange gains of \$0.6m (2017 – \$0.9m losses), \$7.3m (2017 – \$4.2m) of the provision being utilised in the year against inventories written off and the reversal of previous write-downs of \$2.0m (2017 – \$1.4m) also included in cost of sales. The reversal of previous write-downs occurred when inventory was sold for an amount higher than its net realisable value and also where older inventories, which had previously been written off, were sold as market conditions improved in the oil and gas sector. Overall, Hunting's provision for inventory losses has reduced from 9% of gross inventory balances at 31 December 2017 to 7% at 31 December 2018, as improving market conditions have lead to a lower proportion of inventories having a recoverable value less than their cost.

In accordance with the amendments made to the Group's core committed bank facility in July 2016, security has been granted over inventories in certain subsidiaries in the UK, US and Canada, which have a gross value of \$234.1m (2017 – \$188.9m).

The Group expects that \$290.0m (2017 – \$211.9m restated) of the Group's inventories of \$348.2m (2017 – \$281.0m restated) will be realised within 12 months of the balance sheet date and \$58.2m (2017 – \$69.1m) will be realised after 12 months.

### 19. Trade and Other Payables

	2018 \$m	2017 \$m
<b>Non-current:</b>		
US deferred compensation plan obligation (note 29)	1.7	1.8
Accruals	1.4	1.5
Social security and other taxes	0.7	0.5
Other payables – derivative financial liabilities	–	0.1
	<b>3.8</b>	<b>3.9</b>
	2018 \$m	Restated 2017 \$m
<b>Current:</b>		
Contract liabilities	5.5	9.1
Trade payables	62.3	47.3
Social security and other taxes	8.8	9.3
Accruals	59.9	49.9
US deferred compensation plan obligation (note 29)	–	10.4
Other payables	4.4	4.9
	<b>140.9</b>	<b>130.9</b>

Trade payables of \$62.3m (2017 – \$47.3m), accruals of \$61.3m (2017 – \$51.4m) and other payables of \$4.3m (2017 – \$3.0m) are financial liabilities measured at amortised cost. Other payables also include derivative financial liabilities of \$0.1m (2017 – \$0.4m) held for trading measured at fair value through profit or loss, derivative financial liabilities designated in a fair value hedge measured at fair value of \$nil (2017 – \$0.5m) and derivative financial liabilities designated in a cash flow hedge measured at fair value of \$nil (2017 – \$0.1m).

## 20. Contract Assets and Liabilities

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2018 \$m	2017 \$m
Contract assets (note 16)	<b>11.8</b>	6.8
Contract liabilities (note 19)	<b>(5.5)</b>	(9.1)
Trade receivables – contracts with customers (note 16)	<b>172.1</b>	139.9
Loss allowance	<b>(2.7)</b>	(4.4)
Net trade receivables – contracts with customers	<b>169.4</b>	135.5

There was an impairment write-down of \$0.9m recognised in relation to receivables arising on the Group's contracts with customers, foreign exchange gains of \$0.1m, \$2.4m of the provision was utilised in the year against receivables written off and \$0.3m reversal of an impairment write-down in relation to receivables arising on contracts with customers.

### (a) Significant Changes in Contract Assets and Contract Liabilities

Contract assets have increased from \$6.8m in 2017 to \$11.8m due to increased levels of bespoke customer work-in-progress in Hunting Dearborn.

Contract liabilities represent deposits received on contracts relating to the purchase of pipe in the Asia Pacific businesses, prior to Hunting placing an order with the steel mills, and have decreased from \$9.1m in 2017 to \$5.5m due to a change in the mix of orders at the year-end, whereby customers were not required to pay a deposit when placing an order.

### (b) Revenue Recognised in Relation to Contract Liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2018 \$m	2017 \$m
Revenue recognised that was included in the contract liability balance at the beginning of the year	<b>8.8</b>	1.6
Revenue recognised from performance obligations satisfied (or partially satisfied) in previous years	–	–
<b>Total</b>	<b>8.8</b>	1.6

### (c) Unsatisfied Performance Obligations

The aggregate amount of the transaction price allocated to partially or fully unsatisfied performance obligations as at the year-end on confirmed purchase orders received prior to the year-end is \$250.2m. It is expected that 97% or \$243.0m will be recognised as revenue in the 2019 financial year and the remaining 3% or \$7.2m in future years.

As permitted under the transitional provisions of IFRS 15, the transaction price allocated to unsatisfied performance obligations as of 31 December 2017 is not disclosed.

## 21. Cash and Cash Equivalents

	2018 \$m	2017 \$m
Cash at bank and in hand	<b>32.4</b>	36.4
Money Market Funds	<b>26.1</b>	–
Short-term deposits of less than three month's maturity	<b>9.4</b>	–
	<b>67.9</b>	36.4

Cash at bank and in hand and short-term deposits are carried at amortised cost. Money Market Funds are financial assets carried at fair value through profit or loss.

## Notes to the consolidated financial statements continued

### 22. Borrowings

	2018 \$m	2017 \$m
<b>Non-current:</b>		
Other unsecured loans	3.9	3.9
<b>Current:</b>		
Bank overdrafts secured	1.8	2.1
Unsecured bank loans	0.9	–
	2.7	2.1
<b>Total borrowings</b>	<b>6.6</b>	<b>6.0</b>

In accordance with the amendments made to the Group's committed facility in July 2016, security has been granted over certain property, plant and equipment, receivables and inventory. The carrying amounts of the assets pledged as security are disclosed in notes 12, 16 and 18.

#### Analysis of Borrowings by Currency

The carrying amount of the Group's borrowings is denominated in the following currencies:

	US dollars \$m	Chinese CNY \$m	Total \$m
Other unsecured loans	3.9	–	3.9
Bank overdrafts secured	1.8	–	1.8
Unsecured bank loans	–	0.9	0.9
<b>At 31 December 2018</b>	<b>5.7</b>	<b>0.9</b>	<b>6.6</b>
	US dollars \$m	Chinese CNY \$m	Total \$m
Other unsecured loans	3.9	–	3.9
Bank overdrafts secured	2.1	–	2.1
<b>At 31 December 2017</b>	<b>6.0</b>	<b>–</b>	<b>6.0</b>

### 23. Changes in Net Cash (Debt)

Hunting operates a centralised treasury function that manages all cash and loan positions throughout the Group and ensures funds are used efficiently through the use of cash concentration account structures and other such measures. As the Group manages funding on a net cash/debt basis, internal reporting focuses on changes in net cash/debt and this is presented in the Strategic Report. The net cash/debt reconciliation provides an analysis of the movement in the year for each component of net debt split between cash and non-cash items. Net cash/debt comprises cash at bank and in hand, short-term deposits and Money Market Funds less bank overdrafts, current and non-current borrowings.

	At 1 January 2018 \$m	Cash flow \$m	Exchange movements \$m	Movement in capitalised loan facility fees <sup>1</sup> \$m	Reclassified to prepayments \$m	At 31 December 2018 \$m
Cash at bank and in hand (note 21)	36.4	(2.9)	(1.1)	–	–	32.4
Money Market Funds (note 21)	–	26.1	–	–	–	26.1
Short-term deposits (note 21)	–	9.4	–	–	–	9.4
Bank overdrafts (note 22)	(2.1)	0.3	–	–	–	(1.8)
Cash and cash equivalents – per cash flow statement	34.3	32.9	(1.1)	–	–	66.1
Other current borrowings (note 22)	–	(0.9)	–	–	–	(0.9)
Non-current borrowings (note 22)	(3.9)	–	–	–	–	(3.9)
<b>Total net cash (debt)</b>	<b>30.4</b>	<b>32.0</b>	<b>(1.1)</b>	<b>–</b>	<b>–</b>	<b>61.3</b>

	At 1 January 2017 \$m	Cash flow \$m	Exchange movements \$m	Movement in capitalised loan facility fees <sup>1</sup> \$m	Reclassified to prepayments \$m	At 31 December 2017 \$m
Cash at bank and in hand (note 21)	63.5	(29.0)	1.9	–	–	36.4
Bank overdrafts (note 22)	(43.2)	41.7	(0.6)	–	–	(2.1)
Cash and cash equivalents – per cash flow statement	20.3	12.7	1.3	–	–	34.3
Current investments (note 22)	0.8	(0.8)	–	–	–	–
Non-current borrowings (note 22)	(12.5)	9.0	(0.4)	–	–	(3.9)
Current bank loans (note 22)	(11.1)	11.6	(0.5)	–	–	–
Total net borrowings	(2.5)	32.5	0.4	–	–	30.4
Capitalised loan facility fees	0.6	–	–	(0.2)	(0.4)	–
<b>Total net cash (debt)</b>	<b>(1.9)</b>	<b>32.5</b>	<b>0.4</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>30.4</b>

i. During the year, \$0.5m (2017 – \$0.2m) loan facility fees were paid, \$0.6m (2017 – \$nil) were accrued and \$0.4m (2017 – \$0.4m) fees were amortised.



## 24. Provisions

	Onerous contracts \$m	Other \$m	Total \$m
At 1 January 2018	5.4	12.6	18.0
Exchange adjustments	(0.3)	(0.2)	(0.5)
Charged to the income statement	0.8	0.9	1.7
Provisions utilised	(0.8)	(2.9)	(3.7)
Unutilised amounts reversed	(1.0)	(0.3)	(1.3)
Unwinding of discount	-	0.1	0.1
Reclassification to accruals	-	(0.1)	(0.1)
<b>At 31 December 2018</b>	<b>4.1</b>	<b>10.1</b>	<b>14.2</b>

Provisions are due as follows:

	2018 \$m	2017 \$m
Current	4.7	6.4
Non-current	9.5	11.6
	<b>14.2</b>	<b>18.0</b>

The Group has commitments in respect of leasehold properties, some of which are not used for Group trading purposes and are vacant or sub-let to third parties. The provision for onerous contracts reflects the uncertainty of future conditions in the sub-letting market. It is expected that \$1.1m of the provision will be utilised in 2019 and the remaining balance of \$3.0m will be utilised from 2020 to 2023. Provision is made on a discounted basis, at a risk-free rate of between 0.72% and 0.86% p.a. (2017 – between 0.22% and 0.72% p.a.), for the net rental deficit on these properties to the end of the lease term.

Other provisions include asset decommissioning and remediation obligations of \$5.6m (2017 – \$6.2m) relating to the Group's obligation to dismantle, remove and restore items of property, plant and equipment and warranties and tax indemnities of \$0.9m (2017 – \$1.0m). The asset decommissioning provision reflects uncertainty in the timing and amounts of the costs expected to arise in meeting this obligation. Provision is made on a discounted basis, the majority of which is estimated to be utilised over a period of 14 years.

## 25. Derivatives and Hedging

### (a) Currency Derivatives

The Group uses derivatives for economic hedging purposes and no speculative positions are entered into by the Group. The Group has used spot and forward foreign exchange contracts, together with foreign currency swaps to hedge its exposure to exchange rate movements during the year.

Fair values of outstanding derivative financial instruments:

	2018		2017	
	Total assets \$m	Total liabilities \$m	Total assets \$m	Total liabilities \$m
Forward foreign exchange contracts – in a cash flow hedge	-	-	-	(0.1)
Forward foreign exchange contracts – in a fair value hedge	-	-	-	(0.1)
Forward foreign exchange contracts – not in a hedge	0.2	(0.1)	-	(0.1)
Foreign currency swaps – in a fair value hedge	0.2	-	-	(0.4)
Foreign currency swaps – not in a hedge	0.3	-	-	(0.3)
<b>Total</b>	<b>0.7</b>	<b>(0.1)</b>	<b>-</b>	<b>(1.0)</b>

Gains on contracts that are not designated in a hedge relationship of \$0.3m (2017 – \$0.1m gain) have been recognised in the income statement during the year and gains of \$0.6m (2017 – \$nil) on contracts not designated in a hedge relationship have been recognised in exceptional items, which has been included in the \$2.0m credit on the closure of the South African facility in note 6.

### (b) Fair Value Hedge

During the year, foreign currency swaps have been designated in a fair value hedge to hedge the foreign exchange changes in a pseudo-equity Canadian dollar inter-company loan by the entity with the loan receivable, where the functional currency of the lending entity is US dollars. The value of the foreign currency swap and the value of the Canadian dollar-denominated pseudo-equity loan move in the opposite direction as a result of movements in the CAD/USD exchange rate, being the hedged risk. There was no ineffectiveness in the fair value hedge.

The pseudo-equity loan does not appear in the Group's statement of financial position as it is an inter-company loan and is therefore eliminated on consolidation.

## Notes to the consolidated financial statements continued

### 25. Derivatives and Hedging continued

#### (b) Fair Value Hedge continued

The effects of the outstanding foreign currency swap on the Group's financial position and performance are as follows:

		2018
Carrying amount of the foreign currency swap – asset (note 16)	\$m	0.2
Notional amount of the foreign currency swap	\$m	14.2
Maturity date		07.01.19
Hedge ratio <sup>i</sup>		1:1
Carrying amount of the pseudo-equity loan	\$m	14.2
Change in value of hedged item used to determine hedge effectiveness	\$m	(0.2)

i. The foreign currency swap is denominated in the same currency as the pseudo equity loan to match the exposed currency risk, therefore the hedge ratio is 1:1.

Forward foreign exchange contracts have also been designated in a fair value hedge to hedge the foreign exchange movement in foreign currency trade payables. The value of the forward foreign exchange contract matches the value of the trade payables and they move in opposite directions as a result of movements in the CAD/USD exchange rate, being the hedged risk. Immaterial fair value losses have been recognised in the income statement during the year.

#### (c) Cash Flow Hedge

The Group has entered into contracts to purchase materials from suppliers in US dollars, where the entity's functional currency is Canadian dollars. Certain of these highly probable forecast transactions have been designated in a cash flow hedge relationship and hedged using forward foreign exchange contracts during the year. The value of the forward foreign exchange contract matches the value of the forecast inventory purchase and they move in opposite directions as a result of movements in the CAD/USD exchange rate, being the hedged risk. It is anticipated that the materials will be sold within 12 months after purchase, at which time the amount deferred in equity will be reclassified to profit or loss as part of the cost of inventories sold.

The Group also entered into a contract to purchase an item of property, plant and equipment from a supplier in US dollars, where the entity's functional currency is Canadian dollars. This highly probable forecast transaction was hedged using a forward foreign exchange contract. The value of the forward foreign exchange contract matched the value of the forecast property, plant and equipment purchase and they move in opposite directions as a result of movements in the CAD/USD exchange rate, being the hedged risk. The amount deferred in equity will be reclassified to profit or loss as part of the depreciation charge over the item's useful life.

The Group also entered into a contract to purchase an item of property, plant and equipment from a supplier in Euros, where the entity's functional currency is US dollars. This highly probable forecast transaction has been hedged using a forward foreign exchange contract. The value of the forward foreign exchange contract matched the value of the forecast property, plant and equipment purchase and they move in opposite directions as a result of movements in the EUR/USD exchange rate, being the hedged risk. The amount deferred in equity will be reclassified to profit or loss as part of the depreciation charge over the item's useful life.

The Group's cash flow hedge reserve, which is disclosed as part of other reserves in note 31, relates to the spot component of forward foreign exchange contracts, as follows:

	\$m
Balance as at 1 January 2017	–
Fair value losses of forward foreign exchange contracts recognised in OCI	(0.2)
Reclassified from OCI to profit or loss	0.1
Balance as at 31 December 2017	(0.1)
Fair value gains of forward foreign exchange contracts recognised in OCI	0.3
Reclassified to the carrying value of inventory	(0.2)
Balance as at 31 December 2018	–

**25. Derivatives and Hedging** continued**(c) Cash Flow Hedge** continued

The effects of outstanding forward foreign exchange contracts on the Group's financial position and performance are as follows:

		2018
Carrying amount of the forward foreign exchange contracts – asset	\$m	<0.1
Notional amount of the forward foreign exchange contracts	\$m	2.2
Maturity date		25.01.19 to 24.10.19
Hedge ratio <sup>iii</sup>		1:1
Change in value of hedged item used to determine hedge effectiveness	\$m	<(0.1)

iii. The forward foreign exchange contracts are denominated in the same currency as the highly probable forecast transactions to match the exposed currency risk, therefore the hedge ratio is 1:1.

Immaterial changes in the forward points, the differential between the forward rate and the market spot rate, have been recognised in the income statement during the year and previous year.

**(d) Hedge Effectiveness**

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic hedge relationship exists between the hedged item and the hedging instrument.

For hedges of the pseudo-equity loan, the Group enters into hedge relationships where the value of the foreign currency swap matches exactly with the value of the loan. The Group, therefore, performs a qualitative assessment of effectiveness. Ineffectiveness will arise if the pseudo-equity loan is partially or fully repaid prior to the maturity of the foreign currency swap.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group, therefore, performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the forward foreign exchange contract, then the Group uses the hypothetical derivative method to assess effectiveness. Ineffectiveness may arise if there is a change in the timing of the forecast transaction from what was originally estimated or from a change in the US\$ amount charged and invoiced. A possible source of ineffectiveness is also a change in credit risk of either party to the derivative, however any change in credit risk is not expected to be material.

There was no ineffectiveness during 2018 or 2017.

**26. Financial Instruments: Fair Values**

The carrying value of investments, the loan note, contract assets, trade receivables, accrued revenue, other receivables, short-term deposits, cash and cash equivalents, trade payables, accruals, other payables, provisions considered to be financial liabilities, bank overdrafts and other unsecured loans approximates their fair value. Drawdowns under the revolving credit facility are typically for periods of one month or less and, as a result, the carrying value and the fair value are considered to be the same.

The following tables present the Group's other financial assets and liabilities that are measured at fair value at the year-end and show the level in the fair value hierarchy in which the fair value measurements are categorised. There were no transfers between Level 1 and Level 2 during the year.

	Fair value at 31 December 2018 \$m	Level 1 \$m	Level 2 \$m
<b>Equity instruments at fair value through profit or loss</b>			
Non-current Listed equity investments and mutual funds	1.7	1.7	–
<b>Debt instruments at fair value through profit or loss</b>			
Money Market Funds	26.1	26.1	–
<b>Current derivatives held for trading</b>			
Derivative financial assets	0.5	–	0.5
Derivative financial liabilities	(0.1)	–	(0.1)
<b>Current derivatives in a hedge</b>			
Derivative financial assets	0.2	–	0.2
	<b>28.4</b>	<b>27.8</b>	<b>0.6</b>

# Notes to the consolidated financial statements continued

## 26. Financial Instruments: Fair Values continued

	Restated		
	Fair value at 31 December 2017 \$m	Level 1 \$m	Level 2 \$m
<b>Non-current investments</b>			
Listed equity investments and mutual funds	1.8	1.8	–
<b>Current investments</b>			
Listed equity investments and mutual funds	10.4	10.4	–
<b>Non-current derivatives held for trading</b>			
Derivative financial liabilities	(0.1)	–	(0.1)
<b>Current derivatives held for trading</b>			
Derivative financial liabilities	(0.4)	–	(0.4)
<b>Current derivative in a hedge</b>			
Derivative financial liabilities	(0.5)	–	(0.5)
	11.2	12.2	(1.0)

The above table has been restated to exclude the US deferred compensation plan, as this liability is accounted for under IAS 19 and, therefore, is not a financial liability.

The fair value hierarchy has the following levels:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

The fair value of forward foreign exchange contracts is determined by comparing the cash flows generated by the contract with the coterminous cash flows potentially available in the forward exchange market on the balance sheet date. The fair value of Money Market Funds and listed equities and mutual funds is based on their current bid prices in an active market, which is considered to be the most representative of fair value, at the balance sheet date. The fair values of non-US dollar denominated financial instruments are translated into US dollars using the year-end exchange rate.

The inputs used to determine the fair value of derivative financial instruments are inputs other than quoted prices that are observable and so the fair value measurement is categorised in Level 2 of the fair value hierarchy. The fair value of Money Market Funds and listed equity investments and mutual funds is based on quoted market prices and so the fair value measurement is categorised in Level 1 of the fair value hierarchy.

## 27. Financial Risk Management

The Group's activities expose it to certain financial risks, namely market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's risk management strategy seeks to mitigate potential adverse effects on its financial performance. As part of its strategy, both primary and derivative financial instruments are used to hedge certain risk exposures.

There are clearly defined objectives and principles for managing financial risk established by the Board of Directors, with policies, parameters and procedures covering the specific areas of funding, banking relationships, foreign currency and interest rate exposures and cash management.

The Group's treasury function is responsible for implementing the policies and providing a centralised service to the Group for funding, foreign exchange and interest rate management and counterparty risk management. It is also responsible for identifying, evaluating and hedging financial risks in close co-operation with the Group's operating companies.

### (a) Market Risk: Foreign Exchange Risk

The Group's international base is exposed to foreign exchange risk from its investing, financing and operating activities, particularly in respect of Sterling, Canadian dollars and Chinese Yuan Renminbi. Foreign exchange risks arise from future transactions and cash flows, and from recognised monetary assets and liabilities that are not denominated in the functional currency of the Group's local operations.

The Group's material foreign exchange rates are:

	Sterling		Canadian dollar	
	2018	2017	2018	2017
Average exchange rate to US dollars	0.75	0.78	1.30	1.30
Year-end exchange rate to US dollars	0.79	0.74	1.37	1.25

### (i) Transactional Risk

The exposure to exchange rate movements in significant future transactions and cash flows is hedged by using forward foreign exchange contracts. Certain forward foreign exchange contracts have been designated as hedging instruments of highly probable forecast transactions. Operating companies prepare quarterly rolling 12-month cash flow forecasts to enable working capital currency exposures to be identified. Exposures are also identified and hedged, if necessary, on an ad-hoc basis, such as when a purchase order in a foreign currency is placed. Currency exposures arise where the cash flows are not in the functional currency of the entity. Exposures arising from committed long-term projects beyond a 12-month period are also identified. The currency flows to be hedged are committed foreign currency transactions greater than \$50,000 equivalent. Exposures of less than \$50,000 equivalent will also be hedged but only where the underlying foreign currency cash flow is expected to occur 60 days or more from the point of entering into the transaction.

**27. Financial Risk Management continued****(a) Market Risk: Foreign Exchange Risk continued**

The table below shows the carrying values of the Group's financial instruments at 31 December, including derivative financial instruments, on which exchange differences would potentially be recognised in the income statement in the following year. The table excludes derivatives designated in a cash flow hedge as fair value gains and losses arising on these are recognised in other comprehensive income.

At 31 December 2018	Currency of denomination						Total \$m
	Sterling \$m	US dollars \$m	AED \$m	Euro \$m	Chinese CNY \$m	Other currencies \$m	
Functional currency of Group's entities:							
Sterling	–	(3.5)	–	(0.1)	–	–	(3.6)
US dollars	(2.4)	–	(1.4)	(0.1)	1.0	(0.1)	(3.0)
Canadian dollars	–	(0.3)	–	–	–	–	(0.3)
Singapore dollars	–	2.3	–	–	–	–	2.3
Euro	(0.8)	–	–	–	–	–	(0.8)
Chinese CNY	–	–	–	–	–	(0.2)	(0.2)
	(3.2)	(1.5)	(1.4)	(0.2)	1.0	(0.3)	(5.6)

The Sterling, US dollar, United Arab Emirates ("UAE") Dirham ("AED") and Chinese Yuan Renminbi ("CNY") denominated financial instruments consist of cash balances, trade and other receivables, accrued revenue, trade and other payables, accrued expenses, provisions and intra-Group loans.

At 31 December 2017	Currency of denomination						Total \$m
	Sterling \$m	US dollars \$m	AED \$m	Euro \$m	Chinese CNY \$m	Other currencies \$m	
Functional currency of Group's entities:							
Sterling	–	1.7	–	–	–	–	1.7
US dollars	(1.9)	–	(0.7)	–	2.5	(0.3)	(0.4)
Canadian dollars	–	(1.2)	–	–	–	–	(1.2)
Singapore dollars	–	1.6	–	(0.1)	–	–	1.5
Euro	(0.2)	–	–	–	–	–	(0.2)
Chinese CNY	–	(1.5)	–	–	–	(0.5)	(2.0)
	(2.1)	0.6	(0.7)	(0.1)	2.5	(0.8)	(0.6)

The Sterling, US dollar and Chinese Yuan Renminbi denominated financial instruments consist of cash balances, trade and other receivables, accrued revenue, trade and other payables, accrued expenses, provisions and intra-Group loans.

**(ii) Translational Risk**

Foreign exchange risk also arises from financial assets and liabilities not denominated in the functional currency of an entity's operations and forward foreign exchange contracts are used to manage the exposure to changes in foreign exchange rates. Where appropriate, hedge accounting is applied to the forward foreign exchange contracts and the hedged item to remove any accounting mismatch.

Foreign exchange risk also arises from the Group's investments in foreign operations. During the year, foreign currency swaps have been designated in a fair value hedge to hedge the foreign exchange rate changes in a pseudo-equity Canadian dollar inter-company loan.

The foreign exchange exposure arising from the translation of its net investments in foreign operations into the Group's presentation currency of US dollars has also previously been managed by designating any borrowings that are not US dollar denominated as a hedge of the net investment in foreign operations. The foreign exchange exposure primarily arises from Sterling and Canadian dollar denominated net investments.

**(b) Market Risk: Interest Rate Risk**

Variable interest rates on cash at bank, short-term deposits, overdrafts and borrowings expose the Group to cash flow interest rate risk and fixed interest rates on loans and short-term deposits expose the Group to fair value interest rate risk. The treasury function manages the Group's exposure to interest rate risk and uses interest rate swaps and caps, when considered appropriate.

## Notes to the consolidated financial statements continued

### 27. Financial Risk Management continued

#### (c) Credit Risk

The Group's credit risk arises from its cash at bank and in hand, Money Market Funds, short-term deposits, investments, derivative financial instruments, the loan note, accrued revenue, outstanding trade receivables and contract assets.

At the year-end, the Group had credit risk exposures to a wide range of counterparties. Credit risk exposure is continually monitored and no individual exposure is considered to be significant in the context of the ordinary course of the Group's activities. Exposure limits are set for each approved counterparty, as well as the types of transactions that may be entered into. Approved institutions that the treasury function can invest surplus cash with must all have a minimum A2, P2 or F2 short-term rating from Standard and Poor's, Moody's or Fitch rating agencies respectively and AAAM S&P rating for Money Market Funds. The Net Asset Value of the Money Market Funds aims to be a minimum of 1 (this means that for every \$1 that is in the fund there will be an asset to cover it) and the funds have overnight liquidity. At the year-end, deposits in Money Market Funds totalled \$26.1m (2017 – \$nil).

At the year-end, cash at bank and in hand totalled \$32.4m (2017 – \$36.4m), with \$18.0m (2017 – \$25.1m) deposited with banks with Fitch short-term ratings of F1 to F1+. Of the remaining \$14.4m (2017 – \$11.3m), \$13.5m (2017 – \$9.9m) was held with two financial institutions within mainland China which, given the Group's operations in this jurisdiction, were deemed necessary. Despite not having formal credit ratings, an internal assessment determined that the banks' credit profiles were appropriate for the amounts held on deposit. There are no formal restrictions on this cash as such, however, prior approval would be required from various state authorities in China before any cash could be paid offshore.

Surplus cash held in short-term deposits totalled \$9.4m (2017 – \$nil) and are held with banks with Fitch short-term ratings of F1.

The credit risk of foreign exchange contracts is calculated before the contract is acquired and compared to the credit risk limit set for each counterparty. Credit risk is calculated as a fixed percentage of the nominal value of the instrument.

Trade and other receivables are continuously monitored. Credit account limits are primarily based on the credit quality of the customer and past experience through trading relationships. To reduce credit risk exposure from outstanding receivables, the Group has taken out credit insurance with an external insurer, subject to certain conditions.

The Group operates a defined benefit pension scheme in the US, which is unfunded. Contributions are paid into a separate investment vehicle and invested in a wide portfolio of US mutual funds that are recognised as current and non-current investments. Investments at the year-end amounted to \$1.7m (2017 – \$12.2m) and are expected to be fully recovered.

#### (d) Liquidity Risk

The Group needs to ensure that it has sufficient liquid funds available to support its working capital and capital expenditure requirements. All subsidiaries submit weekly and bi-monthly cash forecasts to the treasury function to enable them to monitor the Group's requirements.

The Group has sufficient credit facilities to meet both its long- and short-term requirements. The Group's credit facilities are provided by a variety of funding sources and total \$164.9m (2017 – \$205.0m) at the year-end. The facilities comprise \$159.5m of secured committed facilities (2017 – \$200.0m) and \$5.4m secured uncommitted facilities (2017 – \$5.0m).

On 12 December 2018, Hunting PLC completed a refinancing of the Group's \$200m Revolving Credit Facility by way of an "amend and extend" of the existing syndicate facility arrangements. The transaction enabled Hunting to extend the maturity of the RCF from October 2020 out until December 2022, with an option to extend for a further one year to December 2023. Furthermore, this refinancing event provided an opportunity for Hunting to amend, and formally remove any reference to, many of the terms and conditions that had been introduced as part of the 2016 refinancing. However, as previously communicated, most of these terms had ceased to be effective as of 18 January 2018. The main features of the RCF are as follows:

- Committed facilities reduced to \$160.0m to reflect anticipated funding requirements of the Group going forward.
- A slight uplift in the base margin on amounts drawn under the facility from 0.85% to 1.00%, reflecting a general upward shift in bank loan pricing.
- Maintaining the market standard financial covenants of the existing facility, as discussed below.
- A review of and uplift to other limits within the facility such as Negative Pledge and Subsidiary Financial Indebtedness.
- Introduction of a \$75.0m accordion feature, providing Hunting with additional flexibility to increase the size of the bank facility to \$235.0m, subject to approval of its bank lending group.

Security continues to be granted over certain properties, plant and equipment, receivables and inventory. The carrying amounts of the assets pledged as security are disclosed in notes 12, 16 and 18.

The covenants to 31 December 2018 include:

- The ratio of net debt to consolidated EBITDA permitted under the revolving credit facility must not exceed a multiple of three times.
- Consolidated EBITDA must also cover relevant finance charges by a minimum of four times.

For covenant testing purposes, the Group's definition of consolidated EBITDA is adjusted to exclude exceptional items, include the share of associates' post-tax results and exclude the fair value charge for share awards. Similarly, net cash (debt) and finance expenses are adjusted to accord with the definition within the facility agreement. Consolidated EBITDA, for covenant test purposes, is based on the previous 12-month period, measured twice yearly at 30 June and 31 December. Throughout the year and at 31 December 2018 both these covenants were met.

As the revised facility size and terms are significantly different, the existing \$200m RCF is deemed to have been extinguished and replaced by the new \$160m RCF. The deferred bank fees of \$0.4m relating to the \$200m RCF have been recognised in the income statement during the year and \$1.1m of deferred bank fees relating to the \$160m RCF have been recognised in prepayments at the end of the year.

**27. Financial Risk Management continued****(d) Liquidity Risk continued**

The Group's treasury function ensures flexibility in funding by maintaining availability under committed credit facilities. The Group had undrawn committed borrowing facilities available at the year-end totalling \$159.5m (2017 – \$199.5m), which expire between one and five years from 31 December 2018.

The following tables analyse the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date of the financial liabilities. The amounts are the contractual, undiscounted cash flows. The carrying amounts in the balance sheet are the discounted amounts. Balances due within one year have been included in the maturity analysis at their carrying amounts, as the impact of discounting is not significant.

	2018			Total \$m
	On demand or within one year \$m	Between one and five years \$m	After five years \$m	
Non-derivative financial liabilities:				
Trade payables	62.3	–	–	62.3
Accruals	59.9	0.9	0.5	61.3
Other payables	4.3	–	–	4.3
Onerous lease contracts	1.1	3.0	–	4.1
Secured bank loans	0.6	1.1	–	1.7
Unsecured bank loans	0.9	–	–	0.9
Other unsecured loans	–	–	3.9	3.9
Bank overdrafts secured	1.8	–	–	1.8
<b>Total</b>	<b>130.9</b>	<b>5.0</b>	<b>4.4</b>	<b>140.3</b>

	Restated 2017			Total \$m
	On demand or within one year \$m	Between one and five years \$m	After five years \$m	
Non-derivative financial liabilities:				
Trade payables	47.3	–	–	47.3
Accruals	49.9	0.7	0.8	51.4
Other payables	3.0	–	–	3.0
Onerous lease contracts	1.0	3.5	1.1	5.6
Secured bank loans	0.5	1.0	–	1.5
Other unsecured loans	–	–	3.9	3.9
Bank overdrafts secured	2.1	–	–	2.1
<b>Total</b>	<b>103.8</b>	<b>5.2</b>	<b>5.8</b>	<b>114.8</b>

The above table has been restated to exclude the US deferred compensation plan, as this liability is accounted for under IAS 19 and therefore is not a financial liability under IFRS 9.

The Group had no net settled financial liabilities at the year-end (2017 – none).

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into maturity groupings based on the period remaining from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual, undiscounted cash flows.

	2018		2017	
	On demand or within one year \$m	Between one and five years \$m	On demand or within one year \$m	Between one and five years \$m
Currency derivatives				
– inflows	86.9	–	45.5	–
– outflows	(86.3)	–	(46.4)	(0.1)

**(e) Capital Risk Management**

The Group's objectives, policies and processes for managing capital are outlined in the Strategic Report within the Financial Capital Management section on pages 17 and 18. Within this section, the Group provides a definition of capital, provides details of the external financial covenants imposed, key measures for managing capital and the objectives for managing capital. Quantitative disclosures have been made together with the parameters for meeting external financial covenants.

## Notes to the consolidated financial statements continued

### 28. Financial Instruments: Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include cash at bank and in hand, Money Market Funds, short-term deposits, trade and other receivables, trade and other payables, borrowings and derivative financial instruments. The sensitivity analysis relates to the position as at 31 December 2018. The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analysis:

- Foreign exchange rate and interest rate sensitivities have an asymmetric impact on the Group's results, that is, an increase in rates does not result in the same amount of movement as a decrease in rates.
- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to be outstanding for the whole year.
- Fixed-rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.
- The carrying values of financial assets and liabilities carried at amortised cost do not change as interest rates change.

Positive figures represent an increase in profit or equity.

#### (a) Interest Rate Sensitivity

The sensitivity rate of 0.5% (2017 – 0.75%) for US interest rates represents management's assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future interest rates.

The post-tax impact on the income statement, with all other variables held constant, at 31 December, for an increase or decrease of 0.5% (2017 – 0.75%) in US interest rates, is not material (2017 – not material). There is no impact on other comprehensive income ("OCI") for a change in interest rates.

#### (b) Foreign Exchange Rate Sensitivity

The sensitivity rate of 10% (2017 – 10%) for Sterling and 10% (2017 – 5%) for Canadian dollar exchange rates represents management's assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future foreign exchange rates.

The table below shows the post-tax impact for the year of a reasonably possible change in foreign exchange rates, with all other variables held constant, at 31 December.

	2018		2017	
	Income statement \$m	OCI \$m	Income statement \$m	OCI \$m
Sterling exchange rate +10% (2017: +10%)	(0.4)	–	(0.3)	–
Sterling exchange rate -10% (2017: -10%)	0.4	–	0.3	–
Canadian dollar exchange rates +10% (2017: +5%)	–	0.2	0.7	0.2
Canadian dollar exchange rates -10% (2017: -5%)	–	–	(0.7)	(0.2)

The movements in the income statement mainly arise from cash, intra-Group balances, trade and other receivables, payables, accrued expenses and provisions, where the functional currency of the entity is different from the currency that the monetary items are denominated in. The movements in OCI mainly arise from foreign exchange contracts designated in a cash flow hedge.

The post-tax impact on the income statement of reasonably possible changes in the Singapore dollar and UAE Dirham exchange rates were considered and were immaterial.

### 29. Post-Employment Benefits

#### (a) UK Pensions

Within the UK, the Group operates a defined contribution ("DC") plan, which is open to current employees. Contributions to the plan and other Group defined contribution arrangements are charged directly to profit and loss.

Historically, the Group operated a funded pension scheme, which provided benefits on both a defined benefit ("DB") and defined contribution ("DC") basis. That scheme was wound up during the year and, as part of that process, the bulk annuity policies held with insurers to cover members' DB benefits have been transferred into individual policies for the members.

Payments totalling \$16.4m were made from the Scheme on 6 December 2018 as part of the wind-up process, of which \$10.6m was paid to the Group and \$5.8m was paid to HMRC in relation to tax due. No further payments are due to or from the Scheme.



**29. Post-Employment Benefits** continued**(a) UK Pensions** continued*Risk exposures and investment strategy*

At the previous year-end, the assets of the DB section of the scheme were invested in a range of deferred annuity and immediate annuity policies with a range of insurers. These policies matched the benefits to be paid to members of the Scheme. This strategy removed the Group's investment, inflation and demographic risks relating to the Scheme's obligations.

As the trustees' bulk annuity policies held with insurers to cover members' benefits were transferred into individual policies for the members during 2018, this has removed the Group's risks relating to an insurer no longer being able to meet its obligations. The Group has no further legal responsibility to fund these benefits.

*The net assets for the UK post-employment benefit scheme are:*

	2018 \$m	2017 \$m
Present value of obligations	-	(447.4)
Total fair value of plan assets	-	466.0
<b>Net asset</b>	<b>-</b>	<b>18.6</b>

*The net asset is recognised in the balance sheet as follows:*

	2018 \$m	2017 \$m
Non-current	-	-
Current	-	18.6
<b>Net asset</b>	<b>-</b>	<b>18.6</b>

*Changes in the net asset recognised in the balance sheet*

	2018 \$m	2017 \$m
Opening balance sheet net asset	<b>18.6</b>	33.3
Exchange adjustments	<b>(1.0)</b>	1.8
Expense charged to the income statement	<b>(1.7)</b>	(1.0)
Past service cost charged to the income statement	<b>(0.4)</b>	-
Amount recognised in other comprehensive income	<b>0.9</b>	0.1
Transfer to defined contribution section	-	(0.6)
Payment to employer before tax withheld at source	<b>(16.4)</b>	(15.0)
<b>Closing balance sheet net asset</b>	<b>-</b>	<b>18.6</b>

The Scheme was wound up in December 2018 and the residual assets in the Scheme of \$16.4m at the point of termination were transferred to the Group and HMRC. The decrease in the Group's pension asset seen over 2018 principally reflects these payments.

*Movements in the present value of the defined benefit obligation for the defined benefit section of the UK scheme*

	2018 \$m	2017 \$m
Opening defined benefit obligation	<b>447.4</b>	418.3
Exchange adjustments	<b>(6.3)</b>	39.2
Current service cost (employer)	<b>2.1</b>	1.5
Interest on benefit obligations	<b>5.2</b>	10.9
Remeasurements due to:		
Changes in financial assumptions	<b>(18.9)</b>	7.0
Past service cost	<b>0.4</b>	-
Benefits and expenses paid	<b>(47.9)</b>	(29.5)
Reduction in liabilities due to settlement	<b>(382.0)</b>	-
<b>Present value of the obligation at the end of the year</b>	<b>-</b>	<b>447.4</b>

## Notes to the consolidated financial statements continued

### 29. Post-Employment Benefits continued

#### (a) UK Pensions continued

*Movements in the fair value of the assets for the defined benefit section of the UK scheme*

	2018 \$m	2017 \$m
Opening fair value of plan assets	466.0	451.6
Exchange adjustments	(7.3)	41.0
Interest on plan assets	5.6	11.4
Actual returns over interest on plan assets	(18.0)	7.1
Transfer to defined contribution scheme	–	(0.6)
Payment to employer before tax withheld at source	(16.4)	(15.0)
Benefits and expenses paid	(47.9)	(29.5)
Reduction in plan assets due to settlement	(382.0)	–
<b>Closing fair value of plan assets</b>	<b>–</b>	<b>466.0</b>

*Major asset categories for the defined benefit section of the UK scheme*

	2018 \$m	2017 \$m
Insurance annuity policies	–	448.3
Cash/other	–	17.7
<b>Fair value of plan assets</b>	<b>–</b>	<b>466.0</b>

As the Scheme was wound up during 2018, there are no remaining assets at the year-end.

Amounts recognised in the income statement in respect of the UK scheme

	2018 \$m	2017 \$m
Current service cost – included within operating expenses	2.1	1.5
Past service cost – included within operating expenses	0.4	–
Net interest on the defined benefit asset – finance income (note 9)	(0.4)	(0.5)
<b>Total expense included within staff costs (note 8)</b>	<b>2.1</b>	<b>1.0</b>

The current service cost includes \$2.1m (2017 – \$1.5m) of administration costs.

In addition, employer contributions of \$7.6m (2017 – \$7.1m) for various Group defined contribution arrangements (including the defined contribution section of the UK scheme and UK plan) are recognised in the income statement.

#### *Special events*

The following special events occurred during the year:

- The bulk annuity policies held with insurers to cover members' benefits were transferred to individual members during the year. As a result, these policies are no longer assets of the scheme and the members' benefits in respect of these policies are no longer liabilities of the scheme.
- As part of the scheme's wind-up process, members' Additional Voluntary Contributions ("AVCs") funds were transferred to other providers. To compensate members with AVCs for potential losses on transfer, \$0.3m of the scheme's surplus funds were used to augment their AVC funds on transfer. This has been recognised as part of the past service cost.
- In addition to this, the Trustee held various historic insurance annuity policies as at 31 December 2017. As part of the process of winding up the scheme, the Trustee has also assigned these policies to individual members with a small augmentation of \$0.1m made to these members.
- Payments of \$10.6m to the Group and \$5.8m to HMRC were made from the scheme on 6 December 2018. This has reduced the surplus of the scheme by the combined total of the payments. There are no remaining assets of the scheme at 31 December 2018.

**29. Post-Employment Benefits** continued**(a) UK Pensions** continued

The principal assumptions used for accounting purposes reflect prevailing market conditions are:

	2018	2017
Discount rate	n/a	2.4% p.a.
Future pension increase	n/a	3.4% p.a.

*Mortality assumption – life expectancy*

	2018 Years	2017 Years
Male aged 65 at the accounting date	n/a	25.3
Female aged 65 at the accounting date	n/a	27.1
Male aged 65 in 20 years	n/a	27.9
Female aged 65 in 20 years	n/a	29.4

**(b) Other Pensions**

The Group operates a cash balance arrangement in the US for certain executives. Members build up benefits in this arrangement by way of notional contributions and notional investment returns. Actual contributions are paid into an entirely separate investment vehicle held by the Group, which is used to pay benefits due from the arrangement when a member retires. Under IAS 19, the cash balance arrangement is accounted for as an unfunded defined benefit scheme.

The amounts recognised in the income statement during the year were \$nil (2017 – \$0.1m) for the employer's current service cost (recognised in operating expenses) and \$0.1m (2017 – \$0.2m) interest cost (recognised in finance expense).

*Movements in the present value of the obligation for the unfunded defined benefit US deferred compensation plan*

	2018 \$m	2017 \$m
Present value of the obligation at the start of the year	12.2	10.2
Current service cost (equal to the notional contributions)	–	0.1
Interest on benefit obligations	0.1	0.2
Remeasurement – excess of notional investment returns over interest cost	(0.2)	1.7
Benefits paid	(10.4)	–
<b>Present value of the obligation at the end of the year</b>	<b>1.7</b>	<b>12.2</b>

The obligation is presented in the balance sheet as \$nil (2017 – \$10.4m) in current payables and \$1.7m (2017 – \$1.8m) in non-current payables (note 19).

**30. Share Capital and Share Premium**

	2018		
	Ordinary shares of 25p each Number	Ordinary shares of 25p each \$m	Share premium \$m
At 1 January	164,173,603	66.4	153.0
Shares issued – share option schemes and awards	900,000	0.3	–
<b>At 31 December</b>	<b>165,073,603</b>	<b>66.7</b>	<b>153.0</b>

There are no restrictions attached to any of the Ordinary shares in issue and all Ordinary shares carry equal voting rights. The rights attached to the Company's Ordinary shares are summarised on page 168. All of the Ordinary shares in issue are fully paid.

At 31 December 2018, 1,247,672 (2017 – 656,808) Ordinary shares were held by an Employee Benefit Trust. Details of the carrying amount are set out in note 32.

	2017		
	Ordinary shares of 25p each Number	Ordinary shares of 25p each \$m	Share premium \$m
At 1 January	163,739,686	66.3	153.0
Shares issued – share option schemes and awards	433,917	0.1	–
<b>At 31 December</b>	<b>164,173,603</b>	<b>66.4</b>	<b>153.0</b>

## Notes to the consolidated financial statements continued

### 31. Other Components of Equity

	2018			
	Merger reserve \$m	Other reserves \$m	Currency translation reserve \$m	Total \$m
At 1 January	79.4	19.0	(6.7)	91.7
Exchange adjustments	–	–	(7.2)	(7.2)
Fair value gains and losses				
– losses originating on cash flow hedges arising during the year net of tax	–	0.2	–	0.2
– losses transferred to the carrying value of inventory purchased in the year net of tax	–	(0.1)	–	(0.1)
Share options and awards				
– value of employee services	–	13.1	–	13.1
– discharge	–	(9.7)	–	(9.7)
Transfer between reserves	(12.2)	–	–	(12.2)
<b>At 31 December</b>	<b>67.2</b>	<b>22.5</b>	<b>(13.9)</b>	<b>75.8</b>

During the year, \$12.2m was transferred from the merger reserve to retained earnings. This portion of the reserve is now considered to be realised as the equivalent amount of the proceeds from the share placing in 2016 have now met the definition of qualifying consideration.

	2017			
	Merger reserve \$m	Other reserves \$m	Currency translation reserve \$m	Total \$m
At 1 January	79.4	16.6	(17.2)	78.8
Exchange adjustments	–	–	10.7	10.7
Fair value gains and losses				
– losses originating on fair value hedges arising during the year net of tax	–	–	(0.2)	(0.2)
– losses originating on cash flow hedges arising during the year net of tax	–	(0.2)	–	(0.2)
– losses transferred to the income statement on disposal of cash flow hedges net of tax	–	0.1	–	0.1
Share options and awards				
– value of employee services	–	11.6	–	11.6
– discharge	–	(9.1)	–	(9.1)
<b>At 31 December</b>	<b>79.4</b>	<b>19.0</b>	<b>(6.7)</b>	<b>91.7</b>

### 32. Retained Earnings

	2018 \$m	Restated 2017 \$m
At 31 December as previously reported	780.6	800.0
Adjustment on adoption of IFRS 15	1.6	1.0
At 31 December restated	782.2	801.0
Adjustment on adoption of IFRS 9	(0.2)	–
At 1 January restated	782.0	801.0
Profit (loss) for the year	89.3	(26.1)
Remeasurement of defined benefit pension schemes net of tax	1.5	(1.6)
Dividends paid to equity shareholders	(6.6)	–
Purchase of treasury shares	(5.7)	–
Share options and awards		
– discharge	9.2	8.9
– taxation	(0.3)	–
Transfer between reserves	12.2	–
<b>At 31 December</b>	<b>881.6</b>	<b>782.2</b>

The share options and awards taxation charge taken directly to equity of \$0.3m comprises \$0.2m deferred tax and \$0.1m current tax.

**32. Retained Earnings** continued

Retained earnings include the following amounts in respect of the carrying amount of Treasury shares:

	2018 \$m	2017 \$m
<b>Cost:</b>		
At 1 January	(7.2)	(8.7)
Purchase of Treasury shares	(5.7)	–
Disposal of Treasury shares	1.7	1.5
<b>At 31 December</b>	<b>(11.2)</b>	<b>(7.2)</b>

The loss on disposal of Treasury shares during the year, which is recognised in retained earnings, was \$1.7m (2017 – \$1.5m).

**33. Dividends Paid to Equity Shareholders**

	2018		2017	
	Cents per share	\$m	Cents per share	\$m
<b>Ordinary dividends:</b>				
2018 interim paid	4.0	6.6	–	–

A final dividend of 5.0 cents per share has been proposed by the Board, amounting to an estimated distribution of \$8.2m. The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting to be held on 17 April 2019 and has not been provided for in these financial statements. If approved, the dividend will be paid in Sterling on 10 May 2019, to shareholders on the register on 23 April 2019, and the Sterling value of the dividend payable per share will be fixed, and announced approximately two weeks prior to the payment date, based on the average spot exchange rate over the three business days preceding the announcement date. Guidance on the Company's position on declaring and paying future dividends is provided within the Strategic Report on page 18.

**34. Share-Based Payments****(a) 2001 Executive Share Option Plan**

The Company operated an executive share option plan between 2001 and 2008, which granted options to eligible employees. Under this scheme, the final vesting of options occurred on 4 March 2011, with outstanding awards expiring on 3 March 2018. There is no longer a charge to the income statement attributable to this scheme. Details of movements in outstanding share options are set out below.

**(i) Share Option Movements During the Year**

	2018		2017	
	Number of options	Weighted average exercise price p	Number of options	Weighted average exercise price p
Outstanding at the beginning of the year	178,417	785	363,700	711
Lapsed during the year	(178,417)	785	(185,283)	640
<b>Outstanding and exercisable at the end of the year</b>	<b>–</b>	<b>–</b>	<b>178,417</b>	<b>785</b>

There were no exercises during 2017 or 2018.

**(ii) Share Options Outstanding at the Year-End**

	2018 Number of options	2017 Number of options	Exercise price range p	Exercise period
Executive Share Options 2008 – vested	–	178,417	784.5	04.03.11 – 03.03.18

**(b) 2009 Performance Share Plan ("PSP")****(i) Performance-Based Awards and Options**

The Company granted nil-cost performance-based share awards and options under the PSP between 2009 and 2013. Under the PSP, annual conditional awards of shares and options were made to executive Directors and senior employees. Awards and options are subject to performance conditions during the vesting period. The PSP was replaced by the 2014 Hunting Performance Share Plan ("HPSP") following shareholder approval of the HPSP at the Annual General Meeting ("AGM") of the Company on 16 April 2014. The final grant under the PSP occurred in 2013, with the final measurements of the performance conditions being completed in 2016. The fair value charge to the income statement attributable to the performance-based PSP was \$nil (2017 – \$nil).

## Notes to the consolidated financial statements continued

### 34. Share-Based Payments continued

#### (b) 2009 Performance Share Plan ("PSP") continued

##### (ii) Time-Based Awards and Options

The Company granted nil-cost, time-based share awards and options under the PSP between 2009 and 2013. Annual awards of shares and options were made to employees, subject to continued employment, during the vesting period. There were no performance conditions attached. Time-based awards continue to be granted under the HPSP. The final grant under the PSP occurred in 2013 and vested in 2016. Details of the time-based PSP awards and options movements during the year are as follows:

	2018 Number of shares	2017 Number of shares
Outstanding at the beginning of the year	15,606	16,244
Vested and exercised during the year	(8,602)	(638)
<b>Outstanding and exercisable at the end of the year</b>	<b>7,004</b>	<b>15,606</b>

The weighted average share price at the date of exercise during 2018 was 786.4 pence (2017 – 512.7 pence).

Details of the time-based PSP awards and options outstanding at 31 December 2018 are as follows:

	2018 Number of shares	2017 Number of shares	Normal vesting date
Date of grant:			
25 February 2011	875	875	25.02.14
17 April 2012	2,446	5,990	17.04.15
20 March 2013	3,683	8,741	20.03.16
<b>Outstanding and exercisable at the end of the year</b>	<b>7,004</b>	<b>15,606</b>	

The fair value charge to the income statement attributable to the time-based PSP is \$nil (2017 – \$nil).

#### (c) 2014 Hunting Performance Share Plan ("HPSP")

##### (i) Performance-Based Awards

The Company now grants performance-based share awards annually to executive Directors and senior employees under the HPSP. Awards are granted at nil cost under the HPSP. Up to 2017, the performance-based HPSP awards to the executive Directors were divided equally into three tranches. From 2018, the performance-based HPSP awards were divided into four tranches of differing proportions. Each tranche is subject to a three-year vesting period, and is also subject to performance conditions. Up to 2017, the three conditions were Company performance over a three-year period against (i) the TSR of a bespoke comparator group, (ii) underlying diluted earnings per share ("EPS") growth, and (iii) average underlying Return on Capital Employed ("ROCE") achieved. The fourth performance condition added in 2018 is based on a Balanced Scorecard, comprising of non-financial KPIs including Quality and Safety performance. The 2018 award weightings are EPS 25%; TSR 25%; ROCE 35% and the Balanced Scorecard 15%. The performance period for the 2018 awards granted under the HPSP is 1 January 2018 to 31 December 2020. The vesting date of the 2018 award is 19 April 2021. Details of the performance-based HPSP awards movements during the year are set out below:

	2018 Number of shares	2017 Number of shares
Outstanding at the beginning of the year	3,446,240	3,413,468
Granted during the year to executive Directors <sup>i</sup>	373,709	639,622
Granted during the year to senior managers <sup>ii</sup>	579,573	855,295
Vested and exercised during the year	(157,292)	–
Lapsed during the year	(869,466)	(1,462,145)
<b>Outstanding at the end of the year</b>	<b>3,372,764</b>	<b>3,446,240</b>

- The 2017 HPSP awards granted to senior managers incorporates a fourth performance condition based on Hunting's reported internal manufacturing reject rate.
- The 2018 HPSP awards granted to the executive Directors and senior managers incorporates a Balanced Scorecard, in addition to the TSR, EPS and ROCE performance conditions.

**34. Share-Based Payments continued****(c) 2014 Hunting Performance Share Plan ("HPSP") continued**

Details of the performance-based HPSP awards outstanding at 31 December 2018 are as follows:

	2018 Number of shares	2017 Number of shares	Normal vesting date
Date of grant:			
28 April 2015	–	965,521	28.04.18
11 March 2016	<b>1,402,897</b>	1,422,565	11.03.19
3 March 2017	<b>1,027,356</b>	1,058,154	03.03.20
19 April 2018	<b>942,511</b>	–	19.04.21
<b>Outstanding at the end of the year</b>	<b>3,372,764</b>	<b>3,446,240</b>	

In 2018, 157,292 awards vested and were exercised in respect of the 2015 HPSP grant. The weighted average share price at the date of exercise during 2018 was 801.2 pence. There were no exercises in 2017.

**(ii) Time-Based Awards**

The Company also grants time-based share awards annually under the HPSP. Annual awards of shares may be made to employees subject to continued employment during the vesting period. There are no performance conditions attached. Awards are granted at nil cost under the HPSP.

Details of the time-based HPSP awards movements during the year are set out below:

	2018 Number of shares	2017 Number of shares
Outstanding at the beginning of the year	<b>3,462,942</b>	2,815,860
Granted during the year	<b>787,667</b>	1,260,452
Vested and exercised during the year	<b>(868,167)</b>	(518,469)
Lapsed during the year	<b>(133,016)</b>	(94,901)
<b>Outstanding at the end of the year</b>	<b>3,249,426</b>	<b>3,462,942</b>

The weighted average share price at the date of exercise during 2018 was 797.3 pence (2017 – 542.0 pence).

Details of the time-based HPSP awards outstanding at 31 December 2018 are as follows:

	2018 Number of shares	2017 Number of shares	Normal vesting date
Date of grant:			
1 May 2014	<b>6,121</b>	14,924	01.05.17
28 April 2015	<b>27,250</b>	820,511	28.04.18
11 March 2016	<b>1,290,754</b>	1,388,497	11.03.19
3 March 2017	<b>1,157,072</b>	1,239,010	03.03.20
19 April 2018	<b>768,229</b>	–	19.04.21
<b>Outstanding at the end of the year</b>	<b>3,249,426</b>	<b>3,462,942</b>	

**(iii) Fair Value of HPSP Awards**

The fair value of awards granted under the HPSP is calculated using two separate models:

(1) The fair value of awards subject to a market-related performance condition, specifically Company performance against the TSR of a bespoke peer group, has been calculated using the Stochastic pricing model (also known as the "Monte Carlo" model).

The assumptions used in this model were as follows:

	2018	2017
Date of grant/valuation date	<b>19.04.18</b>	03.03.17
Weighted average share price at grant	<b>785.0p</b>	571.5p
Exercise price	<b>nil</b>	nil
Expected dividend yield	<b>nil</b>	nil
Expected volatility	<b>48.9%</b>	53.5%
Risk-free rate	<b>0.85%</b>	0.11%
Expected life	<b>3 years</b>	3 years
Fair value	<b>616.0p</b>	369.0p

## Notes to the consolidated financial statements continued

### 34. Share-Based Payments continued

#### (c) 2014 Hunting Performance Share Plan ("HPSP") continued

(2) The fair value of performance-based awards not subject to a market-related performance condition, include the EPS and ROCE performance targets and the time-based HPSP awards, with the fair value being calculated using the Black-Scholes pricing model.

The assumptions used in this model were as follows:

	2018	2017
Date of grant/valuation date	19.04.18	03.03.17
Weighted average share price at grant	785.0p	571.5p
Exercise price	nil	nil
Expected dividend yield	nil	nil
Expected volatility	48.9%	53.5%
Risk-free rate	0.85%	0.11%
Expected life	3 years	3 years
Fair value	785.0p	571.5p

The methods to calculate the assumptions for both models are:

- The expected volatility was calculated using historic weekly volatility, equal in length to the remaining portion of the performance period at the date of grant.
- The expected life of the award has been calculated commensurate with the vesting period. The risk-free rate is based on the UK gilt rate commensurate with the vesting period prevailing at the date of grant.
- Participants are entitled to a dividend equivalent over the number of shares that make up their award. It is accumulated over the vesting period and released subject to the achievement of the performance conditions. This is factored into the fair value calculation and as a result the dividend yield assumption is set to zero.
- The initial accounting charge of the performance-based HPSP awards granted under the HPSP incorporates an estimate of the number of shares that are expected to lapse for those participants who cease employment during the vesting period. The estimate of the expected forfeiture rate is 5% per annum. The subsequent accounting charge includes an adjustment to the initial accounting charge to allow for actual lapses rather than estimated lapses.

The amount charged to the income statement attributable to the performance-based HPSP awards is \$5.4m (2017 – \$3.5m) and the charge to the income statement in respect of time-based HPSP awards is \$7.7m (2017 – \$8.1m). These are recognised in operating expenses.

#### (d) Other Share Awards

On 15 May 2018 12,005 shares were awarded to certain employees and were satisfied by shares held in the Hunting Employee Benefit Trust. The closing mid-market price on 15 May 2018 was 558.6 pence per share. The charge to the income statement attributable to these awards was \$0.1m.

On 8 May 2017 52,364 shares were awarded to certain employees and were satisfied by shares held in the Hunting Employee Benefit Trust. The closing mid-market price on 8 May 2017 was 547.5 pence per share. The charge to the income statement attributable to these awards was \$0.3m.

The total charge to the income statement for the year for share-based payments is \$13.2m (2017 – \$11.9m).

### 35. Operating Leases

#### (a) The Group as Lessee

Operating lease payments mainly represent rentals payable by the Group for properties:

	2018			2017		
	Property \$m	Others \$m	Total \$m	Property \$m	Others \$m	Total \$m
Operating lease payments in the income statement:						
Lease and rental payments	12.1	1.7	13.8	11.0	0.9	11.9

The Group has provisions of \$4.1m (2017 – \$5.4m) for onerous contracts in respect of some leasehold properties, some of which are not used for Group trading purposes and are either vacant or sub-let to third parties (note 24).



**35. Operating Leases** continued**(a) The Group as Lessee** continued

Total future aggregate minimum lease payments under non-cancellable operating leases expiring:

	2018			Restated 2017		
	Property \$m	Others \$m	Total \$m	Property \$m	Others \$m	Total \$m
Within one year	9.5	0.6	10.1	10.1	0.6	10.7
Between one and five years	30.0	0.7	30.7	30.1	0.8	30.9
After five years	19.1	–	19.1	23.5	–	23.5
<b>Total lease payments</b>	<b>58.6</b>	<b>1.3</b>	<b>59.9</b>	<b>63.7</b>	<b>1.4</b>	<b>65.1</b>

The 2017 amounts in the above table have been restated following a review of the lease contracts as part of the impact assessment of IFRS 16 Leases.

**(b) The Group as Lessor**

Property rental earned during the year was \$1.5m (2017 – \$0.7m). A number of the Group's leasehold properties are sub-let under existing lease agreements.

Total future minimum sublease income receivable under non-cancellable operating leases expiring:

	2018 Property \$m	2017 Property \$m
Within one year	1.8	1.5
Between one and five years	3.3	3.9
<b>Total lease income receivable</b>	<b>5.1</b>	<b>5.4</b>

**36. Related-Party Transactions**

The following related-party transactions took place between wholly-owned subsidiaries of the Group and associates during the year:

	2018 \$m	2017 \$m
Year-end balances:		
Receivables from associates	0.4	0.5
Payables to associates	(0.1)	(0.1)

During the year, a \$1.3m dividend was received on the winding up of an associate, Tubular Resources Pte. Ltd.

The outstanding balances at the year-end are unsecured and have no fixed date for repayment. No expense has been recognised in the year for bad or doubtful debts in respect of amounts owed by associates.

All ownership interests in associates are in the equity shares of those companies. The ownership interests in associates and subsidiaries are set out in notes C18 and C19 to the Company financial statements.

The key management of the Group comprises the Hunting PLC Board and members the Executive Committee. Details of their compensation are disclosed in note 8. The Hunting PLC Directors and the members of the Executive Committee had no material transactions other than as a result of their service agreements.

## Notes to the consolidated financial statements continued

### 37. Principal Accounting Policies

The Group's principal accounting policies are described below:

#### (a) Consolidation

- The Group financial statements include the results of the Company and its subsidiaries, together with its share of associates.
- Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date control ceases.
- The Group uses the acquisition method of accounting for business combinations. Consequently, the consideration is determined as the fair value of the net assets transferred to the vendor and includes an estimate of any contingent consideration. The net assets acquired are also measured at their respective fair values for initial recognition purposes on the acquisition date.
- Acquisition-related costs are expensed to the income statement as incurred.

#### (b) Revenue

##### (i) Revenue from Contracts with Customers

- Revenue from contracts with customers is measured as the fair value of the consideration received or receivable for the provision of goods and services in the ordinary course of business, net of trade discounts, volume rebates, and sales taxes.
- Revenue is recognised when control of the promised goods or services is transferred to the customer. Consequently revenue for the sale of a product is recognised either:
  1. wholly at a single point in time when the entity has completed its performance obligation, which is most commonly indicated by delivery of the products; or
  2. piecemeal over time during the period that control incrementally transfers to the customer while the good is being manufactured or the service is being performed.
- Hunting's activities that require revenue recognition over time comprise:
  1. Work undertaken to enhance customer-owned products – most commonly the lathing of a thread onto the ends of customer-owned plain-end pipe.
  2. The manufacture of goods that are specifically designed for and restricted to the use of a particular customer, such as the manufacture of bespoke specialised circuitry and housing, and for which Hunting is entitled to a measure of recompense that reflects the fair value of the stage of production prior to their completion.
  3. The provision of services in which the customer obtains the benefit while the service is being performed – most commonly the storage and management services of customer-owned pipe.
- Hunting's activities that require revenue recognition at a point in time comprise:
  1. The sale of goods that are not specifically designed for use by one particular customer. Products include tubulars acquired by Hunting as plain-end pipe on which lathing work has been applied and which is resold as threaded pipe.
  2. The manufacture of goods that are specifically designed for one particular customer but for which Hunting is not entitled to a measure of recompense that reflects the fair value of the stage of production prior to completion.

##### (ii) Rental Revenue

- Rental revenue is measured as the fair value of the consideration received or receivable for the provision of rental equipment in the ordinary course of business, net of trade discounts and sales taxes.
- Revenue from the rental of plant and equipment is recognised as the income is earned.

#### (c) Amortisation and Exceptional Items

Exceptional items are items of income or expense that the Directors believe should be separately disclosed by virtue of their significant size or nature to enable a better understanding of the Group's financial performance. The Group discloses such items in the "middle column" of the income statement. In applying this policy, the following items have been treated as exceptional:

- Costs of restructuring the Group's operations, including the cost of business closures and redundancies, in response to the decline in regional opportunities for growth.
- Defined benefit pension curtailment.
- Impairment of property, plant and equipment.

The tax effect of any transaction considered to be exceptional is also treated as exceptional.

Amortisation expenses for intangible assets recognised as part of a business combination are also shown in the "middle column" due to the significance of these amounts and to clearly identify the effect on profits, which will arise as current balances become fully written-off, or as new acquisitions give rise to new expenses. The post-acquisition profits of acquired businesses shown in the underlying column do not, therefore, reflect these costs.

#### (d) Interest

Interest income and expense is recognised in the income statement using the effective interest method.

**37. Principal Accounting Policies** continued**(e) Foreign Currencies****(i) Individual Subsidiaries' and Associates' Financial Statements**

- The financial statements for each of the Group's subsidiaries and associates are denominated in their functional currency.
- The functional currency is the currency of the primary economic environment in which the entity operates.
- Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate ruling at the date of the transaction.
- Monetary assets and liabilities, except borrowings designated as a hedging instrument in a net investment hedge, denominated in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken to the income statement.
- Borrowings designated as a hedging instrument in a net investment hedge are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken direct to equity.

**(ii) Group Consolidated Financial Statements**

- The presentation currency of the Group is US dollars.
- The net assets of non-US dollar denominated subsidiaries and associates are translated into US dollars at the exchange rates ruling at the balance sheet date.
- The income statements of subsidiaries and associates are translated into US dollars at the average rates of exchange for the year.
- Exchange differences are recognised directly in equity in the currency translation reserve ("CTR"), together with exchange differences arising on foreign currency loans used to finance foreign currency net investments.
- Upon adoption of IFRS on 1 January 2004, accumulated exchange differences arising on consolidation prior to 31 December 2003 were reset to zero and the CTR recommenced under IFRS on 1 January 2004.
- The balance on the CTR represents the exchange differences arising on the retranslation of non-US dollar amounts into US dollars since 1 January 2004.
- On the disposal of a business, the cumulative exchange differences previously recognised in the CTR relating to that business are transferred to the income statement as part of the gain or loss on disposal.

**(f) Taxation**

- The taxation recognised in the income statement comprises current tax and deferred tax arising on the current year's result before tax and adjustments to tax arising on prior years' results.
- Current tax is the expected tax payable or receivable arising in the current year on the current year's result before tax, using tax rates enacted or substantively enacted at the balance sheet date, plus adjustments to tax in respect of prior years' results.
- Deferred tax is the tax that is expected to arise when the assets and liabilities recognised in the Group's balance sheet are realised, using tax rates enacted or substantively enacted at the balance sheet date that are expected to apply when the asset is realised or the liability is settled.
- Full provision is made for deferred taxation, using the liability method, on all taxable temporary differences. Deferred tax assets and liabilities are recognised separately on the balance sheet and are reported as non-current assets and liabilities.
- Deferred tax assets are recognised only to the extent that they are expected to be recoverable. Deferred taxation on unremitted overseas earnings is provided for to the extent a tax charge is foreseeable.
- When items of income and expense are recognised in other comprehensive income, the current and deferred tax relating to those items is also recognised in other comprehensive income.
- Tax arising on the discharge of share options and awards is recognised directly in equity.

**(g) Segmental Reporting**

- Financial information on operating segments that corresponds with information regularly reviewed by the Chief Operating Decision Maker ("CODM") is disclosed in the financial statements. Consequently, the Group's principal segmental reporting is established on a geographical basis.
- The geographical information is based on the location of where the sale originated and where the non-current assets are located.
- Revenue is also disclosed by product group, which is provided to assist in investor understanding of the underlying performance trends. Each product group consists of goods and services that are similar in nature or serve similar markets.

**(h) Property, Plant and Equipment****(i) General**

- Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition and installation of the asset.
- Land, pre-production oil and gas exploration costs and assets under construction are not depreciated.
- With the exception of drilling tools and rental tools, which are depreciated using the units of production method, and oil and gas exploration and production equipment (see (ii) below), assets are depreciated using the straight-line method at the following rates:

Freehold buildings	– 2% to 10%
Leasehold buildings	– life of lease
Plant, machinery and motor vehicles	– 6% to 33½%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

## Notes to the consolidated financial statements continued

### 37. Principal Accounting Policies continued

#### (h) Property, Plant and Equipment continued

##### (ii) Exploration Expenditure

- Oil and gas exploration and appraisal costs are initially capitalised pending determination of the existence of commercial reserves and are included in the asset category Oil and Gas Exploration and Development.
- Upon determination that commercially viable quantities of hydrocarbons are not found, the costs are charged immediately to the income statement.
- Depreciation of oil and gas expenditure commences when production commences. The costs are depreciated using the unit of production method.

##### (i) Goodwill

- Goodwill arises when the fair value of the consideration paid for a business exceeds the fair value of the Group's share of the net assets acquired.
- Goodwill is recognised as an asset and is carried at cost less accumulated impairment losses.
- Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.
- On the disposal of a business, goodwill relating to that business that remains on the balance sheet at the date of disposal is included in the determination of the profit or loss on disposal.

##### (j) Other Intangible Assets

- Other intangible assets, whether obtained through acquisition or internal development, are capitalised when it is probable that the future economic benefits that are attributable to the asset will be generated, provided the cost of the asset can be measured reliably.
- Capitalisation only occurs from the point technical and commercial feasibility of the asset has been established. Prior to this costs are expensed.
- For internally generated assets, only costs directly attributable to the development of the asset are capitalised. This typically includes employee remuneration and the cost of materials and services, such as testing, consumed in generating the intangible asset.
- Other intangible assets are stated at cost less accumulated amortisation and impairment losses where applicable.
- These assets have a finite life and are amortised in accordance with the pattern of expected future economic benefits, or when this cannot be reliably estimated, by using the straight-line method.
- Intangible assets are amortised over the following periods:

Customer relationships	– eight to ten years
Patents	– eight to ten years
Unpatented technology	– eight to ten years
Trademarks and domain names	– one to five years

##### (k) Impairments

- The Group performs goodwill impairment reviews at least annually.
- The Group also assesses at least annually whether there have been any events or changes in circumstances that indicate that property, plant and equipment and intangible assets other than goodwill may be impaired. An impairment review is carried out whenever the assessment indicates that the carrying amount may not be fully recoverable.
- For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.
- Where impairment exists, the asset is written down to the higher of (a) its fair value minus costs to sell; and (b) its value in use. Impairments are recognised immediately in the income statement.
- An impairment to goodwill is never reversed. When applicable, an impairment of any other asset is reversed, but only to the extent that the consequent carrying value does not exceed what would have been the carrying value had the impairment not originally been made.

##### (l) Inventories

- Inventories are stated at the lower of cost and net realisable value.
- Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of disposal in the ordinary course of business. The cost of inventories includes direct costs plus production overheads.

##### (m) Cash and Cash Equivalents

- Cash and cash equivalents comprise cash at bank and in hand, short-term deposits with a maturity of less than three months from the date of deposit and Money Market Funds.
- Short-term deposits and Money Market Funds have been classified as cash and cash equivalents as they are short-term, highly liquid, are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.
- For cash flow statement purposes, cash and cash equivalents include bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### 37. Principal Accounting Policies continued

#### (n) Financial Assets

- At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. Transaction costs of financial assets at FVTPL are expensed immediately to the income statement.
- Subsequent measurement of debt instruments depends on each Group entity's business model for managing the asset in order to generate cash flows and the cash flow characteristics of the financial asset. The Group's debt instruments are classified either into amortised cost or fair value through profit or loss.
- Debt instruments that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are subsequently measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest method. If collection is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets. Debt instruments held for collection of contractual cash flows include the loan note, contract assets, trade receivables, accrued revenue and other receivables.
- Any other debt instruments, including Money Market Funds, that are subsequently not measured at amortised cost have been measured at fair value through profit or loss.
- The Group's financial assets that are equity instruments are subsequently measured at fair value through profit or loss. Changes in the fair value of the equity instruments are recognised in other operating income, operating expenses, finance income or finance expense, as appropriate. Financial assets that are equity instruments comprise listed equity investments and mutual funds.
- The Group assesses on a forward-looking basis the expected credit losses ("ECLs") at each balance sheet date associated with its loan note that is carried at amortised cost. The impairment methodology applied, following the adoption of the general model under IFRS 9, will depend on whether there has been a significant increase in credit risk. Indications of a significant increase in credit risk include events that have a negative impact on the estimated future cash flows and if any payments under the terms of the debt are more than 30 days overdue.
- The Group has chosen to apply lifetime ECLs to trade receivables, accrued revenue, contract assets and lease receivables, both short-term and long-term, upon their initial recognition.

#### *Previous Accounting Policy*

- In 2017, the Group classified its financial assets under IAS 39 as financial assets at fair value through profit or loss, as loans and receivables and as available-for-sale financial assets.
- Loans and receivables are initially recognised at fair value at the trade date, which is normally the consideration paid plus transaction costs.
- Loans and receivables are carried at amortised cost using the effective interest method. If collection is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets.
- The Group assesses at each balance sheet date whether a loan or receivable is impaired and, if necessary, the carrying amount is reduced to the appropriate value. The loss is recognised immediately in the income statement.
- Loans and receivables cease to be recognised when the right to receive cash flows has expired or the Group has transferred substantially all the risks and rewards of ownership.

#### (o) Financial Liabilities

- Financial liabilities are initially recognised at fair value at the trade date which is normally the consideration received less, in the case of financial liabilities that are not measured at fair value through profit or loss, transaction costs. The Group subsequently remeasures all of its non-derivative financial liabilities, including trade payables, at amortised cost.
- Payables are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.

#### (p) Derivatives and Hedging

- Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.
- The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from the balance sheet date.
- The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.
- Where the derivatives are not designated in a hedge and accounted for using hedge accounting, they are classified as "held for trading" and are accounted for at fair value through profit or loss, with changes in the fair value recognised immediately within the income statement.
- The Group designates certain derivatives as either:
  - (i) hedges of the fair value of recognised assets and liabilities; or
  - (ii) hedges of a particular risk associated with the cash flows of highly probable forecast transactions.

#### (i) Fair Value Hedges

- Fair value gains or losses on derivatives designated in a fair value hedge are recognised immediately in the income statement if the changes in the fair value of the hedged item are taken to the income statement.

## Notes to the consolidated financial statements continued

### 37. Principal Accounting Policies continued

#### (p) Derivatives and Hedging continued

##### (ii) Cash Flow Hedges

- When forward foreign exchange contracts are designated in a cash flow hedge of forecast transactions, the Group generally designates only the change in fair value of the forward contract relating to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The Group has chosen to recognise the change in the forward element of the contract that relates to the hedged item, defined as the forward points, within the income statement immediately rather than in equity. The forward points are discounted, where material.
- Where the hedged item subsequently results in the recognition of a non-financial asset, such as inventory or PPE, the deferred hedging gains and losses in equity are included within the initial cost of the asset. The deferred amounts are subsequently recognised in profit or loss when the hedged item affects profit or loss (for example through cost of sales or depreciation).
- When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss of hedging that was reported in equity is immediately reclassified to the income statement.

#### (q) Provisions

- Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation.
- The measurement of a provision is based on the most likely amount and timing of the expenditures. Payments that are expected to arise after more than one year are discounted to their present value using a risk-free interest rate that is relevant to the region in which the past event occurred. The risk-free interest rate is based on the redemption yields of government securities.

#### (r) Post-Employment Benefits

##### (i) Defined Contribution Retirement Schemes

Payments to defined contribution retirement schemes are charged to the income statement when they fall due.

##### (ii) Defined Benefit Retirement Schemes

- Payments to defined benefit retirement schemes were recognised as increments to the assets of the schemes.
- The amount charged to the income statement with respect to these schemes, within profit from operations, is the increase in the retirement benefit obligation resulting from the additional service provided by the participating employees during the current year, which for the funded scheme was measured using the Projected Unit method and for the unfunded scheme is equal to the contributions paid.
- Net interest arising on the net assets of the schemes was also recognised in the income statement within net finance costs.
- Curtailment gains and losses were recognised fully and immediately in the income statement.
- Remeasurement gains and losses were recognised fully and immediately in the statement of comprehensive income.
- The assets of the funded scheme, which were invested in insurance policies, were valued using the same methodology and assumptions used to calculate the defined benefit obligation so that, where the assets matched the liabilities, the value of the assets was equal to the value of the corresponding obligation.

#### (s) Share-Based Payments

- The Group issues equity-settled, share-based payments (HPSP awards) to certain employees as consideration for services received from the employees. The fair value of the employees' services is recognised as an expense in the income statement on a straight-line basis over the vesting period based on the Group's estimate of awards that will ultimately vest. The obligation to settle these awards is recognised within other components of equity.

#### (t) Share Capital

- The Company's share capital comprises a single class of Ordinary shares, which are classified as equity.
- Incremental costs directly attributable to the issue of new shares are charged to equity as a deduction from the proceeds, net of tax.

#### (u) Merger Reserve

- The merger reserve comprises the proceeds received, net of transaction costs, in excess of the nominal value of the Ordinary shares issued by way of the share placing completed on 31 October 2016. In accordance with section 612 of the Companies Act 2006, the premium was credited to the merger reserve, instead of to the share premium account, because the share placing was pursuant to the Company securing over 90% of another entity. The proceeds were used to pay down the Group's borrowings at that time. The reserve is currently non-distributable and will be transferred to distributable retained earnings when the proceeds meet the definition of a qualifying consideration.

#### (v) Dividends

- Dividends to the Group's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim dividends are recognised when paid. All dividends are dealt with in the statement of changes in equity.

### 38. Change in Accounting Policies

This note explains the impact of the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments on the Group's financial statements.

#### (a) Impact on the Financial Statements

As a result of the changes in the Group's accounting policies, the prior year financial statements have been restated for the effects of IFRS 15 Revenue from Contracts with Customers. IFRS 9 Financial Statements has been adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 1 January 2017 and 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The tables below show the adjustments that have been made to each individual line item. Line items that have not been affected by the changes have not been included separately, but instead have been grouped together.

Condensed Consolidated Income Statement for the year ended 31 December 2017

	As previously reported \$m	IFRS 15 \$m	Restated \$m
<b>Revenue</b>	722.9	2.0	724.9
Cost of sales	(558.1)	(1.4)	(559.5)
<b>Gross profit</b>	164.8	0.6	165.4
Other operating income	7.6	–	7.6
Operating expenses	(197.8)	–	(197.8)
<b>Loss from operations</b>	(25.4)	0.6	(24.8)
Finance income	3.3	–	3.3
Finance expense	(4.8)	–	(4.8)
Share of associates' post-tax losses	(1.3)	–	(1.3)
<b>Loss before tax from operations</b>	(28.2)	0.6	(27.6)
Taxation	(1.0)	–	(1.0)
<b>Loss for the year</b>	(29.2)	0.6	(28.6)
<b>Loss attributable to:</b>			
Owners of the parent	(26.7)	0.6	(26.1)
Non-controlling interests	(2.5)	–	(2.5)
	(29.2)	0.6	(28.6)
<b>Loss per share</b>			
	cents	cents	cents
Basic	(16.4)	0.4	(16.0)
Diluted	(16.4)	0.4	(16.0)

IAS 1 paragraph 82(ba) requires impairment losses for the year (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9 to be presented on a separate line in the income statement. As the amounts are not considered to be material, the impairment losses for the year have been disclosed within note 16.

## Notes to the consolidated financial statements continued

### 38. Change in Accounting Policies continued

#### (a) Impact on the Financial Statements continued

Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	As previously reported \$m	IFRS 15 \$m	Restated \$m
<b>Comprehensive expense:</b>			
Loss for the year	(29.2)	0.6	(28.6)
<b>Components of other comprehensive income after tax</b>	10.8	–	10.8
<b>Total comprehensive expense for the year</b>	(18.4)	0.6	(17.8)
<b>Total comprehensive expense attributable to:</b>			
Owners of the parent	(17.9)	0.6	(17.3)
Non-controlling interests	(0.5)	–	(0.5)
	(18.4)	0.6	(17.8)

Total comprehensive expense attributable to owners of the parent arises from the Group's continuing operations.

Condensed Consolidated Balance Sheet as at 31 December 2017

	As previously reported at 31 December 2017 \$m	IFRS 15 (note 38(b)) \$m	Restated at 31 December 2017 \$m	IFRS 9 (note 38(c)) \$m	Restated at 1 January 2018 \$m
<b>ASSETS</b>					
<b>Non-current assets</b>	749.0	–	749.0	–	749.0
<b>Current assets</b>					
Inventories	286.2	(5.2)	281.0	–	281.0
Trade and other receivables	178.9	6.8	185.7	(0.2)	185.5
Other current assets	66.5	–	66.5	–	66.5
	531.6	1.6	533.2	(0.2)	533.0
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	130.9	–	130.9	–	130.9
Other current liabilities	13.6	–	13.6	–	13.6
	144.5	–	144.5	–	144.5
<b>Net current assets</b>	387.1	1.6	388.7	(0.2)	388.5
<b>Non-current liabilities</b>	25.6	–	25.6	–	25.6
<b>Net assets</b>	1,110.5	1.6	1,112.1	(0.2)	1,111.9
<b>Equity attributable to owners of the parent</b>					
Retained earnings	780.6	1.6	782.2	(0.2)	782.0
Other equity balances	311.1	–	311.1	–	311.1
	1,091.7	1.6	1,093.3	(0.2)	1,093.1
<b>Non-controlling interests</b>	18.8	–	18.8	–	18.8
<b>Total equity</b>	1,110.5	1.6	1,112.1	(0.2)	1,111.9



**38. Change in Accounting Policies** continued**(a) Impact on the Financial Statements** continued

Notes to the Financial Statements for the year ended 31 December 2017

	As previously reported at 31 December 2017 \$m	IFRS 15 (note 38(b)) \$m	Restated at 31 December 2017 \$m	IFRS 9 (note 38(c)) \$m	Restated at 1 January 2018 \$m
<b>Inventories</b>					
Raw materials	99.2	(0.5)	98.7	–	98.7
Work in progress	52.0	(4.6)	47.4	–	47.4
Finished goods	163.6	(0.5)	163.1	–	163.1
Gross inventories	314.8	(5.6)	309.2	–	309.2
Less: provision	(28.6)	0.4	(28.2)	–	(28.2)
Net inventories	286.2	(5.2)	281.0	–	281.0
<b>Trade and other receivables</b>					
Current:					
Contract assets	–	6.8	6.8	–	6.8
Trade receivables	152.8	–	152.8	–	152.8
Accrued revenue	6.2	–	6.2	–	6.2
Gross receivables	159.0	6.8	165.8	–	165.8
Less: provision for impairment	(4.8)	–	(4.8)	(0.2)	(5.0)
Net receivables	154.2	6.8	161.0	(0.2)	160.8
Prepayments	17.6	–	17.6	–	17.6
Other receivables	7.1	–	7.1	–	7.1
	178.9	6.8	185.7	(0.2)	185.5
<b>Trade and other payables</b>					
Current:					
Contract liabilities	–	9.1	9.1	–	9.1
Trade payables	47.3	–	47.3	–	47.3
Accruals	49.9	–	49.9	–	49.9
Other current payables	33.7	(9.1)	24.6	–	24.6
	130.9	–	130.9	–	130.9

**Condensed Consolidated Statement of Cash Flows for the year ended 31 December 2017**

	Notes	As previously reported year ended 31 December 2017 \$m	IFRS 15 \$m	Restated year ended 31 December 2017 \$m
<b>Operating activities</b>				
Reported loss from operations		(25.4)	0.6	(24.8)
Acquisition amortisation and exceptional items	6	39.1	–	39.1
Depreciation and non-acquisition amortisation		41.7	–	41.7
Underlying EBITDA		55.4	0.6	56.0
Increase in inventories		(20.9)	1.2	(19.7)
Increase in receivables		(64.7)	(1.8)	(66.5)
Increase in payables		46.3	–	46.3
Operating activities other cash flows		18.3	–	18.3
Operating activities non-cash flow items		11.4	–	11.4
<b>Net cash inflow from operating activities</b>		45.8	–	45.8
<b>Net cash outflow from investing activities</b>		(9.9)	–	(9.9)
<b>Net cash outflow from financing activities</b>		(23.2)	–	(23.2)
<b>Net cash inflow in cash and cash equivalents</b>		12.7	–	12.7
Cash and cash equivalents at the beginning of the year		20.3	–	20.3
Effect of foreign exchange rates		1.3	–	1.3
<b>Cash and cash equivalents at the end of the year</b>		34.3	–	34.3

## Notes to the consolidated financial statements continued

### 38. Change in Accounting Policies continued

(a) Impact on the Financial Statements continued  
Condensed Consolidated Balance Sheet as at 1 January 2017

	As previously reported at 31 December 2016 \$m	IFRS 15 (note 38(b)) \$m	Restated at 1 January 2017 \$m
<b>ASSETS</b>			
<b>Non-current assets</b>	841.3	–	841.3
<b>Current assets</b>			
Inventories	259.7	(4.0)	255.7
Trade and other receivables	111.7	5.0	116.7
Other current assets	88.4	–	88.4
	459.8	1.0	460.8
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	70.0	–	70.0
Other current liabilities	66.2	–	66.2
	136.2	–	136.2
<b>Net current assets</b>	323.6	1.0	324.6
<b>Non-current liabilities</b>	47.5	–	47.5
<b>Net assets</b>	1,117.4	1.0	1,118.4
<b>Equity attributable to owners of the parent</b>			
Retained earnings	800.0	1.0	801.0
Other equity balances	298.1	–	298.1
	1,098.1	1.0	1,099.1
<b>Non-controlling interests</b>	19.3	–	19.3
<b>Total equity</b>	1,117.4	1.0	1,118.4

#### (b) Impact of Adoption of IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes when revenue should be recognised, how it should be measured and what disclosures about contracts with customers should be made. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The new accounting policies are set out in note 37. The standard is effective for the Group from 1 January 2018. IFRS 15 must be applied retrospectively. However, an entity can choose whether to apply the standard retrospectively to each period presented or apply the modified retrospective method, whereby the cumulative effect of applying the standard is recognised in equity at the date of initial application.

In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules fully retrospectively, rather than the modified retrospective method as indicated in the 2017 Annual Report and Accounts, and has restated the comparatives for the 2017 financial year, as this is considered to enhance the clarity of the financial statements.

The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application, 1 January 2018.

	IAS 18 Carrying amount 31 December 2017 \$m	Reclassification \$m	Remeasurement \$m	IFRS 15 Carrying amount 1 January 2018 \$m
Net trade receivables	148.0	(148.0)	–	–
Net trade receivables – rental receivables	–	12.5	–	12.5
Net trade receivables – IFRS 15 Revenue from Contracts with Customers	–	135.5	–	135.5
Current contract assets	–	–	6.8	6.8
Accrued revenue	6.2	(6.2)	–	–
Accrued revenue – rental receivables	–	1.7	–	1.7
Accrued revenue – IFRS 15 Revenue from Contracts with Customers	–	4.5	–	4.5
Inventories	286.2	–	(5.2)	281.0
Current contract liabilities	–	(9.1)	–	(9.1)
Other payables – deferred revenue	(1.0)	–	–	(1.0)
Other payables – payments on account from customers	(9.1)	9.1	–	–

**38. Change in Accounting Policies** continued**(b) Impact of Adoption of IFRS 15 Revenue from Contracts with Customers** continued

IFRS 15 requires an entity to recognise revenue when control of promised goods or services is passed to its customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue will either be recognised at a point in time, when the entity has completed its performance obligation or over time as, while and when the promise is performed. Consequently, revenue that was previously recognised at a point in time may now have to be recognised over time.

Hunting's revenue is principally generated from the following sources:

- Sales of goods to customers; products include manufactured goods and OCTG supplies.
- Performance of services, which is principally comprised of threading plain-end pipe.
- Licensed use of Hunting's thread designs.
- Rental of equipment such as mud motors and drilling tools. Rental revenue does not fall within the scope of IFRS 15 and is unaffected by the requirements of the new accounting standard.

Management has identified two principal revenue streams that require an amendment to the Group's revenue accounting policies following the adoption of IFRS 15. These activities involve: (1) the manufacture of products that have been designed with the customer to their bespoke specifications and for which Hunting has an enforceable right to payment if the customer were to prematurely withdraw from the contract without cause; and (2) work performed by Hunting that enhances customer-owned products, such as lathing customer-owned plain-end pipe.

Under IFRS 15, apportionment of revenue between different financial reporting periods is required when Hunting's satisfaction of performance obligations straddles two or more financial reporting periods. The majority of Hunting's performance obligations are relatively short and consequently very few in number straddle two financial reporting periods. As a result, only a small proportion of the Group's annual revenue needs to be apportioned between financial reporting periods such that the impact on the Group's financial statements is minimal.

The impact on the Group's retained earnings as at 1 January 2017 is as follows:

	2017 \$m
Opening retained earnings at 1 January 2017 (before restatement for IFRS 15)	800.0
Point in time sales recognised as over time sales under IFRS 15	1.0
Restated opening retained earnings at 1 January 2017 under IFRS 15	801.0

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	2018 \$m
Restated opening retained earnings at 1 January 2018 under IFRS 9 (before restatement for IFRS 15) (note 38(c))	780.4
Point in time sales recognised as over time sales under IFRS 15	1.6
Restated opening retained earnings at 1 January 2018 under IFRS 9 and IFRS 15	782.0

Prior to the adoption of IFRS 15, the majority of the Group's revenue was recognised at the point in time when the goods or services were completed/delivered. IFRS 15 requires the Group to now recognise revenue when control of the goods or services transfers to the customer. For some of the Group's activities as described above, this requires the Group to recognise revenue while the goods are still being manufactured or the services are still being performed. Consequently, revenue on these activities is recognised earlier under IFRS 15 than it is recognised under the previous accounting standards. At 31 December 2017, the fair value of the accelerated revenue amounted to \$6.8m and this is recognised as a contract asset, within current receivables, on the balance sheet and as additional revenue within the year ended 31 December 2017.

As a result of control of the goods and services transferring to the customer, the Group must also de-recognise the costs incurred to date in producing the goods or performing the services. As at 31 December 2017, the carrying value of the goods and services that had transferred to the customer, and which under the previous accounting standards was recognised as inventory, amounted to \$5.2m.

The net impact of recognising an additional asset of \$6.8m, carried at fair value, and de-recognising the associated cost of \$5.2m, is to increase the Group's net assets by \$1.6m, which is recognised as a \$1.6m increase in retained earnings. As a result of the Group's tax position, the tax impact of these adjustments is \$nil.

The presentation of certain amounts in the balance sheet has been changed to reflect the terminology of IFRS 15, as follows:

- Net trade receivables of \$148.0m have now been presented as net trade receivables from revenue from contracts with customers of \$135.5m and net trade receivables from revenue from leasing contracts of \$12.5m.
- Accrued revenue of \$6.2m has now been presented as accrued revenue arising from contracts with customers of \$4.5m and accrued revenue arising from leasing contracts of \$1.7m.
- Contract liabilities of \$9.1m were previously presented as payments on account from customers in other payables.

# Notes to the consolidated financial statements continued

## 38. Change in Accounting Policies continued

### (c) Impact of Adoption of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and establishes principles for the recognition, derecognition, classification and measurement of financial assets and liabilities, together with new requirements relating to the impairment of financial assets and new simplified hedge accounting rules. The new accounting policies are set out in note 37. IFRS 9 became effective for the Group on 1 January 2018 and is generally applied retrospectively, except as described below.

In accordance with the transitional provisions of IFRS 9 (7.2.15), comparative figures have not been restated in respect of IFRS 9's classification and measurement (including impairment) requirements. Any differences in the carrying amounts of financial assets and financial liabilities as a result of adopting IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39. There was, therefore, no impact on the Group's retained earnings as at 1 January 2017 as a result of adopting IFRS 9.

The determination by each entity of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application, 1 January 2018.

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Note	2018 \$m
Closing retained earnings at 31 December 2017 – as previously reported under IAS 39 and IAS 18		<b>780.6</b>
Increase in provision for trade receivables and contract assets	38(c)(ii)	<b>(0.2)</b>
<b>Restated opening retained earnings at 1 January 2018 under IFRS 9 (before restatement for IFRS 15)</b>		<b>780.4</b>

### (i) Derivatives and Hedging

There is a new hedge accounting model, which has been simplified and is more closely aligned to the business's risk management activities. Any changes to hedge accounting under IFRS 9 are to be applied prospectively by Hunting from 1 January 2018 as Hunting has not taken the option to continue applying IAS 39 to its hedge accounting.

The Group had forward foreign exchange contracts and foreign currency swaps in place to hedge its exposure to foreign exchange rate movements at 31 December 2017.

Certain forward foreign exchange contracts had been designated in a cash flow hedge as at 31 December 2017 to hedge the foreign currency risk associated with forecast inventory purchases. These cash flow hedges have qualified as cash flow hedges under IFRS 9.

At 31 December 2017, forward foreign exchange contracts were designated in fair value hedges to hedge the foreign exchange movement in foreign currency trade payables. These fair value hedges have qualified as fair value hedges under IFRS 9.

A foreign currency swap was also designated in a fair value hedge to hedge the foreign exchange movements in a Canadian dollar-denominated pseudo equity loan at 31 December 2017. This fair value hedge has qualified as a fair value hedge under IFRS 9.

The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are treated as continuing under IFRS 9.

Under IAS 39, the Group designated the spot component of the change in fair value of the forward foreign exchange contracts in a cash flow hedge. Changes in the forward points, the differential between the forward rate and the market spot rate, were recognised in the income statement in finance costs.

Under IFRS 9, changes in the fair value of forward foreign exchange contracts attributable to forward points can be recognised as a cost of hedging in the hedging reserve. The Group has chosen to continue recognising the costs of hedging in the income statement immediately rather than deferring these in equity.

Under IAS 39, the amounts accumulated in the cash flow hedge reserve relating to the spot component were reclassified and included in the initial cost of the inventory item when it was recognised. The same approach applies under IFRS 9 to the amounts accumulated in the cash flow hedge reserve.

**38. Change in Accounting Policies continued****(c) Impact of Adoption of IFRS 9 Financial Instruments continued****(ii) Impairment of Financial Assets**

IAS 39's "incurred loss" model has been replaced with a new impairment model, the "expected loss" model. An entity will recognise a loss allowance from the point of initial recognition for all financial assets based on expected credit losses, which will result in the earlier recognition of credit losses, i.e. a "day one" loss, will be recognised. This will result in the earlier recognition of bad debt provisions.

**Trade receivables, contract assets and accrued revenue**

The Group applies the IFRS 9 simplified impairment model, which uses a lifetime expected loss allowance, to short-term trade receivables, accrued revenue, contract assets and lease receivables and long-term trade receivables, accrued revenue and contract assets. To measure the expected credit losses, trade receivables, accrued revenue and contract assets have been grouped based on shared credit risk characteristics and the days past due.

Contract assets represent the Group's right to consideration for goods or services that have been transferred to a customer while the right remains on condition that Hunting completes its promise. Accrued revenue represents unbilled revenue that is recognised after Hunting has completed its promise to a customer. As contract assets and accrued revenue have substantially the same credit risk characteristics as trade receivables for the same types of contracts, it was concluded that the expected loss rates for trade receivables are a reasonable approximation for the loss rates for contract assets and accrued revenue.

As at 31 December 2017, the impact on the Group's financial performance and position has been an increase in the bad debt provision of \$0.2m. A reconciliation of the bad debt provision as at 31 December 2017 and 1 January 2018 is shown below.

	2018 \$m
At 31 December 2017 – calculated under IAS 39	4.8
Additional impairment recognised at 1 January 2018 on trade receivables as at 31 December 2017	0.2
Opening bad debt provision as at 1 January 2018 – calculated under IFRS 9	5.0

The bad debt provision decreased to \$3.1m by 31 December 2018. The decrease would not have been materially different under the incurred loss model of IAS 39.

Trade receivables and contract assets are written off when there is no reasonable expectation that the Group will be able to collect all amounts due according to the original terms of sale. Indicators that the debt will not be recovered include defaults in payment and the debtor is in financial difficulty or the debtor has been placed into administration and is no longer trading.

**Investments**

The Group's listed equity investments and mutual funds are carried at fair value through profit or loss and are considered to have a low credit risk as they have a low risk of default. Funds are invested in a wide portfolio of US mutual funds and no individual exposure is considered to be significant.

**Other financial assets at amortised cost**

Other financial assets carried at amortised cost include the loan note, a receivable from the liquidators of an associate for the Group's share of net assets and other receivables. The loss allowance at 1 January 2018, as a result of applying the expected credit risk model under IFRS 9, was \$nil and by 31 December 2018 the receivable from the liquidators of \$1.3m had been collected in full.

**(iii) Classification and Measurement**

The classification and measurement of financial assets is now driven by the cash flow characteristics of the asset and the business model of the individual company. On 1 January 2018, the date of initial application of IFRS 9, management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. All of the Group's entities have a hold to collect business model and therefore the classification of financial assets has not changed following the adoption of IFRS 9. As a result, there has been no impact on the Group's retained earnings. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

The classification of the Group's non-current and current investments under IFRS 9 has not changed from the classification under IAS 39 at fair value through profit or loss. Non-current and current other receivables, the loan note, net trade receivables, accrued revenue and cash at bank and in hand were previously classified as loans and receivables under IAS 39 are now classified as at amortised cost under IFRS 9.

The carrying amounts for financial assets under IFRS 9 have not changed from the carrying amounts under IAS 39, except for trade and other receivables. An increase of \$0.2m in the bad debt provision was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9 and the carrying amount of net trade receivables reduced from \$148.0m to \$147.8m. These trade and other receivables do not include the additional contract assets of \$6.8m that were recognised on the adoption of IFRS 15, see note 38(b) above.

# Company balance sheet

at 31 December 2018

	Notes	2018 \$m	2017 \$m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	C4	<b>436.8</b>	436.8
Other receivables	C5	<b>286.0</b>	275.3
		<b>722.8</b>	712.1
<b>Current assets</b>			
Other receivables	C5	<b>1.1</b>	1.3
Current tax asset		<b>-</b>	2.1
		<b>1.1</b>	3.4
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables	C6	<b>1.3</b>	1.8
Provisions		<b>0.6</b>	0.5
Current tax liability		<b>0.4</b>	-
		<b>2.3</b>	2.3
<b>Net current (liabilities) assets</b>		<b>(1.2)</b>	1.1
<b>Non-current liabilities</b>			
Borrowings		<b>0.6</b>	0.3
Provisions		<b>0.8</b>	0.6
		<b>1.4</b>	0.9
<b>Net assets</b>		<b>720.2</b>	712.3
<b>Equity attributable to owners of the parent</b>			
Share capital	C12	<b>66.7</b>	66.4
Share premium	C12	<b>153.0</b>	153.0
Other components of equity	C13	<b>70.5</b>	79.3
Retained earnings	C14	<b>430.0</b>	413.6
<b>Total equity</b>		<b>720.2</b>	712.3

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting its own income statement and statement of comprehensive income. Profit and total comprehensive income for the year of \$7.3m (2017 – \$13.6m) has been accounted for in the financial statements of the Company.

The notes on pages 155 to 160 are an integral part of these financial statements. The financial statements on pages 152 to 154 were approved by the Board of Directors on 28 February 2019 and were signed on its behalf by:



**Jim Johnson**  
Director



**Peter Rose**  
Director

Registered number: 974568

# Company statement of changes in equity

		Year ended 31 December 2018				
	Notes	Share capital \$m	Share premium \$m	Other components of equity \$m	Retained earnings \$m	Total equity \$m
<b>At 1 January</b>		<b>66.4</b>	<b>153.0</b>	<b>79.3</b>	<b>413.6</b>	<b>712.3</b>
Profit for the year		-	-	-	7.3	7.3
<b>Total comprehensive income</b>		-	-	-	7.3	7.3
Dividends paid to equity shareholders	C15	-	-	-	(6.6)	(6.6)
Shares issued						
– share option schemes and awards	C12	0.3	-	-	-	0.3
Treasury shares						
– purchase of Treasury shares		-	-	-	(5.7)	(5.7)
Share options and awards						
– value of employee services	C13	-	-	13.1	-	13.1
– discharge	C13, C14	-	-	(9.7)	9.2	(0.5)
Transfer between reserves		-	-	(12.2)	12.2	-
<b>Total transactions with owners</b>		<b>0.3</b>	<b>-</b>	<b>(8.8)</b>	<b>9.1</b>	<b>0.6</b>
<b>At 31 December</b>		<b>66.7</b>	<b>153.0</b>	<b>70.5</b>	<b>430.0</b>	<b>720.2</b>
		Year ended 31 December 2017				
	Notes	Share capital \$m	Share premium \$m	Other components of equity \$m	Retained earnings \$m	Total equity \$m
<b>At 1 January</b>		<b>66.3</b>	<b>153.0</b>	<b>76.8</b>	<b>391.1</b>	<b>687.2</b>
Profit for the year		-	-	-	13.6	13.6
<b>Total comprehensive income</b>		-	-	-	13.6	13.6
Shares issued						
– share option schemes and awards	C12	0.1	-	-	-	0.1
Share options and awards						
– value of employee services	C13	-	-	11.6	-	11.6
– discharge	C13, C14	-	-	(9.1)	8.9	(0.2)
<b>Total transactions with owners</b>		<b>0.1</b>	<b>-</b>	<b>2.5</b>	<b>8.9</b>	<b>11.5</b>
<b>At 31 December</b>		<b>66.4</b>	<b>153.0</b>	<b>79.3</b>	<b>413.6</b>	<b>712.3</b>

# Company statement of cash flows

For the year ended 31 December 2018

	Notes	2018 \$m	2017 \$m
<b>Operating activities</b>			
Profit from operations		0.6	7.1
Share-based payments expense		13.2	11.9
Decrease (increase) in receivables		0.2	(0.4)
Decrease in payables		(1.6)	(0.6)
Increase in provisions		0.1	0.3
Net exchange differences		0.7	0.8
Taxation received (paid)		0.6	(2.0)
<b>Net cash inflow from operating activities</b>		<b>13.8</b>	<b>17.1</b>
<b>Investing activities</b>			
Interest received		8.7	7.6
<b>Net cash inflow from investing activities</b>		<b>8.7</b>	<b>7.6</b>
<b>Financing activities</b>			
Interest and bank fees paid		(0.1)	(0.1)
Dividends paid to equity shareholders	C15	(6.6)	–
Share capital issued		0.3	0.1
Purchase of treasury shares		(5.7)	–
Loan issued		(22.9)	(29.5)
Loan received		0.3	0.3
Loan issued repaid		12.2	–
<b>Net cash outflow from financing activities</b>		<b>(22.5)</b>	<b>(29.2)</b>
<b>Net cash inflow (outflow) in cash and cash equivalents</b>		<b>–</b>	<b>(4.5)</b>
Cash and cash equivalents at the beginning of the year		–	4.5
<b>Cash and cash equivalents at the end of the year</b>		<b>–</b>	<b>–</b>



# Notes to the Company financial statements

## C1. Basis of Preparation

Hunting PLC is a premium-listed public company limited by shares, with its Ordinary shares listed on the London Stock Exchange. Hunting PLC was incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is shown on page 167. The Company acts as a holding company for the Hunting PLC Group. Details of the Company's subsidiaries are given in note C19. The financial statements of Hunting PLC have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and those International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") Interpretations as adopted by the European Union. The financial statements have been prepared on a going concern basis under the historical cost convention. The Board's consideration of going concern is detailed further in the Strategic Report on page 53.

The Company's principal accounting policies applied in the preparation of these financial statements are the same as those set out in note 37 of the Group's financial statements, except for investments in subsidiaries that are stated at cost, which is the fair value of the consideration paid, less provision for impairment. These policies have been consistently applied to all the years presented.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Hunting PLC Group and are not managed separately. The principal risks and uncertainties of the Hunting PLC Group, which include those of the Company, are discussed on pages 49 to 52 and further detail on financial risks is provided within note C9.

## IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, became effective for the Company on 1 January 2018 and has been adopted retrospectively. There is no impact on the Company's financial position or results following the adoption of IFRS 9 on 1 January 2018.

On 1 January 2018, the date of initial application of IFRS 9, management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. The classification and measurement of financial assets is now driven by the cash flow characteristics of the asset and the business model of the Company. The Company has a hold to collect business model and therefore the classification of financial assets has not changed following the adoption of IFRS 9. As a result, there has been no impact on the Company's retained earnings.

The non-current loan receivable from a subsidiary and current receivables from subsidiaries were previously classified as loans and receivables under IAS 39 and are now classified as at amortised cost under IFRS 9. The carrying amounts for financial assets under IFRS 9 have not changed from the carrying amounts under IAS 39.

## IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes when revenue is recognised, how it should be measured and what disclosures about contracts with customers should be made. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for the Company from 1 January 2018. There was no impact on the Company's financial position or results following the adoption of IFRS 15 on 1 January 2018.

## IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases and its related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The standard will be effective for the Company from 1 January 2019. Management has performed an assessment of the impact of adopting IFRS 16 and currently no impact on the Company's financial position or results is expected following the adoption of IFRS 16 on 1 January 2019.

## C2. Employees

The Company had no employees during the current or prior year.

## C3. Auditors' Remuneration

Services provided by the Company's independent auditors, PricewaterhouseCoopers LLP, and its associates comprised:

	2018 \$m	2017 \$m
Fees payable to the Company's independent auditors and its associates for:		
The audit of these financial statements	0.5	0.5

## C4. Investments in Subsidiaries

	2018 \$m	2017 \$m
<b>Cost:</b>		
<b>At 1 January and 31 December</b>	<b>436.8</b>	<b>436.8</b>
<b>Impairment:</b>		
<b>At 1 January and 31 December</b>	<b>–</b>	<b>–</b>
<b>Net book amount</b>	<b>436.8</b>	<b>436.8</b>

The Company's subsidiaries are detailed in note C19. Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid, less impairment. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

## Notes to the Company financial statements continued

### C5. Other Receivables

	2018 \$m	2017 \$m
<b>Non-current:</b>		
Loan receivable from a subsidiary – interest-bearing	285.9	275.2
Prepayments	0.1	0.1
	<b>286.0</b>	<b>275.3</b>
<b>Current:</b>		
Receivables from subsidiaries	0.8	0.8
Prepayments	0.2	0.4
Other receivables	0.1	0.1
	<b>1.1</b>	<b>1.3</b>

The loan receivable from a subsidiary and current receivables from subsidiaries are financial assets measured at amortised cost. Other receivables relate to VAT balances, which are not financial assets.

None of the Company's receivables (2017 – none) were overdue at the year-end and the Company does not consider it necessary to provide for any impairments as there is no recent history of default or any indications that the contractual payments will not be made. The Company's maximum exposure to credit risk is the fair value of each class of receivable, as described in note C8. The Company does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held. The interest-bearing loan receivable from a subsidiary is unsecured and interest is charged based on a margin over bank lending rates. Current receivables due from subsidiaries are current accounts and are unsecured, interest free and repayable on demand.

### C6. Other Payables

	2018 \$m	2017 \$m
<b>Current:</b>		
Payables to subsidiaries	0.2	0.3
Accruals	0.6	0.8
Other payables	0.5	0.7
	<b>1.3</b>	<b>1.8</b>

Payables to subsidiaries, accruals and other payables are financial liabilities carried at amortised cost. Current payables due to subsidiaries are unsecured, interest free and repayable on demand.

### C7. Derivatives and Hedging

The Company has used forward foreign exchange contracts to hedge its exposure to exchange rate movements during the year. At 31 December 2018, the Company had no outstanding forward foreign exchange contracts (2017 – \$nil).

Gains and losses on contracts that are not designated in a hedge relationship are taken directly to the income statement. Changes in the fair value of currency derivatives not designated in a hedge relationship amounting to a \$0.4m loss (2017 – \$nil) were recognised in the income statement during the year.

### C8. Financial Instruments: Fair Values

Due to their short-term nature, the carrying value of current receivables from subsidiaries, other receivables, payables to subsidiaries, accruals, other payables, provisions, borrowings and bank overdrafts approximates their fair value. The carrying value of the loan receivable from subsidiaries approximates its fair value as interest is charged based on a margin over current bank lending rates.

### C9. Financial Risk Management

The Company's activities expose it to certain financial risks, namely market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. From the perspective of the Company, these financial risks are integrated with the financial risks of the Hunting PLC Group and are not managed separately.

#### (a) Foreign Exchange Risk

The Company is mainly exposed to foreign exchange risk from its financing and operating activities in respect of Sterling. Foreign exchange risks arise from future transactions and cash flows and from recognised monetary assets and liabilities that are not denominated in US dollars and, where appropriate, forward foreign exchange contracts are used to manage the exposure to changes in foreign exchange rates. The Company has Sterling denominated financial assets and financial liabilities.

The carrying amount of the Company's financial assets included in current receivables from subsidiaries at 31 December on which exchange differences would be recognised in the income statement in the following year, is \$0.7m (2017 – \$0.4m) for Sterling denominated financial assets.

The carrying amount of the Company's financial liabilities included in accruals, other payables and provisions at 31 December, on which exchange differences would be recognised in the income statement in the following year, is \$3.2m (2017 – \$2.6m) for Sterling denominated financial liabilities.

**C9. Financial Risk Management** continued**(b) Interest Rate Risk**

The Company is exposed to cash flow interest rate risk from its loan receivable from a subsidiary and borrowings payable to a subsidiary, which are at variable interest rates.

**(c) Credit Risk**

The Company's credit risk arises from its outstanding current receivables and loan receivable from a subsidiary. The Company is exposed to credit risk to the extent of non-receipt of its financial assets, however, it has no significant concentrations of credit risk other than from related parties. Credit risk is continually monitored and no individual exposure is considered to be significant in the ordinary course of the Company's activities.

The interest-bearing loan receivable due from a subsidiary has not been impaired as no losses are expected from non-performance of this counterparty. The credit risk at the time the loan was taken out was deemed to be low and there has not been an increase in the credit risk since the time the loan was initially recognised. Therefore, management does not believe that there is a significant increase in credit risk such that the loan moves from stage 1 to stage 2 of the IFRS 9 general impairment model. There is no history of default and previously all payments under the original terms of the loan have been made. The loan is with the Group's central treasury company, which has sufficient cash, short-term deposits and credit facilities, in the form of the RCF, to repay the loan. Management does not have any reason to believe that any future payments will not be made in accordance with the terms of the loan. Therefore no provision for 12-month expected credit losses has been made under IFRS 9.

The Company's outstanding receivables due from subsidiaries are current accounts and no losses are expected from non-performance of these counterparties.

**(d) Liquidity Risk**

The Company has sufficient facilities available to satisfy its requirements.

During March 2017, the Group's treasury function put in place a sweeping arrangement with the Company, such that at the end of each day any balances in its bank accounts are swept to the treasury function, with a corresponding increase in the loan receivable balance with fellow group companies. As a result, at the end of the year, cash at bank is \$nil.

The Company is party to a cross-guarantee and set-off arrangement with Lloyds Bank Plc and Barclays Bank Plc. There is no set-off in the presentation of cash balances held by the Company in the financial statements. Under this arrangement the Company is jointly and severally liable for any gross liability position held by any of the companies' party to the aforementioned arrangements in the event of default. Any gross liability limit cannot exceed a combined facility limit of £2.6m (\$3.4m).

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date of the financial liabilities. The amounts presented in the table are the contractual undiscounted cash flows, whereas the carrying amounts in the balance sheet are the discounted amounts.

	2018 On demand or within one year \$m	2017 On demand or within one year \$m
Non-derivative financial liabilities:		
Payables to subsidiaries	0.2	0.3
Borrowings – payable due to subsidiary	0.6	0.3
Accruals	0.6	0.8
Other payables	0.5	0.7
	1.9	2.1

The Company did not have any derivative financial liabilities at the end of 2017 or 2018.

**(e) Capital Risk Management**

The Company's capital consists of equity and net cash. Net cash comprises the loan receivable from a subsidiary and borrowings. It is managed with the aim of maintaining an appropriate level of financing available for the Company's activities, having due regard to interest rate risks and the availability of borrowing facilities.

Changes in equity arise from the retention of earnings and from issues of share capital. Net cash is monitored on a periodic basis. At the year-end, capital comprised:

	2018 \$m	Restated 2017 \$m
Total equity	720.2	712.3
Net cash:		
Borrowings – payable due to subsidiary	0.6	0.3
Loan receivable from subsidiary (note C5)	(285.9)	(275.2)
Capital employed	434.9	437.4

The 2017 capital employed amount has been restated to include the Company's borrowings.

## Notes to the Company financial statements continued

### C9. Financial Risk Management continued

#### (e) Capital Risk Management continued

The increase in total equity during the year is mainly attributable to the retained profit for the year of \$7.3m. The increase in the share-based payments reserve of \$13.1m is offset by the payment of a dividend of \$6.6m and the purchase of treasury shares of \$5.7m. The loan receivable from a subsidiary increased by \$10.7m largely due to royalty income received during the year. There have been no significant changes in the Company's funding policy during the year.

#### C10. Financial Instruments: Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include non-current receivables from subsidiaries and borrowings. The sensitivity analysis relates to the position as at 31 December 2018.

The analysis excludes the impact of movements in market variables on the carrying value of provisions and on non-financial assets and liabilities.

The following assumptions have been made in calculating the sensitivity analysis:

- Foreign exchange rate and interest rate sensitivities have an asymmetric impact on the Company's results, that is, an increase in rates does not result in the same amount of movement as a decrease in rates.
- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to be outstanding for the whole year.
- The carrying values of financial assets and liabilities carried at amortised cost do not change as interest rates change.

#### (a) Interest Rate Sensitivity

The post-tax impact on the income statement, with all other variables held constant, at 31 December 2018, for an increase of 0.5% (2017 – 0.75%) in US interest rates, is to increase profits by \$1.2m (2017 – \$1.7m). If the US interest rates were to decrease by 0.5% (2017 – 0.75%), then the post-tax impact would be to reduce profits by \$1.2m (2017 – \$1.7m). The movements arise on US dollar denominated intra-Group loans. There is no impact on OCI for a change in interest rates.

#### (b) Foreign Exchange Rate Sensitivity

The post-tax impact on the income statement, with all other variables held constant, at 31 December 2018, for an increase or decrease of 10% (2017 – 10%) in the Sterling foreign exchange rate, is not material. The movement in the income statement arises from Sterling denominated accruals, other payables and borrowings, offset by Sterling loans receivable from subsidiaries. There is no impact on OCI for a change in foreign exchange rates.

### C11. Post-Employment Benefits

The Company has no employees and therefore does not participate in any of the post-employment benefit schemes shown in note 29 of the Group's financial statements, although it does guarantee the contributions due by the participating employers.

### C12. Share Capital and Share Premium

Please see note 30 of the Group's financial statements.

### C13. Other Components of Equity

	Year ended 31 December 2018				
	Capital redemption reserve \$m	Share-based payments reserve \$m	Currency translation reserve \$m	Merger reserve \$m	Total \$m
At 1 January	0.2	18.9	(19.2)	79.4	79.3
Share options and awards					
– value of employee services	–	13.1	–	–	13.1
– discharge	–	(9.7)	–	–	(9.7)
Transfer between reserves	–	–	–	(12.2)	(12.2)
<b>At 31 December</b>	<b>0.2</b>	<b>22.3</b>	<b>(19.2)</b>	<b>67.2</b>	<b>70.5</b>

During the year, \$12.2m was transferred from the merger reserve to retained earnings. This portion of the reserve is now considered to be realised as the equivalent amount of the proceeds from the share placing in 2016 have now met the definition of qualifying consideration.

	Year ended 31 December 2017				
	Capital redemption reserve \$m	Share-based payments reserve \$m	Currency translation reserve \$m	Merger reserve \$m	Total \$m
At 1 January	0.2	16.4	(19.2)	79.4	76.8
Share options and awards					
– value of employee services	–	11.6	–	–	11.6
– discharge	–	(9.1)	–	–	(9.1)
<b>At 31 December</b>	<b>0.2</b>	<b>18.9</b>	<b>(19.2)</b>	<b>79.4</b>	<b>79.3</b>

**C14. Retained Earnings**

	2018 \$m	2017 \$m
At 1 January	413.6	391.1
Profit for the year	7.3	13.6
Dividends paid to equity shareholders (note C15)	(6.6)	–
Purchase of treasury shares	(5.7)	–
Share options and awards – discharge	9.2	8.9
Transfer between reserves	12.2	–
<b>At 31 December</b>	<b>430.0</b>	<b>413.6</b>

Retained earnings include the following amounts in respect of the carrying amount of Treasury shares.

	2018 \$m	2017 \$m
<b>Cost:</b>		
At 1 January	(7.2)	(8.7)
Purchase of treasury shares	(5.7)	–
Disposal of treasury shares	1.7	1.5
<b>At 31 December</b>	<b>(11.2)</b>	<b>(7.2)</b>

The loss on disposal of Treasury shares during the year, which is recognised in retained earnings, was \$1.7m (2017 – \$1.5m).

**C15. Dividends Paid to Equity Shareholders**

Please see note 33 of the Group's financial statements.

**C16. Share-Based Payments**

Please see note 34 of the Group's financial statements.

**C17. Related Party Transactions**

The following related party transactions took place between the Company and subsidiaries of the Group during the year:

	2018 \$m	2017 \$m
Transactions:		
Royalties receivable	14.7	10.8
Management fees payable	(11.7)	(9.7)
Recharges of share options and awards and administrative expenses	13.3	12.1
Loan to subsidiary	(22.9)	(29.5)
Loan from subsidiary	0.3	0.3
Loans to subsidiary repaid	12.2	–
Interest receivable on inter-company loans	8.7	7.6
Dividends received from subsidiaries	–	9.7
Year-end balances:		
Payables to subsidiaries	(0.2)	(0.3)
Receivables from subsidiaries	0.8	0.8
Loans owed to subsidiaries	(0.6)	(0.3)
Loans owed by subsidiaries	285.9	275.2

All balances between the Company and its subsidiaries are unsecured.

The Company also serves as the Group's intermediary for the provision of UK Group tax relief, VAT and certain Group insurances. At the year-end, the outstanding receivable for UK Group tax relief was \$1.2m (2017 – \$2.1m).

The key management of the Company comprises the Hunting PLC Board and members of the Executive Committee. The details of their compensation are disclosed in note 8 of the Group's financial statements. The Hunting PLC Board and members of the Executive Committee had no material transactions other than as a result of their service agreements.

**C18. Associates**

Associates <sup>i</sup>	Registered address
Tianjin Huaxin Premium Connection Pipe Co Ltd (28.5%)	Jintang Road, Dongli District, Tianjin, 300301, China
Hunting Airtrust Tubulars Pte. Ltd (50%)	19, Keppel Road, 08-05 JIT Poh Building, 089058, Singapore

Notes:

i All interests in associates are in the equity shares of those companies.

# Notes to the Company financial statements continued

## C19. Subsidiaries

All Companies listed below are wholly owned by the Group, except where otherwise indicated.

Subsidiaries <sup>(i)</sup>	Registered address
<b>Operating activities</b>	
Hunting Energy Services (Australia) Pty Ltd	Level 40, Governor Macquarie Tower, 1 Farrer Place, Sydney, NSW 2000, Australia
Hunting Energy Services (Canada) Ltd	5550 Skyline Way NE, Calgary, Alberta, T2E 7Z7, Canada
Hunting Energy Services (Wuxi) Co. Ltd (70%)	No. 17, Xin DongAn Road, Shuo Fang Industrial, New District Wuxi City, Jiangsu Province, China
Hunting Energy Completion Equipment (Wuxi) Co., Ltd	No. 17, Xin DongAn Road, Shuo Fang Industrial, New District Wuxi City, Jiangsu Province, China
Hunting Energy Services (International) Limited	5 Hanover Square, London, W1S 1HQ, England
Hunting Energy Services Overseas Holdings Limited	5 Hanover Square, London, W1S 1HQ, England
Hunting Energy Services Limited <sup>v</sup>	5 Hanover Square, London, W1S 1HQ, England
Hunting Energy Services (UK) Limited (60%)	5 Hanover Square, London, W1S 1HQ, England
PT Hunting Energy Asia	Complex Dragon Industrial Park, Block D, Jalan Pattimura, Kabil Batam, 29467, Indonesia
Hunting Alpha (EPZ) Limited (60%)	Block XLVIII/150, Off Mbaraki Road, P.O. Box 83344-80100 Mombasa, Kenya
Hunting Energy Services Kenya Ltd	5th Floor, West Wing, ICEA Lion Centre, Riverside Park, Chiromo Road, Nairobi, Kenya
Hunting Energy de Mexico	Avenida Los Olmos #105, Parque Industrial El Sabinal, Apodaca, Nuevo Leon, Monterrey, Mexico
Hunting Energy Services BV (60%)	Oliweg 10, 1951 NH Velsen-Noord, Netherlands
Hunting Energy Services (Well Testing) BV	Oliweg 10, 1951 NH Velsen-Noord, Netherlands
Hunting Energy Services (Norway) AS	Koppholen 19, 4313 Sandnes, Norway
Hunting Energy Saudi Arabia LLC (60%)	Dhahran, Building No: 7612, P.O. Box: 3104, Zip Code: 34521, Saudi Arabia
Hunting Energy Services (Well Intervention) Limited	Badentoy Avenue, Badentoy Park, Portlethen, Aberdeen, AB12 4YB, Scotland
Hunting Welltonic Limited <sup>v</sup>	Badentoy Avenue, Badentoy Park, Portlethen, Aberdeen, AB12 4YB, Scotland
Hunting Energy Services (International) Pte. Ltd.	2 International Business Park, #04-13/14, The Strategy 609930, Singapore
Hunting Energy Services Pte. Ltd.	2 International Business Park, #04-13/14, The Strategy 609930, Singapore
Hunting Energy Services (China) Pte. Ltd. (70%)	2 International Business Park, #04-13/14, The Strategy 609930, Singapore
Hunting Energy Services (Well Intervention) Pte. Ltd	15 Scotts Road, #04-01/03, Thong Teck Building, 228218, Singapore
Hunting Energy Services (South Africa) Pty Ltd	Manor House, Vineyards Office Estate, 99 Jip de Jager, De Bron, Cape Town, 7560, South Africa
Hunting Energy Services (Thailand) Limited (49%)	436/27, Moo 2, Thanadee-Klongwong Road, Tambol Phawong, Amphur Muong Songkhla, 90100, Thailand
Hunting Energy Services (Uganda) Ltd	4th Floor, Rwenzori Towers, Plot 6, Nakasero Road, Kampala, 24665, Uganda
National Coupling Company, Inc.	1316 Staffordshire Road, Staffordshire, Texas, 77477, USA
Hunting Energy Services, LLC	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
Premium Finishes, Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
Hunting Dearborn, Inc.	6, Dearborn Drive, Fryeburg, Maine, USA
Hunting Energy Services (Drilling Tools), Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
Hunting Innova, Inc.	8383 North Sam Houston Parkway West, Houston, Texas, 77064, USA
Hunting Specialty, Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
Hunting Titan, Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
Hunting Titan ULC	5550 Skyline Way NE, Calgary, Alberta, T2E 7Z7, Canada
Tenkay Resources, Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA
<b>Corporate activities</b>	
Hunting Energy Holdings Limited <sup>i</sup>	5 Hanover Square, London, W1S 1HQ, England
Hunting Oil Holdings Limited <sup>i</sup>	5 Hanover Square, London, W1S 1HQ, England
Hunting Knightsbridge Holdings Limited	5 Hanover Square, London, W1S 1HQ, England
Hunting Knightsbridge (US) Finance Limited <sup>v</sup>	5 Hanover Square, London, W1S 1HQ, England
Huntaven Properties Limited	5 Hanover Square, London, W1S 1HQ, England
Hunting Pension Trust Limited <sup>ii</sup>	5 Hanover Square, London, W1S 1HQ, England
HG Management Services Ltd	5 Hanover Square, London, W1S 1HQ, England
Huntfield Trust Limited <sup>iv</sup>	5 Hanover Square, London, W1S 1HQ, England
Stag Line Limited <sup>v</sup>	5 Hanover Square, London, W1S 1HQ, England
Hunting Aviation Limited <sup>v</sup>	5 Hanover Square, London, W1S 1HQ, England
Field Insurance Limited	The Albany, South Esplanade, St Peter Port, Guernsey, GY1 4NF, Guernsey
Hunting U.S. Holdings, Inc.	16825 Northchase Drive, Suite 600, Houston, Texas, 77060 USA

### Notes:

- Except where otherwise stated, companies are wholly owned, being incorporated and operating in the countries indicated.
- Interest in company is held directly by Hunting PLC.
- All interests in subsidiaries are in the equity shares of those companies. The proportion of voting rights is represented by the interest in the equity shares of those companies.
- Huntfield Trust Limited (registered number 00372215), Stag Line Limited (registered number 00151320), Hunting Aviation Limited and Hunting Knightsbridge (US) Finance Limited (registered number 08319706) are dormant companies that are exempt from being audited, are exempt from the requirements to prepare individual accounts under section 394A of the Companies Act 2006 and are exempt from filing individual accounts under section 448A of the Companies Act 2006.
- Company has been placed into voluntary liquidation.

## Non-GAAP measures (unaudited)

The Directors believe it is appropriate to include in the Strategic Report and financial statements a number of non-GAAP measures ("NGMs") that are commonly used within the business. These measures supplement the information provided in the IFRS "reported" financial statements and accompanying notes, providing additional insight to the users of the Annual Report.

This section provides a definition of the non-GAAP measures, the purpose for which the measure is used, and a reconciliation of the non-GAAP measure to the reported IFRS numbers. The auditors are required under the Companies Act 2006 to consider whether these non-GAAP measures are prepared consistently with the financial statements.

### Income Statement Non-GAAP Measures

The Directors have applied the provisions of IAS 1 with regards to exceptional items and have chosen to present these, together with amortisation of intangible assets recognised as part of a business combination, in a separate column on the face of the income statement. All profit and loss measures adjusted for amortisation of intangible assets recognised as part of a business combination and exceptional items are referred to as "underlying". This is the basis used by the Directors in assessing performance.

#### A. EBITDA

*Purpose:* This profit measure is used as a simple proxy for pre-tax cash flows from operating activities.

*Calculation definition:* Underlying results before share of associates' post-tax results, interest, tax, depreciation, impairment and amortisation.

	2018 \$m	Restated 2017 \$m
Reported profit (loss) from operations (consolidated income statement) – as previously reported	75.4	(25.4)
Change in accounting policy	–	0.6
Reported profit (loss) from operations – restated	75.4	(24.8)
Add:		
Depreciation charge for the year on property, plant and equipment (note 12)	35.0	39.6
Amortisation of other intangible assets (note 14)	31.9	31.2
Impairment of property, plant and equipment (note 12)	1.0	7.6
Less:		
Reversal of impairment of property, plant and equipment and other assets (note 12)	(2.0)	–
Reported EBITDA	141.3	53.6
Add: Exceptional items impacting EBITDA		
Restructuring costs (note 6)	0.5	2.4
Loss on disposal of Kenya rental fleet (note 6)	0.5	–
<b>Underlying EBITDA</b>	<b>142.3</b>	<b>56.0</b>

#### B. Underlying Tax Rate

*Purpose:* This weighted average tax rate represents the level of tax, both current and deferred, being borne by operations on an underlying basis.

*Calculation definition:* Taxation on underlying profit before tax divided by underlying profit before tax, expressed as a percentage.

	2018 \$m	Restated 2017 \$m
Underlying taxation charge (note 10)	(22.0)	(1.0)
Underlying profit before tax for the year (consolidated income statement)	104.0	11.5
<b>Underlying tax rate</b>	<b>21%</b>	<b>9%</b>

## Non-GAAP measures (unaudited) continued

### Balance Sheet Non-GAAP Measures

#### C. Working Capital

*Purpose:* Working Capital is a measure of the Group's liquidity identifying whether the Group has sufficient assets to cover liabilities as they fall due.

*Calculation definition:* Trade and other receivables excluding receivables from associates, derivative financial assets and loan notes, plus inventories less trade and other payables excluding payables due to associates, derivative financial liabilities, dividend liabilities and retirement plan obligations.

	2018 \$m	Restated 2017 \$m
Trade and other receivables – non-current (note 16)	3.5	3.3
Trade and other receivables – current (note 16)	231.0	185.7
Inventories (note 18)	348.2	281.0
Trade and other payables – current (note 19)	(140.9)	(130.9)
Trade and other payables – non-current (note 19)	(3.8)	(3.9)
Less: non-working capital loan note (note 16)	(1.2)	(1.3)
Add: non-working capital US deferred compensation plan obligation (note 19)	1.7	12.2
Less: non-working capital current other receivables and other payables	(2.0)	(2.1)
	<b>436.5</b>	<b>344.0</b>

#### D. Inventory Days

*Purpose:* This is a working capital efficiency ratio that measures inventory balances relative to business activity levels.

*Calculation definition:* Inventory at the year-end divided by underlying cost of sales for the last three months of the year multiplied by 92 days, adjusted for the impact of acquisitions and disposals.

	2018 \$m	2017 \$m
Inventory (note 18)	348.2	281.0
Underlying cost of sales for October to December	173.0	155.0
Inventory days	<b>185 days</b>	167 days

#### E. Receivables Days

*Purpose:* This is a working capital efficiency ratio that measures receivable balances relative to business activity levels.

*Calculation definition:* Net trade receivables, contract assets and accrued revenue at the year-end divided by revenue for the last three months of the year multiplied by 92 days, adjusted for the impact of acquisitions and disposals.

	2018 \$m	Restated 2017 \$m
Net trade receivables (note 16)	182.0	148.0
Contract assets	11.8	6.8
Accrued revenue	7.9	6.2
Net receivables	<b>201.7</b>	161.0
Revenue for October to December	<b>236.6</b>	207.1
Trade receivable days	<b>78 days</b>	72 days



**F. Other Net Assets**

	2018 \$m	Restated 2017 \$m
Retirement benefit asset (note 29)	–	18.6
Investments in associates (consolidated balance sheet)	0.7	0.7
Listed equity investments and mutual funds (note 15)	1.7	12.2
Non-working capital loan note (NGM C)	1.2	1.3
Non-working capital US deferred compensation plan obligation (NGM C)	(1.7)	(12.2)
Non-working capital current other receivables and other payables (NGM C)	2.0	2.1
	<b>3.9</b>	<b>22.7</b>

**G. Capital Employed**

*Purpose:* Used in the calculation of the return on average capital employed (see NGM O).

*Calculation definition:* Capital employed is the amount of capital that the Group has invested in its business and comprises the historic value of total equity plus net (cash) debt at amortised cost.

The Group's capital comprised:

	2018 \$m	Restated 2017 \$m
Total equity (consolidated balance sheet)	<b>1,191.1</b>	1,112.1
Net cash (note 23)	<b>(61.3)</b>	(30.4)
	<b>1,129.8</b>	1,081.7

**H. Gearing**

*Purpose:* This ratio indicates the relative level of debt funding, or financial leverage that the Group is subject to with higher levels indicating increasing levels of financial risk.

*Calculation definition:* Gearing is calculated as net debt as a percentage of total equity, if the Group has net debt. If the Group is in a net cash position, the calculation is not applicable (see NGM G).

	2018	2017
Gearing	<b>n/a</b>	n/a

**Cash Flow Non-GAAP Measures****I. Cash Flow Working Capital Movements**

*Purpose:* Reconciles the working capital movements in the summary of changes in net debt in the Strategic Report.

	2018 \$m	Restated 2017 \$m
Working capital – opening balance	<b>344.0</b>	301.2
Foreign exchange	<b>(4.6)</b>	4.7
Adjustments:		
Transfer to property, plant and equipment (note 12)	–	(0.5)
Transfer from provisions	<b>(0.1)</b>	–
Capital investment debtors/creditors cash flows	<b>0.1</b>	(0.1)
Other non-cash flow movements	<b>0.7</b>	(0.8)
Other cash flow movement	<b>(0.2)</b>	(0.4)
Working capital – closing balance (NGM C)	<b>(436.5)</b>	(344.0)
Cash flow	<b>(96.6)</b>	(39.9)

## Non-GAAP measures (unaudited) continued

### J. Capital Investment

*Purpose:* Capital investment identifies the cash resources being absorbed organically within the business to maintain or enhance operating activity levels.

*Calculation definition:* Capital investment is the cash paid on tangible non-current assets to maintain existing levels of operating activity and to grow the business from current operating levels and enhance operating activity.

	2018 \$m	2017 \$m
Property, plant and equipment additions (note 12)	30.0	11.5
Capital investment debtors/creditors cash flows (NGM I)	0.1	(0.1)
<b>Cash flow</b>	<b>30.1</b>	<b>11.4</b>
Hunting Titan	12.6	2.6
US	15.2	5.9
Canada	0.9	0.7
Europe	0.4	1.0
Asia Pacific	0.2	0.5
Middle East, Africa and Other	0.1	0.3
Exploration and Production	0.5	0.2
Central	0.2	0.2
<b>Cash flow</b>	<b>30.1</b>	<b>11.4</b>

### K. Other Operating Cash and Non-Cash Movements

*Purpose:* Reconciles other operating cash and non-cash movements in the Summary Group Cash Flow in the Strategic Report.

	2018 \$m	2017 \$m
Net gain on disposal of property, plant and equipment (consolidated statement of cash flows)	(1.0)	(0.5)
Gain on disposal of held for sale assets (consolidated statement of cash flows)	–	(1.2)
Decrease in provisions (consolidated statement of cash flows)	(3.8)	(1.0)
Proceeds on disposal of associate	1.3	–
Other non-cash flow items		
Pensions	2.5	2.2
Other	0.4	–
	<b>(0.6)</b>	<b>(0.5)</b>

### L. Free Cash Flow

*Purpose:* Free cash flow is a measure of financial performance and represents the cash that the Group is able to generate. Free cash flow represents the amount of cash the Group has available to either retain for investment, whether organic or by way of acquisition, or to return to shareholders.

*Calculation definition:* All cash flows before transactions with shareholders and tangible and intangible capital investment.

	2018 \$m	Restated 2017 \$m
Underlying EBITDA (NGM A)	142.3	56.0
Add: share-based payment charge	13.2	11.9
	<b>155.5</b>	<b>67.9</b>
Working capital movements (NGM I)	(96.6)	(39.9)
Net interest paid and bank fees (consolidated statement of cash flows)	(2.0)	(2.4)
Net tax (paid) received (consolidated statement of cash flows)	(2.6)	6.5
Proceeds from disposal of PPE	16.4	6.2
UK pension scheme refund	10.6	9.7
Disposal of business	–	1.8
Other operating cash and non-cash movements (NGM K)	(0.6)	(0.5)
	<b>80.7</b>	<b>49.3</b>

**Other Non-GAAP Measures****M. Dividend Per Share Declared**

*Purpose:* Identifies the total amount of dividend declared in respect of a period. This is also used in the calculation of dividend cover (see NGM N).

*Calculation definition:* The amount in cents returned to Ordinary shareholders.

	2018 Cents per share	2017 Cents per share
Interim dividend	4.0	–
Final dividend	5.0	–
	9.0	–

**N. Dividend Cover**

*Purpose:* An indication of the Company's ability to maintain the level of its dividend and indicates the proportion of earnings being retained in the business for future investment versus that returned to shareholders.

*Calculation definition:* Earnings or loss per share attributable to Ordinary shareholders divided by the cash dividend per share to be returned to Ordinary shareholders, on an accruals basis.

	2018		Restated 2017	
	Underlying	Reported	Underlying	Reported
<b>Earnings (loss) per share</b>				
Basic (note 11)	51.6c	54.4c	8.0c	(16.0)c
Diluted (note 11)	49.6c	52.3c	8.0c	(16.0)c
<b>Dividend (NGM M)</b>	9.0c	9.0c	–	–
<b>Dividend cover</b>				
Basic	5.7x	6.0x	n/a	n/a
Diluted	5.5x	5.8x	n/a	n/a

**O. Return on Average Capital Employed**

*Purpose:* Measures the levels of return the Group is generating from its capital employed.

*Calculation definition:* Underlying profit before interest and tax, adjusted for the share of associates' post-tax results, as a percentage of average gross capital employed. Average gross capital employed is a monthly average of capital employed based on 13 balance sheets from the closing December balance in the prior year to the closing December balance in the current year.

	2018 \$m	Restated 2017 \$m
Average monthly gross capital employed (13 point average)	1,120.8	1,120.3
Underlying profit from operations (consolidated income statement)	104.7	14.3
Share of associates' post-tax losses (consolidated income statement)	–	(1.3)
<b>Underlying profit from operations including associates</b>	<b>104.7</b>	<b>13.0</b>
<b>Return on average capital employed</b>	<b>9%</b>	<b>1%</b>

## Financial record<sup>i</sup> (unaudited)

	2018 \$m	Restated <sup>ii</sup> 2017 \$m	2016 \$m	2015 \$m	2014 \$m
<b>Revenue</b>	<b>911.4</b>	<b>724.9</b>	<b>455.8</b>	<b>810.5</b>	<b>1,386.5</b>
EBITDA	<b>142.3</b>	56.0	(48.9)	61.9	269.8
Depreciation and non-exceptional amortisation and impairment	<b>(37.6)</b>	(41.7)	(43.3)	(45.5)	(52.0)
Profit (loss) from continuing operations	<b>104.7</b>	14.3	(92.2)	16.4	217.8
Net finance expense	<b>(0.7)</b>	(1.5)	(0.7)	(6.8)	(4.9)
Share of associates' post-tax losses	<b>–</b>	(1.3)	(0.3)	(0.2)	(0.5)
Profit (loss) before tax from continuing operations	<b>104.0</b>	11.5	(93.2)	9.4	212.4
Taxation	<b>(22.0)</b>	(1.0)	19.9	(5.4)	(57.2)
Profit (loss) for the year from continuing operations	<b>82.0</b>	10.5	(73.3)	4.0	155.2
Profit for the year from discontinued operations	<b>–</b>	–	–	–	0.3
<b>Profit (loss) for the year</b>	<b>82.0</b>	<b>10.5</b>	<b>(73.3)</b>	<b>4.0</b>	<b>155.5</b>
	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>
<b>Basic earnings (loss) per share</b>					
Continuing operations	<b>51.6</b>	8.0	(45.3)	3.1	102.6
Continuing and discontinued operations	<b>51.6</b>	8.0	(45.3)	3.1	102.8
<b>Diluted earnings (loss) per share</b>					
Continuing operations	<b>49.6</b>	8.0	(45.3)	3.1	100.0
Continuing and discontinued operations	<b>49.6</b>	8.0	(45.3)	3.1	100.2
<b>Dividend per share<sup>iii</sup></b>	<b>9.0</b>	–	–	8.0	31.0
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Balance sheet</b>					
Property, plant and equipment	<b>360.2</b>	383.3	419.0	460.8	473.0
Goodwill and other intangible assets	<b>329.7</b>	355.7	380.5	411.0	665.4
Working capital	<b>436.5</b>	344.0	300.2	365.8	470.6
Taxation (current and deferred)	<b>13.7</b>	(6.0)	(3.4)	10.7	(55.2)
Provisions	<b>(14.2)</b>	(18.0)	(15.7)	(18.0)	(24.7)
Other net assets	<b>3.9</b>	22.7	38.7	48.3	40.2
Capital employed	<b>1,129.8</b>	1,081.7	1,119.3	1,278.6	1,569.3
Net cash (debt)	<b>61.3</b>	30.4	(1.9)	(110.5)	(131.0)
Net assets	<b>1,191.1</b>	1,112.1	1,117.4	1,168.1	1,438.3
Non-controlling interests	<b>(14.0)</b>	(18.8)	(19.3)	(26.2)	(30.2)
Equity attributable to owners of the parent	<b>1,177.1</b>	1,093.3	1,098.1	1,141.9	1,408.1
	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>
<b>Net assets per share</b>	<b>721.4</b>	677.3	682.6	785.0	968.6

i. Information is stated before exceptional items and amortisation of intangible assets recognised as part of a business combination.

ii. Information for 2017 has been restated to reflect the adoption of IFRS 15 Revenue from Contracts with Customers (see note 38). Information for the years 2014 to 2016 has not been restated for the adoption of IFRS 15 Revenue from Contracts with Customers as the effects are not considered to be material. As IFRS 9 Financial Instruments has been adopted on 1 January 2018, and there was no impact on prior years of the adoption, none of the historical information has been restated.

iii. Dividend per share is stated on a declared basis. Following the change in functional currency from Sterling to US dollar in 2013, dividends are declared in US dollars and paid in Sterling. The Sterling value of dividends paid is fixed and announced approximately two weeks prior to the payment date.

## Shareholder and statutory information (unaudited)

### Annual General Meeting 2019

The AGM of Hunting PLC will be held on Wednesday, 17 April 2019 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS and shall commence at 10.30 a.m.

### Business of Meeting

The AGM is an opportunity for shareholders to meet with the Board of Directors. The usual format of the meeting starts with the Chairman's introduction followed by an invitation to take any questions from shareholders and, finally, the formal business of the meeting, which involves putting to the meeting a number of ordinary and special resolutions. Details of the resolutions will be communicated to shareholders ahead of the meeting in a formal "Notice of AGM". The Notice also contains explanatory notes which will provide details to shareholders on how to lodge their vote. Those shareholders who have elected to continue to receive hard copy documentation or have signed up to receive a notification by e-mail will also receive a proxy form, which will contain details of how to lodge a vote by proxy.

### Documents on Display

Copies of the executive Directors' service contracts and letters of appointment of non-executive Directors will be available for inspection at the Company's Registered Office from the date the Notice of AGM is issued (being 21 clear days' notice ahead of the meeting) until the time of the AGM and at the Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS from 15 minutes before the AGM starts until it ends.

### Registered Office

5 Hanover Square  
London  
W1S 1HQ

Company Number: 974568 (Registered in England and Wales)

Telephone: +44 (0)20 7321 0123  
Email: [pr@hunting.plc.uk](mailto:pr@hunting.plc.uk)

### Financial Calendar

The Company's 2019 financial calendar is as follows:

Date	Event
28 February 2019	2018 Full-Year Results Announcement
28 February 2019	Final Dividend – Announcement Date
13 March 2019	Publication of Annual Report and Notice of AGM
17 April 2019	Trading Statement
17 April 2019	AGM
17 April 2019	Proxy Voting Results of AGM
18 April 2019	Final Dividend – Ex-dividend Date
23 April 2019	Final Dividend – Record Date
10 May 2019	Final Dividend – Payment Date
29 August 2019	2019 Half-Year Results Announcement

### Financial Reports

The Company's 2018 Annual Report and Accounts is available on the Company's website from the date of publication. Shareholders may elect to receive a copy by contacting the Registrar. Copies of previous financial reports are available at [www.huntingplc.com](http://www.huntingplc.com).

In common with many public companies in the UK, the Company no longer publishes a printed version of its half-year report. The half-year report is only available online from the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

### Registrar

The Company's Registrar, Equiniti, offers a range of shareholder information and dealing services at [www.shareview.co.uk](http://www.shareview.co.uk). The address and contact details of Equiniti are as follows:

Equiniti Limited  
Aspect House  
Spencer Road, Lancing  
West Sussex BN99 6DA  
Telephone:  
UK +44 (0)371 384 2173  
Overseas +44 (0)121 415 7047

Equiniti is also the Company's single alternative inspection location where, with prior appointment, individuals can inspect the register of members.

## Shareholder and statutory information (unaudited) continued

### Analysis of Ordinary Shareholders

At 31 December 2018, the Company had 1,516 Ordinary shareholders (2017 – 1,618) who held 165.1m (2017 – 164.2m) Ordinary shares analysed as follows:

	2018		2017	
	% of total shareholders	% of total shares	% of total shareholders	% of total shares
Size of holdings				
1 – 4,000	72.5	0.6	73.1	0.7
4,001 – 20,000	10.5	0.9	12.0	1.1
20,001 – 40,000	3.2	0.8	2.5	0.7
40,001 – 200,000	7.0	6.0	6.5	6.0
200,001 – 500,000	3.2	8.9	2.7	8.8
500,001 and over	3.6	82.8	3.2	82.7

### Share Capital

Hunting PLC is a premium-listed public company limited by shares, with its Ordinary shares quoted on the London Stock Exchange.

The Company's issued share capital comprises a single class, which is divided in to 165,073,603 Ordinary shares of 25 pence each. All of the Company's issued Ordinary shares are fully paid up and rank equally in all respects.

Details of the issued share capital of the Company and the number of shares held in Treasury as at 31 December 2018 can be found in note 30 to the financial statements.

Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may, by ordinary resolution, decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles of Association) may decide.

### Voting Rights and Restrictions on Transfer of Shares

Holders of Ordinary shares are entitled to receive dividends (when declared), receive the Company's Annual Report and Accounts, attend and speak at general meetings of the Company, and appoint proxies or exercise voting rights.

On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy, and entitled to vote, has one vote, and, on a poll, every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. None of the Ordinary shares carry any special rights with regard to control of the Company. Proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

A shareholder can lose their entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. Shareholders' rights to transfer shares are subject to the Company's Articles of Association.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no restrictions on the transfer of Ordinary shares in the Company other than:

- certain restrictions that may from time to time be imposed by laws and regulations, for example insider trading laws;
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval to deal in the Company's shares; and
- where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

### Interests in Voting Rights

Other than as stated in the table of Substantial Interests on page 63, the Company is not aware of any further agreements between shareholders that may result in restrictions on the transfer of Ordinary shares or on voting rights.

### Market Capitalisation

The market capitalisation of the Company at 31 December 2018 was £0.8bn (2017 – £1.0bn).

### Share Price

	2018 p	2017 p
At 1 January	605.0	627.5
At 31 December	480.0	605.0
High during the year	914.0	640.0
Low during the year	453.6	382.6

## Dividends

The Company normally pays dividends semi-annually. Details of the Company's dividend policy is set out on page 18.

In 2018, the Company recommenced dividend distributions to shareholders, with an interim dividend of 4.0 cents per share declared and paid in October. The Board are recommending a final dividend for 2018 of 5.0 cents per share, to be paid to shareholders on 10 May 2019, subject to approval at the AGM.

## Directors

### Powers of the Directors

Subject to the Company's Articles of Association, UK legislation and any directions prescribed by resolution at a general meeting, the business of the Company is managed by the Board. The Articles of Association may only be amended by special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of share separately.

### Appointment and Replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Articles of Association. On appointment, in accordance with the Articles, Directors may be appointed by a resolution of the Board but are then required to be reappointed by ordinary resolution by shareholders at the Company's next AGM.

### Directors' Interests

Details of Directors' remuneration, service contracts and interests in the Company's shares and share options are set out in the Directors' Remuneration Policy and Annual Report on Remuneration, located at [www.huntingplc.com](http://www.huntingplc.com). Further information regarding employee long-term incentive schemes is given in note 34 of the financial statements.

### Directors' Conflict of Interest

All Directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest with the Company. The duty applies, in particular, to the exploitation of any property, information or opportunity, whether or not the Company could take advantage of it. The Company's Articles of Association provide a general power for the Board to authorise such conflicts.

Directors are not counted in the quorum for the authorisation of their own actual or potential conflicts. Authorisations granted are recorded by the Company Secretary in a register and are noted by the Board. On an ongoing basis, the Directors are responsible for informing the Company Secretary of any new, actual or potential conflicts that may arise, or if there are any changes in circumstances that may affect an authorisation previously given. Even when provided with authorisation, a Director is not absolved from his or her statutory duty to promote the success of the Company. If an actual conflict arises post-authorisation, the Board may choose to exclude the Director from receipt of the relevant information and participation in the debate, or suspend the Director from the Board, or, as a last resort, require the Director to resign. As at 31 December 2018, no Director of the Company had any beneficial interest in the shares of Hunting's subsidiary companies.

### Statement of Disclosure of Information to Auditors

In accordance with the Companies Act 2006, all Directors in office as at the date of this report have confirmed, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware and each Director has taken all reasonable steps necessary in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Research and Development

Group subsidiaries undertake, where appropriate, research and development to meet particular market and product needs. The amount expended by the Group during the year was \$3.4m (2017 – \$3.7m).

### Political Contributions

It is the Group's policy not to make political donations. Accordingly, there were no political donations made during the year (2017 – \$nil).

### Significant Agreements

The Company is party to a revolving credit facility in which the counterparties can determine whether or not to cancel the agreement where there has been a change of control of the Company. The service agreements of the executive Directors include provisions for compensation for loss of office or employment as a result of a change of control.

### Payments to Governments

In accordance with the UK's Disclosure and Transparency Rules 4.3A, Hunting PLC is required to report annually on payments made to governments with respect to its oil and gas activities. Hunting's report on "Payments to Governments" for the year ended 31 December 2017 was published on 14 March 2018 and totalled \$561,328.

### Statement of Listing Rule Compliance

In accordance with Listing Rule 9.8.4C, the Directors confirm that all waivers of dividends over the Company's Ordinary shares are noted on page 63.

# Glossary

## A

### AED

United Arab Emirates Dirham.

### AGM

Annual General Meeting.

### AMG

Advanced Manufacturing Group – combines the precision engineering and manufacturing capabilities in Hunting's US segment for the Electronics division (Hunting Innova), Hunting Specialty and Hunting Dearborn product lines. Hunting is aiming to become a leading single source of MWD/LWD tools.

### API

American Petroleum Institute.

### Average gross capital employed\*

See NGM O.

## B

### Basic EPS\*

Basic earnings per share – calculated by dividing the earnings from operations before amortisation and exceptional items attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year.

### bbl

Barrel of oil – one barrel of oil equals 159 litres or 42 US gallons.

### BOE

Barrel of oil equivalent.

### bn

Billion.

## C

### c

Cents.

### CAGR

Compound annual growth rate.

### Capital employed\*

See NGM G.

### Capital investment – “Capex”

See NGM J.

### CGU

Cash-generating unit.

### CNY

Chinese Yuan Renminbi.

### CO<sub>2</sub>

Carbon dioxide.

### CO<sub>2</sub>e

Carbon dioxide equivalent.

### CO<sub>2</sub> intensity factor

Scope 1 and 2 carbon dioxide equivalent metric, reported as kilogrammes per \$'000 of revenue.

### CPI

Consumer Price Index.

### CTR

Currency translation reserve.

## D

### DEFRA

UK Department for Environment, Food & Rural Affairs.

### Diluted EPS\*

Diluted earnings per share – calculated by dividing earnings from operations before amortisation and exceptional items attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, as adjusted for all potentially dilutive Ordinary shares.

### Dividend cover\*

See NGM N.

### Downhole

Downhole refers to something that is located within the wellbore.

### DPS\*

See NGM M.

## E

### EBITDA\*

See NGM A.

### ESOP

Executive Share Option Plan.

## F

### FRC

Financial Reporting Council.

### Free cash flow\*

See NGM L.

### FVLCD

Fair value less costs of disposal.

## G

### GAAP

Generally Accepted Accounting Principles.

### Gearing\*

See NGM H.

### GHG

Greenhouse gas.

### Growth capital investment

See NGM J.

### GWh

Giga-watt hours.

## H

### HPSP

Hunting Performance Share Plan.

### HSE

Health, Safety and Environment.

## I

### IAS

International Accounting Standards.

### IFRIC

International Financial Reporting Interpretations Committee.

### IKTVA

The in-Kingdom total value add programme created by Saudi Aramco to baseline, measure and support increased levels of localisation in the Kingdom.

### IFRS

International Financial Reporting Standards as adopted by the European Union.

### Incident rate

The US Occupational Safety and Health Administration (“OSHA”) Recordable Incident Rate (or Incident Rate) is calculated by multiplying the number of recordable incidents by 200,000 and then dividing that number by the number of labour hours worked.

### Intensity factor

The total controlled Scope 1 and Scope 2 emissions divided by the total revenue of the Group.

### Internal manufacturing reject rate

Percentage of parts rejected during the manufacturing process.

### Inventory days\*

See NGM D.

### IOC

International Oil Company.

### IP

Intellectual Property.

### ISO

International Standards Organisation.

## K

### k

Thousand.

### kWh

Kilowatt hours.



**L****Lean**

A production practice that eliminates wasteful processes, thereby reducing production time and costs, and improving efficiency.

**LNG**

Liquefied Natural Gas.

**LPG**

Liquefied Petroleum Gas.

**LTIP**

Long-Term Incentive Plan.

**M****m**

Million.

**m<sup>3</sup>**

Cubic metre.

**mcf**

1,000 cubic feet.

**mmBtu**

Million British thermal units.

**MWD/LWD**

Measurement-while-drilling/Logging-while-drilling.

**N****Net cash/debt**

See note 23.

**NGM**

Non-GAAP measure – see pages 161 to 165.

**NOC**

National Oil Company.

**NYMEX**

New York Mercantile Exchange.

**O****OCI**

Other comprehensive income.

**OCTG**

Oil Country Tubular Goods – pipe and tubular goods and products used in the oil and gas industry, such as drill pipe, pipe casing and production pipes.

**OEM**

Original equipment manufacturer.

**OPEC**

Organization of the Petroleum Exporting Countries.

**P****p**

Pence.

**PCB**

Printed circuit board.

**PCE**

Pressure control equipment.

**PDMR**

Person discharging managerial responsibilities.

**PPE**

Property, plant and equipment.

**PSI**

Pounds per square inch.

**PSP**

2009 Performance Share Plan.

**R****RCF**

Revolving Credit Facility.

**Receivable days\***

See NGM E.

**Recordable incidents**

An incident is recordable if it results in any of the following: death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness. Also included are any significant injuries or illnesses diagnosed by a physician or other licensed health care professional, even if it does not result in death, days away from work, restricted work or job transfer, medical treatment beyond first aid, or loss of consciousness.

**Replacement capital investment**

See NGM J.

**ROCE\***

See NGM O.

**S****Scope 1**

Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by the entity. Scope 1 emissions include fossil fuels burned on site, emissions from vehicles and other direct sources.

**Scope 2**

Scope 2 emissions are indirect GHG emissions resulting from the generation of electricity, heating and cooling or steam generated off site but purchased by the entity.

**SHARP**

Safety and Health Achievement Recognition Programme.

**T****TSR\***

Total Shareholder Return – the net share price change plus the dividends paid during that period.

**U****UAE**

United Arab Emirates.

**Underlying**

Results for the year, as reported under IFRS, adjusted for amortisation of intangible assets recognised as part of a business combination and exceptional items, which is the basis used by the Directors in assessing performance.

**UKLA**

UK Listing Authority.

**W****Wellbore**

The wellbore refers to the drilled hole.

**Well completion**

Well completion refers to the processes of preparing a well for production. This involves the assembly of downhole tubulars and equipment required to enable safe and efficient production from an oil or gas well.

**Well construction**

Well construction refers to the initial drilling and processes of constructing the wellbore in an oil and gas well. These processes typically include drilling and logging the hole; running, cementing and logging the casing; hydraulic fracturing or stimulating the well and monitoring well performance and integrity.

**Well intervention**

Well intervention refers to any operation carried out on an oil or gas well that maintains or enhances the production of the well or provides well diagnostics.

**Working capital\***

See NGM C.

**WTI**

West Texas Intermediate – the price per barrel of Texas light sweet crude oil.

\* Non-GAAP measure.

## Professional advisers

### **Solicitors**

CMS Cameron McKenna Nabarro Olswang LLP

### **Independent Auditors**

PricewaterhouseCoopers LLP

Deloitte LLP take over the role of Independent Auditor in 2019, subject to shareholder approval

### **Joint Corporate Brokers**

Barclays Bank PLC and RBC Capital Markets

### **Financial Advisers**

DC Advisory Limited

### **Insurance Brokers**

Willis Towers Watson

### **Pension Advisers & Actuary**

Lane Clark & Peacock LLP

### **Financial Public Relations**

Buchanan Communications Limited

### **Registrars & Transfer Office**

Equiniti Limited

Aspect House

Spencer Road, Lancing

West Sussex BN99 6DA

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**Designed and produced by Gather**  
[www.gather.london](http://www.gather.london)

**Printed by Park Communications**  
This product is made of material from well-managed,  
FSC®-certified forests and other controlled sources

Park Communications is certified to ISO 14001  
Environmental Management System and the EU  
Eco-Management and Audit Scheme (EMAS)

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