Sound strategy

Jay Glick
Chairman

Hunting performed well during a very challenging year for the entire oil and gas industry. A strong balance sheet, a sound strategy for growth and an unrelenting focus on quality, service and innovation have positioned the Company for success as market conditions improve.

Introduction

I am pleased to introduce our 2019 Annual Report and Accounts to our shareholders. This has been a very challenging year for the oil and gas industry, one in which activity levels and valuations uncoupled from their historic relationship with commodity prices, which led to the industry focusing on capital discipline and concentrating on generating positive returns on invested capital. Hunting was well positioned for this shift, as demonstrated by our balance sheet and return on capital employed. In a year in which the average US onshore rig count declined by 9% to average 920 active units, the Group's revenue increased 5% demonstrating that the value delivered by Hunting's products and services was recognised and rewarded by our customers.

While competitive pressures were very strong during 2019, the Company was able to maintain market share. Our customers recognised the efficiency and safety advantages offered by Hunting's products, thus enabling the Company to minimise margin erosion. Against this hyper-competitive backdrop, our product development efforts continued during the year. Our ongoing strategy is to deliver value to our customers through improved product technology. It should also be noted that the Company benefited from its broad portfolio of products, together with its access to global markets. As the North American onshore markets softened some of that weakness was offset with sales into the offshore and international markets, which both showed signs of recovery. The resumption in offshore developments, following several years in which the industry focused on unconventional onshore developments, is due in part to the steep production decline rates in shale plays. This has, in turn, led to higher costs and greater service intensity in these plays in an effort to maintain commercially viable production levels. In contrast, offshore developments require larger capital outlays and much longer time-frames before production is brought onstream, but have the advantage of higher volumes of production, with very moderate decline rates. We expect the pivot from onshore to offshore to continue, but also expect unconventional onshore production to be a significant and attractive market in coming years.

The Company's acquisition of RTI Energy Systems Inc. in August 2019 and Enpro Subsea Limited in February 2020 brings core competencies that enhance our subsea capabilities and products that will be critical to developing offshore oil and gas reservoirs, particularly in deeper, more challenging developments.

Financial Performance

Revenue for the Group increased 5% in the year to $960.0m, compared to $911.4m in 2018, leading to an underlying profit before tax of $93.1m (2018 – $104.0m). Reported profit before tax was $45.6m (2018 – $74.7m). Net cash at the year-end, before lease liabilities, increased to $123.1m (2018 – $61.3m), 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 2019, the Board declared an interim dividend of 5.0 cents per share, which was paid in October 2019. Given the sustained performance of the Company throughout the year, the Board is recommending a final dividend of 6.0 cents per share absorbing $9.9m of cash, for approval by shareholders at the Company's Annual General Meeting ("AGM") on 15 April 2020. If approved, the final dividend will be paid on 15 May 2020 to shareholders on the register on 17 April 2020. This distribution will bring the total dividends paid in respect of 2019 to 11.0 cents per share, a year-on-year increase of 22% and a total distribution of $18.2m. The Board remains committed to delivering sustainable dividends, but will continue to assess each dividend proposal on a case-by-case basis.

Board Changes

As announced on 23 January 2020, Peter Rose, the Company's Finance Director since 2008, will retire at the conclusion of this year's AGM. I would like to recognise Peter's contribution since joining the Company in 1997. His leadership, and that of the team he has built, has been critical to the success of the Company and the very healthy financial condition Hunting enjoys today. While we wish Peter the very best in his retirement, the Board is delighted to recommend Bruce Ferguson to succeed Peter as Finance Director. Bruce has an extensive knowledge of Hunting's global operations and is very familiar with the Company's finances and accounts. In addition, Bruce gained valuable operational management knowledge and experience during his time as Managing Director of the Group's Europe, Middle East and Africa ("EMEA") segment.

Governance

The Board has made significant progress in complying with the 2018 UK Corporate Governance Code. We began reporting progress from 1 January 2019 and target full compliance over time. As evidenced by this year's Annual Report and Accounts, significant attention has been paid by the Board to Hunting's Purpose, Culture and Environmental, Social and Governance ("ESG") responsibilities. Both the Company's experiences, and those of the Board, are focused on a Purpose that acknowledges the breadth of the stakeholders involved in the ongoing and future success of your Company. Specifically, the Company recognises its Purpose is to support our customers, our employees and our suppliers, as well as the communities in which we operate. Meetings occurred during the year between Annell Bay, our designated non-executive Director for employee engagement, and Hunting's workforce. Additionally, the Board made site visits to several operations to improve their understanding of our processes and meet the people who contribute their skills and knowledge to the Company's long-term success. A global employee engagement survey was completed during the year. This, together with a more in-depth talent assessment and development framework undertaken by the Group's Chief HR Officer, reflects the Board's continued focus on Hunting's human capital. On ESG, the Board take their responsibilities seriously and consider efforts across the Company to reduce our carbon footprint. Enhanced reporting within this report and on our corporate website evidence the Board's commitment to this area and will remain a focus going forward.

Conclusion

Hunting performed well during a very challenging year for the entire oil and gas industry. A strong balance sheet, a sound strategy for growth and an unrelenting focus on quality, service and innovation have positioned the Company for success as market conditions improve. 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

27 February 2020

Chief Executive's Statement and Outlook

Well positioned

Jim Johnson
Chief Executive

The Group's mix of products and markets shows the strength of Hunting's business strategy, as the Group's diverse product portfolio and innovation enables us to adapt to take advantage of opportunities that exist in an uncertain market.

Introduction

Hunting's trading performance during 2019 has been influenced by a number of factors, including reduced US onshore drilling and completion activity, a sector-wide focus on capital discipline leading to budgeting constraints, compensated by improved international and offshore activity. These factors have resulted in revenue increasing year-on-year, particularly driven by our international and offshore businesses; however, the impact on our higher margin US onshore focused operations has resulted in a consequential decline in Group operating profits.

Given this market environment, the Group has performed well in the year, as Hunting's broad product offering has meant that certain businesses have benefited from the growing offshore market, while those businesses focused on onshore markets have been adversely impacted.

The Group's mix of products and markets shows the strength of Hunting's business strategy, as the Group's diverse product portfolio and innovation enables us to adapt to take advantage of opportunities that exist in an uncertain market.

A key part of our strategy has been to retain a strong balance sheet and drive financial discipline throughout all our businesses as the industry changes around us. Our year-end net cash position of $77.9m (cash of $123.1m, less lease liabilities of $45.2m) (2018 – cash of $61.3m), provides the Group with financial and operational flexibility, which includes reviewing acquisition opportunities to broaden further our product offering, while providing a sustained dividend to shareholders.

Another key aspect, which supports the Group's strong reputational standing in the global oil and gas industry, is the focus on safety and quality assurance of our products. In the year, our incident rate decreased by 21% reflecting our unrelenting focus on the safety of our employees. These rates remain well below the industry average. Also, our manufacturing reject rate was 0.30% (2018 – 0.22%) demonstrating the skill and commitment of the Group's workforce to deliver world-class, quality-assured products and quality of our processes.

Group Summary

Hunting reports a 5% increase in revenue to $960.0m for 2019 compared to $911.4m in the prior year. This increase has been due to a number of factors including strong growth within the Group's global OCTG and Subsea businesses, the successful launch of new products, particularly within the Hunting Titan business, and also due to renewed investment by clients in downhole measurement tools, which has enabled strong growth to be recorded within the Group's Advanced Manufacturing business.

A general trend throughout the whole Group has been increased levels of sales bound for offshore projects, which supported growth within our premium connections, accessories and subsea businesses, which has enabled good growth to be recorded within our US, EMEA and Asia Pacific operating segments.

Operating profits have, however, been adversely impacted by margin pressure within a number of product groups. Within Hunting Titan, strong competition within the more commoditised product lines sold by the business led to targeted price reductions being implemented to reduce excess inventory in early 2019. Coupled with this has been a shift by onshore clients to lower cost completion products in the year. This adversely impacted margins and overall profits recorded in the year.

As part of the preparations for the year-end accounts, we reviewed the carrying values of all current and non-current assets. This has led to an impairment charge of $19.0m being recorded against the Group's drilling tools mud motor fleet, given the medium-term outlook for a number of tool product lines. This charge has been reported as an exceptional item. A summary of the Group performance in the year is shown in the following table:

	Underlying[i/ii]		Reported	
	2019 $m	2018 $m	**2019 $m**	2018 $m
Revenue	**960.0**	911.4	**960.0**	911.4
EBITDA[iii]	**139.7**	142.3	**139.7**	141.3
Profit from operations[iii]	**94.3**	104.7	**46.8**	75.4
Profit before tax[iii]	**93.1**	104.0	**45.6**	74.7
Profit for the year[iii]	**76.1**	82.0	**41.4**	85.7
Diluted EPS – cents	**43.9**	49.6	**23.5**	52.3

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 179 to 183).
iii. 2019 financial data incorporates the adoption of IFRS 16 Leases. 2018 financial data has not been restated.

Strategic Initiatives

As part of an approved strategic plan, which the Board has refined during the year, Hunting has delivered a number of key operational milestones during 2019. These objectives can be summarised as follows:

1. Expand global presence;
2. Broaden the Group's product offering, through the launch of new technology and via acquisition;
3. Operate on a leaner operating structure, delivered by higher efficiency manufacturing and new production techniques; and
4. Refine the Group's product portfolio to enhance returns.

Expand Global Presence

At the end of the year, the Group reported 36 operating sites compared to 34 in 2018, following the expansion of our Saudi Arabia operations and the acquisition of the business and assets of RTI Energy Systems Inc., in August 2019. The Saudi expansion allows the operations to address increased demand as local sourcing becomes a key requirement of operating in the Kingdom. In the year, the Group moved its operations in Norway to a larger facility to allow for the local storage of products.

Hunting's distribution centres numbered 19 at the end of 2019 (2018 – 18 centres), reflecting better alignment to the US onshore market, in addition to new instrumentation products being stocked, following the partnership agreement with Well-sun noted below.

Broaden the Group's Product Offering

Hunting has delivered an enhanced product offering through the launch of many initiatives to bring new technology to our customers. Our strategy includes a regular review of product and technology gaps in our chosen areas of excellence.

Chief Executive's Statement and Outlook continued

Hunting Titan has developed and commercialised new products for its client base, as the onshore market continued to drive for more efficient drilling, completion and production techniques, without compromising on health and safety. In the year, the business commercialised the E-SUB Perforating System™ (the "E-SUB") that allows customers to modify conventional perforating systems to enable "smart" operation of a hydraulic fracturing procedure. The E-SUB™ system sits alongside and complements our smart perforating gun systems offering.

In addition to new perforating systems, new energetics charges have been introduced to clients including a new EQUAfrac™ charge and a new Rock charge, which provide more efficient fracturing within a variety of geological formations.

During the year, Hunting Titan also commercialised the T-Set One™ setting tool. This innovative product combines four separate completion and setting tools into a single device, allowing for significant cost savings to be captured by clients.

Hunting Titan has also partnered with Xi'an Well-sun Technology PLC, a Chinese-based well logging technology company, to offer a wider range of logging tools and instruments to our US and international client base. Further, to address product gaps within the Hunting Titan portfolio, the business has started to manufacture power charges used in the hydraulic fracturing process and also sold its first pre-loaded perforating system to clients during Q4 2019.

A further initiative, commenced in 2019, has been the construction of a production line for detonation cord production. Machinery was delivered early in 2020, with manufacturing expected to commence by the middle of the year.

Through the acquisition of the business and assets of RTI Energy Systems Inc. ("RTI"), which completed in August 2019, Hunting has added another strong portfolio of products to its subsea offering. RTI manufactures stress joints and risers used in offshore production, which are made from either titanium or stainless steel. This business was purchased as the offshore drilling market showed clear signs of a return to growth after the market downturn between 2014 and 2017.

In February 2020, Hunting completed the acquisition of Enpro Subsea Limited ("Enpro") to broaden further the Group's presence in the subsea market segment of the industry. Enpro's high technology, flexible field development solutions have been adopted in the Gulf of Mexico, the North Sea and West Africa and enables the quicker delivery of hydrocarbons.

The Group's premium connections business has continued to introduce new size variants to its proprietary connection portfolio. The TEC-LOCK™ semi-premium connection has seen a strong increase in market acceptance during 2019, with new size variants introduced to the offering. The TEC-LOCK™ Wedge has been a particularly successful variant of the Group's semi-premium connections portfolio, with efforts being undertaken to introduce this to the Group's international customers.

Leaner operating platform

In the first half of the year, the Group commissioned automated production lines for its conventional perforating systems and charge manufacturing processes. These new production lines are located at Hunting Titan's Pampa and Milford production facilities in Texas, US, which has enabled the business to reduce manufacturing costs across a number of key product groups. This has contributed to the strategic objective of maintaining market share in the US market, as cheaper product variants have been introduced by a variety of competitors.

The Group has also implemented cost management initiatives in the year, including the consolidation of the Group's Europe, Middle East and Africa operations. This has led to a reduction in overheads in the Middle East. Further, in June 2019 the Group completed a restructuring of the Canada segment, which also reduces overheads and aligns the cost base with the current market outlook.

Refining Product Offering

In the year, the business completed the sale of its Thru-Tubing business in the Middle East, which was predominantly a service driven offering for customers across the region. The Group also concluded the sale of the Clear-Run™ technology.

Outlook

Our results reflect the Group's commitment to strong capital discipline, while delivering a solid performance in difficult market conditions. Our focus on customer service and delivery, while driving further operational efficiencies along with an excellent safety record, is testament to the performance delivered in the year.

The tough trading environment experienced during 2019 continues to confront the oil and gas industry as we enter 2020. North American onshore rig count statistics continue to deteriorate, oil and gas commodity prices remain challenging, corporate budgets and access to project funding continues to be constrained and numerous geopolitical events around the globe continue to encourage caution among investors and our clients. The impact of the coronavirus continues to be assessed by our Asia Pacific businesses, given the continuing restrictions in place in China.

However, Hunting remains well positioned to address our markets with a solid geographic footprint, an extensive portfolio of products and services and a highly experienced and committed management team and workforce. Our balance sheet remains solid, with a significant net cash position, with an ambition to expand our product offering with complementary bolt-on acquisitions, without pushing the Group into a net debt position remaining one of our core strategic goals.

Despite these challenges, we were able to deliver a creditable set of financial results in 2019 and we enter the new decade with a determination to continue delivering shareholder value.

Jim Johnson
Chief Executive

27 February 2020

A Chemical Injection System undergoing pressure testing.

Market Analysis

Clear insight

Global market indicators

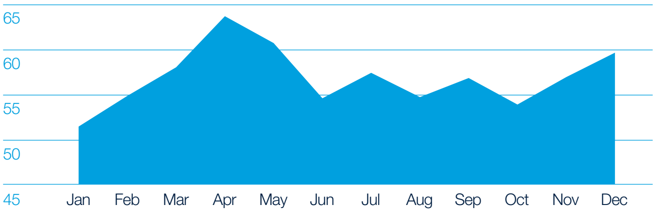
Hunting manufactures products and provides services to the global oil and gas industry, a highly dynamic sector with many factors that influence overall demand. At the macroeconomic level, commodity prices remain a key driver for our products and services, as the strength or weakness in pricing influences key investment and project decisions within our customer base and the quantity of equipment required to complete drilling plans.

In addition, commodity prices influence global and regional rig counts and industry capital expenditures. Each of the Group's operating segments closely monitor these market key performance indicators. Within capital expenditure budgets are onshore and offshore drilling allocations. While a typical onshore well drilling budget is much lower than an offshore well, the number of onshore wells completed, particularly in North America, means that onshore drilling remains a significant component of global activity.

Product demand is also a function of the technological evolution of global drilling practices. For example, US onshore drilling has evolved over the past decade, leading to increases in footage drilled per well, frac-intensity and the number of frac stages in any given onshore unconventional well.

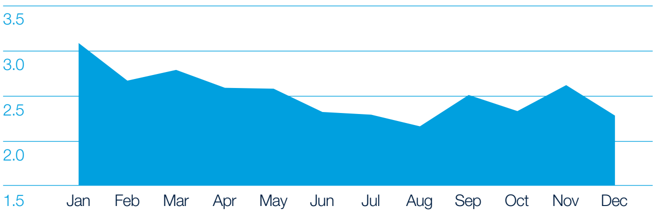
Commodity Prices

WTI Oil Price
$/barrel



During the year, the WTI oil price averaged $57 per barrel (2018 – $65 per barrel) and traded in the range $47 to $66. The weakening in the price in the second half of the year, due to a range of factors including geopolitical instability and the global economic outlook, served to dampen capital expenditure expectations. The oil price has also influenced general budget plans, as many independent operators, particularly in North America, contained drilling plans to within cash flows, adversely impacting sentiment and general drilling momentum.

Gas Price
$/mmBtu



The average US Henry Hub natural gas price declined in the year to $2.53 per mmBtu (2018 – $3.05 per mmBtu), due to the oversupply of natural gas from oil-related drilling within shale developments in North America.

Global Rig Count

● Onshore ● Offshore f Forecast

	Onshore	Offshore	Total
2020f	1,729	253	**1,982**
2019	1,844	242	**2,086**
2018	1,982	201	**2,183**

Global Onshore Rig Counts

Due to the strong capital discipline seen across the industry during 2019, particularly in respect of North American independent operators, the global onshore rig count has declined in the year by 7%. Industry technology has continued to evolve and now multiple wells are drilled from a single rig location, thus increasing productivity. However, the overall trend in 2019 has been a reducing rig count, which has impacted Hunting Titan and other US businesses focused on the onshore market. In 2020, it is currently forecast that a further 6% decline will occur.

Global Offshore Rig Counts

The global offshore rig count has been steadily increasing from the low point in 2017, and in the year, increased by 20% to average 242 units. In the US, the offshore rig count has increased steadily, while the international market has also improved, as the oil price stabilised in 2018, coupled with a shift from higher intensity onshore drilling. 2020 is forecast to increase by c.5% to average 253 active units.

Global Industry Spend
($bn)

● Onshore ● Offshore f Forecast

	Onshore	Offshore	Total
2020f	149.8	67.5	**217.3**
2019	165.8	63.6	**229.4**
2018	179.8	54.5	**234.3**

Global Onshore Capital Investment

In 2019, there was a shift from onshore to offshore drilling, driven by strong capital discipline within many onshore operators. Global onshore capital expenditure has declined 8% in the year to $165.8bn, leading to lower results within Hunting Titan, US Drilling Tools and Hunting Specialty. 2020 is forecasting a further decline in expenditure of c.10% to $149.8bn.

Global Offshore Capital Investment

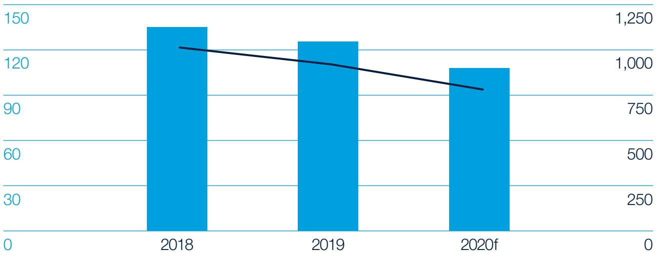
During 2019, global investment in offshore drilling projects has increased 17%, which has supported Hunting's US, EMEA and Asia Pacific business units, who all report stronger results in the year. In 2020, offshore expenditures are anticipated to increase further by c.6% to $67.5bn.

Regional market indicators

US Onshore Market Indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast

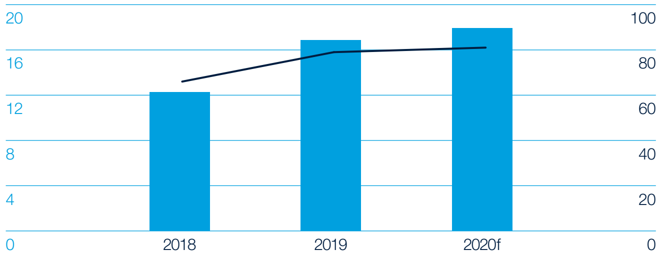


The US onshore market environment contracted in 2019, due to the lower average WTI oil price, production capacity constraints within the Permian basin and the shift back to offshore drilling. In the year, rig counts declined 9% and industry spend declined 7% from $135.1bn to $125.3bn. This market environment has impacted our onshore focused businesses in the year. In 2020, the outlook is indicating a further contraction in the market.

Europe Market Indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast

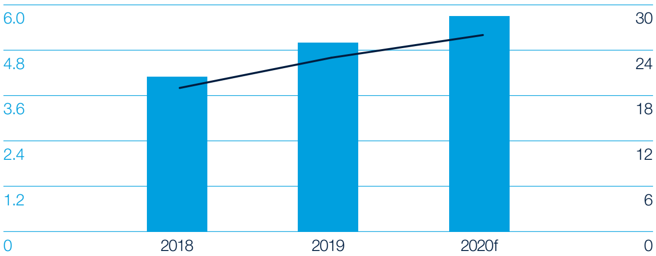


The European drilling market has seen a good improvement in 2019, with industry spend increasing 38% to $17.9bn compared to 2018. The Group's European businesses have improved, in both the UK and the Netherlands, as the North Sea rig count on the UKCS doubled to 15 rigs, compared to seven in the prior year. Looking forward, European drilling expenditure is projected to increase marginally to $19.0bn in 2020.

US Offshore Market Indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast

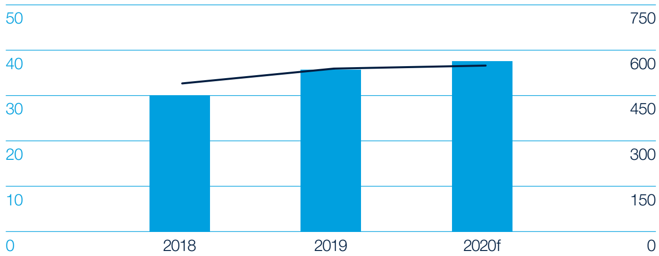


The US offshore market increased investment by 22% in 2019 to $5.0bn compared to $4.1bn in 2018, with the rig count increasing by 21%. This has favourably impacted our premium connections, accessories manufacturing and other offshore orientated business units. It is anticipated that this growth will extend into 2020 where a further increase in spend of 14% is projected.

Middle East and Africa Market Indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast

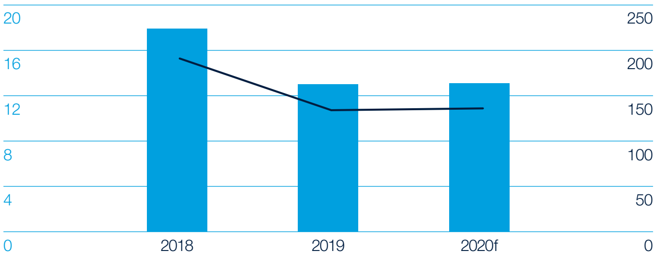


In the Middle East and sub-Sahara Africa, activity levels continue to stabilise and increase with investment totalling $35.7bn in the year. The largest increase in activity has been reported by Libya, Iraq and Qatar, where the rig counts have doubled with modest improvements in Angola and Gabon. Further, increases to drilling spend across these regions are also being projected in 2020.

Canada Market Indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast

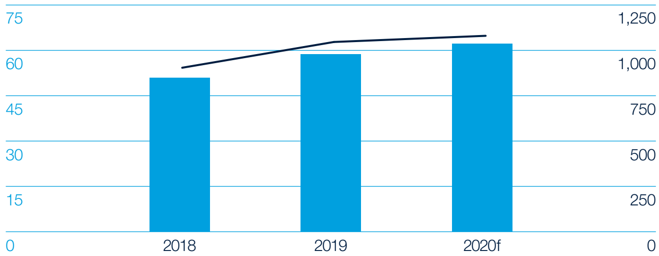


Drilling activity in Canada declined in the year due to severe weather in the early part of 2019, coupled with the government mandated slowdown in production, which reduced activity. Industry investment was $13.0bn in the year, a decline of 28% compared to $17.9bn in 2018. 2020 is currently projecting activity to be similar to 2019, with rig counts forecast to average 136 units and investment being $13.1bn.

Asia Pacific market indicators

Spend ($bn)/Average rig count

● Spend $bn — Average rig count f Forecast



In Asia Pacific, which includes the Far East and China, a 15% increase in spend has been reported in 2019 to $58.8bn. This has assisted in the good performance of the Group's Asia Pacific operating segment. In 2020, investment is forecast to increase further by 6% to $62.2bn.

Source: Spears & Associates.

Group Review

Solid financial footing

Peter Rose
Finance Director

Jim Johnson
Chief Executive

The Group remains on a solid financial footing with a strong balance sheet supported by an excellent net cash position at the year-end, which has enabled an increase in the final dividend to be declared, subject to approval by shareholders.

Introduction

The Group's performance in the year has been underpinned by an improving offshore and international market, against a slowing onshore market in North America. This market environment has allowed the Group to deliver a creditable set of financial results based on its geographical footprint and extensive range of products and services, driven by a strong and experienced management team. The Group remains on a solid financial footing, with a strong balance sheet supported by an excellent net cash position at the year-end, which, with the Board's confidence in the prospects for the Group, has enabled an increase in the final dividend to be declared, subject to approval by shareholders.

Market Summary

The average WTI crude oil price was c.12% lower in the year at $57 per barrel, compared to an average price of $65 per barrel in 2018, leading to clients containing drilling expenditures to within their operating cash flows, with the aim of retaining strong capital discipline and improving investor returns. This market feature has led to a declining onshore market environment in the US and Canada, which has led to an overall lower financial performance for the Group during 2019, compared to the prior year.

Results from Operations

The Group has adopted IFRS 16 Leases with effect from 1 January 2019, which has led to the recognition of $36.7m of right-of-use assets and $45.2m of lease liabilities on the consolidated balance sheet at 31 December 2019. The 2018 financial statements have not been restated, as the Company elected to adopt the standard on a modified retrospective basis, as permitted by the standard. For further information on the adoption of IFRS 16, please see note 41.

The Group reports an increase in revenue of 5% to $960.0m (2018 – $911.4m). Segment revenue within Hunting Titan declined 10% from $418.2m to $375.5m as activity levels within the North American onshore drilling market reduced and competitive pressures adversely impacted trading and margins. Within the US segment, a 10% increase in revenue has been recorded, which in part reflects an increase in offshore and international focused projects. The improving international market also led to segment revenue increases within the EMEA and Asia Pacific operating segments of 15% and 37% respectively. In Canada, in line with declining drilling investment in the year, segment revenue reduced to $35.7m. Inter-segment revenue reduced to $83.7m in 2019 compared to $95.6m in the prior period, reflecting the slowing of the global manufacture of conventional perforating guns on behalf of Hunting Titan.

With the overall decline in the US onshore market environment, a shift to lower cost products by certain customers and increased competition within Hunting Titan's customer base has been recorded, leading to some targeted price reductions being implemented in the year to eliminate slow moving stock. This led to a decline in the Group's underlying gross margin from 30% to 28%. Underlying gross profit declined 3% from $275.1m in 2018 to $266.4m in 2019.

Given the decline within Hunting Titan, the Group reports an underlying profit from operations of $94.3m (2018 – $104.7m), with the underlying operating margin decreasing from 11% in 2018 to 10% in 2019.

The charge in the year for the amortisation of intangible assets recognised as part of a business combination totalled $28.5m, compared to $29.3m in 2018.

Given the decline in the medium-term outlook for the Group's onshore drilling tools business, a $19.0m impairment against the unit's drilling tools fleet has been charged as an exceptional item. The net impact of exceptional items in 2018 was $nil. The reported profit from operations was therefore $46.8m (2018 – $75.4m).

The net finance expense during the year was $1.2m (2018 – $0.7m), leading to an underlying profit before tax of $93.1m (2018 – $104.0m). After charges for exceptional items and intangible asset amortisation acquired as part of a business combination, the reported profit before tax was $45.6m (2018 – $74.7m).

The 2019 underlying tax rate was 18% (2018 – 21%), which largely reflects the influence of US corporate tax rates and the recognition of $3.0m of US State deferred tax assets following a corporate reorganisation in the US allowing relief for historical tax losses. The Group's underlying effective tax rate ("ETR") for 2020 is expected to be in the range of 21% to 23%, depending on the regional mix of results.

Underlying profit after tax was $76.1m (2018 – $82.0m) and reported profit after tax was $41.4m (2018 – $85.7m).

Underlying diluted earnings per share was 43.9 cents in the year (2018 – 49.6 cents). Reported diluted earnings per share was 23.5 cents (2018 – 52.3 cents).

Group Segment Summary

	2019			2018		
Business Unit	**Segment revenue $m**	**Underlying[i] result from operations $m**	**Reported[i] result from operations $m**	Segment revenue $m	Underlying[i] result from operations $m	Reported[i] result from operations $m
Hunting Titan	**375.5**	**68.6**	**42.1**	418.2	106.9	80.8
US	**363.2**	**26.9**	**5.9**	329.7	14.2	11.0
Canada	**35.7**	**(4.3)**	**(4.3)**	44.8	(1.8)	(1.8)
Europe, Middle East and Africa	**123.0**	**(1.3)**	**(1.3)**	107.3	(13.8)	(13.8)
Asia Pacific	**146.3**	**4.4**	**4.4**	107.0	(0.8)	(0.8)
Inter-segment elimination	**(83.7)**	**–**	**–**	(95.6)	–	–
Group segment total	**960.0**	**94.3**	**46.8**	911.4	104.7	75.4

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.

Group Review continued

Cash Flow

Summary Group Cash Flow	2019 $m	2018 $m
Underlying EBITDA (NGM A)	**139.7**	142.3
Share-based payments	**9.1**	13.2
	148.8	155.5
Working capital movements (NGM H)	**7.6**	(96.6)
Net Interest, bank fees and tax paid	**(7.6)**	(4.6)
Proceeds from disposal of assets	**8.9**	16.4
Gains on business and asset disposals	**(5.8)**	(1.0)
Pension scheme refund	**–**	10.6
Other operating cash and non-cash movements (NGM J)	**(2.5)**	0.4
Free cash flow (NGM K)	**149.4**	80.7
Capital investment (NGM I)	**(36.0)**	(30.1)
Intangible assets investment	**(10.2)**	(6.6)
Dividends paid to equity shareholders	**(16.6)**	(6.6)
Acquisition of business	**(12.5)**	–
Purchase of treasury shares	**(5.0)**	(5.7)
Other	**0.9**	0.3
Net cash flow	**70.0**	32.0
Initial recognition of lease liabilities	**(49.0)**	–
New lease financing and interest	**(5.9)**	–
Foreign exchange	**1.5**	(1.1)
Movement in net cash (note 26)	**16.6**	30.9

The Group's underlying EBITDA declined by $2.6m in the year to $139.7m (2018 – $142.3m); however, the adoption of IFRS 16 gave rise to a $9.3m benefit, giving a like-for-like decline of $11.9m and a margin reduction of 2% points. As noted above, Hunting Titan's performance reduced in the year, but this was partially offset by the improved performance of the US, EMEA and Asia Pacific segments.

When adjusted for non-cash share-based payment charges of $9.1m (2018 – $13.2m), operating inflow of $148.8m was recorded in the year compared to $155.5m in 2018.

Working capital inflows were $7.6m during the year (2018 – $96.6m outflow) reflecting strong capital discipline and efforts by management to contain working capital and inventory. At 31 December 2019, inventory days were 214 compared to 185 in 2018, reflecting the weaker trading in Q4. Receivable days were 79 in 2019 compared to 78 in the prior year.

Net interest was a receipt of $0.1m compared to a payment of $2.0m in 2018 due to the lower level of borrowing in the year.

Net tax paid in the year was $7.7m compared to $2.6m in 2018 – this continues to be modest, sheltered by the use of historical tax losses.

Proceeds from the disposal of assets were $8.9m (2018 – $16.4m). Property, plant and equipment ("PPE") disposals were $3.6m, the sale of the Clear-Run™ intangible technology raised $2.3m and consideration from the sale of businesses, principally Thru-Tubing rentals in Dubai, was $3.0m. In 2018, the majority of the proceeds received from the disposal of assets related to the Group's former facility in Cape Town.

Free cash flow in the year was $149.4m compared to $80.7m in the prior period. This improvement is predominantly related to the net working capital inflow, compared to the prior year's outflow.

In addition, there was a benefit of $10.6m following the adoption of IFRS 16. Other items totalled a net cash outflow of $2.5m (2018 – $0.4m net inflow).

Capital investment increased to $36.0m in 2019 (2018 – $30.1m) as the expansion programmes at the Group's Milford and Pampa facilities completed early in the year, in addition to the commissioning of the power charge and pre-loaded gun production lines within the Hunting Titan business.

Investment in intangible assets increased to $10.2m from $6.6m in 2018, mainly in relation to the capitalisation of technology and software development costs.

Dividends paid in the year totalled 10.0 cents per share (2018 – 4.0 cents) equating to a cash outflow of $16.6m (2018 – $6.6m).

The Group acquired the business and assets of RTI Energy Systems Inc. on 16 August 2019 for a consideration of $12.5m.

Further, the Group purchased 752,466 Ordinary Hunting PLC shares in the year (2018 – 750,000 Ordinary shares), for a consideration of $5.0m (2018 – $5.7m) to partially satisfy future share awards. Other items in the year totalled $0.9m (2018 – $0.3m).

The Group generated a net cash inflow of $70.0m (2018 – $32.0m) in the year. The recognition of lease liabilities following the adoption of IFRS 16 on 1 January 2019, together with the commencement of new leases during the year, plus lease interest and foreign exchange differences, resulted in a net cash inflow of $16.6m for 2019 (2018 – $30.9m).

Balance Sheet

Summary Group Balance Sheet	2019 $m	2018 $m
Property, plant and equipment	**354.7**	360.2
Right-of-use assets	**36.7**	–
Goodwill	**230.2**	229.9
Other intangible assets	**78.5**	99.8
Working capital (NGM C)	**433.3**	436.5
Taxation (current and deferred)	**19.8**	13.7
Provisions	**(8.4)**	(14.2)
Other net assets (NGM F)	**1.1**	3.9
Capital employed (NGM G)	**1,145.9**	1,129.8
Net cash before lease liabilities	**123.1**	61.3
Lease liabilities	**(45.2)**	–
Net cash	**77.9**	61.3
Net assets	**1,223.8**	1,191.1
Non-controlling interests	**(15.9)**	(14.0)
Equity attributable to owners of the parent	**1,207.9**	1,177.1

PPE has decreased by $5.5m during the year to $354.7m at December 2019. Additions in the year of $35.9m, together with $12.3m of PPE recognised on the acquisition of the assets of RTI Energy Systems Inc., were offset by depreciation of $33.7m, an impairment of $19.0m to the Group's mud motor fleet and other net movements of $1.0m.

With the adoption of IFRS 16, right-of-use assets have been recognised on the balance sheet at 1 January 2019 at $39.7m.

During the year, lease additions and modifications of $4.3m and foreign exchange gains of $0.6m were more than offset by depreciation charged on these assets in the period of $7.9m and the resulting balance at 31 December 2019 was $36.7m.

Goodwill was materially unchanged at $230.2m. Other intangible assets have decreased by $21.3m, with the main movement being the amortisation charge for the year of $32.3m, which was partly offset by the capitalisation of technology and software development costs of $10.3m.

Working capital has decreased by $3.2m during 2019. IFRS 16 resulted in a $2.1m increase on 1 January. During the year, a decrease in trade and other receivables of $27.5m more than offset a decrease in trade and other payables of $19.6m and an increase in Inventories of $2.6m.

Tax balances show net assets of $19.8m (2018 – $13.7m). This is made up of net current tax liabilities of $9.3m and net deferred tax assets of $29.1m. The deferred tax assets mainly relate to US tax losses.

Other net assets have reduced by $2.8m during the year, mainly due to an increase in derivative liabilities by $1.7m.

As a result of the above changes, capital employed in the Group has increased by $16.1m to $1,145.9m. Net assets at 31 December 2019 were $1,223.8m, which, after non-controlling interests of $15.9m, result in equity shareholders' funds of $1,207.9m (2018 – $1,177.1m). This is an increase of $30.8m over 31 December 2018 and reflects the reported profit for the year attributable to equity shareholders of $39.7m, a net $9.1m credit in relation to share awards and foreign exchange gains of $4.8m being offset by dividends paid of $16.6m, the purchase of treasury shares of $5.0m, the net reduction of $1.1m on the adoption of IFRS 16 and other net charges of $0.1m.

The underlying return on average capital employed was 8% in 2019 compared to 9% in 2018.

Financial Capital Management

Hunting ended 2019 with a robust balance sheet and net cash, before lease liabilities, of $123.1m (31 December 2018 – $61.3m). After deducting lease liabilities of $45.2m, net cash at 31 December 2019 was $77.9m. While the Group maintained a net cash position throughout the year, the Group retained its $160m multi-currency revolving credit facility, with the bank covenants and terms remaining unchanged. These terms, which exclude the impact of IFRS 16 adoption for covenant testing purposes, 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 and accordingly exclude the lease liabilities recognised following the adoption of IFRS 16. 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 2019, both these covenants were met.

The Group's $160m committed revolving credit facility has a maturity date of 2022. The facility includes an accordion feature that allows for the facility to be increased to $235m, subject to the approval of its lending group. The facility also includes an extension option, which allows the Company to extend the maturity to 2023. The Group's funding position remains robust, with total borrowing facilities of $164.2m in place (2018 – $164.9m), of which $160.0m (2018 – $159.5m) is committed.

Further details of the facility, including the terms and conditions, are in note 30.

	2019 $m	2018[i] $m
Total equity	**1,223.8**	1,191.1
Net cash before lease liabilities	**(123.1)**	(61.3)
Lease liabilities	**45.2**	–
Net cash	**(77.9)**	(61.3)
Capital employed	**1,145.9**	1,129.8

i. 2018 financial information does not incorporate the adoption of IFRS 16 Leases.

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, 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 30.

On behalf of the Board

Jim Johnson
Chief Executive

Peter Rose
Finance Director

27 February 2020

Segmental Review

Hunting Titan

		2019	2018
Market indicators*			
US onshore – average rig count	#	**920**	1,013
Canada – average rig count	#	**134**	191
Revenue			
Perforating guns and hardware	$m	**116.6**	123.2
Energetics	$m	**102.2**	140.6
Instruments	$m	**140.4**	134.6
Perforating Systems	$m	**359.2**	398.4
Other product lines	$m	**12.0**	12.9
External revenue	$m	**371.2**	411.3
Inter-segment revenue	$m	**4.3**	6.9
Segment revenue	$m	**375.5**	418.2
Profitability			
Reported operating profit	$m	**42.1**	80.8
Acquisition amortisation and exceptional items	$m	**26.5**	26.1
Underlying operating profit	$m	**68.6**	106.9
Underlying operating margin	%	**18**	26
Cash flow			
Capital investment	$m	**14.3**	12.6
Balance sheet			
Property, plant and equipment	$m	**60.4**	52.4
Inventory	$m	**123.2**	140.0
Operational			
Headcount (year-end)	#	**702**	659
Headcount (average)	#	**684**	646
Operating sites	#	**5**	5
Service and distribution centres	#	**17**	16
Operational footage	Kft^2	**696**	660

* Source: Spears & Associates.

Introduction

Hunting Titan's business focuses predominantly on the US and Canadian onshore drilling and completion markets. The segment has five main 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 continued to be manufactured in Canada, China, Mexico and in the US, while other components were manufactured by the Group's Hunting Electronics, Hunting Specialty and US Manufacturing businesses.

Market Overview

As anticipated at the start of 2019, the North American drilling market softened due to the lower average oil price recorded in late 2018. During the year, the average US onshore rig count declined 9% to average 920 active units compared to 1,013 units in 2018. The year-end US onshore rig count was 782 units compared to 1,059 units in 2018, or 26% lower.

In Canada, the average rig count declined by 30% to 134 units. This materially lower rig count was driven in part by the lower oil price, but also the government mandated slowdown in oil production at the start of the year.

Drilling and completion expenditure also declined during the year, with US onshore capital expenditures reducing 7% to $125.3bn and Canadian drilling expenditure reducing 27% to $13.0bn.

Given this declining market environment, competition between vendors, from both domestic and international suppliers intensified in the year, as customers, in part, purchased lower cost components, leading to margin pressures across product lines, in particular more commoditised products manufactured by the segment.

Segment Performance and Development

Segment revenue decreased 10% to $375.5m (2018 – $418.2m) with underlying operating profit declining 36% from $106.9m in 2018 to $68.6m in 2019.

While sales in Hunting Titan's domestic markets of the US and Canada declined, international sales have increased in the year from $13.2m in 2018 to $23.6m in 2019, reflecting increased demand across all regions, except Europe.

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
Sales of perforating guns and hardware reduced in the year from $123.2m in 2018 to $116.6m, as market conditions deteriorated, coupled with increased competition in certain product lines. The year commenced with a concerted effort by the business to unwind excess inventory, which was slow moving due to the lower WTI oil price at the end of 2018. This initiative impacted margins for the year as a whole; however, margins firmed in the second half of the year, despite the continuing decline in sales in line with the onshore rig count.

In the year, the E-SUB Perforating System™ has seen excellent sales growth with 180k units sold in the year. This product was successfully introduced to clients in 2019, as a hybrid “smart” system. This product received good customer acceptance and complements other proprietary perforating systems sold by the business.

The business commissioned its automated perforating gun manufacturing cells in the first half of 2019 at the Pampa facility. The cells have initially been configured to manufacture smaller diameter perforating guns, allowing manufacturing costs to be reduced. The business has also moved forward with its strategy to offer pre-loaded perforating systems to clients, with first delivery of this offering occurring in Q3 2019.

The T-Set One Setting Tool – launched in 2019.

Energetics
Sales of Energetics charges and associated products have declined from $140.6m in 2018 to $102.2m. With a lower average rig count, fewer consumable products have been purchased by clients, again in line with the general onshore US market environment leading to a lower result for the year.

This product group has also seen increased competition, with volumes of ControlFire™ assemblies reducing as customers opted to purchase and assemble individual components to save costs. Further, there has also been a trend in completion techniques to use fewer charges per gun, leading to the lower revenue reported.

As noted below, Hunting Titan has continued to introduce new charges to customers, including new EQUAFrac™ and Rock charges, which are seeing good acceptance by customers.

New automated manufacturing cells have also been commissioned, which have lowered manufacturing costs for certain products.

Instruments
Sales of Hunting Titan’s Instruments product lines have increased in the year by 4%, which includes sales of the business’ ControlFire™ panels and switches, from $134.6m in 2018 to $140.4m in 2019.

In 2019, the Group entered into a strategic agreement with China based Xi’an Well-sun Electronic Technology PLC (“Well-sun”) to market Well-sun’s product offering of downhole logging tools in the international market. The agreement has seen the combination of Hunting and Well-sun logging products and has led to a broader offering to the Group’s client base.

New Technology
Hunting Titan has continued to introduce new products and technology to clients as the onshore drilling market continued to evolve throughout the year.

The business introduced the T-Set One™ setting tool to customers in the year, which has seen good acceptance. This product combines four separate setting tools into a single product.

Hunting Titan introduced the PowerSet™ charge product to clients, which had previously been identified as a product gap in the Group’s overall offering.

Other products commercialised in the year include other new charges as noted above.

Looking ahead, Hunting Titan will seek to continue developing new products. In Q3 2019 the business commenced an investment programme to construct a detonation cord production line. This again addresses a product gap in Hunting Titan’s portfolio, with commercialisation targeted for mid-2020.

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

The segment had 17 distribution centres at the year-end (2018 – 16), adding a distribution centre at Greeley, Colorado, during 2019 to address regional demand.

Other Financial Information
During the year, Hunting Titan recorded capital investment of $14.3m (2018 – $12.6m) mainly relating to the new product lines introduced in the year, coupled with the completion of the automation projects at the segment’s Pampa and Milford facilities.

Inventory decreased by $16.8m to $123.2m in the year, reflecting Group-wide efforts to contain inventories held.

At the year-end headcount was 702 compared with 659 in 2018, as a proportion of contracted labour was moved to permanent positions.

Segmental Review continued

US

		2019	2018[i]
Market indicators*			
US onshore – average rig count	#	**920**	1,013
US offshore – average rig count	#	**23**	19
US E&P spend	$bn	**130.3**	139.2
Revenue			
OCTG & Premium Connections	$m	**125.9**	104.2
Advanced Manufacturing	$m	**99.2**	91.9
Subsea	$m	**43.6**	30.0
Drilling Tools	$m	**21.8**	27.6
Intervention Tools	$m	**11.5**	14.2
Other product lines	$m	**16.7**	18.8
External revenue	$m	**318.7**	286.7
Inter-segment revenue	$m	**44.5**	43.0
Segment revenue	$m	**363.2**	329.7
Profitability			
Reported operating profit	$m	**5.9**	11.0
Acquisition amortisation and exceptional items	$m	**21.0**	3.2
Underlying operating profit	$m	**26.9**	14.2
Underlying operating margin	%	**7**	4
Cash flow			
Capital investment	$m	**19.3**	15.7
Balance sheet			
Property, plant and equipment	$m	**241.5**	249.8
Inventory	$m	**127.4**	110.4
Operational			
Headcount (year-end)	#	**1,310**	1,202
Headcount (average)	#	**1,262**	1,145
Operating sites	#	**16**	15
Service and distribution centres	#	**1**	1
Operating footage	Kft^2	**1,434**	1,334

* Source: Spears & Associates.
i Please note Exploration and Production, previously reported separately, has been included in the US segment for 2019 (see note 2). 2018 data has therefore been restated.

Introduction

Hunting's US operations are the most diverse in the Group, generating revenues from all the Group's product lines. In addition, the segment includes the Trenchless business, which mainly services the telecommunications sector.

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 focused. In addition, the US segment manufactures perforating guns and switches for sale to Hunting Titan.

Market Overview

The US drilling market has seen an overall contraction in activity levels and drilling expenditure during the year, led by the decline in onshore drilling in the year. As noted previously, the average US onshore rig count declined 9% from 1,013 active units to 920 units in the year. Onshore drilling spend also declined 7% from $135.1bn in 2018 to $125.3bn in 2019. This market environment has adversely impacted the performance of the segment's Drilling Tools and Specialty businesses.

Partially offsetting this decline has been the return to growth of the US offshore and international markets. In the year, the average US offshore rig count increased 21% from 19 to 23 active units, with offshore spend increasing 22% to $5.0bn. Outside of the US, drilling expenditure also increased compared to 2018. This improvement has led to growth in those businesses focused on the offshore market, including the Subsea and Premium Connections businesses.

Segment Performance and Development

Segment revenue increased 10% from $329.7m in 2018 to $363.2m in 2019. The primary drivers for the increase in revenue have been within the Group's Premium Connection and Manufacturing businesses, which sell into both the offshore and onshore market segments. Further, the performance of the Electronics business has been buoyant in the year, driven by measurement tool replacement programmes by key customers, in addition to good growth in non-oil and gas sales. The Subsea business also reports revenue growth driven by the improvement in the US offshore and international drilling market environment.

Underlying operating profit for the segment was $26.9m compared to $14.2m in 2018. As noted in the Group Review, management completed a detailed analysis of the carrying values of current and non-current assets as part of the Group's year-end procedures. Given the medium-term outlook of the segment's Drilling Tools business and a move by the industry to newer mud motor technologies, a $19.0m impairment to the value of the Group's mud motor fleet has been recorded. The amortisation charge recorded in the year was $2.0m (2018 – $3.2m). Reported operating profit for the segment was therefore $5.9m (2018 – $11.0m).

OCTG and Premium Connections

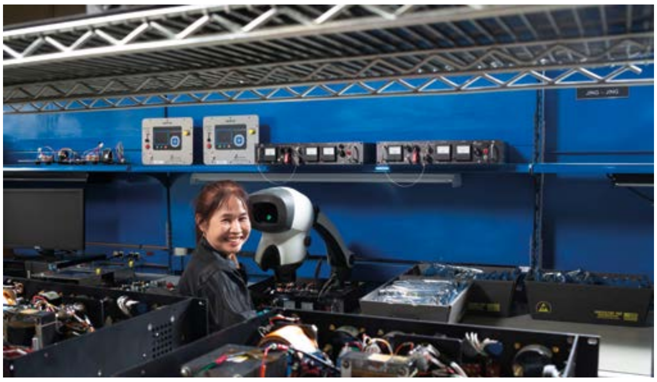
During the year, the Group's OCTG and Premium Connections businesses have seen a good increase in sales as the offshore and international drilling markets returned to growth. This has been coupled with continued market penetration of Hunting's TEC-LOCK™ semi-premium connection, which has seen further customer acceptance within the major US onshore basins. In 2019, the Group produced 97k connections compared to 50k connections in 2018. To meet growing demand for the TEC-LOCK™ connection, two new threading lines have been commissioned at the Group's Ramsey Road and Ameriport facilities in Houston, Texas.

With the return to growth of offshore drilling, new clients have been won in the year, who utilise the Group's SEAL-LOCK™ and WEDGE-LOCK™ premium connections for use in the shallow and deep water regions of the Gulf of Mexico. The business has seen a strong increase in orders for 14, 15 and 16 inch variants within these proprietary connection families.

The Group's US Manufacturing business has also seen strong increases in sales to the major international oil and gas service groups for both US and international offshore projects.

Advanced Manufacturing

The Group's Advanced Manufacturing group comprises the Hunting Dearborn, Hunting Electronics and Specialty business units. During the year, the Group reported an increase in demand for downhole measuring tools, as the capital investment cycle saw old tools being retired and new electronics and steel housings being replaced. This has led to the Hunting Dearborn and Hunting Electronics businesses reporting results ahead of management expectations for the year and contributing strongly to the profitability of the segment in the year.



Electronics Assembly in Houston, Texas.

A further success of the business has been the notable increase in orders for integrated tools, with Hunting Dearborn manufacturing the tool housing and Hunting Electronics providing the electronic circuitry.

Of note has been the increase in non-oil and gas sales within the group, with Hunting Dearborn successfully winning new aerospace and naval orders, while Hunting Electronics has secured new medical clients in the year, in addition to completing work for the Hunting Titan segment.

The Specialty business usually tracks US onshore activity and, despite delivering profits in the year, saw a significant reduction in activity as the rig count and drilling spend declined in the year.

Subsea

Hunting's Subsea business has benefited from the increased activity in the Gulf of Mexico as well as in the international drilling arena, which has led to new orders being completed for clients in Europe, the Middle East, South America and South East Asia. Major product lines sold in the year include subsea relief valves and couplings.

In August 2019, the Group completed the acquisition of RTI Energy Systems Inc., which has added steel and titanium stress joints to Hunting's product portfolio. While these product lines have been in recession since 2014, with the improved average oil price in 2018 and 2019 and the return to offshore drilling by the major exploration and production companies, the short- to medium-term outlook for the business looks promising, given the new enquiries received since completion of the acquisition.

Drilling Tools

The Group's Drilling Tools business has tracked the US onshore market environment during the year and reported reduced activity as the US rig count declined and customer budgets were reined in. This has led to the business reporting a small underlying loss for 2019.

As noted above, an impairment to the value of the business' mud motor fleet has been recorded, following a review of the carrying values and the medium range forecasts for the business. The business has continued to convert its mud motor fleet to utilise mud-lube bearings, which reduces refurbishment times and costs, allowing for improved fleet utilisation.

Intervention Tools

Well intervention tools sales declined in the year by 19% to $11.5m in the year mainly due to the decline in onshore rig counts.

Trenchless

The Trenchless business has seen good growth in the year as the business' mud motors and drill pipe product lines benefited from good sales demand through its key distributors.

The business has expanded its presence internationally during 2019, with a range of products now being stocked at the Group's Netherlands facility, which has led to new customers being secured in Europe.

Other Financial Information

During the year, the US had capital investment of $19.3m (2018 – $15.7m), primarily due to the purchase of new machinery within US Manufacturing and Hunting Dearborn and new mud lube motors for the Drilling Tools business.

Inventory increased to $127.4m mainly due to raw materials for firm orders.

The year-end headcount increased to 1,310 (2018 – 1,202), as offshore drilling activity increased demand for products and services. The data also incorporates the employees of the Group's exploration and production business.

Segmental Review continued

Canada

		2019	2018
Market indicators*			
Canada – average rig count	#	**134**	191
Canada E&P spend	$bn	**13.0**	17.9
Revenue			
OCTG & Premium Connections	$m	**27.1**	35.2
External revenue	$m	**27.1**	35.2
Inter-segment revenue	$m	**8.6**	9.6
Segment revenue		**35.7**	44.8
Profitability			
Reported operating loss	$m	**(4.3)**	(1.8)
Acquisition amortisation and exceptional items	$m	**–**	–
Underlying operating loss	$m	**(4.3)**	(1.8)
Underlying operating margin	%	**(12)**	(4)
Cash flow			
Capital investment	$m	**1.0**	0.9
Balance sheet			
Property, plant and equipment	$m	**2.8**	2.7
Inventory	$m	**14.3**	22.8
Operational			
Headcount (year-end)	#	**120**	123
Headcount (average)	#	**127**	133
Operating sites	#	**1**	1
Service and distribution centres	#	**1**	1
Operating footage	Kft^2	**113**	113

* Source: Spears & 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 the 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

The Canadian oil and gas market saw a contraction during 2019, primarily driven by the lower average oil price at the end of 2018, adverse weather, but also due to the government mandated oil production slowdown implemented in the early months of the year. These factors led to a 30% decline in the average rig count and a 27% decline in capital expenditure from $17.9bn to $13.0bn.

Segment Performance and Development

As a consequence of the Canadian market environment, external segment revenue from OCTG, premium connection product lines declined 23% from $35.2m in 2018 to $27.1m. Inter-segment revenue also decreased in the year from $9.6m in 2018 to $8.6m in 2019, as perforating gun production was slowed due to US onshore market conditions. Segment revenue, therefore, declined to $35.7m in the year compared to $44.8m in 2018. The loss from operations therefore widened from $1.8m in 2018 to $4.3m in 2019.

As a consequence of the lower activity levels in Canada, at the end of H1 2019, a reduction-in-workforce exercise was completed within the segment, to re-align the cost base with the short- to medium-term market outlook.

Further, the business has also exited from the casing supply market, which traditionally has been a low margin offering.

Following this restructuring, the business has focused on building new distributor relationships within Canada and, in particular, to market the Group's TEC-LOCK™ Wedge semi-premium connection to operators.

Other Financial Information

Equipment purchases of $1.0m were made in the year, predominantly to renew threading machinery.

The level of inventory also reduced in the year, as the segment shifted away from the casing and pipe supply business.

The restructuring in June 2019 resulted in a workforce reduction of 19%. However, there has been a shift from the use of contractors to employed staff and the year end headcount has only reduced from 123 at December 2018 to 120 at December 2019.

EMEA

(Europe, Middle East and Africa)

		2019	2018
Market indicators*			
North Sea – average rig count	#	**33**	24
North Sea – spend	$bn	**15.6**	10.6
Total Europe – well count	#	**784**	631
Middle East – spend	$bn	**26.2**	22.6
Sub – Sahara Africa – spend	$bn	**6.3**	4.6
Revenue			
OCTG & Premium Connections	$m	**72.6**	53.7
Intervention Tools	$m	**38.2**	38.1
Perforating Systems	$m	**3.4**	5.0
Other product lines	$m	**1.6**	0.6
External revenue	$m	**115.8**	97.4
Inter-segment revenue	$m	**7.2**	9.9
Segment revenue	$m	**123.0**	107.3
Profitability			
Reported operating loss	$m	**(1.3)**	(13.8)
Acquisition amortisation and exceptional items	$m	**–**	–
Underlying operating profit	$m	**(1.3)**	(13.8)
Underlying operating margin	%	**(1)**	(13)
Cash flow			
Capital investment	$m	**0.6**	0.5
Balance sheet			
Property, plant and equipment	$m	**21.8**	13.7
Inventory	$m	**57.9**	44.4
Operational			
Headcount (year-end)	#	**299**	307
Headcount (average)	#	**292**	326
Operating sites	#	**10**	9
Operating footage	Kft^2	**264**	237

* Source: Spears & Associates.

Introduction

In January 2019, the Group's Europe and Middle East & Africa segments were combined into a single reporting segment, reflecting a restructuring of the senior leadership team.

Hunting's European operations comprise 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.

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

Market Overview

During 2019, the North Sea has reported an increase in activity levels and committed drilling expenditure, which has led to a positive performance for the Group's OCTG businesses in the UK and the Netherlands.

The North Sea rig count averaged 33 units in the year, compared to 24 units in 2018 and drilling spend increased 47% to $15.6bn in 2019 compared to $10.6bn in 2018.

In the Middle East, drilling spend increased 16% to $26.2bn, compared to $22.6bn in 2018, supporting the Group's activities in the region, in addition to the Asia Pacific operating segment, which supplies OCTG products.

Segment Performance and Development

The combined Europe, Middle East and Africa ("EMEA") segment reported revenue of $123.0m in the year compared to $107.3m in the prior period. Activity levels in both Europe and the Middle East improved in the period, benefiting the segment and leading to a loss from operations of $1.3m reported in the year compared to a loss from operations in 2018 of $13.8m.

Activity in the North Sea has improved during the period as private-equity backed independent oil and gas companies increased their drilling commitments. The segment reports strong demand for chrome-based OCTG and has completed a number of high value ad-hoc orders for clients in the year, which has led to the increase in revenue and a return to profitability for Hunting OCTG businesses in the UK and the Netherlands.

The Group's Well Testing business in the Netherlands has reported a performance similar to 2018 and has seen an increase in customers from the Middle East during the year, while Hunting's Well Intervention businesses in the UK reported a small loss in the year.

In Norway, the Group opened a larger distribution and service facility in the first half of the year, giving the Group a greater degree of flexibility in the country.

In the Middle East, the Group has reported a break-even result in the year. In H1 2019, the Group sold its Thru-Tubing Service and Rental business as part of a restructuring of the operations in the region, which included reducing the headcount to better align the cost base with the regional revenue profile.

The Group's joint venture in Saudi Arabia continues to grow its profile in the Kingdom, with orders being received for OCTG and well intervention product lines. In the year, a second adjacent facility was opened to provide additional capacity.

Further, in the year the segment sold the Group's Clear-Run™ technology for a total consideration of $2.3m.

New Technology

The Group's TEK-HUB™, which operates from Aberdeen, also successfully developed a number of its technology projects in the year. An organic oil recovery product, which enhances production profiles of end-of-life fields, has been field trialled in a number of projects in Europe and the Middle East. To support this product line, a sales presence in Dubai has been established to increase the profile of the product across the region.

Other Financial Information

During the year, investment in property, plant and equipment was $0.6m. Inventory at the year-end increased by $13.5m to $57.9m driven by changes in consignment stock arrangements and year-end orders.

To reduce costs, the segment's headcount has reduced from 307 in 2018 to 299 at the year-end.

Segmental Review continued

Asia Pacific

		2019	2018
Market indicators*			
Far East – average rig count	#	**212**	214
Far East – spend	$bn	**17.1**	18.2
Central Asia – spend	$bn	**2.0**	2.0
Middle East – spend	$bn	**26.2**	22.6
Revenue			
OCTG & Premium Connections	$m	**126.8**	80.6
Other product lines	$m	**0.4**	0.2
External revenue	$m	**127.2**	80.8
Inter-segment revenue	$m	**19.1**	26.2
Segment revenue	$m	**146.3**	107.0
Profitability			
Reported operating profit (loss)	$m	**4.4**	(0.8)
Acquisition amortisation and exceptional items	$m	**–**	–
Underlying operating profit (loss)	$m	**4.4**	(0.8)
Underlying operating margin	%	**3**	(1)
Cash flow			
Capital investment	$m	**0.7**	0.2
Balance sheet			
Property, plant and equipment	$m	**9.6**	12.3
Inventory	$m	**33.0**	34.7
Operational			
Headcount (year-end)	#	**453**	420
Headcount (average)	#	**443**	415
Operating sites	#	**4**	4
Operating footage	Kft^2	**533**	533

* Source: Spears & 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. Our Asia Pacific segment also supplies OCTG products to markets across the Middle East.

Market Overview
While average rig counts and drilling spend during 2019 remained broadly similar to 2018 within the Far East region, drilling spend in the Middle East, which is a growth region for the Group's Asia Pacific segment, grew by 16% from $22.6bn to $26.2bn.

Segment Performance and Development
Segment revenue in the year increased 37% to $146.3m, compared to $107.0m in the prior period. OCTG and Premium Connection sales led the segment's revenue growth, as new clients were secured in Kuwait, Oman, Iraq, India, Pakistan and China. Underlying profit from operations was $4.4m compared to a loss from operations of $0.8m in 2018.

In August 2019, the Group entered into a strategic partnership with Jindal SAW ("Jindal"), the India focused tubular and pipe supply group. The partnership will see Hunting provide to Jindal a premium threading licence for certain of the Group's premium connections, to give access to the growing Indian OCTG market. India has mandated in-country sourcing of tubular products from 2021, and this agreement provides Hunting with the necessary local content requirement to actively pursue future OCTG tenders issued by the major exploration companies operating in the country. As an indication of the potential for the Group, Hunting received its first order from Reliance Industries, to supply Hunting's proprietary Annular Pressure Release System valves, in the second half of the year.

The market in Australia and New Zealand has also improved in the year, with a number of offshore and onshore developments being advanced, leading to new sales being secured, primarily for OCTG product lines. Evaluation of onshore shale deposits in the Northern Territory of Australia has continued in the year, with progress being made with a number of regional developers.

Due to the slowing US onshore market, inter-segment sales of perforating guns reduced 27% from $26.2m in 2018 to $19.1m in 2019, as demand for conventional perforating guns slowed.

Research and Development
A new initiative outside of the Group's traditional oil and gas market has also been progressed during the year. Hunting Asia Pacific has collaborated in the prototype manufacturing of micro generators and has now supplied a number of early products to our development partner in California for further evaluation.

Other Financial Information
Inventory decreased marginally during the year to $33.0m (2018 – $34.7m).

Additions to PPE in the year were minimal.

The headcount was increased in the year in line with activity, with 453 employees at the year-end (2018 – 420).