RICHARD HUNTING, C.B.E.
CHAIRMAN

"OUR STRATEGY OF RETAINING CORE OPERATING CAPABILITIES IN ANTICIPATION OF A RECOVERY WAS TESTED DURING THE YEAR, BUT WE INTEND TO SHOW THAT IT WAS THE RIGHT THING TO DO."

Market Backdrop

The year was one of the most difficult in Hunting's long history due to factors outside the control of management. Fortunately, these factors are now showing signs of reversing and the hydrocarbon glut, which caused the problem, is slowly being reined in.

Our strategy of retaining core operating capabilities in anticipation of a recovery was tested during the year, but we intend to show that it was the right thing to do.

Financial Performance

Financial performance on most metrics was, unsurprisingly, dismal. The Group's underlying loss before tax* was $93.2m (2015 – $9.4m profit), with the reported loss before tax being $144.2m (2015 – $289.2m), reflecting the severity of the energy downturn, driven by the low price of crude oil recorded throughout 2016.

However, we had decided early on that control of cash was crucial and our performance in this area was, we believe, creditable. Working capital has been tightly managed during the year, with inventories reducing significantly to generate cash.

Bank Facility Terms and Equity Placing

Although we had low borrowings at the beginning of the crisis, it became clear towards mid-year that we would not be able to comply with those bank covenants relating to earnings, so we entered negotiations with our bank lending group to ensure that sufficient lines of credit remained available to us. These negotiations completed in July, with more appropriate balance sheet based covenants and conditions put in place. One of the conditions of the revised bank facility was that no dividends should be paid to shareholders until we could reinstate an earnings covenant regime. This condition has caused grief to some of our loyal shareholders, and we will start paying dividends again as soon as we sensibly can.

In order to ensure that we weathered the storm in good shape, we sought further funding from shareholders in the form of an equity placing in October. This was well received and taken up in full, at a low discount to the prevailing share price. The resulting cash inflow has ensured a very low borrowings figure at the year end, allowing us to respond rapidly as working capital builds up during the recovery.

PRODUCT TESTING OF PERFORATING SYSTEMS IN PAMPA, TEXAS.

Governance

Our governance arrangements have continued in good order. The wise counsel of our compact Board, whose members are unchanged from last year, has continued to be willingly given.

Finally, I wish to thank all of our employees for their stalwart efforts in testing times. Thanks to them, we are in good shape to take advantage of the pending recovery.

RICHARD H. HUNTING, C.B.E.
CHAIRMAN

2 March 2017

* Non-GAAP measure ("NGM") (see pages 141 to 145).

DENNIS PROCTOR
CHIEF EXECUTIVE

"AS HUNTING REACHED THE END OF THE YEAR, SOME FRAGILE OPTIMISM RETURNED TO THE MARKET. A NUMBER OF MARKET COMMENTATORS ARE SPECULATING THAT THE 'BOTTOM OF THE CYCLE' HAS BEEN REACHED AND INVESTMENT LEVELS WILL GROW THROUGHOUT THE YEAR AHEAD."

Introduction

Hunting's financial performance during 2016 reflects the poor trading environment within the global oil and gas industry, driven by a sustained low oil price. 2016 will be remembered not only for the continued contraction in industry investment, which started in 2014, but also for the loss of many valuable employees, as companies across the oil and gas supply chain were forced to respond to low activity and investment levels by reducing headcount.

As Hunting reached the end of the year, some fragile optimism returned to the market. On the back of slowly rising oil prices, activity levels in the Permian basin, West Texas, US, steadily improved in the second half of 2016. Market sentiment was also supported by the production cuts announced by OPEC in September. A number of market commentators are speculating that the 'bottom of the cycle' has been reached and investment levels will grow throughout the year ahead.

For Hunting, operations continue to be aligned with the short to medium-term outlook for each business unit within the Group. Hunting's Perforating Systems business has reported increases in demand, as the price of crude oil climbed from its low point in February. This has led to increases in the number of shifts for certain product lines, as activity levels grow in the US. The Group's Premium Connection business also benefited from key customers who continued to drill in the Gulf of Mexico throughout the year. Outside of the US, activity remains subdued and therefore cost reduction measures continue to be enforced across the Group's operations.

The Board of Hunting continues to be cautious about the timing of a Group-wide return to growth. However, with an enhanced manufacturing footprint, the Company remains well equipped and positioned to respond to an improving trading environment.

Market Summary

The price of WTI crude oil started 2016 at $37.04 per barrel and ended the year at $53.72 per barrel, an increase of 45%. The low point in the oil price of $26.21 per barrel was recorded in February, which adversely impacted investment sentiment for the remainder of the first half of the year, with the price averaging $39.78 per barrel. During the second half of 2016, the average WTI oil price increased to $47.11 per barrel.

US rig counts reached a low of 404 units in May as a direct consequence of the decline in oil price. However, from this point the rig count trended upwards, with the improving oil price, to close the year at 658 units. From an international perspective, where drilling is biased towards offshore activity, rig counts declined 15% in the year to close at 929 active units.

Total industry investment declined from approximately $296.1 billion in 2015 to $199.9 billion in 2016, a reduction of 32%, which led to further decreases in equipment procurement by customers and the consequent losses reported by the Group.

Operational Development

Hunting ended 2016 with core capabilities generally unchanged from the start of the year, with 40 manufacturing facilities and 25 distribution centres, occupying 3.1m square feet (2015 – 3.2m square feet).

Hunting's high throughput premium connection facility at Ameriport, US, was commissioned early in the year, concluding Hunting's investment programme in more efficient and modern facilities. As the Group selectively rationalised its operations, three manufacturing facilities and 10 distribution centres were closed. Overall, this has led to only a marginal decrease in operational capacity.

Throughout the year, the Group has remained focused on developing new technologies and maintaining high-end services for its customer base, to ensure projects can be completed at lower cost or more efficiently, given the intense competitive environment the industry has been experiencing during the downturn. Hunting has successfully commercialised and secured increasing sales of its H-1 Perforating System, with 3,796 units used in the field during the year, including 3,030 systems being used in the Permian basin by leading operators. The family of WEDGE-LOCK™ connections has also been expanded, with three new sizes being tested and certified during 2016 to add to the existing connections in the product group. WEDGE-LOCK™ connections have become more attractive to customers throughout the year as the product reduces casing wear, which is an issue faced by operators when drilling highly deviated wells.

As the market downturn intensified during the early months of the year, the Group reduced its headcount to lower its cost base, with 2,107 employees at year end, a reduction of 24% since the start of 2016. Annualised savings from headcount reductions in the two years ending 31 December 2016 now exceed $100m.

Financial Summary

The key areas of focus for the management team during the year were:

- maintaining the financial strength of the Group's balance sheet, ensuring adequate levels of funding remain in place to manage through the downturn and provide flexibility to respond to a market recovery; and
- continue to manage the cost base while maintaining the capability to deliver finished product and respond to customer demands.

The Group's inventory levels have reduced during the year to assist in the generation of cash. At 31 December 2016, the Group recorded inventory of $259.7m (2015 – $331.2m), a reduction of 22%.

	Underlying		Reported	
	2016 $m	2015 $m	**2016 $m**	2015 $m
Continuing operations:				
Revenue	**455.8**	810.5	**455.8**	810.5
EBITDA[i] (loss)	**(48.9)**	61.9	**(60.7)**	54.8
(Loss) profit from operations	**(92.2)**	16.4	**(140.7)**	(282.2)
(Loss) profit before tax	**(93.2)**	9.4	**(144.2)**	(289.2)
(Loss) profit for the year	**(73.3)**	4.0	**(121.3)**	(231.4)
Discontinued operations:				
Profit for the year	**–**	–	**8.2**	4.2
Total (loss) profit for the year	**(73.3)**	4.0	**(113.1)**	(227.2)
Diluted EPS – continuing operations (cents)	**(45.3)**	3.1	**(76.8)**	(156.1)

i. Non GAAP Measure

Capital investment during the year was $17.2m (2015 – $81.1m), reflecting the completion of Hunting's facility investment programme and to be compliant with the revised terms of the Group's revolving credit facility agreement, as noted below.

Following the trading losses recorded during the year, Hunting renegotiated the covenants attached to the Group's $350.0m revolving credit facility. Revised terms for the Group's bank facilities were agreed on 20 July 2016, which included suspending dividends, capping capital investment and reducing the quantum of committed bank facilities to $200.0m. The revised facility terms will be in place up to and including the 30 June 2018 bank covenant test date. As at 31 December 2016, all covenants were covered with adequate headroom for the Group's medium-term funding requirements.

To provide additional balance sheet flexibility and to improve the Group's ability to react to the upturn, the Board elected to raise equity capital from new and existing investors to increase financial flexibility and reduce borrowings. On 31 October 2016, the Company placed 14.6m new Ordinary shares, raising $83.9m net of expenses, the proceeds of which significantly improved the Group's net debt position. All of these proactive measures have contributed to a strong balance sheet at the year end, with net debt of $1.9m (2015 – $110.5m) and net assets of $1,117.4m (2015 – $1,168.1m).

Hunting's revenues reduced 44% year-on-year to $455.8m (2015 – $810.5m). This led to an underlying loss from continuing operations of $92.2m (2015 – $16.4m profit) and an underlying diluted loss per share of 45.3 cents (2015 – 3.1 cents earnings per share).

In light of the tough trading conditions experienced in 2016, the Group conducted impairment reviews as part of its preparation of both the interim and year end accounts. In both cases, our assessment of short to medium-term performance, based on internal projections and those forecasts published by leading market commentators, concluded that no impairments to goodwill, property, plant and equipment ("PPE") or intangible assets were required to be recorded. In the prior year, impairments to goodwill, PPE and intangible assets totalled $252.6m.

During the year, exceptional items impacting loss from continuing operations totalled $15.3m, incorporating $12.2m of costs of restructuring the Group's operations (2015 – $7.1m) and a $3.1m charge related to closure of the defined benefit pension section of Hunting's UK pension scheme (2015 – $nil).

Amortisation of acquired intangible assets for the year was $33.2m (2015 – $38.9m).

Total charges for amortisation and exceptional items impacting loss from continuing operations were $48.5m in the year (2015 – $298.6m).

The reported loss from continuing operations was therefore $140.7m (2015 – $282.2m) and the reported diluted loss per share was 76.8 cents (2015 – 156.1 cents).

Outlook

Does the 2016 recovery in oil prices signal a recovery for the oil service industry? The answer is simply yes – and no. More than half of all the rigs added back to the US onshore count since it troughed in May 2016, have gone to the Permian basin in West Texas. Conversely, no drilling permits have been issued in the Gulf of Mexico shelf for the past five months. Over 100 offshore rigs sit idle worldwide and will most likely be cannibalised, decommissioned or both. The global onshore rig count remains 50% below its 2014 peak.

Shale oil operators are bravely raising annual budgets to increase activity in Texas, New Mexico, Oklahoma and North Dakota. International oil companies such as ExxonMobil, Chevron, Shell and BP are cautiously holding back spending at levels up to 15% below 2016. At $50 per barrel of oil, both groups of E&P companies in North America will spend in excess of $43 billion ($101 billion in 2016) more than they expect to receive from operations. Each has a different perspective on the strength of OPEC's production commitment. Regardless, at current oil and gas prices, US production will increase thus impacting OPEC production decreases.

Offshore activity improvement will require more confidence in OPEC production policy and higher oil prices. However, after two years of declining offshore E&P budgets, a drastic decline in new discoveries and continual depletion, the offshore recovery may begin sooner than many anticipate.

Within the last 90 days, we have witnessed the following;

- our North Sea assets are now operating two shifts in Scotland – three shifts in the Netherlands for the remainder of the year. Much of the work is destined for US shale activity.
- the Hunting Electronics business has a current backlog which exceeds total revenue for 2016.
- in China, our OCTG facility is fully booked through to September of this year.
- the Marrero, Louisiana, threading facility has been and remains a three shift operation primarily for three deepwater projects in the Gulf of Mexico.
- Hunting Perforating Systems is faced with people and capacity constraints due to shale operators overwhelming acceptance of recently introduced technologies. The increased activity is global, but predominantly in the US and Canada. Price increases have been initiated.
- within the Advanced Manufacturing Group, order book positions are strengthening, with expectations of continued improvement throughout the year.

During the same period:

- Hunting Subsea is experiencing a slow erosion of their backlog.
- our Well Intervention group remains a witness to dismal competitor pricing and low volumes.
- south east Asia continues to experience low activity, large inventory surpluses and excess capacity throughout the region.
- margin pressure and surplus tools will challenge our Drilling Tools group for the remainder of the year.

The past two years have been trying on industry personnel. Once again, as with previous recoveries, manpower will become a serious constraint. Hunting's 20 person global management team, who have an average 30 years of experience (most with Hunting) will assist in the recovery of a decimated oil service industry.

With stable oil and gas prices, the rising North American onshore rig count drilling "super laterals" up to total measured depth of 30,000 feet and some opportunities for ultra-deep offshore wells, Hunting's prior capacity investment, technology development, cost containment and strong balance sheet will provide significant potential for improvement over 2016.

As 2017 progresses we will continue to keep the market informed with regular updates on activity levels and trading results. To predict the 2017 outturn at this stage remains difficult given the number of variable factors which could impact our markets.

GROWTH REMAINS PREDICATED ON GLOBAL PRODUCTION REDUCING TO BRING CRUDE OIL SUPPLY/DEMAND BACK INTO BALANCE, COUPLED WITH AN INCREASING OIL PRICE AND THE WORLD'S GEOPOLITICAL ENVIRONMENT REMAINING STABLE.

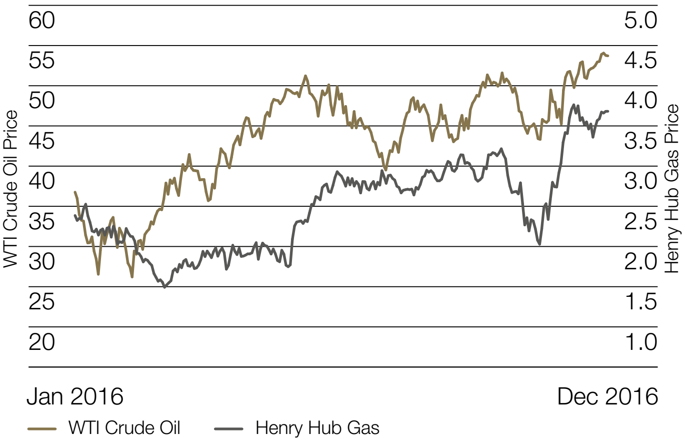
Conditions in the global oil and gas market during 2016 were a continuation of those reported in 2015, where low commodity prices drove further declines in capital investment across the energy industry, leading to low rig count and drilling activity. This continued decline in investment, particularly seen in North America where a significant number of Hunting's operations are located, resulted in lower volumes of products manufactured and the losses reported by the Group, as summarised in the Chief Executive's Review on pages 6 to 8 and the Group Performance and Development Summary on pages 42 to 47.

Throughout the second half of 2016, key market indicators showed signs of recovery, with specific regions of the US increasing activity levels. This improvement, driven by a more stable oil price particularly in the final quarter of 2016, has given rise to some optimism within the industry. Some market commentators suggest 2017 will see increased levels of global capital investment, however, the focus of this spend is likely to be on low cost onshore basins in the US or on well completion activities where the well construction cost has already been expensed.

Commodity Prices

The price of WTI crude oil started the year at $37.04 per barrel and closed 2016 at $53.72 per barrel an increase of 45% across 2016. The average price recorded was $43.46 per barrel across the year as a whole.

COMMODITY PRICES
($ per barrel/mmBtu)



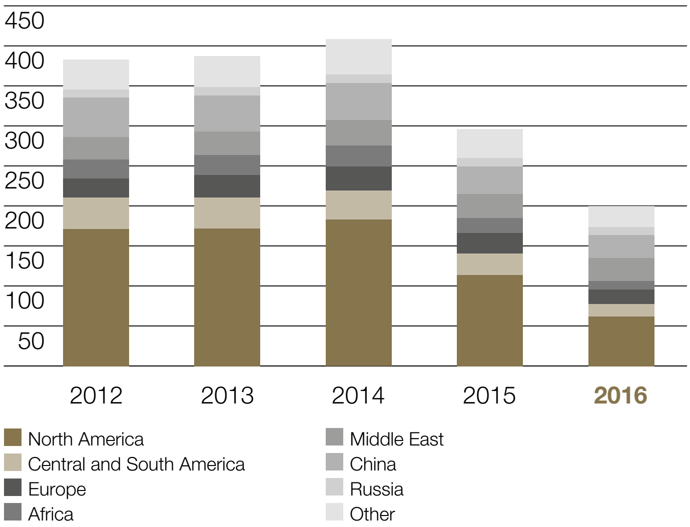
Source: Bloomberg

A 13 year low was recorded in February 2016 of $26.21 per barrel, which led to operators cutting further investment plans for the remainder of the year. The high for the year of $54.06 per barrel was recorded in December following the OPEC announcements regarding an agreement by its members to cut production during 2017. Average prices in H1 2016 were $39.78 per barrel, which led to record low US rig numbers being reported. The average price in H2 2016 was 18% higher at $47.11 per barrel, reflecting the more stable pricing environment noted above. Henry Hub natural gas prices in the US averaged $2.49 per mmBtu in the year, a 1% increase compared to 2015, which averaged at $2.48 per mmBtu.

Industry Spend

Given the low commodity price environment, the global oil and gas industry has focused on maximising cash flows by reducing capital investments by an estimated $208.3 billion since 2014, which recorded nearly $408.2 billion spent across the industry, declining to approximately $199.9 billion in 2016.

GLOBAL DRILLING AND PRODUCTION EXPENDITURE
($bn)



Source: Spears & Associates – Drilling and Production Outlook: December 2016

While the largest of the year-on-year cuts in capital investment was in North America, all regions are estimated to have declined between 6% (in the Middle East) and 46% (in the US), which impacted drilling activity and associated margins for all participants.

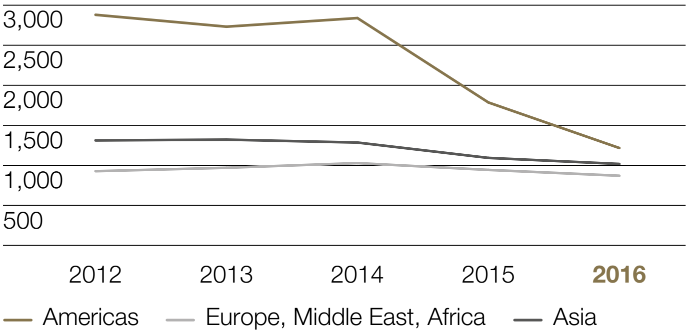
In the US, capital investment is estimated to have reduced in 2016 to $54.2 billion compared to over $101.1 billion committed in 2015, reflecting both offshore and onshore projects being deferred or cancelled. Expenditure on US offshore projects has declined by an estimated 66% since 2014 to $4.6 billion in 2016, while similar declines onshore have been estimated, with expenditures totalling $49.7 billion in 2016 compared to $144.3 billion in 2014.

Rig Counts

Global rig counts reflect a similar decline to that seen for capital investment, with large declines being reported throughout North and South America, with the average rig count reducing from 2,819 units in 2014 to 991 units in 2016, a decline of 65%.

In Europe and Africa rig counts declined approximately 42% between 2014 and 2016, while in the Middle East drilling rig activity remained relatively unchanged as new production from Iraq and Iran, coupled with strong production data from Saudi Arabia, led to only a 3% decline between 2014 and 2016. In Asia rig counts have declined 29% since 2014.

GLOBAL RIG COUNTS

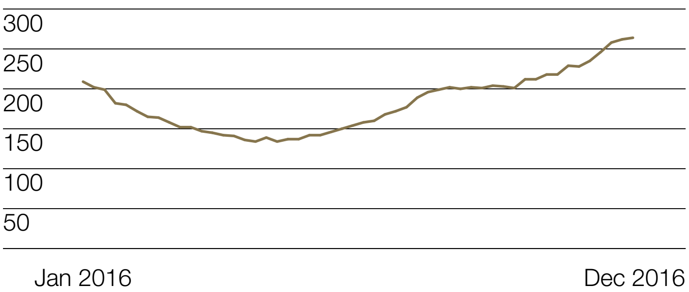


Source: Spears & Associates – Drilling and Production Outlook, December 2016

Despite the large reductions in the rig count across North America, in the second half of the year the stabilising crude oil price meant that activity within certain onshore basins in the US increased. This contributed to a partial recovery within some of Hunting's businesses, particularly the Group's Perforating Systems business.

In the Permian basin, West Texas, US, the total rig count started the year with 209 units, which declined to 134 in April, rising to 264 units by the close of the year, an overall increase of 26% in the year. Other low cost basins are now showing signs of improving activity.

PERMIAN BASIN RIG COUNT



Source: Baker Hughes

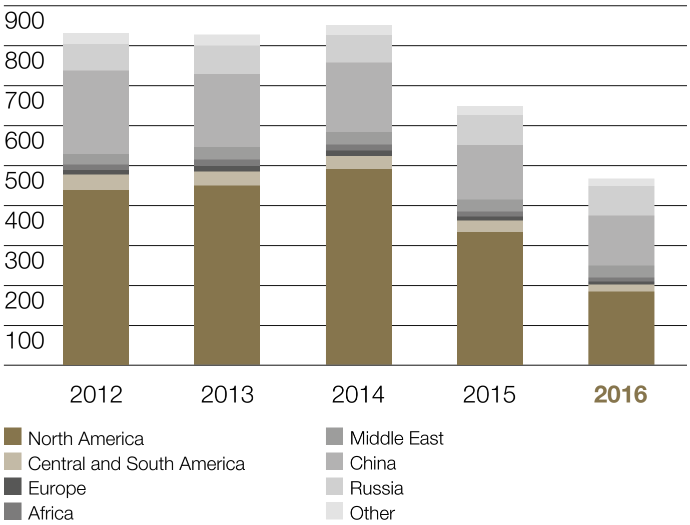
Global Footage Drilled

In line with other key data indicators, the total footage drilled by the global oil and gas industry is estimated to have declined since 2014, albeit at a lower rate than other metrics due to improvements in drilling technology and lower operating costs being realised.

Total footage drilled was estimated to be 464.7 million feet in 2016 compared to 847.9 million feet in 2014. In the US, the total decline was 63% to approximately 150.9 million feet in 2016 compared to over 404.5 million feet in 2014.

Europe, Africa and Asia all recorded declines, while the Middle East and Russia are estimated to be in line with those recorded in 2015.

GLOBAL FOOTAGE DRILLED
(m ft)



Source: Spears & Associates – Drilling and Production Outlook, December 2016; Baker Hughes

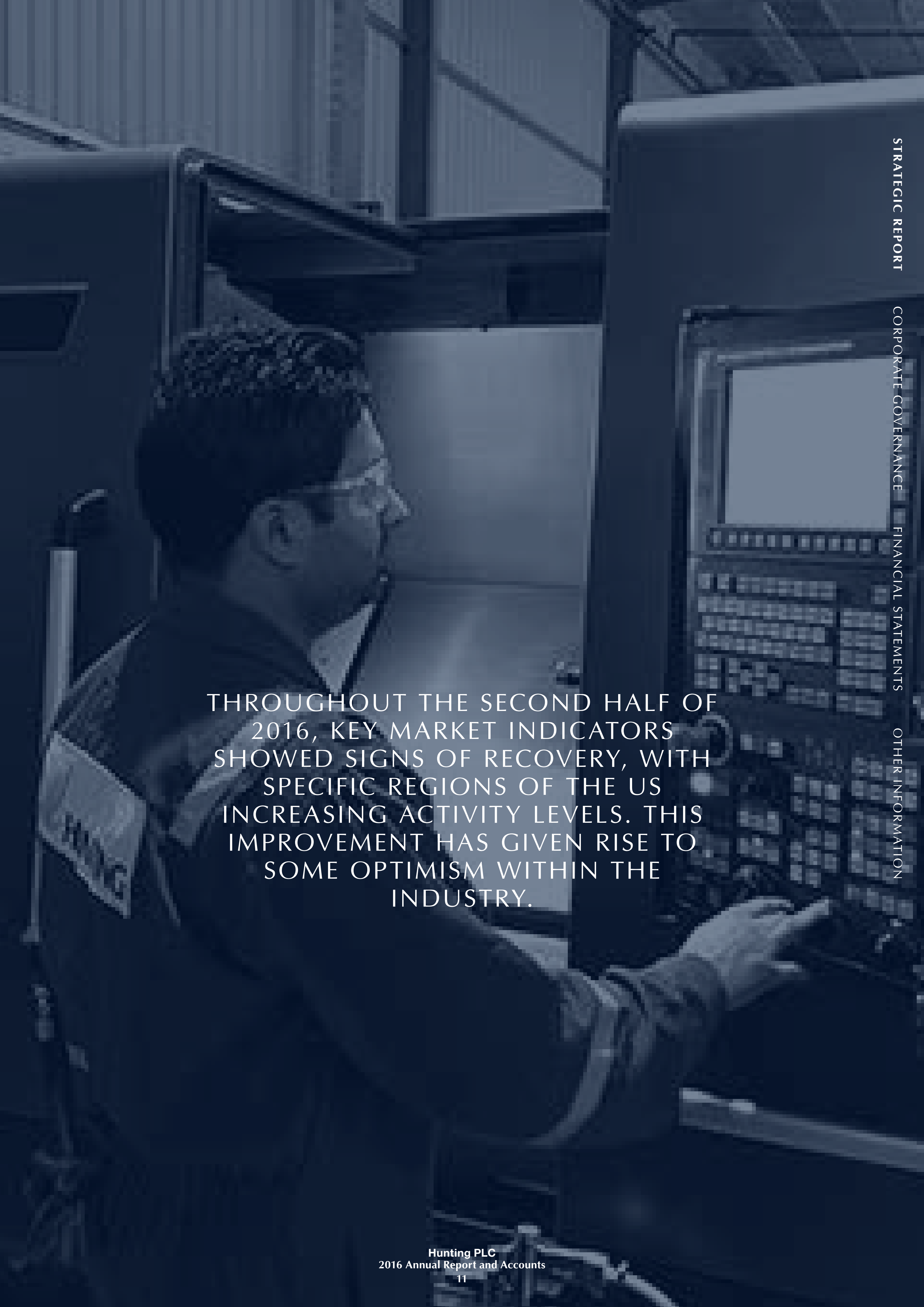
Market Outlook

Looking ahead, market commentators are currently forecasting 2017 to be a year of growth for the global energy industry, with some projecting double digit increases.

While there is fragile optimism across the industry, this forecast growth remains predicated on global production reducing to bring crude oil supply/demand back into balance, coupled with an increasing oil price and the world's geopolitical environment remaining stable, with continued investment by exploration and production companies.

Activity is likely to remain focused on lower cost onshore projects, given that many offshore projects require an oil price in excess of $60 per barrel to be sanctioned.

North America is likely to be the focus for much of this new activity, with other regions returning to growth, if and when the oil price continues to increase past its current $50-55 per barrel trading range.



THROUGHOUT THE SECOND HALF OF 2016, KEY MARKET INDICATORS SHOWED SIGNS OF RECOVERY, WITH SPECIFIC REGIONS OF THE US INCREASING ACTIVITY LEVELS. THIS IMPROVEMENT HAS GIVEN RISE TO SOME OPTIMISM WITHIN THE INDUSTRY.

PETER ROSE
FINANCE DIRECTOR

"THE PRIMARY FOCUS FOR THE GROUP DURING THE YEAR HAS BEEN TO SECURE FINANCIAL FLEXIBILITY AND STRENGTHEN THE BALANCE SHEET AS THE SEVERE MARKET DOWNTURN PERSISTED THROUGHOUT THE YEAR."

Results from Continuing Operations

The dramatic decrease in volumes across the oil and gas industry in 2016, as a consequence of the low oil price, coupled with the reduced capital expenditures recorded by all market participants, has led Hunting to report a revenue decline of 44% in the year to $455.8m. Revenue in H1 2016 was $228.4m (2015 – $463.6m) compared to $227.4m in the second half (2015 – $346.9m).

In the year, underlying gross profit was $52.1m (2015 – $195.2m). Gross profit margin in the first half of 2016 was 10%, which improved to 12% in the second half, reflecting the lower cost base and improving volumes in certain areas. Gross profit margin for the year was 11% (2015 – 24%).

The Group has continued to reduce its cost base during the year, particularly through the reduction in workforce programmes by each business unit. However, management has also targeted to maintain core operational capabilities in the year in anticipation of an eventual market recovery, resulting in an additional layer of overhead being borne by the Group. This has partly contributed to Hunting reporting an underlying EBITDA loss of $48.9m (2015 – $61.9m profit).

The underlying loss from continuing operations was $92.2m in the year (2015 – $16.4m profit) and the underlying margin correspondingly was -20% in 2016 (2015 – +2%).

The charge in the year for the amortisation of acquired intangible assets held by the Group totalled $33.2m (2015 – $38.9m). At the half and full year, management carried out balance sheet impairment reviews, which included the assessment of medium term growth forecasts. These exercises did not result in any charges being recorded. In 2015, a $252.6m impairment charge was recorded. Further details of the impairment assessments can be found in note 15. During the year, management continued to implement cost controls, giving rise to restructuring costs of $12.2m (2015 – $7.1m). Other exceptional items, impacting loss from operations, totalled $3.1m (2015 – $nil).

Hunting's reported loss from continuing operations was therefore $140.7m in the year (2015 – $282.2m).

The underlying net finance expense during the year was $0.7m (2015 – $6.8m), principally reflecting reduced interest costs and fees on the lower level of borrowings and an increase in net foreign exchange gains. The reported net finance expense was $3.2m, after the exceptional charge of $2.5m for the write off of capitalised loan facility fees.

In total, amortisation and exceptional items charged to the Group's income statement were $51.0m in the year (2015 – $298.6m).

The underlying loss before tax was $93.2m (2015 – $9.4m profit). Following the charges for acquired intangible asset amortisation and other exceptional items, the reported loss before tax was $144.2m (2015 – $289.2m).

In 2016, a tax credit of $19.9m (2015 – $5.4m charge) was recorded following the losses incurred by the Group, to give an underlying tax rate of 21% (2015 – 57%). The Group's effective tax rate for 2017 is difficult to predict but is currently expected to be around 20%, however, this will depend on the regional mix of profits, and the ability to utilise currently unrecognised tax losses. Further guidance will be provided on the anticipated tax rate in the course of 2017.

The underlying diluted loss per share was 45.3 cents in 2016 (2015 – 3.1 cents earnings per share) and the reported diluted loss per share was 76.8 cents (2015 – 156.1 cents).

Results from Discontinued Operations

In the year, the Group received $7.9m from the Canadian tax authorities, following settlement of matters relating to its former Canadian subsidiary Gibson Energy Inc, which was disposed of in 2008. All historic tax matters relating to Gibson Energy have now been resolved.

In 2015, the Group recorded a $3.8m gain on the sale of Gibson Shipbrokers and $0.4m relating to Gibson Energy. $3.0m of the proceeds from the Gibson Shipbrokers disposal were recognised as deferred. $0.7m was received during the year with a balance of $1.8m remaining at 31 December 2016.

Segmental Trading Review

A summary of the financial performance of each operating segment is detailed below:

	2016			2015		
Business unit	**Underlying (loss) from continuing operations $m**	**Amortisation[i] and Exceptional Items $m**	**Reported loss from continuing operations $m**	Underlying (loss) profit from continuing operations $m	Amortisation[i] and Exceptional Items $m	Reported loss from continuing operations $m
Well Construction	**(24.2)**	**(8.9)**	**(33.1)**	1.9	(113.8)	(111.9)
Well Completion	**(45.9)**	**(34.6)**	**(80.5)**	14.2	(146.8)	(132.6)
Well Intervention	**(19.5)**	**(1.9)**	**(21.4)**	4.6	(31.6)	(27.0)
Total HES	**(89.6)**	**(45.4)**	**(135.0)**	20.7	(292.2)	(271.5)
Exploration and Production	**(2.6)**	**–**	**(2.6)**	(4.3)	(6.4)	(10.7)
Group segmental total	**(92.2)**	**(45.4)**	**(137.6)**	16.4	(298.6)	(282.2)

i. Relates to amortisation of acquired intangible assets.

Hunting Energy Services

Hunting Energy Services comprises the Well Construction, Well Completion and Well Intervention segments.

In 2016, Hunting Energy Services reported revenue of $452.8m (2015 – $806.3m). As a consequence of the significant decline in revenue, Hunting Energy Services recorded an underlying loss from continuing operations in the year of $89.6m (2015 – $20.7m profit). Charges for amortisation of acquired intangible assets and exceptional items recorded in the year totalled $45.4m (2015 – $292.2m), leading to a reported loss from continuing operations of $135.0m (2015 – $271.5m).

NEW TEST CHAMBER AT AMERIPORT, TEXAS, US

A summary of the financial performance of each operating segment is detailed below:

Well Construction

		2016	2015
Revenue	$m	**105.5**	211.4
Underlying (loss) profit from operations	$m	**(24.2)**	1.9
Underlying operating margin	%	**(23)**	1
Reported loss from operations	$m	**(33.1)**	(111.9)
Capital investment	$m	**11.0**	49.4
Average employees		**568**	866
Year end employees		**524**	717

The Well Construction segment includes Hunting's Premium Connections, Drilling Tools, Construction OCTG, AMG (comprising Hunting Dearborn and Hunting Electronics), Hunting Specialty and Hunting Trenchless business units.

The segment reported a 50% decline in revenue in 2016 to $105.5m (2015 – $211.4m). With the exception of the Premium Connections unit, all businesses within the segment recorded a loss from operations in the year. This led to an underlying loss from continuing operations of $24.2m in the year (2015 – $1.9m profit). No impairments were recorded against goodwill in the year, following the $66.1m charge in 2015. Similarly, there were no charges for the impairment of customer relationships or property plant and equipment, which in 2015 totalled $38.0m. Charges for the amortisation of acquired intangible assets and restructuring were $8.9m (2015 – $9.7m). This led to a reported loss from continuing operations for the segment of $33.1m (2015 – $111.9m).

Capital investment within the segment totalled $11.0m, mainly associated with the completion of the expansion at Hunting Dearborn and on its facility at Ameriport, US. With the reduction in workforce programme completed within the year, the year end number of employees reduced to 524 (2015 – 717).

Premium Connections

Hunting's Premium Connections business reported a profit in the year as customer activity, mainly focused on activities in the Gulf of Mexico, continued throughout the year. Hunting's Marrero facility in Louisiana, US, remained busy throughout 2016, as large diameter threading orders were completed for clients, which contributed to the positive performance of the business unit in the year. During the second half of 2016, and as reported elsewhere in this report, increasing activity in the Permian basin contributed to new sales opportunities as onshore drilling increased.

The business has increased sales of its WEDGE-LOCK™ premium connection as key clients utilised the threadform in deepwater drilling programmes. Hunting introduced this connection in 2015, which has been further commercialised during 2016. A primary advantage of Hunting's WEDGE-LOCK™ connection is that casing wear issues are reduced, particularly in highly deviated well environments. During 2016, Hunting's engineering team developed and introduced a wider range of 16 inch connections and commenced testing and certification of 14 inch connection variants for commercialisation in 2017.

Drilling Tools

The US Drilling Tools business continued its restructuring throughout the early months of the year, with further reductions in headcount being recorded to align with market demand.

Following the price of WTI crude oil bottoming out in Q1 2016, drilling in the more profitable onshore basins continued to improve, particularly in the Permian basin, where smaller operators slowly recommenced drilling. The business opened a shared facility with Hunting's Perforating Systems business in Odessa during 2016 to capitalise on the higher activity levels in West Texas. Towards the end of the year, new gas-focused drilling programmes also supported activity at the Group's Latrobe facility in Pennsylvania, US.

Construction OCTG

Activity in South Africa and Kenya, where Hunting has recently opened a facility and established a joint venture respectively, has been subdued, driven by the lower levels of drilling across sub-Sahara Africa. Despite this, the Group has marketed extensively across the region and, in 2016, Hunting's manufacturing facility in Cape Town was audited by the American Petroleum Institute, which certified its quality assurance and manufacturing procedures, a further milestone in securing customer acceptance. A number of small orders have been completed in the year, including a number of inspection services for customers across the region, which led to revenues being booked, to offset ongoing costs.

Advanced Manufacturing Group
The Group's Advanced Manufacturing Group comprises the Hunting Dearborn and Hunting Electronics business units. During 2016, both units focused on diversifying revenue streams outside of the oil and gas sector and by year end had successfully increased order backlogs to supply to the medical, space and aviation sectors. Headcounts were also reduced in the year, with a 16% reduction being recorded by the year end. The business group has reviewed its presence in Singapore and during Q3 2016 suspended its Asia Pacific operations, given the outlook for MWD/LWD purchasing in the region for the medium term.

Hunting Specialty
Hunting Specialty was impacted by clients bringing manufacturing in-house as volumes across the industry declined. However, as the Permian basin rig count improved throughout the year, business levels improved as customers recommenced purchasing key products.

Hunting Trenchless
Hunting Trenchless has signed new international distribution agreements in the year to further the reach of its drill-stem product lines. The unit has reduced inventory and headcount in the year to contain losses.

Well Completion

		2016	2015
Revenue	$m	**295.1**	488.6
Underlying (loss) profit from operations	$m	**(45.9)**	14.2
Underlying operating margin	%	**(16)**	3
Reported loss from operations	$m	**(80.5)**	(132.6)
Capital investment	$m	**4.1**	20.0
Average employees		**1,291**	1,877
Year end employees		**1,115**	1,574

The Well Completion segment comprises Hunting Perforating Systems, Manufacturing and Accessories and Hunting's International Completion businesses.

Revenue in the segment declined 40% in the year to $295.1m (2015 – $488.6m), with an underlying loss from continuing operations of $45.9m (2015 – $14.2m profit) being recorded. No impairments to the carrying value of goodwill were recorded in the year compared to a total of $112.2m in 2015. Other charges, comprising amortisation of acquired intangible assets, and restructuring costs, including costs associated with the closure of the Group's European Drilling Tools business, totalled $34.6m (2015 – $34.6m), which led to a reported loss from continuing operations of $80.5m (2015 – $132.6m).

Capital investment within the segment totalled $4.1m. Following the reduction in the workforce, the year end number of employees reduced to 1,115 (2015 – 1,574).

Hunting Perforating Systems
Hunting Perforating Systems' performance during the year has tracked the US rig count, with activity declining throughout H1 2016 and then steadily improving throughout H2 2016. New activity has focused almost wholly on the onshore US market, in particular as rig counts in the Permian basin increased from 134 at the low point of the year to close 2016 at 264 active units.

The business reduced inventory during the year, in line with cost cutting initiatives across the rest of the Group, and decommissioned its Tyler manufacturing facility as the market decline accelerated in the first quarter of the year. In addition, seven distribution centres were also closed. As part of the wider reduction in workforce programme, 161 employees were released, however, as the end of year approached, new appointments were made to meet rising demand levels.

The business unit has introduced new technology during the year to meet customer expectations of providing more efficient or lower cost well completion solutions. The H-1 Perforating System increased commercial sales throughout the year, with major operators utilising the technology, which allows for quicker perforating times and safer operating conditions. The business has also introduced its new EQUAfrac™ shaped charge technology, which has been used by clients across the US. This charge ensures uniform hole perforations along the wellbore, providing enhanced production and recovery from the reservoir. The business continues to manufacture perforating guns in Canada, China and Mexico, where cost efficiencies and lower material cost benefits can be captured.

Sales increased 24% in the second half of 2016 compared to the first half of the year, with this increase in momentum continuing to date. In particular, the unit's shared facility with US Drilling Tools at Odessa, Texas, US, located in the Permian basin, reported strong increases in sales as the year progressed. To meet growing demand, additional production shifts have been added in Q4 2016 to satisfy supply.

Manufacturing and Accessories
The Group's Manufacturing and Accessories business has been particularly hit by the market downturn. During the year, the business reduced headcount by 31%, as activity levels reduced as a consequence of the low oil prices recorded earlier in the year. To address the reduction in activity, the business closed one facility in Houston, US, to reduce its fixed cost base, relocating production assets to other facilities within the business unit.

International Completion
Hunting's Canadian business has been adversely impacted by the declining North American rig count and the reduction in the number of wells being drilled in the country. To address the market downturn, the business has reduced its operations to a four day week to minimise losses. Despite this contraction in activity, the business has retained key clients, with ongoing demand seen for a number of product lines, including Hunting's "Vacuum Insulated Tubing" lines. As the oil price stabilised in the second half of the year, marginal improvements in activity levels were reported.

The Group's European operations have reduced headcount in the year as activity in the North Sea declined to an average of eight drilling rigs operating throughout the year. The business has, however, been successful in retaining key pipe supply contracts with major customers, despite the intense competition across the industry. During the year, activity in Italy was also wound down.

In the Middle East, Hunting has continued to build its regional presence following the formation of its joint venture with SG Petroleum in Saudi Arabia. The business had broadened its licences in the Kingdom to enable a wider number of product lines to be distributed. Towards the end of the year, activity levels also increased in Northern Iraq, as the security situation improved.

Hunting's Asia Pacific business has reduced its headcount by 19% as demand declined across the region. The business has suspended its AMG-related business at its Tuas facility and has put on hold its plans to consolidate facilities, given the need to reduce capital expenditure. Further, the Group's facility in Thailand was closed as part of the reorganisation of the Group's regional presence. Cross training of staff has been an area of focus, to allow remaining employees to assist with the manufacture and sale of a wider range of product lines, as and when the market returns to growth.

Well Intervention

		2016	2015
Revenue	$m	**52.2**	106.3
Underlying (loss) profit from operations	$m	**(19.5)**	4.6
Underlying operating margin	%	**(37)**	4
Reported loss from operations	$m	**(21.4)**	(27.0)
Capital investment	$m	**1.6**	8.6
Average employees		**356**	499
Year end employees		**353**	428

The Well Intervention segment comprises the Hunting Subsea and well intervention businesses.

Revenue in the segment declined 51% in the year to $52.2m (2015 – $106.3m), with an underlying loss from continuing operations of $19.5m being recorded (2015 – $4.6m profit). There were no impairments to the carrying value of goodwill (2015 – $29.9m). Other charges, comprising amortisation of acquired intangible assets and restructuring costs totalled $1.9m (2015 – $1.7m), leading to a reported loss from continuing operations of $21.4m (2015 – $27.0m).

Capital investment within the segment totalled $1.6m. With the programme to reduce the workforce completed, the year end number of employees was 353 (2015 – 428).

Hunting Subsea
Hunting Subsea has been adversely impacted by the slowing offshore drilling environment as the oil price continued to decrease in the early part of the year, leading to customers deferring or cancelling deepwater projects. To reduce losses, the business reduced its headcount by 28% in the year.

The business has continued to develop new products in the year, including metal seals and couplings for use in deepwater applications.

SUB-SAHARA REGIONAL HQ
IN CAPE TOWN

Well Intervention
Hunting's well intervention business has been particularly impacted by competitor actions in the year, as intervention tools and services were used across the industry as a loss leader for other product lines. The business has introduced new valve and blow-out preventer product lines in the year, which have seen reasonable market acceptance. Hunting has also progressed its entry into the Norwegian market, gaining regulatory approval for a number of products.

Exploration and Production

Hunting's exploration and production business has oil and natural gas well investments mainly in the Southern US and offshore shallow waters in the Gulf of Mexico, holding equity interests in 34 producing properties.

During 2016, the unit did not participate in any drilling.

On a Barrel of Oil Equivalent basis ("BOE"), production in the year was 96,000 BOE (2015 – 118,000 BOE), with reserves at 31 December 2016 being 0.6m BOE (2015 – 0.6m BOE).

In 2016, the business reported an underlying loss from operations of $2.6m (2015 – $4.3m).

Following a year end valuation of reserves, no impairments have been recorded (2015 – $6.4m).

The reported loss from operations for 2016 was therefore $2.6m (2015 – $10.7m).

Cash Flow

The underlying EBITDA loss in the year was $48.9m (2015 – $61.9m profit), reflecting the severe market downturn, which persisted throughout the year across the oil and gas industry.

Working capital movements generated $58.4m of cash inflows (2015 – $96.0m), reflecting the Group's focus on working capital management, in particular the Group-wide drive to reduce inventory across all business units.

Net interest paid and bank fees reduced in the year to $4.6m from $7.4m in 2015, reflecting lower levels of borrowings within the Group's revolving credit facility.

Tax received in the year was $31.3m, largely reflecting tax refunds from the carry-back of losses.

Restructuring costs gave rise to cash outflows of $5.9m (2015 – $5.9m) mainly as a result of workforce reduction programmes.

Replacement capital investment decreased to $4.2m in 2016 (2015 – $22.0m), as the Group cut non-essential expenditures and curtailed new equipment purchases. In the year, the key components included $1.8m on drilling tools and $1.9m on machinery and equipment. Exploration and production capital investment totalled $0.5m during the year.

As a result of the above, free cash inflow was $36.6m in the year (2015 – $118.0m).

Expansion capital investment during 2016 fell to $13.0m (2015 – $59.1m) as the Group's facility expansion programme concluded. The Group incurred $3.6m on its facility at Ameriport, US, $4.4m at Hunting Dearborn, $1.8m at Velsen-Noord in the Netherlands, $0.5m on drilling tools and rental equipment and $1.4m on machinery and equipment. Other expansion capital investments totalled $1.3m.

Total dividends paid in the year to PLC equity shareholders were $5.9m being the final dividend for 2015 of 4.0 cents per share, which was approved at the Company's Annual General Meeting in April 2016 and paid to shareholders on 6 July 2016.

During the year, a $7.9m tax indemnity receipt from Canada, relating to the disposal of Gibson Energy, was received. All historic tax matters in relation to Gibson Energy have now been concluded.

On 31 October 2016, the Group placed 14.6m new Ordinary shares raising $83.9m net of transaction expenses.

With the proceeds of the placing and other cash management initiatives outlined above, borrowings have been virtually eliminated with a net debt position of $1.9m at 31 December 2016 (2015 – $110.5m).

Summary Group Cash Flow

	2016 $m	2015 $m
Underlying EBITDA (loss) (NGM A)	**(48.9)**	61.9
Working capital movements (NGM I)	**58.4**	96.0
Net interest paid and bank fees	**(4.6)**	(7.4)
Tax received (paid)	**31.3**	(10.5)
Restructuring costs (note 7)	**(5.9)**	(5.9)
Replacement capital investment (NGM J)	**(4.2)**	(22.0)
Other operating cash and non-cash movements (NGM K)	**10.5**	5.9
Free cash flow (NGM L)	**36.6**	118.0
Expansion capital investment (NGM J)	**(13.0)**	(59.1)
Dividends to PLC equity holders (note 33)	**(5.9)**	(39.8)
Tax indemnity receipt	**7.9**	–
Cash received from equity placing to shareholders (note 31)	**83.9**	–
Other	**(0.9)**	1.4
Net cash inflow	**108.6**	20.5

GROUP FUNDING AND POSITION AT YEAR END

THE GROUP'S FUNDING POSITION REMAINS ROBUST, WITH COMMITTED BANK FACILITIES OF $200M IN PLACE.

The primary focus for the Group during the year has been to secure financial flexibility and strengthen the balance sheet as the severe market downturn persisted throughout the year.

In the first half of 2016, the loss making position of the Group necessitated the renegotiation of the terms of the borrowing facilities that were available, resulting in a reduction in the overall quantum of facilities available to the Group from approximately $415m to $219m.

A series of amendments to the Group's borrowing facilities became effective on 20 July 2016, including suspension of the covenant package that was agreed as part of the October 2015 refinancing. The revised terms will be in place during the period up to and including the 30 June 2018 covenant test date (the "Suspension Period"). The net debt to EBITDA and interest cover measures were replaced with balance sheet based covenants. Minimum cash flow requirements and restrictions on capital investment and dividends were also implemented. In addition to the amended financial covenants, first priority security in favour of the Group's lending banks was created over certain inventory, trade receivables and accrued revenue of US, Canadian and UK subsidiaries and certain freehold properties in the US and UK.

The amended terms and conditions can be summarised as follows:

- Tangible net worth (defined as total equity less non-controlling interests, goodwill and other intangible assets) – must be greater than $450.0m;
- Asset cover – drawings under the Group's committed bank facilities are required to be covered by the discounted value of the secured assets;
- Discounted asset cover - the balance of discounted trade receivables and accrued revenue values shall not be less than 40% of the utilisation of the committed facilities; and
- Cash flow – targets measured semi-annually.

In addition to the amended financial covenants, capital investment was restricted to $20.0m or less in the 12 months to 31 December 2016 and must not exceed $30.0m annually at any point during the remainder of the suspension period. Finally, the declaration and payment of dividends throughout the suspension period is prohibited.

As the onshore market showed signs of recovery throughout H2 2016, enquiry levels and sales within Hunting's Perforating Systems business increased. The Board therefore elected in October to raise new equity capital through a placing with new and existing investors to increase financial flexibility and reduce borrowings. The equity placing, which completed on 31 October 2016, raised $83.9m net of transaction expenses, through the issue of 14.6m new Ordinary shares or 9.8% of the issued share capital. The proceeds of the placing allowed the Group to reduce borrowings and at 31 December 2016, net debt was $1.9m (31 December 2015 – $110.5m).

Financial Capital Management

Capital employed is managed in order to ensure an appropriate level of financing is available for the Group's activities. 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. Currency exposure on the balance sheet is, where practical, reduced by financing assets with borrowings in the same currency. Spot and forward foreign exchange contracts are used to cover the net exposure of purchases and sales in non-domestic currencies.

	2016 $m	2015 $m
Total equity	**1,117.4**	1,168.1
Net debt	**1.9**	110.5
Capital employed	**1,119.3**	1,278.6
Gearing	**0%**	9%

The Group's net debt position 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.

The Group's funding position remains robust, with total credit facilities of $219.2m in place (2015 – $414.6m) of which $200.0m (2015 – $350.0m) is committed. The lending group, who provide the committed facilities, comprises of five banks: Lloyds, Barclays, HSBC, Wells Fargo and DBS. Further details of the facility, including the terms and conditions, are in note 27.

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.

Balance Sheet

	2016 $m	2015 $m
Property, plant and equipment	**419.0**	460.8
Goodwill	**229.8**	230.6
Other intangible assets	**150.7**	180.4
Working capital (NGM C)	**300.2**	365.8
Taxation (current and deferred)	**(3.4)**	10.7
Provisions	**(15.7)**	(18.0)
Other net assets	**38.7**	48.3
Capital employed	**1,119.3**	1,278.6
Net debt (note 23)	**(1.9)**	(110.5)
Net assets	**1,117.4**	1,168.1
Non-controlling interests	**(19.3)**	(26.2)
Equity attributable to owners of the parent	**1,098.1**	1,141.9

Property, plant and equipment has decreased by $41.8m. Additions of $15.4m were offset by depreciation of $41.2m, impairment of assets of $3.5m, $1.6m transferred to held for sale assets and $0.1m transferred to inventories. The net book value on disposals amounted to $3.3m and adverse foreign exchange adjustments totalled $7.5m.

Given the continued downturn across the energy industry during 2016, management undertook an impairment review exercise ahead of the Group's half and full-year results. Both exercises analysed the carrying value of goodwill for each relevant cash generating unit across the Group, based on future cash projections, while adopting appropriate discount rates. As a result of these exercises, no impairments were recorded in the year. Further details of the impairment reviews are detailed in note 15.

THE NEW EZI-SHEAR SEAL VALVE

Other intangible assets have reduced by $29.7m, the main movements being an amortisation charge for the year of $35.3m, disposals of $0.3m and foreign exchange of $0.5m, offset by the capitalisation of technology and software development costs of $6.4m.

SUBSEA VALVE ASSEMBLY CELLS

Working capital has decreased by $65.6m. The reduction in activity levels, together with management's focus on working capital, led to cash inflows of $58.4m. Foreign exchange had a $9.1m favourable impact on working capital, but this was offset by $1.9m of non-cash adjustments.

Tax balances show net liabilities of $3.4m at 31 December 2016 (2015 – $10.7m net assets) reflecting the absence of taxable profits generated in 2016.

Provisions have reduced by $2.3m principally due to the further reduction of vacant leasehold property obligations.

As a result of the above changes, capital employed in the Group has reduced by $159.3m to $1,119.3m.

Cash generation has been a primary focus during the year, resulting in an overall cash inflow in 2016 which, including the proceeds from the equity placing, reduced net debt to $1.9m at 31 December 2016.

Net assets at 31 December 2016 were $1,117.4m, which, after non-controlling interests of $19.3m, result in equity shareholders' funds of $1,098.1m (2015 – $1,141.9m). This is a decrease of $43.8m over 31 December 2015, which reflects the loss for the year attributable to equity shareholders of $107.5m, $5.9m of dividend payments and foreign exchange losses of $18.3m, offset by the net proceeds from the equity placing of $83.9m and other items of $4.0m.

DENNIS PROCTOR
CHIEF EXECUTIVE

PETER ROSE
FINANCE DIRECTOR

2 March 2017