

AN OVERVIEW  
**HOW WE CREATE, DISTRIBUTE  
AND SUSTAIN VALUE**

**OIL AND GAS EXTRACTION CYCLE**  
STRATEGIC FOCUS ON THE WELLBORE (SEE PAGE 14)



4

OUR CUSTOMERS AND CHANNELS TO MARKET



DRILLING TOOLS



INTERVENTION TOOLS



SUBSEA



OPERATORS



SERVICE COMPANIES



STEEL MILLS & OTHER

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SUSTAINABLE VALUE CREATION FOR OUR:

SHAREHOLDERS

EMPLOYEES

CUSTOMERS AND SUPPLIERS

COMMUNITIES

GOVERNMENTS

PAGE 27

# OUR BUSINESS MODEL

## CONTINUED

### OIL AND GAS EXTRACTION STRATEGIC FOCUS ON THE WELLBORE

#### WELL CONSTRUCTION

The well construction phase includes all activities related to setting up the infrastructure of the wellbore. Hunting supplies OCTG, AMG and Drilling Tool products from this segment.

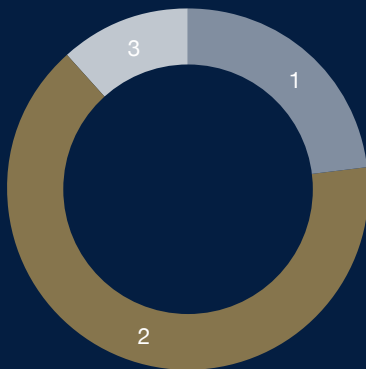
#### WELL COMPLETION

Well completion is the process of initiating the flow of hydrocarbons to the surface. Hunting supplies OCTG and Perforating Systems and accessories from this segment.

#### WELL INTERVENTION

Well intervention occurs while a well is in production to enable the flow to be maintained and to operate efficiently. In this segment Hunting supplies intervention tools to be used downhole and provides hydraulic subsea equipment.

#### REVENUE



#### 1. WELL CONSTRUCTION

**\$105.5m**

2015 – \$211.4m

#### 2. WELL COMPLETION

**\$295.1m**

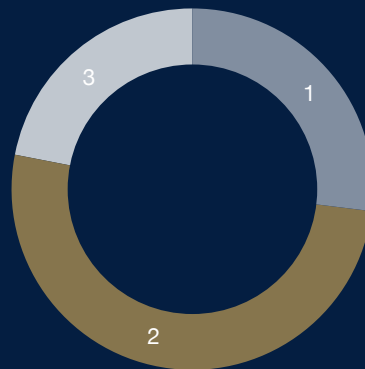
2015 – \$488.6m

#### 3. WELL INTERVENTION

**\$52.2m**

2015 – \$106.3m

#### UNDERLYING LOSS FROM OPERATIONS



#### 1. WELL CONSTRUCTION

**\$24.2m loss**

2015 – \$1.9m profit

#### 2. WELL COMPLETION

**\$45.9m loss**

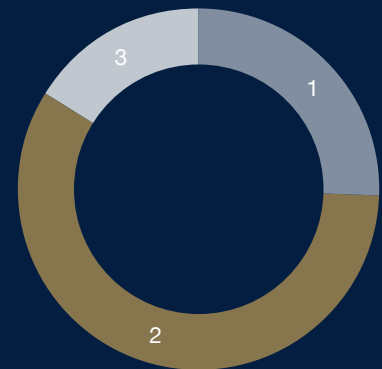
2015 – \$14.2m profit

#### 3. WELL INTERVENTION

**\$19.5m loss**

2015 – \$4.6m profit

#### AVERAGE NUMBER OF EMPLOYEES



#### 1. WELL CONSTRUCTION

**568**

2015 – 866

#### 2. WELL COMPLETION

**1,291**

2015 – 1,877

#### 3. WELL INTERVENTION

**356**

2015 – 499

## RESOURCES WE USE

## FINANCIAL

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

Hunting PLC is quoted on the London Stock Exchange and has a premium listed status. As such, the Company has to meet the highest standards of regulation and corporate governance as published by the Financial Conduct Authority. Equity shareholders receive returns in the form of dividends and through capital appreciation, which can be measured as total shareholder return.

The Group has \$219.2m of debt facilities available of which \$200m are committed. The committed facilities include a \$179.5m multi-currency revolving credit facility, which expires in 2020, and a multi-currency overnight money market line. The committed facilities were amended during 2016 with total committed facility limits reduced from \$350m to \$200m and security provided over selected trade receivables, inventories and principal properties. Profit-based covenants have been suspended up to and including the 30 June 2018 covenant test date and have been replaced by asset-based covenants, minimum cash flow requirements, limitations on capital investment and a suspension of dividends.

## NET DEBT

\$1.9m

## ANNUALISED 5 YEAR TSR

-1.5%

MARKET CAPITALISATION  
(AT 31.12.16)

\$1.27 billion

NET BANK FEES  
AND INTEREST PAID

\$4.3m

## INTELLECTUAL

With low oil prices likely to impact the market for some time, there is a strong focus in the industry on technological improvement and process innovation, which can help deliver cost efficiencies for customers whilst maintaining or improving margins for suppliers. The use of technology in our business illustrates the different ways we partner with participants in the supply chain:

**Hunting proprietary technology**

Developing our own proprietary technologies has been a strategic focus for the Group. Through developing our own technologies and proprietary know-how, we are well positioned to secure market share by protecting our intellectual property ("IP"). Our substantial IP portfolio is a significant barrier to entry for competitors and allows us to enjoy better margins and more operational flexibility. In 2016 we registered one patent on the H-1 Perforating System and made a further 10 patent applications, bringing the number of pending patents for the H-1 Perforating System to 23. In 2016 we also developed three additional sizes for the WEDGE-LOCK™ premium connection range.

**Jointly developed technology**

Some innovations involve collaborating with other industry partners. For example, Hunting is working with ExxonMobil to create an autonomous perforating gun system with on-board navigation thereby eliminating the need for a wireline crew. This represents potential cost savings for the operator and improves efficiency of the operation.

**Third party technology**

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

## PATENTS

428

NEW PATENTS  
IN THE YEAR

31

## PATENTS PENDING

166

# OUR BUSINESS MODEL

## CONTINUED

1

### RESOURCES WE USE

#### CONTINUED

#### OPERATIONAL

##### OPERATING SITES

40

##### DISTRIBUTION CENTRES

25

##### MANUFACTURING FOOTPRINT (SQ FT)

3.1m

##### MACHINES

1,228

##### NET BOOK VALUE OF PPE

\$419.0m

##### Operating footprint

We have an established global network of operating sites and distribution centres located close to our customers and near the main oil and gas producing regions (see pages 20 and 21).

##### Business activities and development of know-how

Over many years we have refined our operating processes, building considerable know-how as our business evolves to meet changing customer needs.

Our operating sites are used for the manufacture, rental or trading of products. The manufacture of goods and the provision of related services is, by far, the main source of income for the Group. The bulk of our manufacturing occurs in high-end specialist facilities utilising sophisticated CNC machines.

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

In certain product lines, particularly OCTG, Hunting holds goods for trading to support customer service and to take advantage of particular market opportunities.

Our distribution centres are primarily used in the Perforating Systems and Drilling Tools businesses where close proximity to drilling operations is important.

#### Management approach

##### DEVELOP OUR PEOPLE

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

##### APPLY UNIFIED OPERATING STANDARDS AND PROCEDURES

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

##### EMPOWER OUR BUSINESS UNITS

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

##### MAINTAIN A STRONG GOVERNANCE FRAMEWORK

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

## EMPLOYEES

Hunting's employees are a key driver in fulfilling the Group's strategic objectives. Hunting's reputation is underpinned by our highly skilled workforce, which has been built over many years.

At 31 December 2016, the Group had 2,107 employees (2015 – 2,784) across its global operations. The reduction in the Group's workforce has been necessitated by the global downturn in the oil and gas market, however, efforts have been made to retain employees across all disciplines, in readiness for the anticipated industry recovery. The chart opposite illustrates the geographic split of our workforce.

Responsibility for our employees lies with local management, to enable local cultural differences to be taken into account, with all businesses complying with the Group's ethical employment and human rights policies as published in the Hunting PLC Code of Conduct (located at [www.huntingplc.com](http://www.huntingplc.com)). The Group is committed to training and developing all employees, which includes health and safety training, professional development and general career development initiatives. In 2017, Hunting will be rolling out a Group-wide Code of Conduct training programme for employees, to ensure our workforce is trained in our published ethics-focused policies.

Hunting complies with all relevant regional laws covering employment and minimum wage legislation. As a responsible employer, full and fair consideration is given to applications for positions from disabled persons. The Group's ethics policies support equal employment opportunities across all of Hunting's operations. The Group's diversity profile for 2016 is shown below. Employees are offered benefits on joining the Group, including healthcare cover, post-retirement benefits and, in certain instances when Group outperformance in terms of operational or financial targets has been delivered, participation in bonus arrangements.

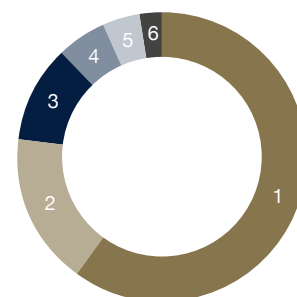
Employees are encouraged to further their development and network of contacts within the global energy industry by membership of industry groups. In 2016, the following organisations were supported by Hunting's employees: American Petroleum Institute, Society of Petroleum Engineers, International Coiled Tubing Association and the American Society for Quality.

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

## EMPLOYEES

# 2,107

### YEAR END EMPLOYEES



1. US	1,265
2. Asia Pacific	359
3. UK	229
4. Canada	117
5. Other	86
6. Rest of Europe	51

## TOTAL REMUNERATION

# \$157.2m

### EMPLOYEE DIVERSITY

Board	7	86% (6)	14% (1)
Senior Management	132	93% (123)	7% (9)
Total Employees	2,107	79% (1,674)	21% (433)

■ Male ■ Female



RESOURCES WE USE  
CONTINUED

RELATIONSHIPS

Relationships developed with stakeholders are critical to the Group's business success and to ensure future growth. Hunting constantly evaluates ways to strengthen links with investors, employees, customers, suppliers, governments and the communities in which its businesses operate.

**Ethical behaviour**

The Group's Code of Conduct is the basis of its commitment to stakeholders. Hunting's policies on anti-bribery and corruption, ethical employment, responsible business partnerships and proportionate client entertaining are key to its success. The Code of Conduct is sent to the Group's major customers and suppliers to promote our values within Hunting's known supply chain. Hunting's policies on human rights and its approach to the issues of modern slavery and trafficking continue to be enhanced, to ensure our stance on responsible corporate behaviour is shared with our business partners.

**Shareholders**

Communication with investors is a key activity of the Board. Our strategy and plans for future growth are discussed with shareholders throughout the year, primarily following our half and full year results announcements with its supporting webcasts.

The executive Directors undertake an annual investor relations programme where presentations are given to existing shareholders or potential investors. The Chairman and Senior Independent Director also meet investors annually to discuss strategy and governance, with feedback being provided to the Board.

All shareholders are invited to the Company's Annual General Meeting, which provides an opportunity for the Board to answer questions from our investor base.

**Customers and suppliers**

Hunting's approach to all its customers and suppliers is based on honesty and transparency, to provide best in class products and services delivered through a rigorous quality assurance programme.

The Group's policies support a strong culture of building close client relationships, based on our reputation of industry-leading service and delivery and our drive to understand the needs of each customer and supplier to ensure absolute client satisfaction is achieved. For more information on our customers and channels to market see page 26. Our entertainment and hospitality policies ensure our business decisions are completed on an arms length basis, with client entertaining closely monitored and proportionate.

**Governments**

Hunting is committed to developing good relationships with the governments of the countries in which we operate. Certain customers and suppliers of the Group are subject to state ownership, therefore monitoring procedures for interaction with Public Officials are in place to ensure compliance with the UK Bribery Act.

Where appropriate, Hunting's business units participate in government supported groups and "think-tanks". Hunting's Perforating Systems business regularly supports or has membership of groups which develop regulations on products used for hydraulic fracturing. In line with Group policy, Hunting does not allow any form of political donations to be made. In 2016, the Group issued its "Payments to Governments" statement in compliance with new legislation enacted in the UK. Further, Hunting is a signatory to the UK's Prompt Payment Code.

**Communities**

Hunting operates in 13 countries and is committed to being a responsible corporate citizen. Each business unit across the Group is encouraged to promote good community relations and, where appropriate, to support causes including local sponsorships and communal events.

**Environment**

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

All new facilities take into account environmental considerations including storm and flooding protection while utilising energy efficient materials. Hunting's environment policy is located at [www.huntingplc.com](http://www.huntingplc.com).

To monitor the impact of Hunting's operations on the environment, and in compliance with UK Company Law, the Group collects greenhouse gas data in accordance with the principles of the Kyoto Protocol. Hunting's 2016 Scope 1 and 2 emissions, as designated by international reporting guidelines, are detailed in the accompanying chart, with the emissions factors applied based on those published by DEFRA in the UK and the International Energy Agency.

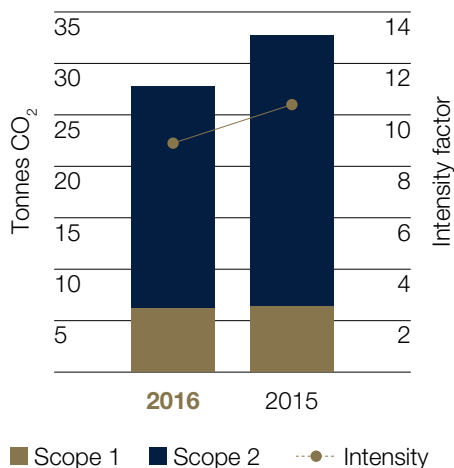
NUMBER OF  
SHAREHOLDERS

1,749

CO<sub>2</sub> EQUIVALENT EMISSIONS

27,659 tonnes

## OUR BUSINESS ACTIVITIES

CARBON DIOXIDE  
EQUIVALENT EMISSIONS

Scope 1 and 2 emissions in 2016 totalled 27,659 tonnes (2015 – 32,710 tonnes) of carbon dioxide equivalent. The reduction in the Group's emissions between 2015 and 2016 is due to the reduced levels of activity, with Scope 2 electricity usage declining as the number of shifts reduced by each operating unit and some facilities were decommissioned.

The Group's Intensity Factor, based on total carbon dioxide emissions divided by total operational square footage, in 2016 was 8.8 kg/sq ft, compared to 10.4 kg/sq ft in 2015.

At 31 December 2016, the Group's facilities totalled 3.1m square feet (2015 – 3.2m square feet).

Water usage in the year was 230k cubic metres compared to 223k cubic metres in 2015.

## INTENSITY FACTOR

8.8kg/sq ft

HEALTH, SAFETY &  
ENVIRONMENT ("HSE")

The Group operates across the globe and is committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public.

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

Health and safety policies include:

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

Hunting's Director of Health, Safety and Environment reports directly to the Chief Executive and a report is considered by the Board of Directors at each meeting. The Group's target is to achieve zero recordable incidents. Each local business is required to develop tailored policies to suit their environment. These incorporate the Group's approach to putting safety first and, at a minimum, to comply with local regulatory requirements. Training is given to employees throughout the Group.

During the year, there were no fatalities across the Group's operations with 25 recordable incidents (2015 – 36). The incident rate, as calculated from guidance issued by the Occupational Safety and Health Administration ("OSHA") in the US, was 1.15 compared to 1.13 in 2015. The increase in the incident rate reflects a 31% year-on-year decline, with the number of hours worked declining by 32% to 4.4m hours (2015 – 6.4m hours). The industry average incident rate in 2016 was 4.3 (2015 – 4.3).

## INCIDENT RATE (OSHA)

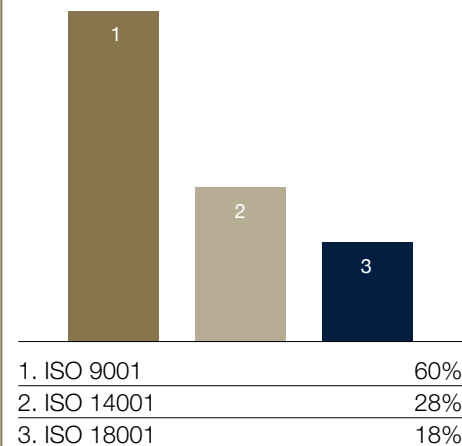
1.15

QUALITY AND OPERATIONAL  
EXCELLENCE

The Group is committed to enhancing its production and operational quality with a number of facilities being certified ISO 9001 (quality), 14001 (environment) and 18001 (health and safety) compliant, indicating that globally recognised standards and systems are in place. The manufacturing reject rate in 2016 was 0.6% (2015 – 0.8%).

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

Operational and production excellence is a key component of our relationship with customers. Quality assurance for each component manufactured is a key differentiator in our drive to be an industry leading provider of critical components and measurement tools. In 2016, the Group continued its programme to introduce lean manufacturing processes into global operations. This resulted in efficiency gains in a number of key business units.

PERCENTAGE OF ISO  
CERTIFIED FACILITIES

## REJECT RATE

0.6%



## OUR BUSINESS MODEL CONTINUED

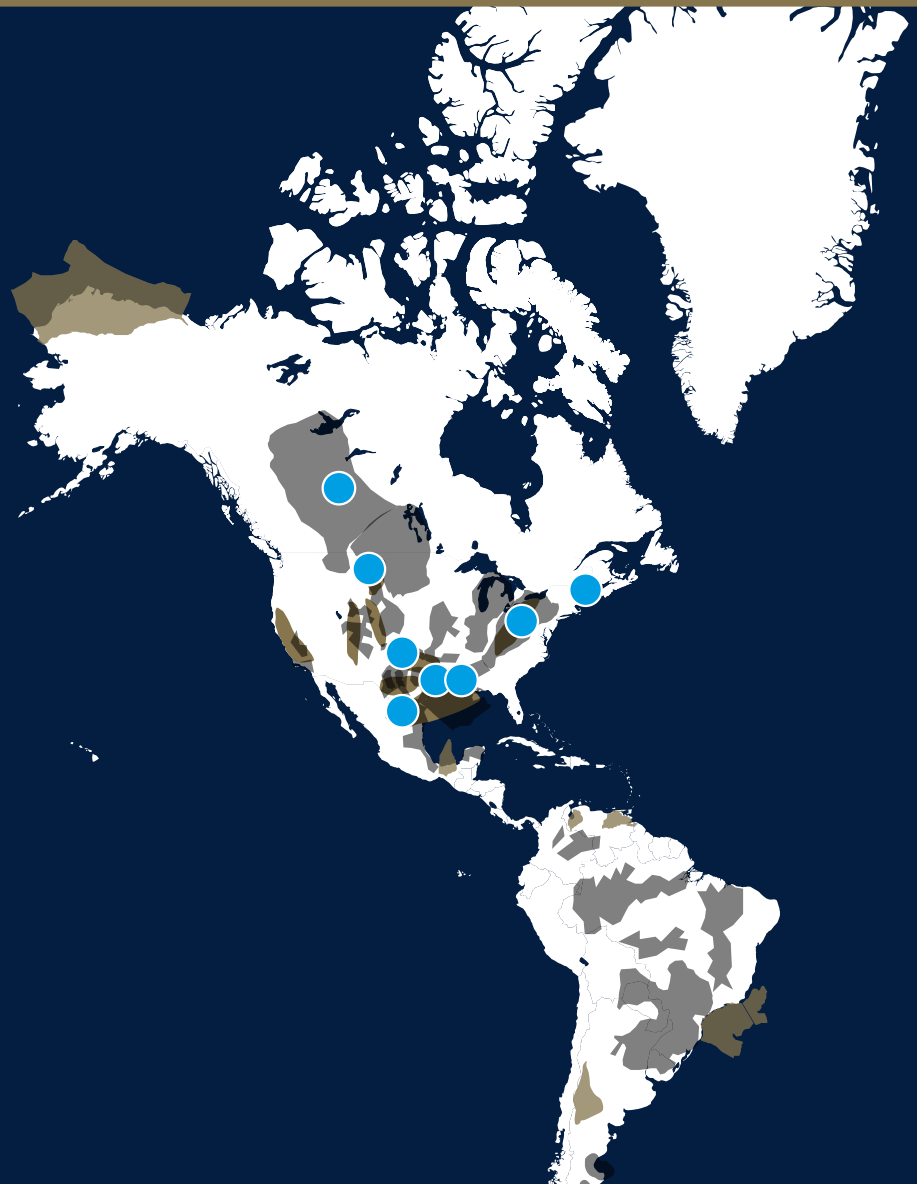
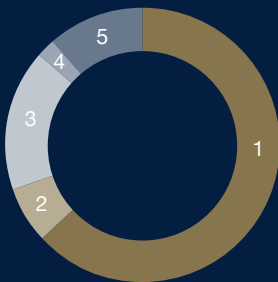
2

**OUR BUSINESS ACTIVITIES**  
OUR BUSINESSES NEED TO BE CLOSE TO OUR CUSTOMERS AND ARE THEREFORE BASED IN OR NEAR THE MAIN OIL AND GAS PRODUCING REGIONS.

### REVENUE

\$455.8m

1. US
2. Canada
3. Europe
4. Middle East, Africa and other
5. Asia Pacific



GROUP OVERVIEW	
<b>\$455.8m</b> REVENUE	<b>2,308</b> AVERAGE EMPLOYEES
<b>40</b> OPERATING SITES	<b>2,814k</b> SQUARE FEET
<b>25</b> DISTRIBUTION CENTRES	<b>321k</b> SQUARE FEET

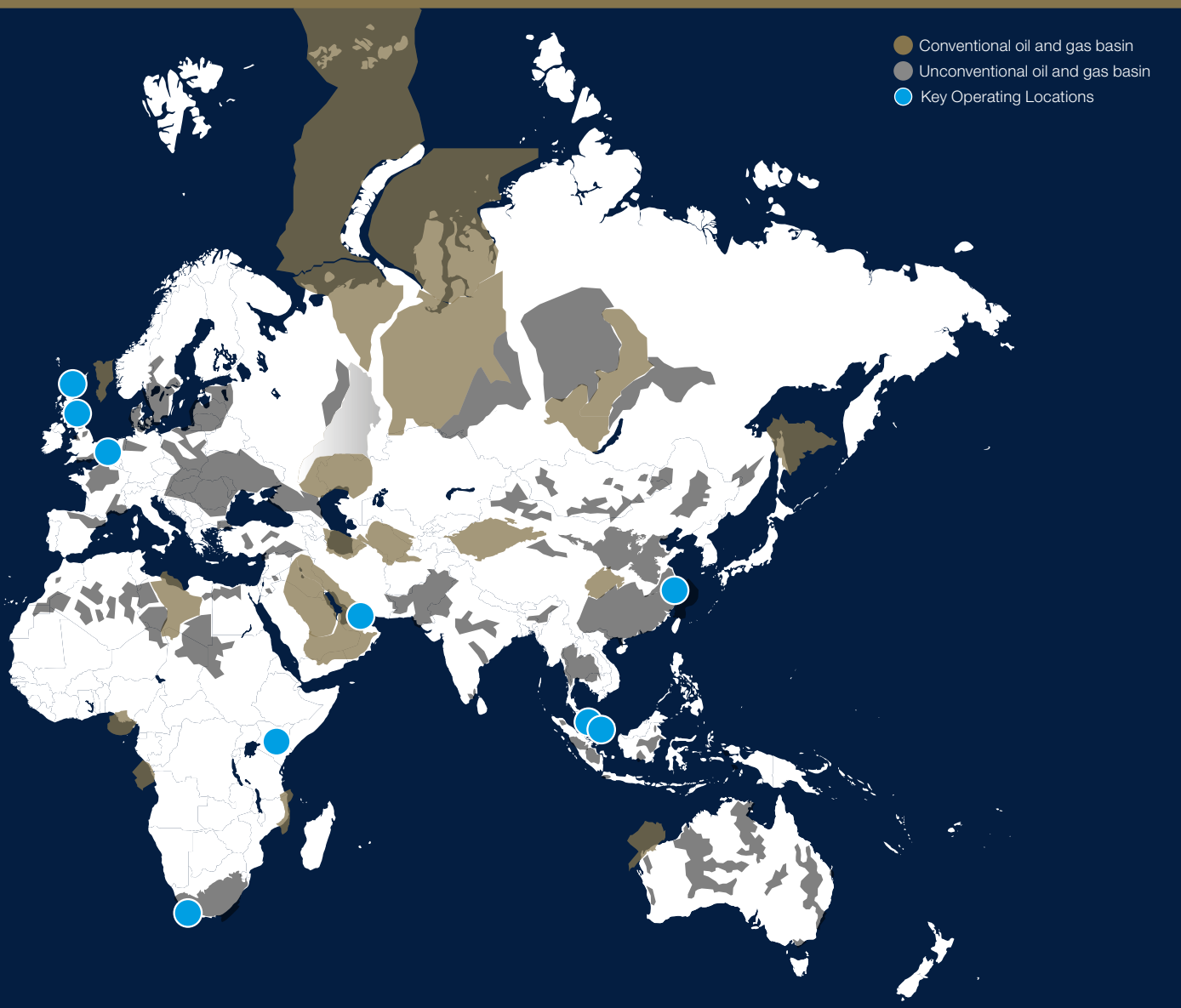
US	
<b>\$293.5m</b> REVENUE	<b>1,379</b> AVERAGE EMPLOYEES
<b>20</b> OPERATING SITES	<b>1,756k</b> SQUARE FEET
<b>16</b> DISTRIBUTION CENTRES	<b>230k</b> SQUARE FEET

CANADA	
<b>\$38.8m</b> REVENUE	<b>115</b> AVERAGE EMPLOYEES
<b>1</b> OPERATING SITE	<b>96k</b> SQUARE FEET
<b>7</b> DISTRIBUTION CENTRES	<b>56k</b> SQUARE FEET

The Group operates across five geographic regions spread across the globe, with locations close to major centres of oil and gas activity. Hunting generally has a conservative risk appetite for developing operations in countries with significant geopolitical risks and transparency concerns.

The US is our primary market and has the broadest product portfolio. Our products are used both onshore and offshore in the Gulf of Mexico. The US has the largest manufacturing footprint and benefits from economies of scale and the impact of Hunting's Perforating Systems product lines and a higher use of proprietary technologies. The Group also has a broad distribution network available across the region, giving Hunting a closer proximity to its customer base.

The Canadian market is seasonal and can be impacted by prevailing weather conditions. Many oil and gas projects in the region are based on tar sands/heavy oil and have high break-even costs, therefore making the market sensitive to changes in global commodity prices.



EUROPE		MIDDLE EAST, AFRICA AND OTHER		ASIA PACIFIC	
<b>\$70.2m</b>	<b>325</b>	<b>\$9.6m</b>	<b>88</b>	<b>\$43.7m</b>	<b>401</b>
REVENUE	AVERAGE EMPLOYEES	REVENUE	AVERAGE EMPLOYEES	REVENUE	AVERAGE EMPLOYEES
<b>8</b>	<b>223k</b>	<b>5</b>	<b>154k</b>	<b>6</b>	<b>585k</b>
OPERATING SITES	SQUARE FEET	OPERATING SITES	SQUARE FEET	OPERATING SITES	SQUARE FEET
<b>1</b>	<b>30k</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>5k</b>
DISTRIBUTION CENTRE	SQUARE FEET	DISTRIBUTION CENTRE	SQUARE FEET	DISTRIBUTION CENTRE	SQUARE FEET

Our European operations principally service the North Sea and are located in the UK, the Netherlands and Norway. OCTG are the major products for the region and margins are influenced by the high usage of third-party licensed threading technology in this market. This region has been at the forefront of developing our well intervention products.

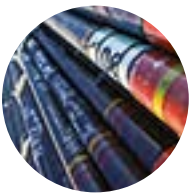
We have an established operation in Dubai supplying well intervention tools and OCTG. We have expanded our operations in the Middle East through a joint venture in Saudi Arabia. We are also building a presence in Africa with operations recently set up in South Africa and Kenya.

Asia Pacific is one of our largest regions and we have operations in Singapore, China and Indonesia. The region is expanding from its OCTG base and is developing perforating system product sales.

OUR PRODUCTS AND SERVICES

**CASING**

API and premium threaded casing and Oil Country Tubular Goods.



**CONNECTION TECHNOLOGY**

Proprietary range of SEAL-LOCK™ premium connections for threaded pipe and couplings.

**WEDGE-LOCK™**

New proprietary premium threading products, research, development and testing.

**APRS**

Proprietary Annular Pressure Relief System.



**ELECTRONICS**

MWD/LWD components and downhole power supply units, printed circuit boards and manufacturing services.

**DRILLING TOOLS**

Mud motors, vibration dampeners, stabilisers and reamers.

**DOWNHOLE SUPPLY**

Screens, MWD/LWD electrical and running gear components, float valve assemblies and handling equipment.



**MANUFACTURING**

Completion accessories, premium threading services.





**PRECISION MACHINING**  
 Deep bore machining for directional drilling and geo-steering tools, inserts and collars for MWD/LWD tools.



**PERFORATING SYSTEMS**  
 Perforating guns and setting tools, energetics, wireline and Tubular Conveyed Perforating hardware.

**LOGGING SYSTEMS**  
 Production logging tools and instruments.

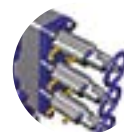


**SWITCH GEAR**  
 Wireline selective firing systems, EBFire™ switches, radio frequency safe ControlFire™ and shooting power software.

**SUBSEA**  
 Hydraulic valves, couplings and chemical injection systems.



**WELL INTERVENTION**  
 Pressure control equipment, Bottom Hole Assembly services, slickline and wireline tools.



**VARIBALL**  
 Proprietary rolling system for the delivery of tools in highly deviated wellbores.



**THRU-TUBING**  
 Advanced, tailored solutions for a wide range of work-over and coiled tubing interventions.



# OUR BUSINESS MODEL

## CONTINUED

3

### OUR PRODUCTS AND SERVICES

#### CONTINUED



#### HUNTING'S SIX MAJOR PRODUCT GROUPS

#### OIL COUNTRY TUBULAR GOODS ("OCTG")

#### PERFORATING SYSTEMS

#### OPERATING ACTIVITIES

Manufacturing, Trading

Manufacturing

#### OVERVIEW

OCTG are steel alloy products and comprise casing and tubing used in the construction and completion of the wellbore. Hunting machines threads to connect OCTG using flush or semi-flush joints and can manufacture premium connections and accessories using our own technologies such as SEAL-LOCK™ and WEDGE-LOCK™. We are licensed to apply a variety of competitor thread forms and generic API threads. We source OCTG products from a significant number of major global steel producers and have strong, long-term relationships in the US, Europe and Asia. Hunting trades pipe, which is a lower margin activity, to help support customer relationships.

Hunting's Perforating Systems business manufactures perforating guns, energetics, firing systems and logging tools. Products are mainly used in the completion phase of a well. The production, storage and distribution of energetics is highly regulated and there are significant barriers for new entrants to the market. The business mainly "manufactures to stock" and hence uses a wide distribution network. Some manufacturing is done to order, sourced from international telesales.

#### DIFFERENTIATORS

Hunting is one of the largest independent providers of OCTG connection technology, including premium connections.

Market leading position in the US. Strong portfolio of patented and unpatented technology.

#### GLOBAL OPERATING PRESENCE

**OUR BUSINESS ACTIVITIES**  
PAGES 20 AND 21

Hunting has extensive machining capacity in the US, Canada, Europe, Asia and Africa.

Manufacturing centres in the US, Canada, Mexico and China. Distribution centres in the US, Canada, UK and Asia.

#### RELATED STRATEGIC FOCUS AREAS

**OUR BUSINESS STRATEGY**  
PAGES 28 AND 29

**New products** – broadened the WEDGE-LOCK™ premium connection range.

**Cost control** – one operating site and seven distribution centres closed.

**Enhance existing capacity, lean manufacturing** – completed the new threading facility at Ameriport, US.

**Develop global presence** – developing sales locations in Europe, Africa and Asia.

**Develop global presence** – established presence in Kenya.

**New products** – commercialised EQUAfrac™ shaped charges and continued development of autonomous perforating technology.

#### RELATED PRINCIPAL RISKS

**MORE INFORMATION ON RISK MANAGEMENT**  
PAGES 30 TO 38

Commodity prices, Shale drilling, Competition, Product quality.

Commodity prices, Shale drilling.



### ADVANCED MANUFACTURING GROUP ("AMG")

Manufacturing

This division includes the Hunting Dearborn business, which carries out deephole drilling and precision machining of complex MWD/LWD and formation evaluation tool components, and the Hunting Electronics business, which produces printed circuit boards capable of operating in extreme conditions. These businesses work collaboratively with customers implementing their designs to their specifications.

Hunting Dearborn is a world leader in the deep drilling of high grade, non-magnetic components. As a Group, Hunting has the ability to produce fully integrated advanced downhole tools and equipment, manufactured, assembled and tested to the customer's specifications using its proprietary know-how.

US.

**Growth** – Non-oil and gas business opportunities developed.

**Enhance existing capacity** – Dearborn campus expansion completed at Fryeburg, US.

Commodity prices,  
Product quality.



### DRILLING TOOLS

Equipment Rental, Trading

Rental of a large portfolio of downhole tools including mud motors, non-magnetic drill collars, vibration dampeners, reamers and hole openers. Tools are configured to the customers' specifications. This business is capital intensive and results are dependent on fleet utilisation and rental rates. In limited instances rental equipment is sold outright.

Leaders in progressive cavity, positive displacement mud motors.

US.

**Growth** – Opened shared facility in Odessa with Hunting Perforating Systems business, to take advantage of West Texas opportunities.

**Cost control** – closed European Drilling Tools operations.

Commodity prices, Shale drilling,  
Competition.



### INTERVENTION TOOLS

Manufacturing, Equipment Rental and Trading

A range of downhole intervention tools including slickline tools, e-line tools, mechanical plant, coiled tubing and pressure control equipment. This business is capital intensive and results are dependent on asset utilisation and rental rates.

Hunting offers a comprehensive range of tools, including innovative and proprietary technologies.

US, Canada, Europe, Asia,  
Middle East.

**Develop global presence** – developing operating presence in Kenya.

**New products** – introduction of lightweight pressure control equipment systems.

Commodity prices, Competition.



### SUBSEA

Manufacturing

Produces high quality products and solutions for the global subsea industry covering hydraulic couplings, chemical injection systems, specialty valves and weldment services.

For more than 30 years, a provider of high quality metal-to-metal sealing hydraulic coupling solutions to operate in the harshest environments with a strong, long-term patent base.

US.

**New products** – Continued to develop new metal seals and couplings.

Commodity prices, Product  
quality.

**OUR CUSTOMERS AND CHANNELS TO MARKET**  
HUNTING HAS A BROAD RANGE OF CUSTOMERS  
AND CHANNELS TO MARKET.



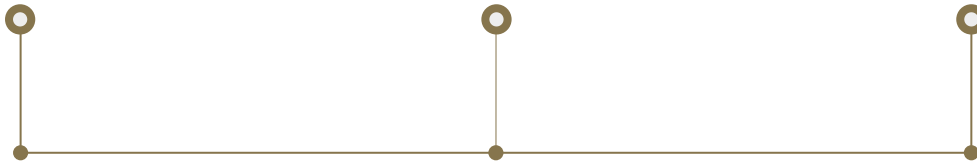
**OPERATORS**



**SERVICE COMPANIES**



**STEEL MILLS & OTHER**



**OPERATORS**

Operators are the end consumers of our products and related services. These include National Oil Companies (“NOCs”), International Oil Companies (“IOCs”) and Independents. Approximately 30% of our sales are made directly to operators. Key direct customers include Chevron, Apache and Enquest.

**SERVICE COMPANIES**

Our primary route to market is via other service providers, which generate c.60% of our revenue. These include “1st tier” service companies who can provide project management services to the operators. Key customers include Halliburton, Baker Hughes, Schlumberger and Weatherford.

**STEEL MILLS & OTHER**

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

**c.30%**

of our revenue

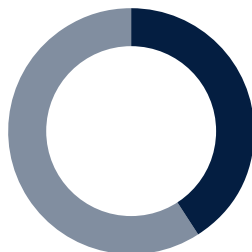
**c.60%**

of our revenue

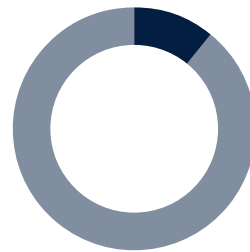
**c.10%**

of our revenue

**OUR TOP TEN CUSTOMERS  
REPRESENT c.36% OF REVENUE**



**OUR LARGEST CUSTOMER  
REPRESENTS c.9% OF REVENUE**



## WE CREATE, DISTRIBUTE AND SUSTAIN VALUE BY:

**CLEAR STRATEGIC FOCUS  
ON THE WELLBORE**

**STRONG TECHNOLOGY BASE**

**DIVERSE RANGE OF PRODUCTS  
AND SERVICES**

**EXPERIENCED MANAGEMENT TEAM  
AND EMPOWERED WORKFORCE**

**ATTENTION TO QUALITY**

**TRUSTED LONG-TERM RELATIONSHIPS  
WITH CUSTOMERS AND SUPPLIERS**

**UTILISATION OF OUR GLOBAL  
MANUFACTURING FOOTPRINT**

**BEING WHERE OUR CUSTOMERS  
NEED US TO BE**

**ACTING WITH INTEGRITY**



# OUR BUSINESS STRATEGY

HUNTING'S STRATEGIC PRIORITIES ARE BASED ON A BUSINESS MODEL DESIGNED TO DELIVER SUSTAINABLE LONG-TERM SHAREHOLDER VALUE WHILE RECOGNISING OUR CORPORATE RESPONSIBILITIES.

STRATEGIC PRIORITY	STRATEGIC FOCUS AREAS	2016 PROGRESS
<p><b>GROWTH</b> Our aim is to continue to develop our global presence and supply a comprehensive range of products for use in the wellbore. We will grow through capital investment in existing businesses and through acquisitions.</p>	<ul style="list-style-type: none"> <li>• Extend global presence.</li> <li>• Acquire complementary businesses.</li> <li>• Enhance existing capacity.</li> <li>• Develop new products.</li> </ul>	<ul style="list-style-type: none"> <li>• New facility in Ameriport, US, fully operational.</li> <li>• Kenyan joint venture operations relocated to an enhanced facility.</li> <li>• Non oil and gas business opportunities developed by a number of business units.</li> </ul>
<p><b>OPERATIONAL EXCELLENCE</b> We operate in a highly competitive and cyclical sector, which is high profile and strongly regulated. To be successful we must deliver high quality and reliable products and services cost effectively.</p>	<ul style="list-style-type: none"> <li>• Leverage strong brand.</li> <li>• Enhance quality control.</li> <li>• Maintain operational flexibility.</li> <li>• Leverage lean manufacturing.</li> <li>• Strengthen relationships with customers and suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• Lean manufacturing initiatives contributed to reduced operating costs.</li> <li>• New WEDGE-LOCK™ premium connections developed and commercialised.</li> <li>• H-1 Perforating System now fully commercialised in the market.</li> </ul>
<p><b>STRONG RETURNS</b> In normal phases of the oil and gas cycle our business has the capability to produce high levels of profitability, strong cash generation, growing dividends for shareholders and good returns on capital.</p>	<ul style="list-style-type: none"> <li>• Introduce new and proprietary products.</li> <li>• Develop sales synergies.</li> <li>• Increase market share.</li> <li>• Maintain close cost control.</li> </ul>	<ul style="list-style-type: none"> <li>• Underlying gross margin of 11% achieved.</li> <li>• Free cash flow of \$36.6m generated with a significant release of working capital.</li> <li>• Annualised cost savings from headcount reductions in the two years ending 31 December 2016 now exceed \$100m.</li> </ul>
<p><b>CORPORATE RESPONSIBILITY</b> We are committed to act with high standards of integrity and to create positive, long-lasting relationships with our customers, suppliers, employees and the wider communities in which we operate.</p>	<ul style="list-style-type: none"> <li>• Retain experienced senior management team.</li> <li>• Skilled workforce.</li> <li>• Safe operations.</li> <li>• Protect the environment.</li> <li>• Compliance.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of new ethics compliance procedures and policies.</li> <li>• Improved environmental capabilities in new facilities.</li> <li>• Supply chain risk analysis completed to comply with UK Modern Slavery Act.</li> </ul>

## RELATED KPIS

## RELATED RISKS

## REVENUE

\$455.8m

2015 – \$810.5m

## COUNTRIES WITH OPERATIONS

13

2015 – 15

## CAPITAL INVESTMENT

\$17.2m

2015 – \$81.1m

## OPERATING FOOTPRINT

3.1m sq ft

2015 – 3.2m sq ft

- Geopolitics
- Investment
- Competition
- Product quality
- Commodity prices
- Shale drilling

## ISO 9001 (QUALITY) ACCREDITED OPERATING SITES

60%

2015 – 50%

## INTERNAL MANUFACTURING REJECT RATE

0.6%

2015 – 0.8%

- Product quality
- Key executives
- Competition

## UNDERLYING GROSS MARGIN

11%

2015 – 24%

## FREE CASH FLOW

\$36.6m

2015 – \$118.0m

## RETURN ON AVERAGE CAPITAL EMPLOYED

(8)%

2015 – 1%

- Commodity prices
- Competition

## INCIDENT RATE

1.15

2015 – 1.13

## CO2 EMISSIONS INTENSITY FACTOR

8.8kg/sq ft

2015 – 10.4kg/sq ft

- Key executives
- Health, safety and environment

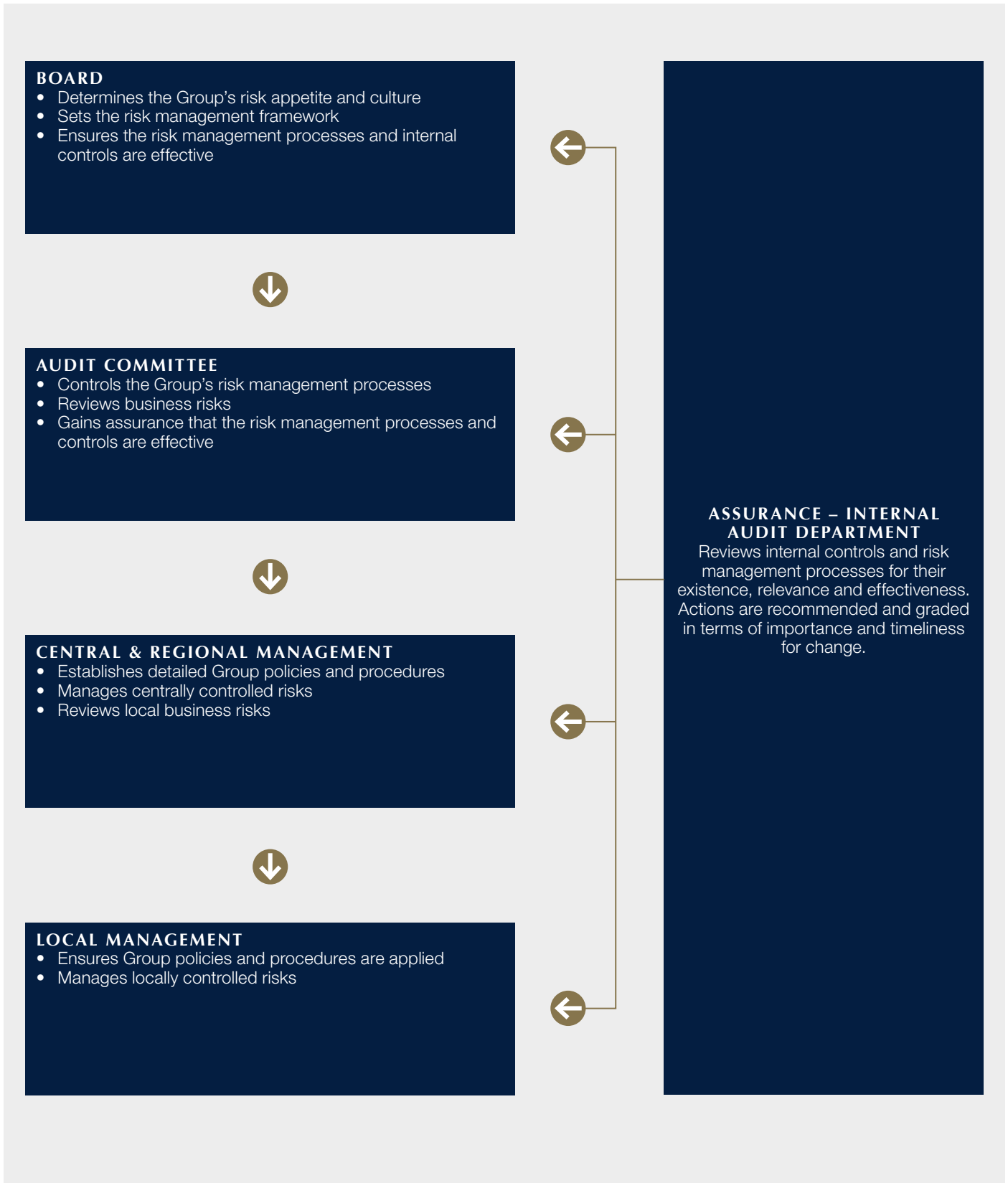
FURTHER KPI INFORMATION, INCLUDING PERFORMANCE TRENDS SEE PAGES 40 AND 41.

FURTHER INFORMATION ON THE PRINCIPAL RISKS SEE PAGES 33 TO 37.

# RISK MANAGEMENT

## RISK MANAGEMENT ROLES & RESPONSIBILITIES

THE BOARD HAS DEFINED RISK MANAGEMENT ROLES AND RESPONSIBILITIES AS ILLUSTRATED BELOW.



## Introduction

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

## The Board

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

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

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

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

## Audit Committee

Local management establishes and undertakes risk management processes that are relevant to the distinct risk profile of each business unit. These are reported to central management three times a year from which a Group Risk Register is maintained covering the key risks to the Group, including all financial, operational and compliance matters. On behalf of the Board, the Audit Committee seeks to ensure that risk management processes are established within the framework set out by the Board and, as part of this assessment, it conducts a formal review of the Group's Risk Register three times a year. The Group's Principal Risks are disclosed on pages 33 to 37. In addition, once a year, the Audit Committee seeks assurance with regard to the effectiveness of the internal financial controls based on a self-assessment exercise carried out by local management. The appropriateness of the self assessments is checked by Internal Audit, on a sample basis, following its programme of work.

The Internal Audit department reports directly to the Audit Committee. The relationship with external audit is also controlled by the Audit Committee, including the annual review of effectiveness.

(Refer also to the Audit Committee Report on pages 57 to 60)

## Central and Regional Management

Hunting requires that all Group business units operate in accordance with the Hunting Group Manual, which sets out Group policies and procedures, together with related authority levels, and identifies matters requiring approval or notification to

central management or to the Board. Included within the Group Manual are policies covering a range of areas including general finance requirements, taxation responsibilities, information on Hunting's internal control and risk management framework and governance. Compliance is also monitored and subject to scrutiny by the Internal Audit function.

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

## Local Management

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

## Assurance

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

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

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

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

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

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

**RISK MANAGEMENT PROCEDURES  
THE BOARD HAS REVIEWED ITS RISK MANAGEMENT  
AND INTERNAL CONTROL PROCEDURES AND  
CONFIRMS THAT THE PROCEDURES IN PLACE ARE  
ROBUST AND PROPORTIONATE TO HUNTING'S GLOBAL  
OPERATIONS AND POSITION IN ITS CHOSEN MARKET.**

Hunting's internal control system, which has been in place throughout 2016 and up to the date of approval of these accounts, is an ongoing evolutionary process designed to identify, evaluate and manage the significant risks to which the Group is exposed.

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

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

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

**Business Risk Reporting**

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

**Financial Controls Self-assessment**

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

**Reporting and Consolidation**

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

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

**Strategic Planning and Budgeting**

Strategic plans, annual budgets and long-term viability financial projections are formally presented to the Board for adoption and approval and form the basis for monitoring performance. These are supported by regularly updated forecasts that project for a 12-month period beyond the date of preparation.

**Quality Assurance**

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

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

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

**Expenditure Assessment and Approval Limits**

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

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

## CURRENT STATUS OF THE GROUP'S PRINCIPAL RISKS

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

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

Detailed descriptions of each principal risk, the controls and actions in place and the movement in the year are given in the following section.

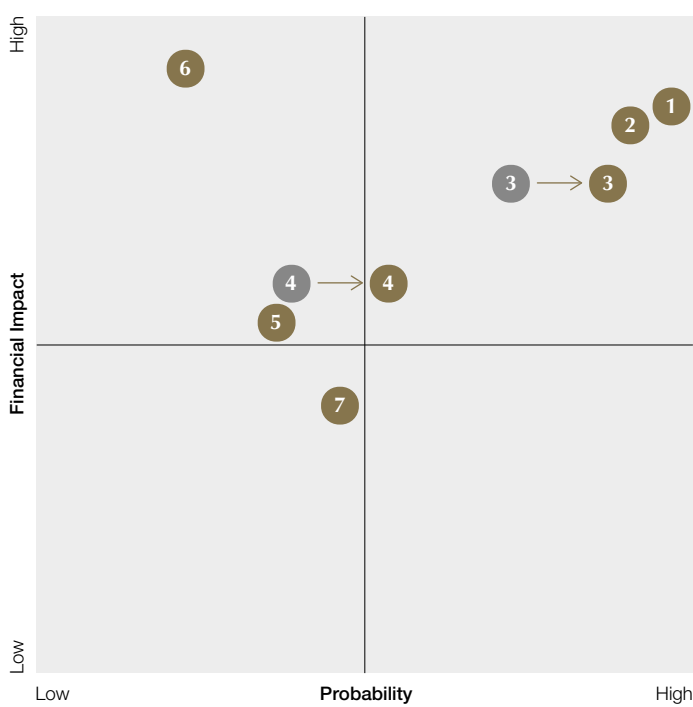
### Investment Spend

At 31 December 2015, the Group's principal risks included an investment risk associated with company acquisitions and organic capital investment. Given the significant reduction in investment spend by the Group, largely associated with the industry downturn, this is no longer considered to be a principal risk.

### UK leaving the European Union

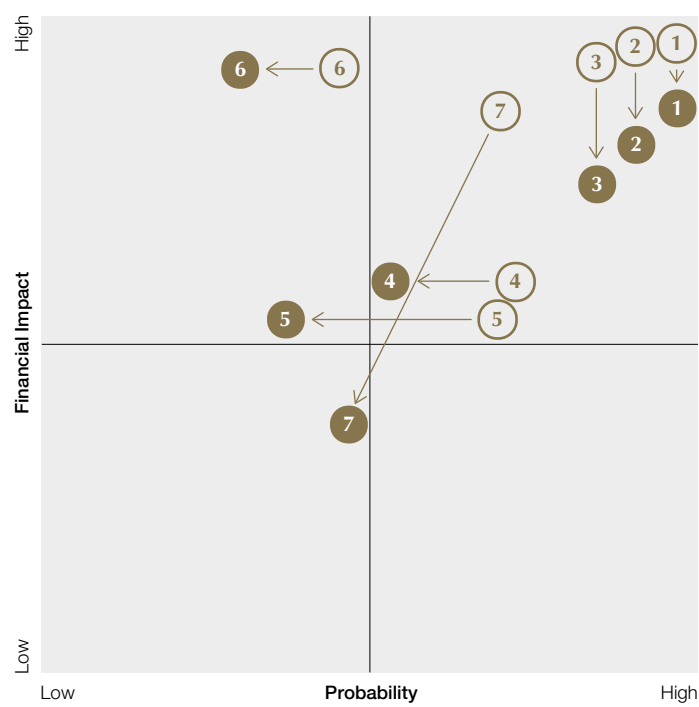
The Board has considered the consequences to the Group of the United Kingdom's decision to withdraw from the European Union and has concluded that, given its limited exposure to this market, Brexit will not have a material impact on the business. Consequently, this is not a principal risk to the Group.

**MOVEMENT IN RISKS (POST-CONTROLS) DURING THE YEAR**



- Current status    ● Prior year status
- 1 Commodity prices    3 Competition    5 Geopolitics    7 Investment
- 2 Shale drilling    4 Key executives    6 HSE

**EFFECTIVENESS OF INTERNAL CONTROLS**



- Post-control status    ○ Pre-control status



# RISK MANAGEMENT

## CONTINUED

### PRINCIPAL RISKS

THE GROUP'S PRINCIPAL RISKS ARE IDENTIFIED BELOW. WHILE WE HAVE PRESENTED THESE AS SEPARATELY IDENTIFIED RISKS, DISCRETE EVENTS WILL OFTEN AFFECT MULTIPLE RISKS AND THIS IS CONSIDERED BY THE BOARD WHEN ASSESSING THE IMPACT ON THE GROUP.

➔ No movement in risk    ⬆ Increase in risk    ⬇ Decrease in risk

 1. COMMODITY PRICES	 2. SHALE DRILLING
<p><b>Nature of the risk</b></p> <p>Hunting is exposed to the influence of oil and gas prices as the supply and demand for energy is a key driver of demand for Hunting's products.</p> <p>Oil and gas exploration companies may reduce or curtail operations if prices become, or are expected to become, uneconomical and therefore continuation of prices above these levels is critical to the industry and the financial viability of the Hunting Group.</p> <p>Adverse movements in commodity prices may also heighten the Group's exposure to the risks associated with shale drilling (see the risks associated with shale drilling).</p>	<p><b>Nature of the risk</b></p> <p>The Group provides products to the oil and gas shale drilling industry. Although shale drilling is now an established activity in the US, significant sections of the public continue to view it as high risk. Any consequent moratorium or new laws may unfavourably impact shale drilling activity levels and subsequently reduce demand for the Group's products that service the operators in this industry.</p> <p>In addition, oil and gas produced from shale is a relatively expensive source of hydrocarbons. Consequently, shale drilling is more sensitive to a decline in commodity prices compared with conventional sources so it is more likely to be curtailed and therefore negatively impact what has become a steadily increasing revenue stream for the Group (see the risks associated with commodity prices).</p>
<p><b>Movement in the year</b></p> <p>Hunting's exposure to this risk remains as high as last year due to the low activity levels as a result of low commodity prices.</p>	<p><b>Movement in the year</b></p> <p>Hunting's exposure to this risk remains unchanged from last year due to the impact of continuing low commodity prices affecting the shale drilling activity particularly in the US and the public's appetite for shale drilling has remained unchanged.</p>
<p><b>Controls and actions</b></p> <p>Working capital, and in particular inventory levels, are closely managed to ensure the Group remains sufficiently adaptable to meet changes in demand.</p> <p>The Group maintains three operating platforms: the Well Construction and Well Completion segments expect to benefit when exploration companies are active in their drilling operations, and the Well Intervention segment benefits when wells are subject to maintenance or require testing or repair work.</p> <p>The sustained decline in oil and gas prices has impacted the industry worldwide. Hunting's management has mitigated the impact by introducing a number of cost reduction programmes throughout the Group and continues to adapt the business to meet new challenges generated by the current trading environment, for example by developing new product lines as described within the Business Model and Strategy.</p>	<p><b>Controls and actions</b></p> <p>The Board monitors public and political opinion and maintains an awareness of the potential for changes to legislation, especially with regard to the US where the Group is mainly exposed.</p> <p>The Group maintains a diverse portfolio of products that extends beyond supplying the shale drilling industry, including products for conventional drilling and the manufacture of high precision and advanced technology components for both the onshore and offshore markets.</p> <p>Many of the Group's facilities have the flexibility to re-configure their manufacturing processes to meet a change in the pattern of demand.</p>
<p><b>FURTHER INFORMATION ON THE MOVEMENT IN COMMODITY PRICES DURING THE YEAR IS DETAILED ON PAGE 9.</b></p>	<p><b>THE GROUP'S OPERATING ACTIVITIES ARE DESCRIBED IN DETAIL ON PAGES 20 TO 25.</b></p>

**3. COMPETITION****Nature of the risk**

The provision of goods and services to oil and gas drilling companies is highly competitive. In current market conditions there are considerable pressures to reduce prices. Competitors may also be customers and/or suppliers which can increase the risk of any potential impact.

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

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

**Movement in the year**

During the year, the competitive environment within the markets that Hunting serves remained strong. Continued downward pressure on prices, combined with reduced activity levels, particularly in offshore markets, has consequently heightened competition risk.

**Controls and actions**

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

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

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

**THE GROUP'S OPERATING ACTIVITIES ARE DESCRIBED IN DETAIL ON PAGES 20 TO 25.**

**4. KEY EXECUTIVES****Nature of the risk**

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

**Movement in the year**

Although the turnover of Hunting's key personnel is small, current trading conditions, recent cuts in the workforce and freezing of remuneration packages have increased pressure on the remaining personnel and the Board recognises that the risk of losing key executives has heightened as a result of these changes.

**Controls and actions**

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

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

**DETAILS OF EXECUTIVE DIRECTOR REMUNERATION ARE PROVIDED IN THE REMUNERATION COMMITTEE REPORT ON PAGES 73 AND 74.**





# RISK MANAGEMENT

## CONTINUED

### PRINCIPAL RISKS

THE GROUP'S PRINCIPAL RISKS ARE IDENTIFIED BELOW. WHILE WE HAVE PRESENTED THESE AS SEPARATELY IDENTIFIED RISKS, DISCRETE EVENTS WILL OFTEN AFFECT MULTIPLE RISKS AND THIS IS CONSIDERED BY THE BOARD WHEN ASSESSING THE IMPACT ON THE GROUP.

 No movement in risk
  Increase in risk
  Decrease in risk

 5. GEOPOLITICS	 6. HEALTH, SAFETY AND THE ENVIRONMENT ("HSE")
<p><b>Nature of the risk</b></p> <p>The locations of the Group's markets are determined by the location of Hunting's customers' drill sites – Hunting's products must go where the drilling companies choose to operate. To compete effectively, Hunting often establishes a local operation in those regions, however, significantly volatile environments are avoided.</p> <p>The Board has a strategy to develop its global presence and diversify geographically.</p> <p>Operations have been established in Asia Pacific, the Middle East and Africa, recognising the high growth potential these regions offer. The Group carefully selects which countries in these regions to operate from, however, these operations will face a higher economic and geopolitical risk than the established businesses in North America and Europe.</p>	<p><b>Nature of the risk</b></p> <p>Due to the wide nature of the Group's activities, it is subject to a relatively high number of HSE risks and the laws and regulations issued by each of the jurisdictions in which the Group operates.</p> <p>The Group's exposure to risk therefore includes the potential for the occurrence of a reportable incident, the financial risk of a breach of HSE regulations, and the risk of unexpected compliance expenditure whenever a law or regulation is renewed or enhanced.</p>
<p><b>Movement in the year</b></p> <p>Geopolitical issues remain a feature of the modern world in which the Hunting Group operates. Notwithstanding the recent developments in the global political environment, including the UK's Brexit vote, the potential policy changes following the US presidential elections, and the continuation of quantitative easing by the European Central Bank, among other events, the Board does not consider these to have a material adverse impact on the Group's trading activities. Consequently, the Board has concluded that there has been no reportable movement in the Group's geopolitical risk.</p>	<p><b>Movement in the year</b></p> <p>The Group's manufacturing and other operating processes have not materially changed during the year notwithstanding the scaling down in activity levels. Consequently, the Group's potential exposure to HSE incidents remains materially unchanged. The Group experienced a small number of minor HSE incidents in the year, which is significantly below the industry average and is similar to the Group's record in prior years.</p>
<p><b>Controls and actions</b></p> <p>Areas exposed to high political risk are noted by the Board and are strategically avoided. Management and the Board closely monitors projected economic trends in order to match capacity to regional demand.</p>	<p><b>Controls and actions</b></p> <p>The Board targets to achieve a record of nil incidents and full compliance with the laws and regulations in each jurisdiction in which the Group operates.</p> <p>Every Group facility is overseen by a health and safety officer with the responsibility for ensuring compliance with current and newly issued HSE standards.</p> <p>The Board receives a Group HSE compliance report at every Board meeting.</p>
<p>THE DIVERSITY OF THE GROUP'S EXPOSURE TO DIFFERENT GEOGRAPHIC REGIONS IS DESCRIBED ON PAGES 20 AND 21.</p>	<p>THE GROUP'S HSE PERFORMANCE IS DETAILED ON PAGE 41. FURTHER COMMENT ON HSE IS PROVIDED ON PAGES 18 AND 19.</p>



## 7. PRODUCT QUALITY

### Nature of the risk

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

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

### Movement in the year

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

### Controls and actions

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

THE GROUP'S COMMITMENT TO PRODUCT QUALITY IS DETAILED ON PAGE 41. FURTHER COMMENT ON THE GROUP'S COMMITMENT TO PRODUCT QUALITY IS PROVIDED ON PAGE 19.

## VIABILITY ASSESSMENT AND GOING CONCERN BASIS

### Viability Assessment

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

In considering the Group's long-term viability, the Board regularly assesses the risks to its business model, strategy, future performance, solvency and liquidity. These assessments are supported by the risk management processes described on page 32 and include a review of the Group's exposure to the oil and gas industry, competitor action, customer plans and the robustness of the supply chain.

### Assessment Period

The Group's customers are principally involved in the exploration for and production of oil and gas. Given the nature of the industry and the planning cycles involved, these activities can cover periods of no more than several weeks up to several years from start to end. Hunting's management works closely with its customers over this period, discussing their operational plans and reviewing their longer-term capital expenditure programmes.

The outlook for the Group beyond this period is generated from management's assessment of industrial data and projections published by industry commentators and analysts, including statistics on exploration and production expenditure, footage drilled and rig activity. The Board believes that a three-year forward looking period, commencing on the date the annual accounts are approved by the Board, is the appropriate length of time to reasonably assess the Group's viability. The Group's annual budget process and mid-term projections cover this period and help to support the Board's assessment.

### Consideration of Principal Risks

The nature of the Group's operations exposes the business to a variety of risks, which are noted on pages 33 to 37. The Board regularly reviews the principal risks and assesses the appropriate controls and further actions as described on pages 30 to 32. The Board has further considered their potential impact within the context of the Group's viability.

### Assumptions

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

- The raw material pricing environment within the energy industry remains weak in the short-term and becomes positive in the medium to long-term, given the global outlook for oil and gas demand, which is driven by growth within emerging markets and sustained demand from developed markets. These are the fundamental drivers of Hunting's core business of manufacturing, supplying and distributing products and services which enable the extraction of oil and gas.
- Actions taken over the past two years to reduce the Group's cost base enable the business to endure the period of weak commodity prices and reduced shale drilling activity.
- The development of the global shale drilling industry remains focused in the US where government support remains positive.
- The Group will continue to have a medium to low exposure to higher risk countries given the proportion of its current revenues and profits derived from politically stable regions such as North America, Europe and South East Asia.

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

### Conclusion

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

### Going Concern Basis

The Group's principal cash outflows include capital investment, labour costs and inventory purchases. The timing and extent of these cash flows are controlled by local management and the Board. The Group's principal cash inflows are generated from the sale of its products and services, the level of which is dependent on the variety of its products and ability to retain strong customer relationships. Cash inflows are further supported by the Group's credit insurance cover against customer default that, at 31 December 2016, covered the majority of its trade receivables, subject to certain limits. Current and forecast cash/debt balances are reported on a weekly basis by each of the business units to a centralised treasury function that uses the information to manage the Group's day-to-day liquidity and longer-term funding needs through effective cash management programmes.

Due to the losses made during 2016, the Group's \$350m revolving credit facility was re-negotiated on 20 July 2016. Consequently, total committed facilities were reduced to \$200m and the EBITDA and interest cover measures were temporarily suspended and replaced with balance sheet based covenants. Further details of the amendment are provided in note 27. In addition, the Board undertook an equity placing, raising a net consideration of \$83.9m which completed on 31 October 2016, further strengthening the balance sheet.

The Group continues to have access to sufficient financial resources, including \$200m of secured committed facilities of which \$179.5m was undrawn at 31 December 2016. At 31 December 2016, the Group had sufficient headroom over all the covenants and the Group's internal financial projections indicate that this will remain the case over the next 12 months and beyond.

### Review

In conducting its review of the Group's ability to remain as a going concern, the Board assessed the Group's recent trading performance and its latest forecasts, and took account of reasonably predictable changes in future trading performance. The Board also considered the potential financial impact of the estimates, judgements and assumptions that were used to prepare these financial statements. The Board is satisfied that all material uncertainties have been identified.

### Conclusion

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

**THE BOARD IS SATISFIED THAT IT HAS CONDUCTED A ROBUST REVIEW OF THE GROUP'S GOING CONCERN AND HAS A HIGH LEVEL OF CONFIDENCE THAT THE GROUP HAS THE NECESSARY LIQUID RESOURCES TO MEET ITS LIABILITIES AS THEY FALL DUE.**

## KEY PERFORMANCE INDICATORS

A NUMBER OF KEY PERFORMANCE INDICATORS ARE USED TO COMPARE THE DEVELOPMENT, BUSINESS PERFORMANCE AND POSITION OF THE GROUP. THESE ARE REGULARLY REVIEWED TO ENSURE THEY REMAIN APPROPRIATE MEASURES OF THE GROUP'S PERFORMANCE. FOR DETAILS ON THE MOVEMENTS OF THESE METRICS PLEASE REFER TO THE GROUP PERFORMANCE AND DEVELOPMENT SECTION OF THE ANNUAL REPORT.

### FINANCIAL

REVENUE (\$m)		UNDERLYING EBITDA* (LOSS) (\$m)		UNDERLYING (LOSS) PROFIT FROM OPERATIONS* (\$m)	
2016	455.8	2016	(48.9)	2016	(92.2)
2015	810.5	2015	61.9	2015	16.4
2014	1,386.5	2014	269.8	2014	217.8

Revenue is earned from products and services sold to customers from the Group's principal activities for continuing operations (see notes 3 and 4).

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

Underlying (loss) profit from operations before net finance costs and tax (see consolidated income statement and note 3).

UNDERLYING OPERATING MARGIN* (%)		UNDERLYING DILUTED (LOSS) EARNINGS PER SHARE* (cents)		DIVIDEND PER SHARE DECLARED* (cents)	
2016	(20)	2016	(45.3)	2016	0
2015	2	2015	3.1	2015	8.0
2014	16	2014	100.0	2014	31.0

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

Underlying (loss) earnings attributable to ordinary shareholders, divided by the weighted average number of ordinary shares in issue during the year adjusted for all potentially dilutive ordinary shares (see note 13).

Dividends per share declared in respect of the financial year including the interim dividend, paid during the year, and the final dividend, neither paid nor accrued at year end (see NGM M).

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

### OPERATIONAL

COUNTRIES WITH ACTIVE OPERATIONS	OPERATING FOOTPRINT (MILLION SQ FT)	YEAR END EMPLOYEES	ISO 9001 (QUALITY) ACCREDITED OPERATING SITES
13	3.1	2,107	60%
2015 – 15	2015 – 3.2	2015 – 2,784	2015 – 50%
Countries in which Hunting has an active operating site or distribution centre. This does not include countries that only have a sales presence.	Operation and distribution site square footage at year end. This closely corresponds to "roofline" and includes administrative space within operating units.	The December headcount for Hunting employees, including part-time staff (see note 9).	Percentage of operating sites with ISO 9001 accreditation.

FINANCIAL PERFORMANCE IS MEASURED ON AN UNDERLYING BASIS FROM CONTINUING OPERATIONS AND, OTHER THAN REVENUE, ARE NON-GAAP MEASURES (FURTHER INFORMATION ON FINANCIAL NON-GAAP MEASURES ("NGM") CAN BE FOUND ON PAGES 141 TO 145).

CAPITAL INVESTMENT (\$m)		FREE CASH FLOW* (\$m)		INVENTORY DAYS*	
2016	17.2	2016	36.6	2016	225.0
2015	81.1	2015	118.0	2015	241.0
2014	123.5	2014	182.3	2014	138.0
Cash spend on tangible non-current assets (see NGM J).		Underlying (loss) profit from continuing operations adjusted for working capital, tax, replacement capital investment and interest (see NGM L).		Inventory at the year end divided by underlying cost of sales for the last three months of the year multiplied by 92 days (see NGM D).	
NET DEBT (\$m)		GEARING RATIO* (%)		RETURN ON AVERAGE CAPITAL EMPLOYED* (%)	
2016	1.9	2016	0	2016	(8)
2015	110.5	2015	9	2015	1
2014	131.0	2014	9	2014	13
Net debt comprises bank overdrafts, current and non-current borrowings less cash and cash equivalents and investments (see note 23).		Gearing is calculated as net debt as a percentage of total equity (see NGM H).		Underlying (loss) profit before interest and tax from continuing operations, adjusted for the share of associates post-tax results, as a percentage of average gross capital employed (see NGM O).	

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

#### NO. OF RECORDABLE INCIDENTS

# 25

2015 – 36

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

#### INCIDENT RATE (OSHA METHOD)

# 1.15

2015 – 1.13

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

#### CO2 INTENSITY FACTOR

# 8.8kg/sq ft

2015 – 10.4kg/sq ft

Scope 1 and 2 carbon dioxide equivalent metric, reported as kilogrammes per square foot of operating footprint.

#### INTERNAL MANUFACTURING REJECT RATE

# 0.6%

2015 – 0.8%

Percentage of parts rejected during manufacturing processes.