"WE REMAIN CONFIDENT IN THE LONG-TERM FUNDAMENTALS OF THE INDUSTRY AND CONTINUE TO POSITION THE COMPANY FOR SUCCESS IN THIS DYNAMIC ENVIRONMENT."

JOHN F. GLICK
CHAIRMAN

Introduction
I am delighted to have the opportunity to present our Annual Report, following my appointment as Chairman in September 2017.

2017 remained a year of challenge for Hunting, as the Company's core energy markets showed early signs of recovering from a three-year downturn, driven in large part by the US onshore shale plays, and in particular, the Permian basin. This has led to increased revenue and a return to underlying profit for the Group in the year. This is a major milestone for the Company, however, the Board continues to believe that a full market recovery, including improvements to international and offshore drilling, will be a longer-term process. Fundamentals of oil supply and demand remain delicately balanced, limiting the upper range of oil prices at levels that present significant challenges to field economics offshore, and supply volatility that pose downside risks to prices in the short to medium term. We remain confident in the long-term fundamentals of the industry and continue to position the Company for success in this dynamic environment.

Board succession plans were initiated in the year, leading to changes in Hunting's senior leadership team, with Dennis Proctor, our former Chief Executive, retiring on 1 September 2017. During the 16 years of Dennis's tenure, Hunting has focused its business interests in oil and gas services and built a strong portfolio of products and services for operators and international oil service groups. Thanks to Dennis, the Hunting brand is well regarded globally for its quality of product offering and motivated, committed personnel. We wish Dennis a happy and long retirement.

Dennis has been succeeded by Jim Johnson, Hunting's Chief Operating Officer. Jim's understanding of the Group, including product offering and customer knowledge, is unrivalled and, following a rigorous search and interview process that included external and internal candidates, the Board unanimously approved his promotion to Chief Executive.

H-1 PERFORATING GUN CARTRIDGE WITH CONTROLFIRE™ SWITCHGEAR AND RF SAFE DETONATOR.

Financial Performance
Revenue for the Group increased 59% in the year to $722.9m, compared to $455.8m in 2016, leading to an underlying profit before taxation of $10.9m (2016 – $93.2m loss).

With the return to underlying profit and improved cash generation due to continuing tight working capital management, the Group reports a net cash position of $30.4m at the year end, which is an excellent achievement by the management team. The Board has been pleased by this turnaround, with the Group now benefiting from the cost-cutting measures initiated since 2014.

Bank Facility Terms and Dividends
With the improved trading reported in the year, in December we undertook steps to exit from our revised bank covenants, which were implemented in July 2016. This process was completed in January 2018, with restrictions on capital investment and dividends being lifted. While the Board are not proposing a dividend for 2017, the reversion to our old bank covenants and other bank facility terms that existed prior to the July 2016 amendment will allow for consideration to be given to dividend distributions.

Non-executive Director Changes
Changes to the Hunting Board are underway, with the announcement of the retirement of John Nicholas in April 2018, to be followed by John Hofmeister in August 2018. Both complete their nine years of service as independent, non-executive Directors of the Company.

John Nicholas has chaired the Audit Committee since his appointment in 2009. As noted in the Corporate Governance statement, John will not be seeking re-election at the Company's Annual General Meeting and will step down as a Director of the Company at the conclusion of the Meeting.

John Hofmeister has held the role of Senior Independent Director since 2010 and as Chairman of the Remuneration Committee from 2014. John will be retiring later this year, once a successor has been identified.

My thanks go to both John Nicholas and John Hofmeister for their wise counsel during their nine years' of service on the Board.

The recruitment of new Directors is underway and announcements will be made in due course.

Finally, I would like to thank my predecessor, Richard Hunting, who retired as Chairman of the Company after 26 years in September 2017. Richard's knowledge of the Group and leadership through the recent management transition has been exemplary and I am pleased that Richard has agreed to remain as a non-independent, non-executive Director of the Company.

Conclusion
In summary, the Board believes that the difficult decisions that have been made during the past three years have returned the Company to good health. With Jim leading the Group through a new phase of growth, the Board is confident that Hunting remains in a position to take advantage of the opportunities that lie ahead in an improving market.

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

John F. Glick
Chairman

1 March 2018

"HUNTING HAS BEEN ONE OF THOSE COMPANIES THAT HAS PROVIDED GAME-CHANGING TECHNOLOGY TO THE INDUSTRY DURING THE MARKET DOWNTURN. A PERFECT EXAMPLE BEING THE H-1 PERFORATING SYSTEM."

JIM JOHNSON
CHIEF EXECUTIVE

Introduction
Hunting has industry-leading technology, strong intellectual property, quality-assured products and an established global manufacturing capability, supported by a highly trained and committed workforce. The "can-do" mentality of our global business managers gives me confidence that from this environment of fragile-but-stable market conditions, we can build growth and capture new initiatives as the next phase of industry growth gets underway.

The oil and gas sector, in many respects, is a changed industry since 2014 when the heady days of $100 oil were driving both activity and production levels. An aspect of this time, which is only apparent now, is that the reliance on the same approved products and services purchasing regimes, created a degree of resistance across the industry to adopt new technology that could do the same job more efficiently or safely. The oil price lows during the downturn forced operators and participants in the supply chain to revise this stance and embrace new technology, which cut operating costs and allowed profitable production to be achieved, even in a lower oil price environment.

Hunting has been one of those companies that has provided game-changing technology to the industry during the market downturn. A perfect example being the H-1 Perforating System, the Group's proprietary, hydraulic fracturing, perforating gun. The H-1 System was a result of technology cross-over from a number of Hunting's business lines, to create a single multi-functional proprietary product. For the operator, it provided a higher level of safety for field operations and takes personnel off the well-pad, providing a real cost saving to well completion operations. The H-1's success is reflected in that some operators and end users are now mandating the use of the system by its wireline operators, given the reliability demonstrated since its commercial launch in late 2015.

THE H-1 PERFORATING GUN IS PART OF A COMPLETE PERFORATING SYSTEM PACKAGE.

This is only one aspect of Hunting's drive to bring new technology to our customers and help provide the most cost-efficient solutions in the new oil price world of $50 to $60 per barrel.

Across the Group, our drive for new product innovation is accelerating on a number of fronts, which will ensure that Hunting delivers new products and growth in the year ahead.

Summary Results and New Reporting Format
The table below sets out the Group's summary results for the year. With a strengthening US onshore market, Hunting reports a 59% increase in revenue to $722.9m (2016 – $455.8m).

	Underlying		Reported	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Continuing operations:				
Revenue	**722.9**	455.8	**722.9**	455.8
EBITDA[i] (loss)	**55.4**	(48.9)	**53.0**	(60.7)
Profit (loss) from operations	**13.7**	(92.2)	**(25.4)**	(140.7)
Profit (loss) for the year	**9.9**	(73.3)	**(29.2)**	(121.3)
Diluted EPS (cents)	**7.6**	(45.3)	**(16.4)**	(76.8)

i. Non-GAAP measure

Underlying EBITDA reported a $104.3m improvement in 2017 compared to 2016 with an EBITDA loss of $48.9m moving to a positive EBITDA of $55.4m. This improvement in the Group's results, which gained momentum throughout the year – and in particular during Q4 2017, which delivered an underlying profit from operations of $12.2m and led to the Group reporting a return to underlying profit from operations for the year as a whole of $13.7m (2016 – $92.2m loss).

These results demonstrate the breadth and depth of our product offering, but also the impact of the cost containment measures implemented over the past three years.

Further, with the Group's new segmental reporting format, which mainly focuses on Hunting's geographic operational structure, more clarity over our financial returns, performance and capital allocation is provided to enable shareholders to understand better the key dynamics of the Group's global operations.

The Group has started 2018 positively, and with many initiatives underway to capture new opportunities, Hunting is cautiously optimistic that the year ahead will be one of further improvement in our financial performance.

I look forward to sharing with you our next phase of growth.

Jim Johnson
Chief Executive

1 March 2018

GLOBAL MARKET INDICATORS

Introduction

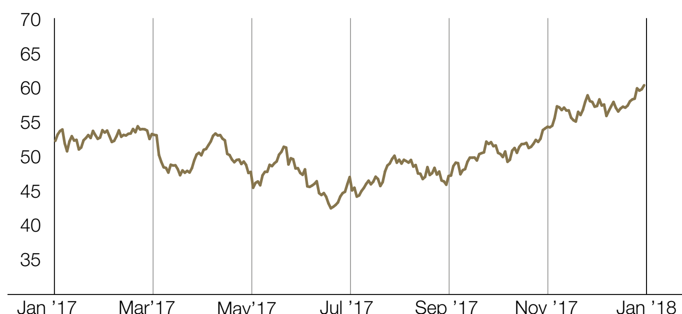
Hunting's performance continues to be closely linked to the macro economic drivers of the oil and gas industry, including global crude oil and natural gas prices as well as other market indicators such as industry spend, rig and well counts and well footage drilled.

Commodity Prices

While the WTI crude oil price has increased year-on-year, the average price recorded in 2017 was c.$50 per barrel. This pricing stimulated onshore drilling activity in North America particularly benefiting Hunting Titan, however, a number of market metrics have recorded year-on-year declines due to the low oil price, which is reflected in the regional financial performance of the Hunting Group outside of North America.

As noted in the chart below, the WTI crude oil price started the year at $53.7 per barrel and ended 2017 at $60.4 per barrel.

WTI CRUDE OIL PRICES
($ PER BARREL)



Source: Bloomberg

Looking ahead, given the continuation of OPEC to curtail production, which has now been extended to the end of 2018, the indication is that the oil price will remain above $60 per barrel well into the first half of the year, if OPEC's current production policy remains unchanged.

HENRY HUB NATURAL GAS PRICES
($ PER mmBtu)

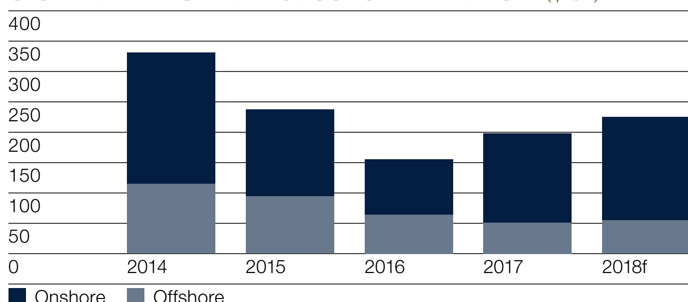
Source: Bloomberg

The Henry Hub natural gas price has averaged $3.04 per mmBtu in 2017, and traded within the range of $2.56 to $3.50 throughout the year. In the US, gas storage draw-down has approximately matched gas production, which has meant that gas drilling has remained relatively stable in the year. Market commentators note that with this return to more normal activity levels, prices and drilling activity are forecast to remain steady in the year ahead.

Industry Spend

Industry spend, encouraged by the improving oil price, increased 27% in 2017 to $197.7bn from $155.5bn in 2016. In the year 74% of this spend, or $146.5bn, was allocated to onshore drilling.

GLOBAL DRILLING AND PRODUCTION EXPENDITURE ($ bn)



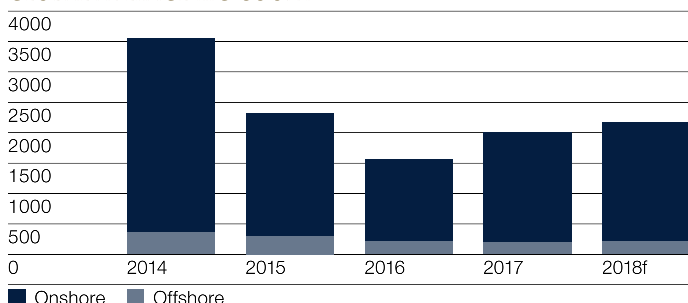
Source: Baker Hughes; Spears and Associates f = forecast

This shift by the industry to allocating financial resources to lower-cost, onshore drilling operations, has contributed to the positive performance of the Group's businesses including Hunting Titan, Hunting Specialty and parts of the Group's European and US OCTG businesses. Those businesses focused on the offshore market, which include Hunting Subsea and other international OCTG businesses, including Africa, still report subdued activity levels, as operators continue to curtail or suspend offshore capital investment.

Rig Count

The average global rig count increased by 28% in the year to 2,014 active units in the year. The average onshore global rig count increased 34% from 1,348 to 1,812 units, of which 59% or 1,067 units are located in North America, which recorded a regional increase of 73% as the WTI crude oil price stabilised throughout the year.

GLOBAL AVERAGE RIG COUNT



Source: Baker Hughes; Spears and Associates f = forecast

While the average onshore global rig count has increased in the year, average offshore global rig count has declined 9% in the year to 201 units. Compared to 2014, the decline in the offshore rig count now stands at 44%, or a reduction of 160 units in operation, since the highs of three years ago.

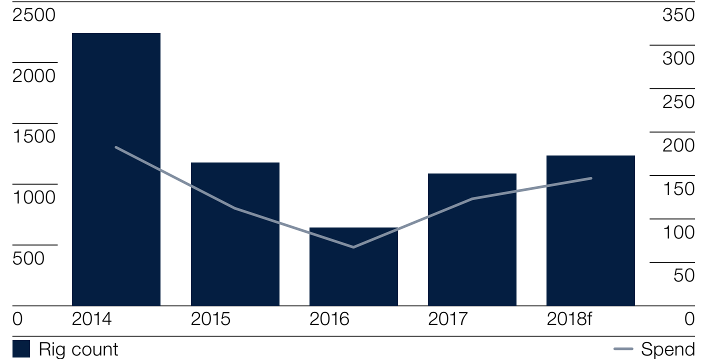
REGIONAL MARKET INDICATORS

NORTH AMERICA

Across North America, which includes the US and Canadian markets, all key indicators increased year-on-year, led by the onshore segment of the market. Total industry spend increased by 83% to $123.2bn in 2017 compared to $67.3bn in the prior year. This increase in investment led to the average rig count, including both onshore and offshore units, increasing c.70% to 1,089 active rigs. As noted earlier, the onshore market led this increase with the average rig count within the US shale basins in 2017 recording a 75% increase compared to 2016.

Outlook

For the year ahead, the North America oil and gas market is projected to continue growing strongly, albeit at a slower rate than 2017. Industry spend is projected to increase 19% to c.$146.8bn in 2018, with the focus of investment remaining on onshore projects but with incremental growth also forecast offshore.



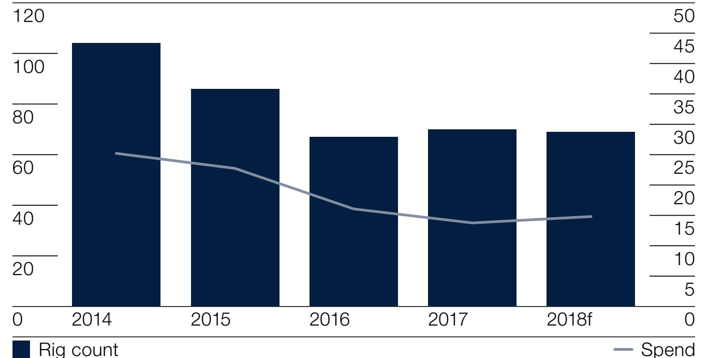
Source: Baker Hughes; Spears and Associates f = forecast

EUROPE

In Europe, due to the majority of drilling activity being focused on the offshore market, the average crude oil price led to a year-on-year decline in total industry investment of c.14% from $16.1bn to $13.8bn. While this decline was led by the offshore segment of the market, European onshore drilling investment increased by 26% to $1.0bn, which led to the onshore rig count increasing from 31 to 37 active units, while offshore units declined from 36 to 33. Overall the average rig count in Europe increased marginally to 70 active units in 2017 from 67 units in 2016.

Outlook

Given the stability in the crude oil price, industry investment across Europe is projected to increase by c.8% in 2018 to $14.8bn, albeit with the rig count remaining generally unchanged.



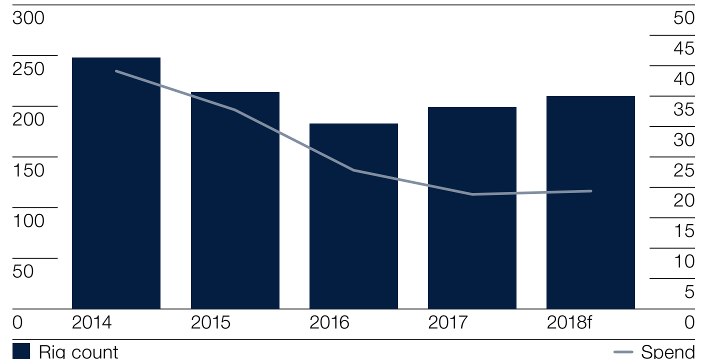
Source: Baker Hughes; Spears and Associates f = forecast

ASIA PACIFIC

The Asia Pacific region is predominantly focused on offshore drilling and in 2017, total industry investment declined by c.18% to $18.8bn, compared to $22.8bn in 2016. Similar to Europe, onshore drilling investment recorded an increase to $6.2bn, leading to an increase in the average number of onshore rigs from 126 in 2016 to 144 in 2017, which contributed to the total number of active rigs across the region increasing 9% to 199.

Outlook

Drilling expenditures are projected to increase marginally in 2018 to c.$19.4bn, with investment increasing in both the onshore and offshore market segments. This is forecast to lead to a c.6% increase in the average rig count to 210 units.



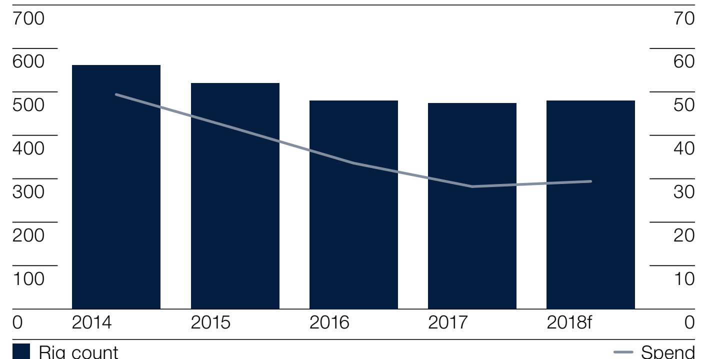
Source: Baker Hughes; Spears and Associates f = forecast

MIDDLE EAST AND AFRICA

For the Africa and Middle East regions, total industry investment declined by 16% to $28.2bn in the year compared to $33.6bn in 2016, the majority of the decline being attributed to offshore drilling programmes being cancelled. However, despite this reduced investment, the rig count only declined by 1% in the year from 480 units to 474 active units, given that countries such as Saudi Arabia maintained onshore drilling activity in the year.

Outlook

Both drilling investment and rig counts are projected to remain generally unchanged from 2017 in the year ahead, with investment forecast to increase by 4% to $29.4bn and rig counts projected to return to 2016 levels at 480 active units.



Source: Baker Hughes; Spears and Associates f = forecast

"NORTH AMERICAN CAPITAL INVESTMENT IS FORECAST TO CONTINUE GROWING, WITH THE FOCUS REMAINING ON ONSHORE ACTIVITY. CAPITAL INVESTMENT HAS BEEN FORECAST FOR THE REGION TO INCREASE BY C.20% IN THE YEAR AHEAD."

PETER ROSE
FINANCE DIRECTOR

JIM JOHNSON
CHIEF EXECUTIVE

Introduction
Hunting's performance in 2017 has been defined by the strong recovery in US onshore drilling and completion activity, which has benefited a number of our business units, leading to higher revenues compared to 2016 and enabling the Group to return to underlying profitability in the year.

Market Summary
The average price of WTI crude oil in the year was $50.9 per barrel, indicating that for the majority of 2017, the oil and gas industry has been underpinned by a relatively low price for crude oil from which operators have made investment decisions. The result of this pricing environment has been that offshore projects have continued to be placed on hold, while the US onshore market, where drilling economics have improved during the downturn, has shown more resilience and, in the second half of the year, returned to strong growth.

This macro picture is supported by global industry investment trends, which show total capital expenditures increasing 27% in the year to $197.7bn of which onshore drilling expenditures increased by 60% to $146.5bn. Offshore drilling expenditures declined by 20% to $51.2bn. The US onshore market comprised 73% of the total onshore expenditure at $106.5bn, which has underpinned Hunting's financial performance in the year.

Operational Initiatives
A key strategic goal during the recent market downturn has been to retain the Group's core global manufacturing capability to enable Hunting to be well positioned for the next phase of growth in the global energy industry. Management has achieved this goal, with the Group reporting a relatively unchanged manufacturing footprint, the retention of key personnel and a highly skilled workforce that is focused on leading product quality assurance, strong health and safety policies and the training of staff.

Hunting started the year with 40 manufacturing facilities and 25 distribution centres with a total facilities footprint of 3.1m square feet.

In 2017 a review of this capacity was undertaken, in light of forecast activity levels and future market growth opportunities. In view of market conditions in Africa, in December 2017 the decision was made to close our manufacturing facility in Cape Town, South Africa, due to the medium-term outlook of the region. The Group has decided to retain a presence in the country by opening a sales office to continue to attract business from operators in sub-Sahara Africa.

Group Summary Results

	Underlying		Reported	
	2017 $m	2016 $m	**2017 $m**	2016 $m
Continuing operations:				
Revenue	**722.9**	455.8	**722.9**	455.8
EBITDA[i] (loss)	**55.4**	(48.9)	**53.0**	(60.7)
Profit (loss) from operations	**13.7**	(92.2)	**(25.4)**	(140.7)
Profit (loss) before tax	**10.9**	(93.2)	**(28.2)**	(144.2)
Profit (loss) for the year	**9.9**	(73.3)	**(29.2)**	(121.3)
Discontinued operations:				
Profit for the year	**–**	–	**–**	8.2
Total profit (loss) for the year	**9.9**	(73.3)	**(29.2)**	(113.1)
Diluted EPS (cents)	**7.6**	(45.3)	**(16.4)**	(76.8)

i. Non-GAAP measure

The sale of the European Drilling Tools assets in March 2017 resulted in the closure of two small facilities in the UK and the Netherlands. A UK distribution site, which serviced OCTG and well intervention products, was also closed. The AMG facility in Asia was closed, with local demand being serviced from the US in future. In the US an accessories manufacturing facility was closed in Lafayette, Louisiana.

Hunting's US and Canadian distribution centres continue to be optimised to align with domestic market activity levels in specific basins. In the year, one centre was opened in Pleasanton, Texas, and four centres were closed.

At the end of the year, the Group had 35 global manufacturing facilities and 21 distribution centres with a total facilities footprint of 3.0m square feet.

Another key strategic focus in the year has been the ongoing development of products to support our customers in the post $100 per barrel oil price world, but where quality and safety requirements must still be met. Examples of this include the following:

- In our perforating systems product line we have fully commercialised the H-1 Perforating System, and are now working on a second generation product. The EQUAfrac™ charge also gained market traction in 2017.
- For our Premium Connections line we continue to develop our range of WEDGE-LOCK™ and SEAL-LOCK™ threads, benefiting from our new test centre.
- Our Subsea business is currently finalising a soft-seal product line targeting the onshore drilling market, which is expected to be launched commercially in 2018.

Results from Continuing Operations

The increase in US onshore activity levels has led the Group to report an increase in revenue of 59% in the year to $722.9m (2016 – $455.8m). The Group's performance has been weighted to the second half of the year. Revenue for the Group in H1 2017 was $318.9m (H1 2016 – $228.4m). In the second half of the year revenue was 27% higher at $404.0m (H2 2016 – $227.4m), compared to the first half of the year.

Hunting Titan's segmental revenue increased by 115% in the year to $312.8m as activity within the key US shale basins accelerated throughout the year, and conditions in Canada improved, generating strong growth in demand for its perforating systems, energetics and instrumentation product lines. Our US segment increased revenues by 31% as the positive US onshore market momentum was able to offset the effects from the depressed offshore market and the segment reduced operating losses substantially. All other segments also improved revenues and reduced operating losses in the year. Further details can be found in the Segmental Review on pages 20 to 27.

Through a combination of sales volume increases, a lower cost base, and some price increases being implemented, underlying gross profit was $174.8m for the year (2016 – $52.1m), an increase of $122.7m compared to the prior year. Underlying gross margin improved to 24% (2016 – 11%). With this strengthening performance, underlying EBITDA was $55.4m compared to an underlying EBITDA loss of $48.9m in 2016. The underlying EBITDA margin for the year was 8% compared to negative 11% in 2016.

With the strong return to growth for Hunting Titan, the Group overall has reported a modest underlying profit from operations at $13.7m in the year compared to an underlying loss from operations of $92.2m in the prior year, with the underlying margin being positive 2% compared to negative 20% in 2016. In 2017, the Group absorbed $3.6m of restructuring costs in the underlying results and a $3.7m higher employee share-based payment charge arising from an increased share award vesting assumption given the improved business outlook.

The charge in the year for the amortisation of acquired intangible assets held by the Group totalled $29.1m, compared to $33.2m in 2016. Following due consideration, late in 2017 the Board decided to close the Group's Cape Town facility. Accordingly, the only exceptional item recognised in 2017 was $10.0m that related to the closure of the Cape Town operation, comprising a $7.6m write down of property, plant and equipment to the net realisable value and exit provisions of $2.4m. In 2016 the Group incurred $12.2m of exceptional restructuring costs and $3.1m related to the curtailment of the UK defined benefit pension plan. Hunting's reported loss from continuing operations was therefore $25.4m (2016 – $140.7m).

The underlying net finance expense during the year was $1.5m (2016 – $0.7m). While bank related charges fell as a result of lower debt levels, adverse movements in foreign exchange more than offset the benefit. In 2016 an exceptional charge of $2.5m was incurred on the write-off of capitalised bank fees when the bank facility was amended.

The underlying profit before tax was $10.9m (2016 – $93.2m loss). After charges for acquired intangible asset amortisation and exceptional items, the reported loss before tax was $28.2m (2016 – $144.2m).

Group Segment Summary

	2017			2016		
Business Unit	**Revenue $m**	**Underlying profit (loss) from operations $m**	**Reported profit (loss) from operations $m**	Revenue $m	Underlying loss from operations $m	Reported loss from operations $m
Hunting Titan	**312.8**	**63.3**	**37.4**	145.2	(3.6)	(34.5)
US	**217.6**	**(17.2)**	**(20.4)**	166.7	(33.6)	(37.7)
Canada	**36.5**	**(3.7)**	**(3.7)**	29.3	(4.0)	(4.0)
Europe	**85.0**	**(12.6)**	**(12.6)**	71.7	(25.7)	(33.6)
Asia Pacific	**91.9**	**(8.0)**	**(8.0)**	46.8	(13.3)	(15.3)
Middle East, Africa and Other	**18.6**	**(7.0)**	**(17.0)**	8.5	(9.3)	(9.8)
Exploration and Production	**3.3**	**(1.1)**	**(1.1)**	3.0	(2.7)	(2.7)
Inter-segment elimination	**(42.8)**	**–**	**–**	(15.4)	–	–
Group segment total	**722.9**	**13.7**	**(25.4)**	455.8	(92.2)	(137.6)

In 2017 a tax charge of $1.0m (2016 – $19.9m credit) was recorded during the year. This reflects low levels of taxable income in the UK. In other regions taxable losses have been generated, however, deferred tax assets are not being recognised for these losses as their future recovery, dependent on future trading prospects, is still sufficiently uncertain to qualify for recognition. The Group's underlying effective tax rate for 2017 was 9% (2016 – 21%). We are not recognising any net tax charge or credit for the US due to current year tax losses, which has a significant impact on the tax rate. In the US we have recognised sufficient deferred tax assets to offset against deferred tax liabilities. Taking account of the recent Federal tax rate change in the US effective from 1 January 2018, the Group's underlying effective tax rate is expected to be in the range of 20% to 22%, depending on the regional mix of results. This rate is before any benefit from the recognition of available tax losses, and other net deferred tax balances, currently not recognised. At 31 December 2016 the available tax losses in the US were $65.7m, which had a tax value, including other tax credits, of $30.8m. With the introduction of new US Federal tax rate, the value of these losses has reduced to $21.6m. At 31 December 2017 the tax losses not recognised have increased and are now $81.6m with a tax value of $24.9m. Once we are confident of being able to utilise the value of these tax losses, they will be recognised as tax credits through the income statement.

Underlying diluted earnings per share was 7.6 cents (2016 – 45.3 cents loss). Reported diluted loss per share was 16.4 cents (2016 – 76.8 cents).

Results from Discontinued Operations
No transactions from discontinued operations were recorded during the year. In 2016 the Group recognised an after tax gain of $8.2m on the final resolution of Gibson Energy tax indemnity matters.

Cash Flow

Summary Group Cash Flow

	2017 $m	2016 $m
Underlying EBITDA (loss) (NGM A)	**55.4**	(48.9)
Share-based payments	**11.9**	8.2
	67.3	(40.7)
Working capital movements (NGM I)	**(39.3)**	58.4
Interest paid and bank fees	**(2.4)**	(4.6)
Net tax received	**6.5**	31.3
Replacement capital investment (NGM J)	**(6.9)**	(4.2)
Pension scheme refund	**9.7**	–
Restructuring costs (note 6)	**–**	(5.9)
Other operating cash and non-cash movements (NGM K)	**(0.5)**	2.3
Free cash flow (NGM L)	**34.4**	36.6
Expansion capital investment (NGM J)	**(4.5)**	(13.0)
Dividends to PLC equity holders (note 32)	**–**	(5.9)
Share issue	**–**	83.9
Disposal of businesses	**1.8**	8.6
Other	**0.6**	(1.6)
Movement in net cash (debt) – Group total	**32.3**	108.6

Improved trading, especially from Hunting Titan and the US, substantially benefited the cash flow in the year. For 2017 underlying EBITDA, when adjusted for non-cash share-based payment charges, resulted in an operating inflow of $67.3m versus a comparable outflow of $40.7m in 2016.

Working capital has absorbed $39.3m of the cash generated in the year, driven by the businesses benefiting from the upturn in North America. Europe and Asia managed to reduce working capital despite revenue increases. The Group's working capital was, in fact, more efficient at 31 December 2017 with inventory days at 170 having fallen from 225 at the end of 2016 and receivable days very comparable to prior year.

Net interest paid and bank fees reduced in the year to $2.4m from $4.6m in 2016, due to the non-repetition of the $0.9m amendment fee paid in 2016, together with lower interest on borrowings, which reduced following the equity placing in late 2016.

Net tax received in the year was $6.5m (2016 – $31.3m), with 2017 again reflecting tax refunds from the carry-back of losses in the US. Although no further tax refunds are anticipated, as losses will be utilised against future profits going forward, the availability of losses is expected to keep tax payments at very modest levels for at least the next two years.

While replacement capital investment increased to $6.9m in 2017 (2016 – $4.2m) this was low by historic levels with spend restricted to critical items mainly focused in North America.

During the year, the Group received a $9.7m refund of surplus (2016 – $nil) from the Company's UK defined benefit pension scheme, following the decision to commence the winding down of the scheme.

In 2016, $5.9m was paid in respect of exceptional restructuring costs. There were no such costs in 2017.

As a result of the above, free cash inflow was $34.4m in the year (2016 – $36.6m).

Expansion capital investment at $4.5m (2016 – $13.0m) was modest, with the largest spend being in Hunting Titan to develop the new distribution centre at Pleasanton to take advantage of growth in the Eagle Ford shale basin and machinery to increase capacity.

In July 2016, a dividend of 4.0 cents per share, totalling $5.9m, was paid in respect of the 2015 financial year. No dividends were paid in 2017. Furthermore, in October 2016, the Group placed 14.6m new Ordinary shares raising $83.9m net of transaction expenses.

In 2017 the Group received $1.8m from the disposal of businesses, which included $1.2m from the sale of the European Drilling Tools assets in the year and a $0.6m receipt of deferred consideration from the sale of Gibson Shipbrokers (2016 – $0.7m). In 2016 the business received a $7.9m tax indemnity receipt from Canada, relating to the disposal of Gibson Energy.

Following the return to positive underlying EBITDA, lower capital investment levels, no dividends and other cash inflows, the Group generated an inflow of $32.3m in the year, which resulted in a net cash position of $30.4m at December 2017.

Balance Sheet

	2017 $m	2016 $m
Property, plant and equipment	**383.3**	419.0
Goodwill	**230.3**	229.8
Other intangible assets	**125.4**	150.7
Working capital (NGM C)	**342.4**	300.2
Taxation (current and deferred)	**(6.0)**	(3.4)
Provisions	**(18.0)**	(15.7)
Other net assets (NGM F)	**22.7**	38.7
Capital employed	**1,080.1**	1,119.3
Net cash (debt) (note 22)	**30.4**	(1.9)
Net assets	**1,110.5**	1,117.4
Non-controlling interests	**(18.8)**	(19.3)
Equity attributable to owners of the parent	**1,091.7**	1,098.1

Property, plant and equipment has decreased by $35.7m. Additions of $11.5m, balance sheet reclassifications of $0.5m and favourable foreign exchange movements of $5.2m were more than offset by depreciation of $39.6m, impairment of South Africa assets of $7.6m and the net book value of disposals of $5.7m.

Other intangible assets have reduced by $25.3m with the amortisation charge for the year of $31.2m, being partly offset by the capitalisation of technology and software development costs of $5.5m and favourable foreign exchange of $0.4m.

Working capital has increased by $42.2m, driven by increased inventories within Hunting Titan and other US businesses focused on onshore drilling in North America. Foreign exchange had a $4.7m favourable impact on working capital, but this was offset by $1.8m of adjustments.

Tax balances show net liabilities of $6.0m at 31 December 2017 (2016 – $3.4m), which remains very low reflecting the continuing loss-making positions of a number of the Group's businesses in 2017. Deferred tax assets of $39.8m (2016 – $50.0m) have not been recognised as realisation of the tax benefit is not probable. The reduction in the unrecognised balance in 2017 was due to the change to US Federal tax rates, which reduced the value of unrecognised deferred tax by $18.6m, and more than offset further unrecognised losses in the year.

Other net assets have reduced by $16.0m during 2017, mainly due to a $14.7m reduction in pension assets following a partial refund of the pension surplus to the Group. As a result of the above changes, capital employed in the Group has reduced by $39.2m to $1,080.1m.

Net assets at 31 December 2017 were $1,110.5m, which, after non-controlling interests of $18.8m, result in equity shareholders' funds of $1,091.7m (2016 – $1,098.1m). This is a marginal decrease over 31 December 2016, which reflects the reported loss for the year attributable to equity shareholders of $26.7m, offset by foreign exchange gains of $10.7m and $9.6m in relation to share awards and other items.

Financial Capital Management
Hunting commenced 2017 with a robust Balance Sheet and negligible net debt. During the year, Hunting's core energy markets stabilised and, in particular, activity in the US onshore shale basins improved, leading to increased revenues and positive EBITDA in the first half of the year. Following sustained levels of activity within the Hunting Titan business in the second half of the year, sufficient underlying profits were generated to result in a small profit before taxation for the full year.

During 2017 Hunting has been subject to the revised bank covenants and terms, which were agreed on 20 July 2016 (further details can be found in note 26 of the 2016 Annual Report). The key features of the amendments were:

- the quantum of the Group's committed facility was reduced to $200m;
- limits on capital investment;
- suspension of dividends;
- minimum cash flow requirements;
- asset cover and discounted asset cover requirements; and
- granting security over selected assets.

Throughout 2017 the Group was compliant with these covenants and terms.

With the improved trading reported by Hunting Titan and the return to underlying profitability at Group level, Hunting commenced the process to revert to the original covenants and terms in December 2017 and this was agreed by our banking syndicate on 18 January 2018.

The Group is now subject to its original covenants and terms which include:

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

For covenant testing purposes, the Group's definition of EBITDA is adjusted to exclude exceptional items, include the share of associates' post-tax results and exclude the fair value charge for share awards. Similarly, net debt and finance expenses are adjusted to accord with the definition within the facility agreement. EBITDA, for covenant test purposes, is based on the previous 12-month period, measured twice yearly at 30 June and 31 December. At 31 December 2017 both these covenants were met.

The Group's funding position remains robust, with total borrowing facilities of $205.0m in place (2016 – $204.9m) of which $200.0m (2016 – $200.0m) is committed. The lending group, who provide the committed facilities, comprises five banks: Lloyds, Barclays, HSBC, Wells Fargo and DBS. Further details of the facility, including the terms and conditions, are in note 26.

	2017 $m	2016 $m
Total equity	**1,110.5**	1,117.4
Net (cash) debt	**(30.4)**	1.9
Capital employed	**1,080.1**	1,119.3

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.

The Group's liquidity is monitored by the central treasury function on a daily basis and a variety of cash forecasts, looking at different time horizons, are prepared on a periodic basis.

With the Group's return to profit, the underlying return on average capital employed was 1% in 2017 compared to negative 8% in 2016.

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 26.

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

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

A company's dividend capacity is typically constrained either by distributable reserves or by liquidity. Hunting PLC has in excess of $200m of distributable reserves and Hunting Energy Holdings Limited, a direct UK subsidiary of Hunting PLC, which directly or indirectly controls the operating businesses of the Group, has distributable reserves in excess of $300m. The Board considers that these distributable reserves are capable of servicing dividends for the foreseeable future and that any dividend constraints will be driven by liquidity.

Given potential volatility in the sector, the Group intends to continue to operate with low levels of gearing. In addition, the Group will seek to ensure that there is adequate funding headroom to cover swings in working capital and to allow for appropriate, strategic acquisitions. At the end of 2017 the Group has net cash of $30.4m.

Dividends will be funded from net cash flows before transactions with PLC shareholders and before growth capital investment over the period.

Dividends will continue to be declared in US dollars, being most representative of the earnings and cash flows being generated but will continue to be paid in Sterling.

OUTLOOK

Global energy markets have entered the new year with a renewed commitment from OPEC and Russia to extend production cuts to the end of 2018. Should production compliance be maintained for the duration of the year by OPEC's members, the oil price is likely to remain above $60 per barrel.

This in turn will continue to provide a platform of stability in committed capital expenditures for onshore operators in North America, thus helping maintain activity levels for the Group and, in particular, Hunting Titan and the Group's US onshore-focused operations, at the levels seen in the second half of 2017.

In addition to the above, average oil and gas prices in the year to date – WTI at c.$63 per barrel and natural gas at c.$2.98 per mmBtu, are slowly stimulating more offshore and international drilling activity and investment, which market commentators indicate is likely to lead to a reversal in the declines seen in the past three years, and a return to modest growth. This will benefit Hunting's businesses in Europe and Asia Pacific.

Within recent earnings statements released by our customer base, varying degrees of confidence are returning to the market, specifically with regard to US onshore markets with references to capacity constraints, pointing to the potential for a continuation in earnings growth. Margin progression driven by increased revenues and resultant operating leverage benefits, as reported within our 2017 results, along with continuing cost containment initiatives also provide positive indicators of a return to improving profits.

As noted in the Market Review, most geographic regions where the Group operates are projected to report an increase in drilling investment in the year ahead, thanks to the general stability in the global market. North American capital investment is forecast to continue growing, with the focus remaining on onshore activity. Capital investment has been forecast for the region to increase by c.20% in the year ahead. For the Rest of World, investment levels are forecast to increase in mid to high single digits.

However, while the Board believes this position to be a fair outlook at the time of writing, it also believes that market sentiment remains fragile, particularly given the geopolitical drivers in Iran and Venezuela, which also support current commodity price levels. Should this market dynamic be disrupted, an adverse move in these commodity prices could lead to a change in industry sentiment with investment slowing.

The Board believes that the Group's US businesses, including Hunting Titan, will continue to grow sales in the year ahead and generate underlying profits. Outside of the US, most segments are projected to return to a break even position in the year as losses narrow and activity returns to positive growth.

Further, and subject to the Company's trading and liquidity being satisfactory, the Board will consider the restoration of dividend distributions.

Jim Johnson
Chief Executive

Peter Rose
Finance Director

1 March 2018

HUNTING TITAN

AN ENERGETICS CHARGE LOCKED INTO THE CHARGE CARRIER.

		2017	2016
Market indicators*			
US onshore – average rig count	#	**856**	490
Canada – average rig count	#	**212**	129
Revenue			
Perforating guns & hardware	$m	**102.0**	48.7
Energetics	$m	**111.8**	55.1
Instruments	$m	**87.5**	35.5
Perforating Systems	$m	**301.3**	139.3
Other product lines	$m	**7.4**	3.2
External revenue	$m	**308.7**	142.5
Inter-segment revenue	$m	**4.1**	2.7
Segment revenue	$m	**312.8**	145.2
Profitability			
Reported operating profit (loss)	$m	**37.4**	(34.5)
Acquisition amortisation and exceptional items	$m	**25.9**	30.9
Underlying operating profit (loss)	$m	**63.3**	(3.6)
Underlying operating margin	%	**20**	-2
Other financial measures			
Capital investment	$m	**2.6**	0.5
Property, plant and equipment	$m	**45.8**	48.1
Inventory	$m	**87.8**	72.0
Operational			
Headcount (year end)	#	**587**	412
Headcount (average)	#	**491**	450
Operating sites	#	**5**	5
Service and distribution centres	#	**19**	22
Operating footage	kft^2	**655**	678

* Source – Spears and Associates

Introduction

Hunting Titan's business focuses predominantly on the US and Canadian onshore markets. The business operates five manufacturing sites, with four in the US and one in Mexico and sells through a network of distribution centres in the US and Canada, with over 95% of external sales derived from North America. Whilst the business makes some external international sales it also sells perforating systems to other Hunting segments including Europe and the Middle East.

Market Overview

The business' performance during 2017 has been underpinned by strengthening US and Canadian onshore rig counts. During the year, the average US onshore rig count increased 75% from 490 units in 2016 to 856 units. The commensurate increase in onshore spend in the US shows investment rising from $54.4bn in 2016 to $106.5bn or a 96% increase year-on-year. The US growth was focused in specific low cost basins, in particular the Permian. In Canada the average total rig count increased from 129 to 212 units, with spend in the year increasing from $8.4bn in 2016 to $12.3bn in 2017.

Segment Performance and Development

Market activity increases, together with an estimated growth in market share, have led to a $167.6m, or 115%, increase in segmental revenues to $312.8m.

Perforating guns and hardware revenues more than doubled in the year, increasing by $53.3m with the number of guns sold up 119%. With the increasing market acceptance of the H-1 Perforating System and the improving US market, gun manufacturing at Hunting Titan's Pampa facility was moved to focus on the production of the H-1 System. To cope with demand, Hunting Titan has increased its sourcing of short guns from our manufacturing facilities in the US and Canadian segments, helping reduce excess capacity in these businesses, and from China, where lower manufacturing costs can be achieved. Although perforating products are typically lower margin in nature, particularly short guns, this line had the highest margin increase in 2017.

The Energetics business manufactures shaped charges utilised within Hunting's Perforating Systems and has also seen a material increase in volumes throughout the year due to the increase in market demand. Manufacturing is undertaken at the Milford facility, and in the year 8.2m charges were manufactured representing a 105% increase over 2016, with revenue more than doubling to $111.8m.

In 2017, the Milford facility increased its production to 2014 levels. Of note, the EQUAfrac™ charge, which was commercialised in 2016, has seen greater market acceptance during 2017.

Instrument product sales performed particularly well with an increase of $52.0m, or 146%. These products include switches and control panel products including the EBFire™ and ControlFire™ switches and the ControlFire™ firing panels. High demand has led to some production being sourced from the Electronics unit in the US segment.

Improvements in volumes, targeted price increases in the second half of 2017, beneficial product mix changes and continued cost control focus has led to a significant improvement in profitability, with an underlying operating profit of $63.3m being generated in 2017 versus a loss of $3.6m in 2016, and segmental operating margins improving by 22% points to 20%. Reported profit from operations was similarly improved, moving from a loss of $34.5m in 2016 to a profit of $37.4m in 2017.

Our cost control focus can be seen in the relative leveraging of employees, with 175 employees added in the year being up 42% on December 2016, and the average headcount only up 9% relative to the growth in revenues.

In addition, particularly given the basin-centric growth profile in the US, we have continued to evaluate our distribution centre network closing four centres while opening one in Pleasanton, Texas. The Odessa, Texas, distribution centre has seen a large acceleration in sales since opening in 2016. At the year end the centre accounted for 26% of sales in the US, reflecting the concentration of activity in the Permian basin.

THE FLOW LOOP AT TITAN'S MILFORD TEST FACILITY IS A MILE LONG CONSISTING OF 5½ INCH CASING.

New product innovation has been an important contributor to Hunting Titan's return to strong growth, underpinned by the success of the H-1 Perforating System. By the end of 2017 H-1 System sales represented 8% of Perforating Systems revenues. In addition to the benefits for customers (see our case study on pages 18 and 19) the "packaged" system means we sell the perforating gun, the energetics and the instrumentation rather than particular elements as is often the case with conventional sales. Revenue from H-1 systems are shown across the perforating systems product lines. In 2017, Titan began the development of a second generation H-1 System, which incorporates enhanced charge technology. In regard to this development, 13 patents have been filed and are currently being evaluated by patent regulators.

Hunting's self-locating autonomous tool project has continued in collaboration with ExxonMobil in the year. The test bed at the Milford facility is being used to develop the new tool. In Q2 2017 the phase one project milestones were completed.

In addition, new variants of Hunting's jet cutters were introduced to customers early in the year to broaden the Group's offering to global plug and abandonment programmes.

Other new products under development during the year include Ballistic Release and Addressable Release Tools as well as a Magnetic Orientating Tool.

Working capital has increased by $30.7m over 2016 of which broadly half relates to inventory, which was $87.8m at December 2017. This, however, was driven by activity levels and, indeed, inventory days actually fell by nearly a third in 2017.

Capital investment began to pick up in a modest way in 2017 with a spend of $2.6m, which mainly related to the development of the new distribution centre and work at Milford to expand ControlFire™ production capacity. Despite this, overall property, plant and equipment in Hunting Titan is little changed year-on-year. Our current view is that we expect to invest in excess of $20m in 2018 to expand capacity and remove bottlenecks in a number of key areas and improve production efficiency.

US

REMOTE MONITORING OF THE THREAD TESTING CELL AT THE AMERIPORT FACILITY IN BAYTOWN.

		2017	2016
Market indicators*			
US onshore – average rig count	#	**856**	490
US offshore – average rig count	#	**21**	23
US – total spend	$bn	**110.9**	58.9
Revenue			
OCTG & Premium Connections	$m	**78.4**	68.9
Advanced Manufacturing	$m	**56.8**	43.2
Subsea	$m	**20.6**	21.5
Drilling Tools	$m	**25.7**	10.1
Intervention Tools	$m	**8.1**	6.7
Other product lines	$m	**13.9**	11.6
External revenue	$m	**203.5**	162.0
Inter-segment revenue	$m	**14.1**	4.7
Segment revenue	$m	**217.6**	166.7
Profitability			
Reported operating loss	$m	**(20.4)**	(37.7)
Acquisition amortisation and exceptional items	$m	**3.2**	4.1
Underlying operating loss	$m	**(17.2)**	(33.6)
Underlying operating margin	%	**-8**	-20
Other financial measures			
Capital investment	$m	**5.2**	11.2
Property, plant and equipment	$m	**253.3**	274.1
Inventory	$m	**95.5**	84.3
Operational			
Headcount (year end)	#	**1,049**	846
Headcount (average)	#	**953**	924
Operating sites	#	**15**	16
Service and distribution centres	#	**1**	1
Operating footage	kft²	**1,358**	1,379

* Source – Spears and Associates

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

The main focus area for most businesses in the segment is domestic US, which covers approximately 90% of external revenues, with Subsea and Advanced Manufacturing more internationally oriented. In addition, the US manufactures perforating guns and switches for sale to Hunting Titan.

Market Overview
Activity and performance of the Group's US operations is driven mainly by a combination of rig count and industry spend. Historically, the Group's US activity levels have been broadly balanced between onshore and offshore drilling, with profitability from offshore activity contributing strongly to Hunting's total revenues and profits.

Since 2014, offshore spend has reduced 69% to $4.3bn in 2017, impacting the utilisation levels of the Group's facilities. Offshore spend in 2017 showed a further decline year-on-year, highlighting the depressed offshore markets in the Gulf of Mexico. While a number of individual manufacturing facilities have remained busy due to ongoing contracts in the Gulf of Mexico, most continue to operate on a single or two shift basis. US onshore spend has increased 96% year-on-year to $106.5bn, which has supported the increase in revenues within the segment during 2017.

Segment Performance and Development
Segment revenues increased 31% from $166.7m in 2016 to $217.6m in 2017. With the exception of the Subsea business, all product groups reported increasing revenue during the year, driven by the increase in onshore activity in the US.

OCTG and Premium Connections
This product line includes the Group's Premium Connections, OCTG Manufacturing and Accessories, Thread Protectors and Pipe Trading activities. In the year, revenues for OCTG and Premium Connections increased by $9.5m to $78.4m in 2017. Although this product line has generated an operating loss for the year, a positive EBITDA contribution was being made.

During 2017, sales of Hunting's proprietary SEAL-LOCK™ and WEDGE-LOCK™ premium connections increased compared to 2016, as general market conditions stabilised and new products were commercialised. Both premium connection families continue to be used in the Gulf of Mexico deep water drilling programmes, with key customers including Chevron, Anadarko and Cobalt. The Group's Marrero facility, which threads large diameter pipe, has remained busy throughout the year due to this continued activity. As the market stabilised the AmeriPort facility, which became operational in 2016, increased its utilisation levels to support new order flow from operators in the Gulf of Mexico. The product families of WEDGE-LOCK™ and SEAL-LOCK XD™ have been expanded during the year, following completion of testing and certification at the Group's Connection Test Facility at AmeriPort in Houston. New products include 14 inch and 18 inch variants, which broaden Hunting's product offering to other deep water operators.

Subdued offshore activity has limited accessory demand and the decision was taken to consolidate this work in Louisiana at our new Houma facility and to close an older site at Lafayette.

Pipe trading improved significantly during 2017 versus prior year, with sales of two-step tubing increasing to 0.42 million feet in the region compared with 0.13 million feet traded in 2016.

Advanced Manufacturing
Hunting's Advanced Manufacturing Group ("AMG") comprises the Dearborn, Electronics and Specialty units, which operate three manufacturing facilities. AMG external sales increased by $13.6m or 31% in 2017, with the largest improvements in Specialty and Electronics. Improved trading enabled AMG to broadly break-even in 2017.

Activity levels at Hunting Specialty, which offers a range of designed solutions for MWD running gear, drill pipe mud screens and float valve assemblies, are largely driven by US onshore rig counts and therefore this business benefited significantly from the upturn.

Hunting Electronics has benefited from returning oil and gas customers as well as diversification in its revenue streams during the year. The business is also manufacturing switches for Hunting Titan and this is a key driver of the $9.4m increase in inter-segment sales by the US.

During 2017 Hunting Dearborn continued its efforts to diversify its revenue streams into other sectors including the aerospace, military and space sectors. The business has secured new orders in these markets throughout the year and has gained approval from US regulators to undertake work on a number of military-related programmes. The business has also seen an improvement in oil and gas related orders in the second half of the year as the market further stabilised.

Subsea
Hunting Subsea continued to face challenges in 2017, given the depressed offshore Gulf of Mexico and International market environments, and the lower levels of deep water investment by the oil majors. Revenues fell slightly in 2017 to $20.6m.

The Subsea business has focused its efforts in the year on further product innovation with new seals and couplings being developed. The business is currently finalising development of a soft-seal product line targeting the onshore drilling market, where the business generally has a lower market share. This product is planned to be launched commercially in 2018. Further, in the second half of the year, the order book started to build as clients recommenced plans for deep water drilling.

HUNTING SUBSEA VALVE ASSEMBLY LINE IN HOUSTON, TEXAS.

Drilling Tools
Hunting's Drilling Tools business is focused on the onshore oil and gas basins in the US, with principal facilities in three locations in Conroe, Texas; Latrobe, Pennsylvania; and Casper, Wyoming and a shared a facility in Odessa, Texas. The business has a fleet of c.1,000 mud motors, which are rented to operators, and following the completion of a drilling programme, are returned to the Group for refurbishing, prior to redeployment.

With the onshore rig count improving throughout the year, demand for the Group's mud motor fleet has increased, leading to the business returning to profit during Q4 2017. Costs have been contained during the year, and as the market stabilised further in H2 2017, the pricing environment tightened allowing for selected price increases to be implemented. In the year revenue within Drilling Tools increased by $15.6m from $10.1m in 2016 to $25.7m in 2017.

Intervention Tools
The Group manufactures pressure control equipment ("PCE"), wireline and coiled tubing products in the US. Revenue increased by $1.4m in the year, largely driven by PCE.

Other Product Lines
Other product revenues, which increased by 20% in 2017, mainly derive from Hunting's Trenchless business, which manufactures drill stems and drill head products for use in the telecommunications sector. The business utilises technology from within the Group in this non-oil and gas sector. Increased activity levels enabled Trenchless to significantly improve margins in 2017.

US Segment Summary
The increase in revenue has reduced underlying segment operating losses by $16.4m to $17.2m (2016 – $33.6m loss). The narrowing losses also reflect significant cost-cutting measures implemented since 2014, and average head count increases were kept to 3%. The US position has been improving and a small contribution to Group profit was delivered in the final quarter of the year. The reported operating loss was $20.4m (2016 – $37.7m loss), a $17.3m improvement over 2016.

During 2017 capital investment was very limited with a spend of $5.2m (2016 – $11.2m), the key elements were developing the test lab and the repurposing of a facility to manufacture perforating guns. As depreciation outstripped capex the net book value of PPE in the US fell by $20.8m.

Working capital increased by $17.7m during 2017 with $11.2m of this in inventory. Given the increase in activity, however, this increase was modest with inventory days falling by 22% compared to 2016.

CANADA

VACUUM INSULATED TUBING FOR STEAM ASSISTED EXTRACTION IN THE CANADIAN OIL SANDS.

		2017	2016
Market indicators*			
Canada – average rig count	#	**212**	129
Canada – spend	$bn	**12.3**	8.4
Revenue			
OCTG & Premium Connections	$m	**27.6**	26.3
External revenue	$m	**27.6**	26.3
Inter-segment revenue	$m	**8.9**	3.0
Segment revenue	$m	**36.5**	29.3
Profitability			
Reported operating loss	$m	**(3.7)**	(4.0)
Underlying operating loss	$m	**(3.7)**	(4.0)
Underlying operating margin	%	**-10**	-14
Other financial measures			
Capital investment	$m	**0.7**	0.8
Property, plant and equipment	$m	**3.4**	4.3
Inventory	$m	**23.2**	17.2
Operational			
Headcount (year end)	#	**140**	102
Headcount (average)	#	**118**	99
Operating sites	#	**1**	1
Service and distribution centres	#	**1**	1
Operating footage	kft^2	**113**	113

* Source – Spears and Associates

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

Market Overview
In Canada the average total rig count increased from 129 to 212 units, with spend in the year increasing from $8.4bn in 2016 to $12.3bn in 2017.

A limiting factor to Hunting's performance in the country has been the distribution of crude oil produced by operators across Canada. Capacity constraints in the mid-stream segment of the national market has resulted in a c.25% discount to WTI crude oil being realised in Western Canada, resulting in sub-$40 per barrel economics driving the region for most of 2017. This pricing environment has impacted key heavy oil markets, where our Canadian business and its key customers are focused.

Market conditions have also been affected by the exit of international oil companies during the year, which added volatility to planned drilling programmes.

Segment Performance and Development
Hunting's Canadian business delivered a modest 5% increase in OCTG external revenues during 2017, despite the significant improvement in rig count and spend for the reasons described above.

Hunting's key product lines include Vacuum Insulated Tubing ("VIT"), TKC 4040 semi-premium connections and accessories manufacturing. In respect of Hunting's VIT technology, the Group has successfully established regular business with two large domestic drilling companies, which has supported business throughout the year. New projects with these partners are planned for 2018. Coupling product demand has also been relatively buoyant, which has enabled threading utilisation to remain at respectable levels in the second half of the year.

Hunting's Calgary facility has significantly increased production of perforating systems in the year, predominantly manufacturing short guns on behalf of Hunting Titan. During 2017 gun sale volumes increased by more than 200% leading to inter-segment revenue of $8.9m (2016 – $3.0m). This was the major factor in the 25% increase in segment revenue in 2017. For 2017, Canada produced an underlying and reported operating loss of $3.7m. The 2016 underlying and reported operating losses were $4.0m.

The average employee level in 2017 was 118, which was a 19% increase on the prior year. Capital investment of $0.7m was constrained as far as possible, focusing on essential replacement spend. Inventory at $23.2m was higher than 2016 reflecting some delayed sales and a stronger order book position.

EUROPE

THE QUALITY ASSURANCE REGIME LIES AT THE HEART OF THE PRODUCT OFFERING.

		2017	2016
Market indicators*			
North Sea – average rig count	#	**27**	29
North Sea – spend	$bn	**11.7**	13.8
Total Europe – well count	#	**643**	611
Revenue			
OCTG & Premium Connections	$m	**59.6**	51.4
Intervention Tools	$m	**11.1**	8.7
Perforating Systems	$m	**2.9**	2.7
Drilling Tools	$m	**0.1**	0.8
Other product lines	$m	**5.3**	6.5
External revenue	$m	**79.0**	70.1
Inter-segment revenue	$m	**6.0**	1.6
Segment revenue	$m	**85.0**	71.7
Profitability			
Reported operating loss	$m	**(12.6)**	(33.6)
Acquisition amortisation and exceptional items	$m	**–**	7.9
Underlying operating loss	$m	**(12.6)**	(25.7)
Underlying operating margin	%	**-15**	-36
Other financial measures			
Capital investment	$m	**1.0**	2.2
Property, plant and equipment	$m	**12.8**	11.2
Inventory	$m	**47.8**	50.2
Operational			
Headcount (year end)	#	**249**	241
Headcount (average)	#	**250**	284
Operating sites	#	**6**	8
Service and distribution sites	#	**–**	1
Operating footage	kft²	**213**	253

* Source – Spears and Associates

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

Market Overview
During 2017, the underlying market environment in the North Sea remained difficult with a further decline in average rig count and continued pressure on costs due to the low average oil price for the majority of the year. The UK continental shelf, where Hunting is more established, faired slightly better with a flat average rig count year-on-year.

Segment Performance and Development
For 2017, Hunting's European operations increased segment revenues by 19% to $85.0m. Hunting's European OCTG business is predominantly focused on the North Sea, where the Group holds a number of key connection and tubular contracts with operators. During the year these relationships were maintained, despite increased competition, and pricing remained challenging.

Leveraging our long-standing relationship with our partner within the European OCTG business, the region completed a number of international threading contracts in H1 2017 for clients in the Middle East and in the US, which led to good utilisation of both UK and Netherlands facilities, leading to the increase in revenue reported in the year. These contracts concluded in Q3, which led to a lower performance for the region during H2. In the year revenue within OCTG increased 16% from $51.4m in 2016 to $59.6m in 2017.

Hunting's European well intervention business noted some evidence of a slow recovery in the year. Customers remained cautious and capital constrained and therefore the pick-up in business has led to increased rentals of pressure control equipment and coiled tubing with revenues up by $2.4m in the year. The business also introduced the Ezi-Shear valve and a new coiled tubing blow-out preventer to customers, which has gained market acceptance in the latter half of the year.

In March 2017, the assets of the Group's European Drilling Tools business were sold for $1.2m, following the decision to exit this product line in 2016, leading to the decline in reported revenue. This resulted in the closure of two operating sites, one in the UK and one in the Netherlands. Other revenues mainly comprise Hunting's Well Testing operation. In 2017, revenues from this business decreased by $1.2m to $5.3m largely due to the timing of the completion of certain contracts. Generally, activity levels were comparable with 2016. There are signs of improvement going forward with the order book picking up at the end of 2017.

Inter-segment sales were up $4.4m in 2017, mainly due to the UK manufacturing pressure control equipment being sold into the US. The improvement in activity levels helped reduce underlying operating losses by $13.1m, however, an underlying loss of $12.6m was still reported in 2017. With no exceptional items or acquisition amortisation, the reported loss was $12.6m. Management have continued to focus on cost control, with a 12% reduction in average headcount during 2017. A distribution centre at Montrose, which helped service the OCTG and well intervention businesses, was also closed in the year. Inventory levels were reduced by 5% over the year to $47.8m and inventory days fell by 16%. Capital investment was restricted as far as possible and reduced from $2.2m in 2016 to $1.0m in 2017.

ASIA PACIFIC

HUNTING'S MAJOR MANUFACTURING PLANT AT WUXI IN CHINA FOR DOMESTIC AND INTERNATIONAL SALES.

		2017	2016
Market indicators*			
Far East – average rig count	#	**199**	183
Far East – spend	$bn	**18.8**	22.8
Central Asia – spend	$bn	**1.2**	1.2
Revenue			
OCTG & Premium Connections	$m	**79.1**	39.6
Intervention Tools	$m	**4.0**	3.8
Other product lines	$m	**0.3**	0.3
External revenue	$m	**83.4**	43.7
Inter-segment revenue	$m	**8.5**	3.1
Segment revenue	$m	**91.9**	46.8
Profitability			
Reported operating loss	$m	**(8.0)**	(15.3)
Acquisition amortisation and exceptional items	$m	**–**	2.0
Underlying operating loss	$m	**(8.0)**	(13.3)
Underlying operating margin	%	**-9**	-28
Other financial measures			
Capital investment	$m	**0.6**	1.2
Property, plant and equipment	$m	**17.9**	21.4
Inventory	$m	**30.4**	33.0
Operational			
Headcount (year end)	#	**443**	359
Headcount (average)	#	**425**	401
Operating sites	#	**5**	6
Operating footage	kft²	**549**	585

* Source – Spears and Associates

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

Market Overview
Asia Pacific has the most geographically diverse customer base of all our segments, with sales to the Middle East and North Africa, as well as within Asia Pacific which is its main market. Hence, while we monitor Far East, China and Central Asia activity as a general market barometer the segment's performance, and expected correlation to market data, is lower than for other segments.

During 2017, market conditions remained challenging, despite improving operational indicators such as rig count, given the further reduction in industry spend recorded. In particular, the large inventory surpluses across the region and excess pipe manufacturing capacity from Chinese steel producers ensured that conditions remained very price competitive.

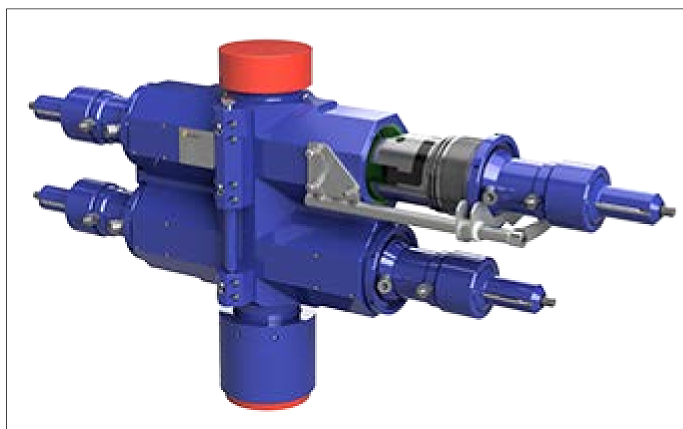
Segment Performance and Development
For 2017, Asia Pacific segment revenue at $91.9m was nearly double compared to the prior year (2016 – $46.8m). OCTG sales were up $39.5m in the year to $79.1m. The segment benefited from some large threading contracts for the Middle East which, together with increased domestic Chinese demand, required Wuxi to hire more than 100 additional staff during the year. In addition, there was an increase of just under $17.0m of pipe sales, mainly to Kazakhstan. Whilst these sales are at low margins they do contribute to fixed costs. Activity levels at the Group's Singapore and Indonesia OCTG facilities remained comparable with 2016 throughout the majority of the year. There has been a significant increase in the order book at the end of 2017, with the value of orders more than twice that at December 2016. The Intervention Tools business had a difficult year, given the low levels of capital expenditure by customers, and revenues only increased marginally. Pressure control equipment sales performed very well. However, these gains were offset by reductions in Thru-Tubing activity and management has decided to withdraw this product line from the region. As a consequence, a reduction in workforce was implemented in Q4 2017.

In the second half of 2015 we sought to expand our Advanced Manufacturing offering into Asia Pacific, however, the market downturn has meant that establishing the business was very difficult. Given our excess US capacity, in 2017 we decided to close the business to curtail losses and relinquish the facility in Singapore.

Inter-segment revenues increased by $5.4m, more than doubling in 2017, largely related to increases in the manufacturing of short guns on behalf of Hunting Titan to service US demand. Despite a 19% point improvement in margins, the segment remained loss making at the operating level delivering an underlying and reported operating loss of $8.0m (2016 – $13.3m underlying loss and $15.3m reported loss). The segment did, however, make a positive contribution to Group profit in Q4.

Overall headcount increased by 84 during the course of 2017 with the new hires at Wuxi more than offsetting reductions in Singapore. Despite increased activity levels, inventory was reduced during 2017 by $2.6m to $30.4m and inventory days reduced substantially. In light of the continuing losses capital expenditure was minimal in the year.

MIDDLE EAST, AFRICA AND OTHER



A LIGHTWEIGHT WIRELINE VALVE AS MANUFACTURED IN HUNTING'S SAUDI MACHINE SHOP IN DAMMAM.

		2017	2016
Market indicators*			
Middle East – spend	$bn	**22.0**	24.5
Sub Sahara Africa – spend	$bn	**3.5**	5.6
Central Asia – spend	$bn	**1.2**	1.2
Revenue			
OCTG & Premium Connections	$m	**6.8**	1.9
Intervention Tools	$m	**9.4**	5.3
Perforating Systems	$m	**1.2**	1.0
External revenue	$m	**17.4**	8.2
Inter-segment revenue	$m	**1.2**	0.3
Segment revenue	$m	**18.6**	8.5
Profitability			
Reported operating loss	$m	**(17.0)**	(9.8)
Acquisitions amortisation and exceptional items	$m	**10.0**	0.5
Underlying operating loss	$m	**(7.0)**	(9.3)
Underlying operating margin	%	**-38**	-109
Other financial information			
Capital investment	$m	**0.3**	0.7
Property, plant and equipment	$m	**12.6**	23.7
Inventory	$m	**3.6**	4.7
Operational			
Headcount (year end)	#	**79**	82
Headcount (average)	#	**83**	83
Operating sites	#	**3**	4
Operating footage	kft^2	**69**	127

* Source – Spears and Associates

Introduction
Hunting's Middle East and Africa operations are located in Dubai, UAE; Dammam, Saudi Arabia; and Mombasa, Kenya. The Board decided to close the operation in Cape Town, South Africa, at the end of 2017. The Group's Kenyan and Saudi operations are controlled subsidiaries in which there is, for both entities, a 40% non-controlling interest with relevant local business partners.

Market Overview
Middle East activity levels have remained relatively robust during the post-2014 downturn, albeit with pressure on overall spending levels. In 2017, exploration and production spend in the Middle East fell by 10%.

Spend in sub-Sahara Africa fell by 38% in 2017 following similar declines for the prior two years. The market is therefore just over a fifth of the value it was in 2014 when we started to build our Cape Town facility.

Segment Performance and Development
Revenue from the segment improved significantly in 2017 increasing by $10.1m to $18.6m.

The OCTG product line had the highest increase in 2017 with external revenues up $4.9m. The UAE business was the main driver of the increase through the continued supply of tubulars to the Al-Shaheen field in Qatar. In addition, the business increased its sales to Iraq. Revenues from Kenya remain very limited with the business carrying out a number of small repair and inspection contracts for operators drilling in East Africa. Hunting's start-up operation in Saudi Arabia continues to build its presence in the Kingdom, as local procurement initiatives ("IKTVA") are implemented in the country. The facility in Dammam is fully operational and continues to broaden its manufacturing certifications for Hunting's products. In 2017, the business secured its API and ISO certifications. Further, the business is continuing to develop its relationship with Saudi Aramco, as well as with the major service companies operating in the Kingdom.

Intervention Tools revenue remains the largest in the segment and increased by $4.1m to $9.4m. In Azerbaijan, Hunting's Thru-Tubing contracts continued throughout the year generating steady sales. As the political and civil situation eased in Northern Iraq, Thru-Tubing sales recommenced into Kurdistan. PCE service revenues for Hunting's OEM equipment in Qatar also increased for a number of contracts.

In December 2017, the Board completed a review of the Group's operating presence in South Africa and decided to close its manufacturing facility in Cape Town, given the poor market outlook for the medium term and the continuing drive to reduce losses around the Group. In 2017, South Africa generated a $2.8m underlying operating loss and recorded an exceptional write-down of property, plant and equipment and restructuring costs totalling $10.0m. The Group has decided to maintain a sales office in the country, given management's belief that the long-term market outlook for sub-Sahara Africa is positive. This change of strategy for the region will be completed during 2018 and headcount will be reduced in this period.

The underlying operating loss for the segment was $7.0m in 2017 (2016 – $9.3m). In addition to the losses in South Africa, losses totalling $2.5m were incurred in Saudi Arabia and Kenya. Reported loss for the segment increased from $9.8m to $17.0m in 2017.