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

John (Jay) F. Glick
Chairman

Introduction

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

Financial Performance

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

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

Dividends

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

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

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

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

Board Changes

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

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

Governance

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

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

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

Conclusion

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

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

John (Jay) F. Glick
Chairman

28 February 2019

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

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

Jim Johnson
Chief Executive

Introduction

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

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

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

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

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

Group Results Summary

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

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

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

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

Outlook

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

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

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

Jim Johnson
Chief Executive

28 February 2019

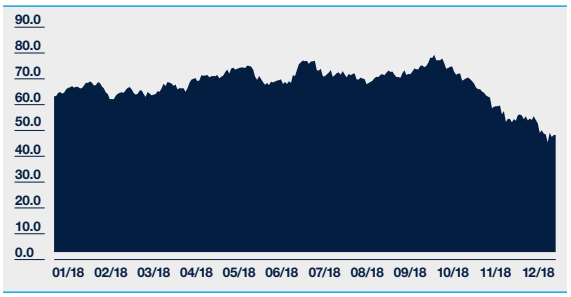
Global market indicators

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

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

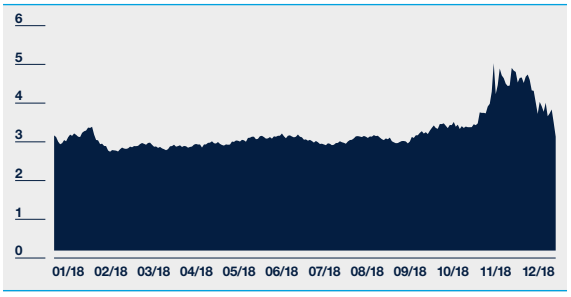
The average WTI price was c.$65 per barrel in the year, which represents a 30% increase over 2017, and supported the continued increase in drilling and production spend, particularly across North America.

WTI Crude Oil Prices ($/barrel)



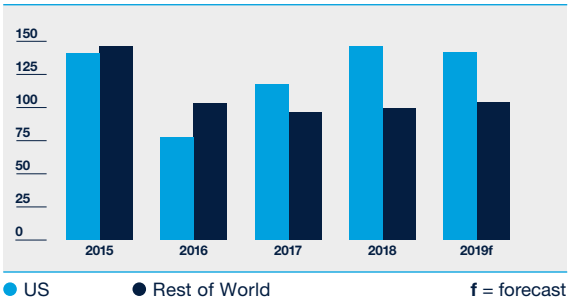
The Henry Hub natural gas price has averaged $3.05 per mmBtu in 2018 compared to $3.04 per mmBtu in the prior year. This meant that gas drilling was maintained in the year.

Henry Hub Natural Gas Price ($/mmBtu)



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

Global Drilling and Production Expenditure ($bn)

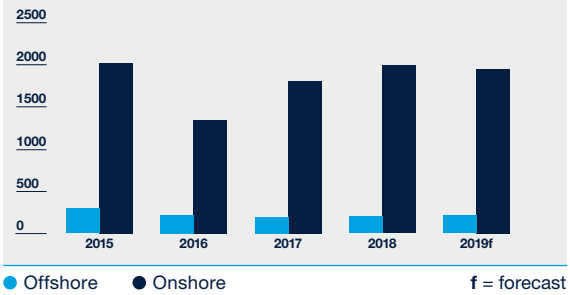


This increase in spend had a positive impact on the Hunting Titan and US operating segments, which both reported double-digit increases in revenue and were both profitable at the underlying and reported levels.

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

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

Global Average Rig Count



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

Regional market indicators

US – Onshore

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

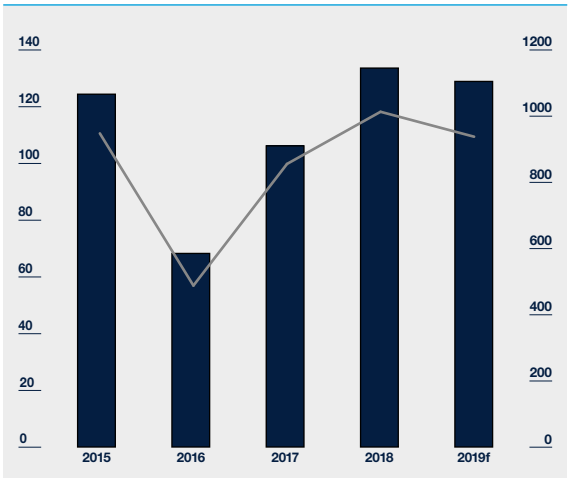
The average onshore rig count increased 18% to 1,013 active units, with the average drilling spend increasing 26% from $106.1bn in 2017 to $133.5bn in 2018.

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

Outlook

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

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



US – Offshore

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

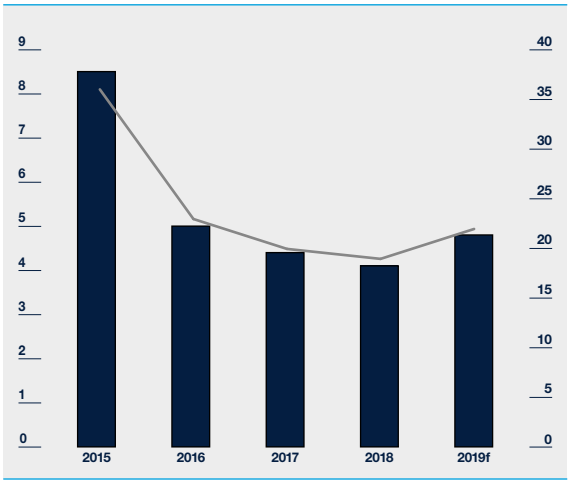
The average rig count was 19 in the year compared to 20 in the prior year, with drilling and production spend declining 7% to $4.1bn.

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

Outlook

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

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



Regional market indicators continued

Canada

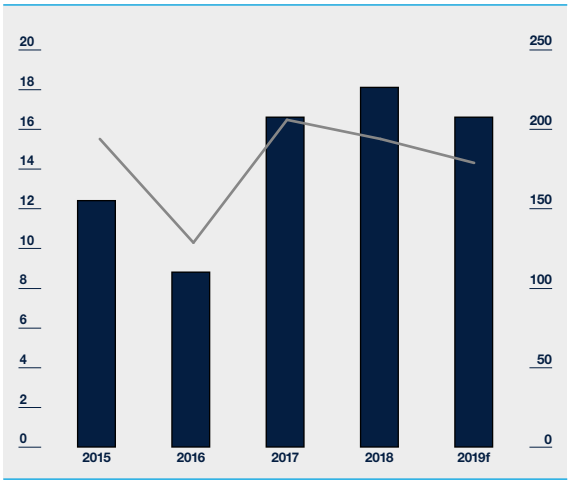
The Canadian market remains a highly competitive and challenging market environment, with the realised price for domestic western Canada crude oil selling at a material discount to the WTI crude oil price, which generally deterred clients from major new drilling programmes.

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

Outlook

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

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



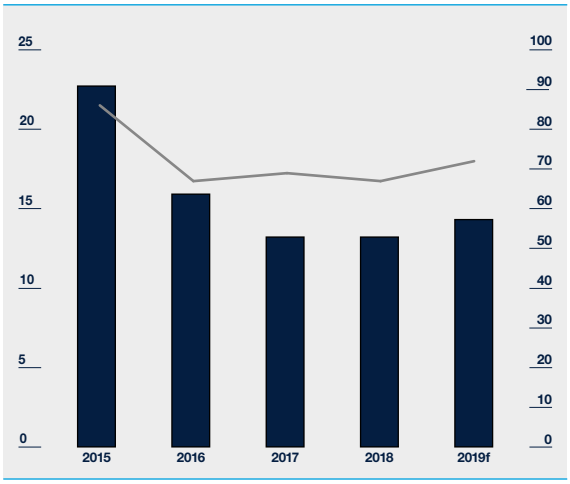
Europe

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

Outlook

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

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



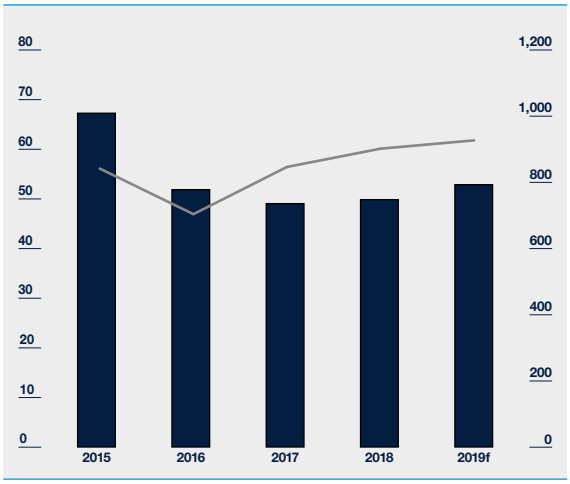
Asia Pacific (inc. China)

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

Outlook

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

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



● Spend — Average rig count
f = forecast

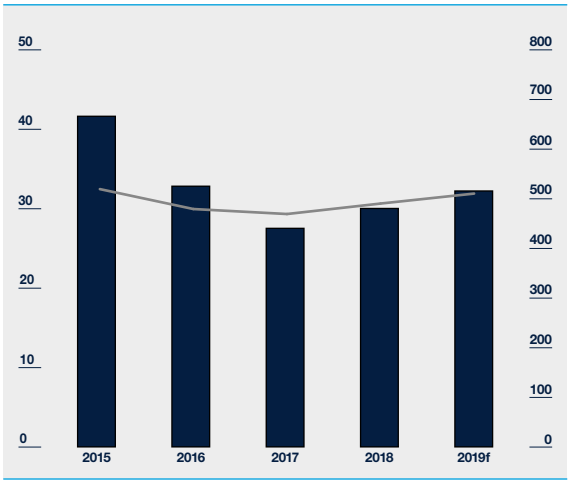
Middle East and North Africa

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

Outlook

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

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



● Spend — Average rig count
f = forecast

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

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

Jim Johnson
Chief Executive

Peter Rose
Finance Director

Group Results Summary

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

i. Non-GAAP measure.

Introduction

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

Market Summary

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

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

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

Operational Initiatives

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

Hunting Titan has reported record results in the year, due to strong demand for its perforating guns, energetics and instruments. Higher utilisation of its manufacturing facilities has been reported and, as a consequence of this, the Group began two major capital investment programmes at its Pampa and Milford facilities to expand production capacity and, at the same time, reduce manufacturing costs and increase efficiency through the implementation of automated production for certain product lines. These projects are expected to complete by Q2 2019 and will significantly enhance capacity for the production of perforating guns and energetics charges.

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

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

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

Group Segment Summary

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

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

Results from Operations

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

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

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

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

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

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

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

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

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

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

Cash Flow

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

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

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

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

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

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

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

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

Balance Sheet

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

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

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

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

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

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

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

Financial Capital Management

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

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

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

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

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

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

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

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

Dividends

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

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

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

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

On behalf of the Board

Jim Johnson
Chief Executive

Peter Rose
Finance Director

28 February 2019

Hunting Titan

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

* Source – Spears and Associates.

Introduction

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

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

Market Overview

2018 has seen a further year of market expansion in the US and Canada, in terms of average rig counts and drilling spend. As noted in the Market Review, average US onshore rig counts increased 18% to 1,013 units, while US onshore drilling spend increased 26% to $133.5bn. This increase in key market indicators has led to the strong improvement in performance of the segment during the year. In Canada, while the average rig count fell in the year by 6%, industry spend increased by 9%.

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

Segment Performance and Development

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

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

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

Perforating Guns and Hardware

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

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

Energetics

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

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

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

Instruments

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

Other Revenue

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

New Technology

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

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

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

Manufacturing and Distribution

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

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

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

Other Financial Information

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

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

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

1 **The new H-2 Perforating System™.**

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

US

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

* Source – Spears and Associates.

Introduction

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

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

Market Overview

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

During 2018, the US onshore average rig count increased by 18% to 1,013 units, which positively impacted the performance of the segment's OCTG, Advanced Manufacturing, Drilling Tools and Intervention Tools product lines. Onshore spend also increased by 26% during the period to $133.5bn, as well completion activities further increased demand.

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

Segment Performance and Development

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

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

OCTG and Premium Connections

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

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

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

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

Advanced Manufacturing

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

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

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

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

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

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

Subsea

Hunting Subsea has benefited from the increase in the average WTI oil price during the year, which encouraged client spending. Subsea completed orders for hydraulic couplings and valves and chemical injection systems for a number of US and international clients in the period. Of note has been the increase in sales into the international energy markets, including West Africa and Asia Pacific.

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

Drilling Tools

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

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

Intervention Tools

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

Other Financial Information

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

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

1 Quality assurance checks are completed on all downhole tools.

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

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

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

Canada

		2018	2017
Market indicators*			
Canada – average rig count	#	**194**	206
Canada E&P spend	$bn	**18.1**	16.6
Revenue			
OCTG & Premium Connections	$m	**35.2**	27.6
External revenue	$m	**35.2**	27.6
Inter-segment revenue	$m	**9.6**	8.9
Segment revenue	$m	**44.8**	36.5
Profitability			
Reported operating loss	$m	**(1.8)**	(3.3)
Acquisition amortisation and exceptional items	$m	**–**	–
Underlying operating loss	$m	**(1.8)**	(3.3)
Underlying operating margin	%	**(4)**	(9)
Other financial measures			
Capital investment	$m	**0.9**	0.7
Property, plant and equipment	$m	**2.7**	3.4
Inventory	$m	**22.8**	23.2
Operational			
Headcount (year-end)	#	**123**	140
Headcount (average)	#	**133**	118
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 segment review, the Calgary facility has been modified to support the manufacture of perforating guns for distribution across Canada and into the US.

Market Overview

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

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

Segment Performance and Development

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

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

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

Other Financial Information

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

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

Europe

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

* Source – Spears and Associates.

Introduction

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

Market Overview

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

Segment Performance and Development

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

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

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

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

Other Financial Information

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

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

Asia Pacific

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

* Source – Spears and Associates.

Introduction

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

Market Overview

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

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

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

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

Segment Performance and Development

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

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

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

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

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

Other Financial Information

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

The headcount was broadly unchanged compared to the prior year.

Middle East, Africa and Other

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

* Source – Spears and Associates.

Introduction

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

Market Overview

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

Segment Performance and Development

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

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

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

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

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

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

Other Financial Information

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

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

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