

Despite headwinds, demand for our completion and subsea products accelerated during the second half of 2021. We expect drilling and completion activity to increase during 2022 at a faster pace, generating stronger demand for our full portfolio of products.

Chairman's Statement



Introduction

During the past year, the combination of vaccines, therapeutics, and an improved understanding of COVID-19, has allowed life to return to normal. The growth in demand for oil and gas has also returned to pre-pandemic levels, which has led to a sustained rise in commodity prices. Most energy analysts agree that the energy sector is poised for a multi-year up cycle. Recent geopolitical developments in Ukraine have driven prices even higher. Geopolitical risk is now adding to already high commodity prices. Stronger fundamentals, together with increasing concerns about energy security, will accelerate the pace of demand for Hunting's portfolio of products as the industry pursues secure resources for global production.

Although, product demand increased in H2 2021, the pace was slower than typical of most cyclic recoveries. This was largely due to the capital discipline of our customers, who moderated their capital spending in response to demands from the investment community for better returns. Customers focused on cash generation, dividends and debt reduction.

As we enter 2022, our customers are responding to higher oil prices by increasing capital spending on drilling and production, evidenced by our growing order book and improving activity levels. At the same time, global policy makers grapple with balancing energy security, reducing carbon dioxide emissions, reducing energy poverty, and supplying the energy for continued economic recovery. Hunting's management and Board will closely monitor and respond to these developments appropriately.

Financial Performance

Revenue for the Group decreased 17% in the year to \$521.6m, compared to \$626.0m in 2020 due to the slower-than-anticipated growth in energy demand as a consequence of continuing spikes in COVID-19 cases. This has led to an underlying loss before tax of \$40.6m (2020 – \$19.4m). The Group has completed further detailed analysis of its inventory in the year, leading to a net impairment charge of \$25.9m being recorded as an exceptional item. In total, after charges for amortisation of acquired intangible assets and exceptional items of \$44.9m, the reported loss before tax was \$85.5m (2020 – \$223.0m). Total cash and bank at the year-end of \$114.2m (2020 – \$101.7m) was an excellent result for the Group, given the challenging trading conditions, and reflects the efforts of management to generate cash. Our balance sheet also remains robust with net assets at the year-end of \$871.3m (2020 – \$976.6m). In February 2022 the Group also entered into a new Asset Based Lending facility. This provides Hunting with a more flexible borrowing structure and additional liquidity to fund growth opportunities.

Dividends

In August 2021, the Board declared an Interim Dividend of 4.0 cents per share, which was paid in October. The Board remained mindful of shareholder distributions in the year, and the dividends declared and paid reflect the Group's strong cash position throughout the year and the long-term prospects of the Group. The Board is, therefore, recommending a 2021 Final Dividend of 4.0 cents per share, which will absorb \$6.4m of cash, and is to be approved by shareholders at the Company's Annual General Meeting ("AGM") on 20 April 2022. If approved, the Final Dividend will be paid on 13 May 2022 to shareholders on the register on 22 April 2022. This distribution will bring the total dividends paid in respect of 2021 to 8.0 cents per share and a total distribution of \$12.8m. The Board remains committed to delivering sustainable dividends, but will continue to assess each dividend proposal on a case-by-case basis.

Governance

We remain acutely aware of the need for Hunting to exercise its corporate responsibility within the context of Environmental, Social and Governance ("ESG") matters.

To sharpen the Board's focus on ESG topics, an Ethics and Sustainability Committee has been formed, which had its maiden meeting in December 2021. The Committee will be supported by an internal ESG steering group, comprised of the Group's senior leadership team, along with a Taskforce for Climate-related Financial Disclosures ("TCFD") working group, which will specifically address carbon and climate matters. The Company has also adopted the Sustainability Accounting Standards Board ("SASB") reporting framework, using their standards for Oil and Gas - Services, and Industrial Machinery & Goods companies. Additionally, the Ethics and Sustainability Committee will direct its attention to human capital, with particular emphasis on developing the skills and talent necessary to ensure Hunting is successful in the future. Emphasis within human capital development includes succession planning and diversity considerations. Finally, the Committee will maintain a close watch on compliance matters, as well as product quality assurance, health, safety, and the environment. I would emphasise that Hunting has demonstrated great success in these critical areas.

Retirement of Richard Hunting, CBE

On 11 February 2022, the Company announced that Richard Hunting, non-executive Director, will retire from the Board after nearly 50 years of service. As Chairman of the Company between 1991 and 2017, Richard led Hunting through a major transformation from being a conglomerate with interests in defence, aviation and energy, to a leading upstream energy services group. Richard will step down from the Board at the conclusion of the Company's Annual General Meeting on Wednesday 20 April 2022. I would like to thank Richard for his advice and counsel to Hunting's Directors past and present, which extends over many years, particularly since my appointment in 2017.

Geopolitics

The events in Ukraine over the past few weeks have been monitored closely by the Board, given the implications for commodity prices and geopolitical risk. Hunting's exposure to Europe, Russia and Ukraine is very low, in terms of revenue and asset exposure, since most of our facilities are located in North America.

Conclusion

We are in the early stages of a transformation in the way the global economy is powered. The costs and disruptions brought on by this are only beginning to be recognised. Geopolitical factors will weigh on the pace of progress. Our belief, supported by demand forecasts from the International Energy Agency ("IEA") and other reputable commentators, is that oil and gas will continue to play a vital role in powering the global economy for many years to come, as the transition to lower carbon sources continues. Investment in new sources of oil and gas will be essential to any successful energy transition. To that end, Hunting will continue to be a provider of innovative, value-enhancing products to the energy sector, while we maintain efforts to diversify to adjacent sectors that recognise and reward our core competencies.

On behalf of the Board, I would like to recognise and thank all those who have contributed to the Company's success during this past year. It all starts with our workforce who have worked tirelessly during another challenging year. Our customers and suppliers have been fundamental to what we were able to achieve this past year. I want also to thank our shareholders for their support and commitment to the Company. We are well positioned to share in an improving market over the next year.



John (Jay) F. Glick
Chairman

3 March 2022



Total cash and bank at the year-end of \$114.2m was an excellent result for the Group."

The Group's diverse portfolio of products and manufacturing locations allows Hunting to have exposure to global onshore and offshore developments, and conventional and unconventional drilling projects.

Chief Executive's Statement & Outlook



Introduction

2021 has been a further year of challenge for Hunting, as global economies continued to be buffeted by COVID-19. The year commenced with a degree of optimism as vaccination programmes were rolled out across many countries. However, with the onset of COVID-19 variants, infection rates remained at levels that forced new lockdown measures to be implemented. This had the overall impact of suppressing the anticipated rate of economic recovery and a slower increase to energy demand than many commentators were projecting at the end of 2020. These market conditions, coupled with constrained capital budgets within Hunting's client base in the year, led to a further curtailment of drilling investment and equipment purchasing, particularly within the US offshore and international drilling markets.

The Group's trading performance in 2021 reflects a steady improvement in results for our US onshore businesses, including Hunting Titan, being offset by slower US offshore and international markets. A small, positive EBITDA result was recorded for the full year, however, the monthly sales run-rate increased in H2 2021, following a slow first half to the year. This performance demonstrates the Group's resilience when faced with subdued trading markets, which were supported by the decisive cost-cutting measures implemented in 2020 as COVID-19 gripped most economies.

Hunting Titan reported monthly increases to revenue throughout 2021, driven by the improving WTI oil price, and an increasing US onshore rig count. During Q4 2021, Titan reported a return to bottom-line profitability as sales of perforating guns, charges, and instruments all reported good customer demand.

The North America segment reported mixed results, as domestic and international offshore drilling remained subdued throughout the year.

The EMEA segment reported poor results as international drilling activity remained low throughout 2021.

The Asia Pacific segment also reported materially lower results in the year, compared to the prior year, as higher raw material and freight costs in China led to Hunting being less competitive within international OCTG tenders, leading to lower revenue for the segment.

Despite these results, Hunting has delivered a strong Quality Assurance and Health and Safety performance in the year. Management's focus on keeping our staff safe has remained a key priority in the year, with an equal focus on delivering for our clients, despite the market challenges that have persisted.

Group Strategy

Hunting's strategic focus remains on the global oil and gas industry and comprises core competencies in systems design and production, precision machining and print-part manufacturing.



The Group's diverse portfolio of products and manufacturing locations allows Hunting to have access to global onshore and offshore developments and conventional and unconventional drilling projects.

Underpinning this operating footprint, are strong, consistent Quality Assurance and Health and Safety protocols, which positions us as a leader in our chosen part of the energy supply chain.

These core competencies are applicable to many sectors, including medical, aviation, naval, space and other non-oil and gas applications.

During 2021, progress was made in positioning the Group for the return to growth of the oil and gas market, but also to enter new sectors with Hunting well placed as we start 2022.

Energy Transition

While oil and gas will remain a key input into primary energy supplies for the foreseeable future, low carbon technologies, which support the energy transition, continue to develop and Hunting is playing a part in the development of this sector.

In 2020, the Group set up an Energy Transition project team in Aberdeen to pursue projects that align with the evolving industry. As noted last year, Hunting was successful in winning a contract to supply OCTG to the geothermal project at the Eden Project in the UK, and in 2021 supported the completion of this project. As we enter 2022, our EMEA and Asia Pacific segments are pursuing projects in the geothermal and carbon capture and storage sectors, while developing knowledge within these high-growth areas. Hunting's core expertise in OCTG is highly complementary to these new markets and we look forward to greater participation in these areas going forward.

COVID-19

Due to COVID-19 persisting throughout the year, the Group has maintained strict Health and Safety protocols to ensure our staff remain protected.

Working from home provisions were maintained in line with national government guidelines, while social distancing protocols also remained in place at many of the Group's facilities.

As the year progressed, these restrictive working practices were reduced where appropriate; however, operating efficiencies continue to be impacted by COVID-19 measures.

Hurricane Ida

Hunting's Louisiana operations were impacted in the second half of the year by Hurricane Ida. Many of our employees lost their homes and some remain in alternative accommodation. While Ida impacted our operations for a number of weeks, the courage and resilience of our workforce, and the support provided by our businesses and workforce in Texas remains testament to the strong Hunting culture.

Industry Cost Inflation

Raw material and labour cost increases have been a feature across the media during the latter part of the year. Hunting is in a good position to pass on most input cost increases to clients, given the short order cycles across most of our businesses and the bespoke nature of some of our product lines. During H2 2021, Hunting began to implement price increases on certain product lines as market conditions improved to minimise inflationary pressures on our operating margins.

To support key employee retention, the Board approved the award of base salary increases across most areas of the workforce in October, as market conditions improved. This will protect our capabilities and enable us to continue to deliver for our customers.

The Group has set up an Energy Transition team in Aberdeen to pursue projects in this evolving segment of the industry."

Market Summary

Global drilling and production spend increased 4% in 2021 to \$143.2bn compared to \$137.3bn in 2020.

In Q1 2021, global onshore drilling expenditure was \$18.7bn, which rose steadily throughout the year to \$32.0bn in Q4 2021 as the WTI oil price increased, and reflected an increase of 71% across the first and last trading quarters of the year. The growth in global offshore drilling expenditure was slower across the year at 13%, increasing to \$10.8bn in Q4 2021 compared to \$9.6bn in Q1 2021, reflecting the capital discipline within our client base.

While this data supports improving onshore market conditions in the year, global drilling spend in 2021 was still 36% below the industry spend of \$222.0bn recorded in 2018, reflecting continued subdued market conditions driven by the COVID-19 pandemic.

The average global rig count in 2021 was 1,321 units, which compares to 1,312 units in 2020 underpinning the curtailed industry activity which persisted throughout the year.

This market data provides context to the Group's 2021 full-year outturn noted on the pages following.

Group Summary

	Underlying ⁱ		Reported	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Revenue	521.6	626.0	521.6	626.0
EBITDA ⁱⁱ	3.1	26.1	n/a	n/a
Loss from operations	(35.1)	(16.4)	(79.7)	(220.0)
Loss before tax	(40.6)	(19.4)	(85.5)	(223.0)
Loss for the year	(45.5)	(18.5)	(89.7)	(238.2)
Diluted LPS – cents	(27.1)	(10.0)	(53.2)	(143.2)

i. Results for the year, as reported under IFRS, adjusted for amortisation of acquired intangible assets and exceptional items.

ii. Non-GAAP measures (see pages 216 to 221).

Hunting reported a 17% decline in revenue in the year to \$521.6m, compared to \$626.0m in 2020. Revenue in H1 2021 was \$244.4m (H1 2020 – \$377.7m) and in H2 2021 was \$277.2m (H2 2020 – \$248.3m) supported by the higher oil price and improved US onshore activity.

Due to the improving US onshore market environment, which included a decrease in the drilled-but-uncompleted well inventory, Hunting Titan increased sales by 17% from \$161.7m in 2020 to \$189.3m in 2021. The segment has seen good demand for its perforating systems and energetics charges, and coupled with the successful introduction of new products including the H-3™ system, Pre-Loaded Guns and detonation cord, has delivered good sales growth in the year.

Within the North America segment, with the exception of the Subsea Spring and Trenchless units, all businesses reported a year-on-year decline in sales as US offshore and international projects slowed or were deferred. During 2020, the segment benefited from a stronger pre-COVID-19 order book, which unwound throughout the remainder of the year. Revenue in 2021 was \$254.6m compared to \$311.6m in 2020. Of note, however, is the success of the Subsea Spring business, which increased revenue by 47% in 2021 compared to the prior year, following a number of strong order wins. The Group's Premium Connection business also reported a strong increase in sales within Canada as the rig count increased, supported by renewed interest in the TKC 4040™ connection.

The EMEA segment reported a year-on-year decline in revenue as international activity levels reduced. Overall revenue was \$58.1m compared to \$78.8m in 2020; however \$3.2m of the decline relates to the Group's Singaporean Well Intervention business that was transferred with effect from 1 January 2021 to the Asia Pacific operating segment.

While most businesses within the EMEA segment reported year-on-year declines, the Group's Norway business did report an improvement in sales compared to the prior year due to increased interest in our completion and well intervention product lines.

The Asia Pacific segment has been impacted by higher raw material and freight costs in China, coupled with the removal of a tax break on OCTG products, which further impacted the segment's competitiveness within large international tenders. While these supply chain issues are now showing signs of abating, the segment's revenue in the year was \$48.1m in 2021 compared to \$109.3m in 2020.

Group EBITDA was \$3.1m in 2021 (2020 – \$26.1m). As noted in the 2020 Annual Report, the prior year result was predominantly generated in Q1 2020, before the onset of the pandemic. In H1 2021, the Group reported an EBITDA loss of \$3.6m as trading conditions reached a low point, followed by an EBITDA profit of \$6.7m in H2 2021 as the US onshore market returned to growth and international markets became more stable.

The underlying loss from operations of \$35.1m (2020 – \$16.4m) reflects the above EBITDA trading result.

The "middle-column" items impacting loss from operations were \$44.6m (2020 – \$203.6m), leading to a reported loss from operations of \$79.7m (2020 – \$220.0m).

Strategic Initiatives

(a) Restructuring

(i) European OCTG businesses

On 31 December 2021, Hunting announced the completion of a restructuring of its European Oil Country Tubular Goods ("OCTG") businesses. As part of the transaction, Marubeni-Itochu ("MI") purchased \$31.5m of OCTG inventory from the Hunting Energy Services (UK) Limited ("HES UK") businesses and will assume ownership and control over existing OCTG supply and storage contracts with clients in the North Sea. The Group has purchased MI's 40% interest in HES UK for \$3.8m as part of the restructuring.

HES UK has entered into a Preferred Manufacturer agreement with MI whereby OCTG threading, accessories manufacturing and storage services will be provided on an exclusive basis for an initial period of three years.

Hunting received a net cash inflow of \$27.7m, reflecting the purchase of MI's shareholding and the consideration for the purchased inventory. The Group's year-end inventory position has reduced accordingly, which supports management's drive to release cash from working capital to enable the Group to invest in new growth opportunities in its core energy and other markets.

The transaction led to \$8.6m of property and \$5.2m of inventory impairments being recorded, as well as a provision of \$0.9m for contractually committed pipe repairs. Further details of the transaction can be found in note 39.

(ii) US Pipe and Trenchless

In Q1 2021, the Group's US Pipe trading business group was merged with the Trenchless business to align with the US market outlook. Six employees left the Group following this restructuring.

(b) Investment in Cumberland Additive

In August 2021, the Group made a \$5.1m investment in Cumberland Additive Holdings ("CAH") for a 27% equity interest. CAH is a strong growth business providing 3D printing and additive manufacturing capabilities to clients operating in the oil and gas, aerospace and defence sectors. The investment provides Hunting with new manufacturing opportunities and new market channels, providing further potential for revenue diversification.

(c) Formation of Indian Joint Venture

In December 2021, the Group entered into an agreement for a 49:51 joint venture with Jindal SAW Limited ("Jindal") to pursue new growth opportunities in India. As part of the agreement, Hunting and Jindal have agreed to establish a premium connection threading facility in Nashik district, India, near Jindal's existing steel mill operations, with a proposed 130,000sq ft manufacturing footprint. The facility is targeted to be operational by the end of 2022, with up to three threading lines being commissioned over time with an annual capacity of 50,000 metric tonnes of OCTG. It is anticipated that the venture will employ c.100 staff when fully operational.

(d) Well Data Labs Convertible Financing

In February 2021, the Group entered into an agreement to provide \$2.5m of convertible financing to Well Data Labs ("WDL"), a software business focused on oil and gas drilling data analytics and machine learning. The business has rapidly grown a blue-chip customer base within the upstream energy industry since the company was founded in 2014.

Since the strategic arrangement was concluded, Hunting and WDL have begun a number of collaborative programmes, combining the Group's perforating products and instruments and the software of WDL.

(e) Launch of New Products

Hunting Titan has continued to launch new products to clients in the year, as US onshore drilling activity returned to growth. Titan launched the H-3™ perforating system in H2 2021, which is smaller than the H-1™ perforating system and aligns with evolving industry practice of using more perforating guns per stage during well completion procedures.

(f) Acceleration of Commercialisation of Organic Oil Recovery Technology

In 2021, the Group secured its first major well treatment programme with a Bahraini operator. The c.\$1.0m order will see the completion of a 30-well programme to increase production of mature fields.

Hunting is in the process of negotiating an extension to its exclusive marketing agreement with the owner of the technology, which will extend the Group's geographic footprint to include all countries in the Eastern hemisphere. The technology continues to be closely monitored by major international energy groups.

(g) Diversification

The Group has increased its focus on developing non-oil and gas revenue.

Within the North America operating segment, the Advanced Manufacturing group has made good progress in developing defence and medical sales.

The Group's Asia Pacific operating segment has continued the development and production of micro hydro generators. The business has installed units in the Philippines, with further orders to be completed in the early part of 2022.

(h) Operational Footprint

The Group's operating footprint has remained materially unchanged throughout the year with 31 operating sites (2020 – 31) and 14 distribution centres (2020 – 16) at year-end.

In Singapore, a facility consolidation is underway to combine all operating sites into a single location in the Tuas port region in order to reduce costs and improve efficiencies. All operating activities will be transferred to the new location by April 2022.

Outlook

Hunting's trading outlook continues to brighten as the world steadily escapes the negative economic impact of COVID-19.

Years of underinvestment in the energy sector have narrowed the gap between supply and demand fundamentally providing the basis for an increase in oilfield service activity due to enhanced profitability for our E&P clients.

For the Company, every business unit and region is witnessing increased demand for its products as evidenced by rising backlogs, which have notably expanded since the start of the year given a new budget cycle.

While COVID-19-related operational issues continue to persist into Q1 2022, albeit less as the days go on, the Company is well-positioned for a much-improved 2022 given our robust portfolio of technology-enhanced products coupled with the benefit of strategic moves undertaken in the past year.



Jim Johnson
Chief Executive

3 March 2022

Hunting's trading performance continues to be driven by global economic activity, commodity prices and geopolitical factors. During 2021, while major economies slowly began the exit from COVID-19, commodity prices increased steadily to multi-year highs in the year. This gives the Group confidence in a strong, sustained growth cycle in the short to medium term.

Introduction

The Group's financial performance is linked to the investment cycles of the global oil and gas industry. As such, our key market indicators are oil and gas pricing, global drilling spend and rig counts. Our major region of focus is North America, with our Hunting Titan and North America segments driven by offshore and onshore activity levels. In EMEA and Asia Pacific our businesses are linked to international drilling spend and rig counts, given the wide geographic sales mix of these segments. While the Group uses many market commentators to assist in our strategy development, our main source of market data is the Drilling and Production reports published by Spears & Associates. This data is used to support other financial disclosures, including impairment reviews for current and non-current assets.

Market Review

“

Increases in commodity prices throughout the year supported a stabilisation in global drilling activity and investment.”

Commodity Prices

As global economies began the roll out of vaccination programmes in the early part of the year, commodity prices began to increase, on the assumption that economic activity would accelerate. For the most part, these projections were confirmed; however, with spikes in infection rates, economic growth has been volatile.

The WTI crude oil price started 2021 at \$49 per barrel and closed the year at \$75 per barrel. The average price during the year was \$68 per barrel compared to \$39 per barrel in 2020, or an increase of 74% year-on-year.

Natural gas prices also saw strong increases during the year. This was due, in part, to geopolitical tensions in Europe, coupled with demand increases against a backdrop of lower supply.

The Henry Hub natural gas price started 2021 at \$2.54 per mmBtu and closed the year at \$3.73 per mmBtu. The average price during the year was \$3.72 per mmBtu compared to \$2.13 per mmBtu in 2020.

Increases in commodity prices throughout the year supported a stabilisation in global drilling activity and investment.

Activity levels, however, did not recover at the same pace as in historic cycles, as exploration and production companies increased shareholder returns at the expense of drilling new wells.

Global Drilling Spend and Rig Counts

Global drilling and production spend increased by 4% in 2021 to \$143.2bn, up from \$137.3bn in 2020.

This increase was wholly due to the improvement in onshore drilling expenditure, which increased from \$93.8bn in 2020, to \$101.6bn during the year, or an increase of 8%.

Offshore drilling expenditure decreased in 2021 by 4% to \$41.6bn compared to \$43.5bn in 2020.

As noted in the Chief Executive's Report and Group Review, this investment in onshore drilling, particularly in the US, has led to improving results in the Hunting Titan operating segment and Hunting's other onshore-focused business units, including the Group's operations in Canada.

The reduction in offshore drilling expenditure has, however, slowed the return to growth of the Group's North America, EMEA and Asia Pacific operating segments.

Global rig count data presents a broadly similar picture to the drilling and production expenditure profiles noted above. In 2021, the total global average rig count increased 1% from 1,312 active units to 1,321 units.

The global onshore rig count increased 2% to average 1,156 active units and the global offshore rig count declined 10% to average 165 active units.

WTI Oil Price
(\$ per barrel)



Source: FT

Henry Hub Natural Gas Price
(\$ per mmBtu)



Source: FT

Global Drilling and Production Expenditure
(\$bn)

● Offshore ● Onshore

2024f	56.5	171.9
2023f	52.7	152.5
2022f	47.9	131.5
2021a	41.6	101.6
2020a	43.5	93.8

Source: Spears & Associates

Global Rig Counts
(#)

● Offshore ● Onshore

2024f	1,610	206
2023f	1,494	197
2022f	1,352	183
2021a	1,156	165
2020a	1,129	183

Source: Spears & Associates

North America

Drilling activity in North America is weighted towards onshore projects, with operators comprising integrated energy majors and independent drilling companies. This market composition leads to quicker changes to activity as commodity prices move with economic activity and sentiment. In 2020, US onshore drilling activity responded rapidly to the impact of lower commodity prices and in 2021, as the WTI oil price increased, companies began re-committing to new onshore projects that have supported the Hunting Titan segment, and the onshore-focused businesses within the North America segment, which includes the Group's Canada business.

US onshore drilling and production spend increased by 8% in 2021 to \$70.8bn, up from \$65.5bn in 2020.

US offshore drilling expenditure decreased in 2021 by 21% to \$2.2bn compared to \$2.8bn in 2020.

In Canada, drilling expenditure increased 48% from \$6.9bn to \$10.2bn, as the rig count increased, which was supported in part by the strong pricing of Western Canada Select crude oil, which averaged \$54 per barrel in 2021 compared to \$28 per barrel in 2020.

The average US onshore rig count increased by 10% in 2021 to 459 active units compared to 419 units in 2020, which supported this new activity.

The average US offshore rig count declined by 13% in the year to 14 active units compared to 16 units in 2020.

In Canada, the average rig count increased by 46% in the year to 131 active units compared to 90 units in 2020.

International

Outside of North America, drilling spend and rig count data covers the Asia Pacific, Europe, the Middle East, Africa and Central and South America regions. As COVID-19 persisted throughout these economies, drilling activity remained curtailed as new lockdown measures and slower vaccination rollouts hampered recovery, despite the strong commodity prices being reported. This had the overall effect of curtailing activity within the Group's EMEA and Asia Pacific operating segments in the year. International onshore drilling and production spend decreased by 4% in 2021 to \$31.0bn from \$31.9bn in 2020. International offshore drilling expenditure also decreased in 2021, by 2% to \$39.1bn compared to \$40.1bn in 2020.

In 2021, international rig count movements, by region, were as follows:

Region	2020/2021 Rig Count Movement
Asia Pacific	-6%
Europe	-11%
Middle East	-22%
Africa	-10%
Central/South America	+27%

Source: Spears & Associates

The average international onshore rig count decreased by 9% in 2021 to 566 active units compared to 622 units in 2020. The average international offshore rig count declined by 10% in the year to 150 active units, compared to 166 units in 2020.

This market activity in Europe, the Middle East and Asia Pacific provides context to the Group's regional results as noted in the Group Review and Segmental Review.

North America Drilling and Production Expenditure

(\$bn)

● US onshore ● Canada ● US offshore

2024f	122.8	18.4	4.4
2023f	108.9	15.6	4.1
2022f	94.7	12.1	3.6
2021a	70.8	10.2	2.2
2020a	65.5	6.9	2.8

Source: Spears & Associates

International Drilling and Production Expenditure

(\$bn)

● Onshore ● Offshore

2024f	31.0	51.7
2023f	28.4	48.2
2022f	25.1	43.9
2021a	21.0	39.1
2020a	21.9	40.1

Source: Spears & Associates

North America Rig Counts

(#)

● US onshore ● Canada ● US offshore

2024f	700	189	19
2023f	635	175	18
2022f	566	149	17
2021a	459	131	14
2020a	419	90	16

Source: Spears & Associates

International Rig Counts

(#)

● Onshore ● Offshore

2024f	722	186
2023f	686	177
2022f	638	166
2021a	566	150
2020a	622	166

Source: Spears & Associates

Carbon Capture and Storage

A rapidly emerging sub-sector of the global energy market is carbon capture and storage ("CCS"), which aims to curtail the output of carbon-based gases into the atmosphere.

While this is a fledgling area of the market, the commitment of many of the Group's customers to this area is now a strong opportunity – and as such Hunting is pursuing participation in projects that offer good rates of return.

The chart below illustrates the approved CCS projects up to 2030 and beyond, indicating this will be a strong growth area in the short to medium term.

Hunting's product portfolio is well aligned with this sector, with the Group's OCTG, semi-premium and premium connections and accessory manufacturing providing a broad range of products applicable to CCS developers.

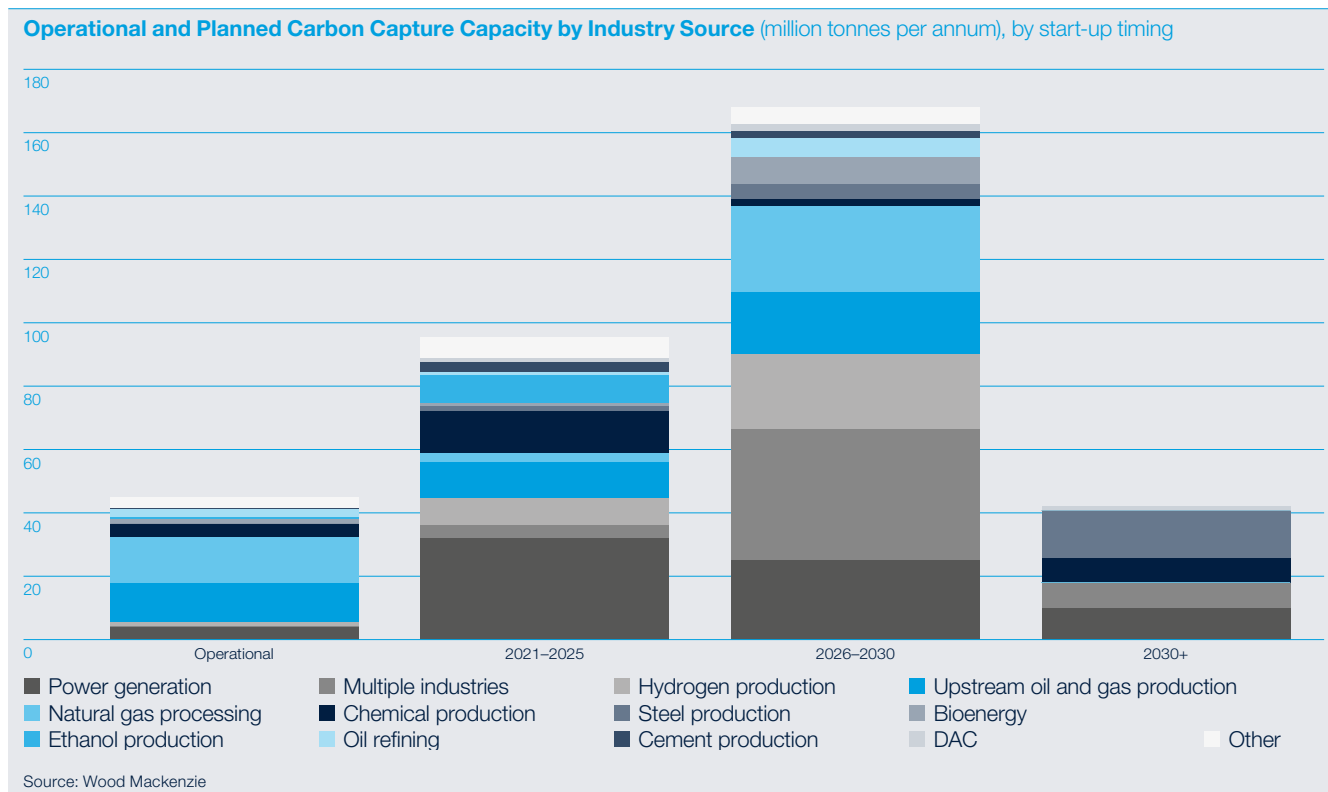
Outlook

The market outlook for oil and gas appears to be robust in the short to medium term with many commentators indicating that 2022 will see the start of a strong and sustained upcycle in respect of industry activity and drilling investment.

This is supported by current commodity pricing and the need for new drilling to deliver the anticipated levels of primary energy demand that are projected for the next decade.

Hunting remains well positioned to capture traditional and emerging growth opportunities within the global energy market as the sector returns to growth. Hunting Titan retains a strong market share, driven by its technology leadership in the area of unconventional resource development, while Hunting's Subsea businesses have delivered strong order wins in the international offshore arena.

In addition, the Group's OCTG businesses have the breadth and depth of technology to deliver new conventional energy projects as well as carbon capture and geothermal projects.



Total cash and bank increased to \$114.2m at 31 December 2021, primarily due to our European OCTG restructuring and strong working capital controls which were maintained in the year.

Group Review



Introduction

COVID-19 continued to impact the Group during 2021. However, as the WTI crude oil price increased steadily throughout the year, US onshore activity grew, which benefited the trading results of the Hunting Titan operating segment. The North America operating segment reported mixed results overall, given the subdued US offshore and international drilling markets. However, this performance was partially offset by positive activity in Canada. The EMEA operating segment continued to be impacted by COVID-19 lockdown measures, while the Asia Pacific operating segment reported materially lower revenue due to inflationary pressures emanating from China.

Hunting reported an EBITDA of \$3.1m (2020 – \$26.1m), which reflects the EBITDA loss of \$3.6m reported in H1 2021, followed by an EBITDA profit of \$6.7m in H2 2021 as market conditions improved.

Management remained focused on reducing working capital and generating cash in the year, with reductions in inventory generating cash of \$58.1m, including \$31.5m received from Marubeni-Itochu as part of the European OCTG business restructuring. Total cash and bank increased to \$114.2m at 31 December 2021 (2020 – \$101.7m), primarily due to our European OCTG restructuring and strong working capital controls in place throughout the year.

Market Summary

Global drilling and production spend increased 4% in 2021 to \$143.2bn compared to \$137.3bn in 2020.

In Q1 2021, global onshore drilling expenditure was \$18.7bn, which rose steadily throughout the year to \$32.0bn in Q4 2021 as the WTI oil price increased, and reflects an increase of 71% across the first and last trading quarters of the year.

Global offshore drilling expenditure was \$9.6bn in Q1 2021, increasing to \$10.8bn in Q4 2021, an increase of 13% across the year.

As detailed in the Market Review, the average US onshore rig count increased from 419 active units in 2020 to 459 units in 2021, while in Canada the average rig count increased from 90 units in 2020 to 131 units in 2021. The average US offshore rig count reduced from 16 units to 14 units.

The international average rig count reduced from 788 active units in 2020 to 716 units in 2021. The biggest decline was in the Middle East, where average rig counts declined 22%, in addition to reductions of 11% and 6% in Europe and Asia Pacific respectively.

Results from Operations

The Group reported a 17% decrease in revenue to \$521.6m (2020 – \$626.0m) driven by lower activity, but also capital discipline within the Group's client base which negatively impacted equipment purchasing. In H2 2021, the Group saw an improvement in trading with revenue for the period of \$277.2m, which was \$32.8m higher than H1 2021 and \$28.9m higher than H2 2020.

Revenue within the Hunting Titan segment increased 17% from \$161.7m to \$189.3m as onshore activity levels in the US and Canada improved throughout the year. Hunting Titan has been the first business to return to growth, as commodity prices and US onshore activity levels increased from Q3 2020 onwards. The segment's revenue profile during 2021 has been encouraging, given that it has traded ahead of management's expectations throughout the year.

The North America segment, which contains the Group's widest product offering, and which services both offshore and onshore US and Canadian drilling markets, recorded an 18% decline in its revenue in the year. The decline in North America was partly due to the disposal of the Drilling Tools business, which recorded revenue of \$8.9m in 2020, with the returns on our investment in Rival reported as part of the Group's share of associates' results.

While the North America segment saw modest demand for its premium and semi-premium connections, it also saw subdued trading, particularly within its US Manufacturing and Advanced Manufacturing businesses, as oil and gas equipment purchasing slowed further as capital discipline was maintained within the Group's client base. Offsetting this overall performance, Hunting's Subsea Spring business recorded a number of strong order wins for its titanium stress joints. In Q4 2021, it secured new orders in South America, including Brazil and Guyana, which positions the business well for 2022. Following the change to the Group's business model in Canada, which was implemented in August 2020, Hunting now outsources threading work to third parties. During 2021, strong demand for the Group's semi-premium and premium connections has been reported, leading to profitable trading for Hunting's Canada OCTG business in the year.

The Group's EMEA operating segment has seen challenging trading conditions throughout 2021, driven by new lockdown measures being implemented in the UK and countries across the European Union in the early part of the year, which impacted sentiment for the remainder of the year. As noted in the Chief Executive's Report, on 31 December 2021 Hunting announced a major restructuring of our European OCTG businesses, which included selling a significant proportion of inventory to Marubeni-Itochu, which has released capital back to the Group, in addition to taking 100% ownership of the Hunting Energy Services (UK) Limited business. The restructuring presents an opportunity for Hunting to consolidate its European operating presence further and to align the Group's UK and Netherlands businesses with the prevailing market outlook.

The Group's Asia Pacific operating segment also reported subdued trading, as COVID-19 continued to impact market sentiment, but also due to lower international tender wins in the year as raw material and freight costs increased in China, which reduced Hunting's competitiveness.

The continued impact of the market downturn has led to a reduction in the Group's underlying gross margin from 20% to 19%, as the under absorption of costs and some challenges on pricing continued. Underlying gross profit declined 19% from \$124.8m in 2020 to \$100.6m in 2021.

Group Segment Summary

Business unit	2021			2020		
	Segment revenue \$m	Underlying ⁱ result from operations \$m	Reported ⁱ result from operations \$m	Segment revenue \$m	Underlying ⁱ result from operations \$m	Reported ⁱ result from operations \$m
Hunting Titan	189.3	(0.9)	(9.0)	161.7	(5.6)	(126.0)
North America	254.6	(16.1)	(38.7)	311.6	(3.5)	(62.0)
Europe, Middle East and Africa	58.1	(11.2)	(26.2)	78.8	(12.0)	(33.9)
Asia Pacific	48.1	(6.9)	(6.8)	109.3	4.7	1.9
Central	–	–	1.0	–	–	–
Inter-segment elimination	(28.5)	–	–	(35.4)	–	–
Group segment total	521.6	(35.1)	(79.7)	626.0	(16.4)	(220.0)

i. Results for the year, as reported under IFRS, adjusted for amortisation of acquired intangible assets and exceptional items.

Exceptional items charged to cost of sales totalled \$35.7m in the year (2020 – \$56.7m), reflecting impairment of property, plant and equipment ("PPE") of \$8.6m, restructuring costs of \$1.2m and net inventory impairments of \$25.9m, as certain inventory was written down to its net realisable value due to reduced turn rates, increased ageing of inventories or inventory selling prices being lowered.

Reported gross profit was, therefore, \$64.9m compared to \$68.1m in 2020. Accordingly, the reported gross margin was 12% (2020 – 11%).

As a consequence of this performance, the Group reports an underlying loss from operations of \$35.1m (2020 – \$16.4m), with the underlying operating margin decreasing from -3% in 2020 to -7% in 2021.

Charges for the amortisation of acquired intangible assets and exceptional items recorded within the Group's 2021 half-year results totalled \$3.5m, comprising amortisation of acquired intangible assets of \$4.3m, restructuring costs of \$1.2m, a credit for the reversal of inventory impairments of \$0.8m, profit on disposal of Canadian assets of \$0.2m and a gain on the surrender of the Biggin Hill lease of \$1.0m.

In H2 2021, the Group recorded additional amortisation of acquired intangible assets of \$2.4m and exceptional items comprising net inventory provisions of \$26.7m, impairment of PPE \$8.6m, the settlement of a warranty claim of \$1.7m in relation to a corporate transaction, a loss on the disposal of a business of \$0.9m and restructuring costs of \$0.8m.

Amortisation of acquired intangible assets and exceptional items impacting loss from operations recorded in the year are summarised in the table below.

Amortisation and Exceptional Items	2021 \$m	2020 \$m
Amortisation of acquired intangible assets	6.7	17.3
Net inventory impairments	25.9	34.2
PPE impairments	8.6	19.4
Other impairments	–	124.3
Restructuring costs	2.0	10.3
Settlement of warranty claim	1.7	–
Loss on disposal of business	0.9	–
Acquisition costs	–	1.4
Profit on surrender of lease	(1.0)	–
Reversal of contingent consideration	–	(2.5)
Profit on disposal of Canadian assets	(0.2)	(0.8)
Total	44.6	203.6

The charges for amortisation and exceptional items impacting loss from operations totalled \$44.6m (2020 – \$203.6m), leading to a reported loss from operations of \$79.7m (2020 – \$220.0m). The reported operating margin was therefore -15% (2020: -35%).

Net finance expense during the year was \$2.0m (2020 – \$3.0m). The decrease is due to a lower interest expense on lease liabilities of \$0.4m and other finance expenses being lower.

The underlying loss from associates was \$3.5m in the year (2020 – \$nil), mainly reflecting the trading of Rival Downhole Tools Inc. ("Rival") where Hunting holds a 23.5% equity interest. An amortisation charge of \$0.3m was also recognised in the "middle column" on the intangible assets recognised on the acquisition of the Group's shareholding in Rival.

This has led to an overall underlying loss before tax of \$40.6m (2020 – \$19.4m).

After the "middle column" charges noted above, which totalled \$44.9m (2020 – \$203.6m), the reported loss before tax was \$85.5m (2020 – \$223.0m).

The Group's underlying tax charge was \$4.9m (2020 – \$0.9m credit), reflecting an effective tax rate ("ETR") for 2021 of -12% (2020: 5%). A tax credit of \$0.7m (2020 – \$16.1m charge) has been included in the consolidated income statement in respect of amortisation of acquired intangible assets and exceptional items.

The reported tax charge was therefore \$4.2m (2020 – \$15.2m) and the reported ETR was -5% (2020: -7%). The Group's ETR is significantly different to that which might be expected following the losses made by the Group and continues to be impacted by the mix of profits and losses in different businesses and is distorted when deferred tax is not fully recognised in loss-making jurisdictions.

The underlying loss after tax was therefore \$45.5m (2020 – \$18.5m) and the reported loss after tax was \$89.7m (2020 – \$238.2m).

The underlying diluted loss per share in the year was 27.1 cents (2020 – 10.0 cents). Reported diluted loss per share was 53.2 cents (2020 – 143.2 cents).

Cash Flow

Summary Group Cash Flow	2021 \$m	2020 \$m
Underlying EBITDA (NGM A)	3.1	26.1
Add: share-based payments	9.2	9.0
Working capital movements (NGM J)	12.3	35.1
Net tax received (paid)	22.8	38.8
Proceeds from business and asset disposals	0.6	(5.0)
Gains on business and asset disposals	35.9	3.9
Lease payments	(0.6)	(2.4)
Settlement of warranty claim	(10.6)	(10.4)
Restructuring costs	(1.7)	–
Other (NGM L)	(2.0)	(10.7)
Free cash flow (NGM M)	(2.3)	(1.5)
Capital investments (NGM K)	54.4	47.8
Intangible asset investments	(6.6)	(14.7)
Convertible financing – Well Data Labs	(2.7)	(4.3)
Investment in Cumberland Additive	(2.5)	–
Acquisition of businesses	(5.1)	–
Dividends paid to Hunting PLC shareholders and NCI	(3.8)	(34.2)
Net purchase of treasury shares	(12.8)	(9.1)
Share buyback	(7.6)	(9.2)
Net cash flow	–	(5.1)
Foreign exchange	13.3	(28.8)
Movement in total cash and bank	(0.8)	3.5
Opening total cash and bank	12.5	(25.3)
Closing total cash and bank (NGM H)	101.7	127.0
	114.2	101.7

Hunting reports an underlying EBITDA of \$3.1m in 2021 (2020 – \$26.1m) that, when adjusted for non-cash share-based payment charges, resulted in a cash inflow of \$12.3m (2020 – \$35.1m).

During the year, there was an inflow of working capital totalling \$22.8m (2020 – \$38.8m) as working capital remained an area of focus and tight controls were implemented across the Group's operations. Inventory reductions continued to impact cash flow favourably by \$26.6m, excluding the impact of the sale of \$31.5m of inventory to Marubeni-Itochu. Inventory days decreased in 2021 to 163 days (2020 – 270 days) (NGM D) as a result of the inventory cash inflows as well as the increase in impairment charges. As business activity levels improved in Q4 2021, trade and other payables increased resulting in an inflow of \$15.2m in the year. Receivables outflows were \$19.0m as receivables balances increased. Receivable days reduced to 87 days from 92 days at December 2020 (NGM E), as trading conditions stabilised throughout the year. Although there is an element of seasonality in the Group's operations, the overall impact of this on working capital and liquidity is not considered significant.

As a consequence of the taxable losses recorded by the Group, tax payments were limited and were offset by a refund in the UK of \$2.4m due to an overpayment made in 2020. This resulted in a net tax receipt of \$0.6m (2020 – \$5.0m paid) in the year.

Proceeds from the disposal of assets and businesses totalled \$35.9m (2020 – \$3.9m) and comprise \$31.5m for the disposal of the OCTG business to Marubeni-Itochu as part of the European OCTG restructuring, \$2.2m received for the held-for-sale property at the end of 2020 and \$2.2m for the disposal of PPE, including \$1.8m received on the disposal of Canadian assets.

Gains on business and asset disposals of \$0.6m (2020 – \$2.4m) relate to the gains on the disposal of PPE and held-for-sale assets.

During the year, \$10.6m (2020 – \$10.4m) was paid in relation to the Group's lease arrangements, including \$1.3m on the surrender of the Group's Biggin Hill lease.

In October 2021, the Group paid \$1.7m in settlement of a warranty claim in relation to the transfer of assets, and their condition, as part of a corporate transaction in 2020.

Restructuring costs paid totalled \$2.0m (2020 – \$10.7m) in the year, reflecting further efforts to reduce costs.

As a result of the above, free cash flow recorded a net inflow of \$54.4m compared to a net inflow of \$47.8m in 2020.

During the year, the Group made some targeted investments, comprising \$5.1m in Cumberland Additive Holdings Inc for a 27% equity share, \$2.5m in convertible financing to Well Data Labs and the acquisition of the 40% non-controlling interest in HES UK, which was purchased from Marubeni-Itochu for \$3.8m. In 2020, the Group invested \$34.2m in acquiring Enpro.

Capital investment was constrained during the year in order to conserve cash and totalled \$6.6m (2020 – \$14.7m). Expenditure in the year included \$4.1m on PPE within the North America segment, with \$0.5m in respect of the relocation of the Specialty business; \$1.1m within Hunting Titan, which included further investment in detonation cord manufacturing and Pre-Loaded Gun capacity; \$0.5m on PPE in EMEA; and \$0.4m in Asia Pacific.

Intangible asset investment was \$2.7m (2020 – \$4.3m), with \$2.3m in Hunting Titan relating to internal development costs for new products and technology.

Dividends paid to Hunting PLC shareholders in the year totalled 8.0 cents per share (2020 – 5.0 cents), which absorbed \$12.8m (2020 – \$8.2m). In 2020, a dividend of \$0.9m was also paid to non-controlling interests ("NCI"). A 2021 Final Dividend totalling 4.0 cents per share has been proposed by the Board, which will be paid on 13 May 2022, subject to approval by shareholders at the Company's Annual General Meeting.

During the year, 2.7m Ordinary shares were purchased as treasury shares through Hunting's Employee Benefit Trust for a total consideration of \$7.9m. These shares will be used to satisfy future awards under the Group's share award programme. This was offset by \$0.3m received on the disposal of treasury shares.

Overall, in the year, the Group recorded a net cash inflow of \$13.3m (2020 – \$28.8m outflow), which was predominantly driven by the net cash received following the restructuring of the Group's European OCTG businesses.

As a consequence of the above cash flows and \$0.8m foreign exchange losses, total cash and bank was \$114.2m (NGM H) at the year-end (31 December 2020 – \$101.7m).

Balance Sheet

Summary Group Balance Sheet

	2021 \$m	2020 \$m
Property, plant and equipment	274.4	307.1
Right-of-use assets	24.7	29.8
Goodwill	164.1	164.2
Other intangible assets	36.2	42.9
Investments in associates	19.4	18.1
Working capital (NGM C)	278.0	358.3
Taxation (current and deferred)	1.4	6.0
Provisions	(8.1)	(8.9)
Other net assets (NGM F)	2.7	1.6
Capital employed (NGM G)	792.8	919.1
Total cash and bank	114.2	101.7
Lease liabilities	(31.8)	(40.3)
Shareholder loan from NCI	(3.9)	(3.9)
Net cash (note 27)	78.5	57.5
Net assets	871.3	976.6
Equity shareholders' funds	869.9	964.4
Non-controlling interests	1.4	12.2
Total equity	871.3	976.6

Property, plant and equipment was \$274.4m at 31 December 2021 (2020 – \$307.1m). Additions of \$6.5m and other items of \$0.3m were offset by depreciation of \$28.9m, an impairment charge of \$8.6m relating to the UK OCTG facility at Fordoun following its change of use and expected cash flows, and disposals of \$2.0m.

Right-of-use assets totalled \$24.7m at 31 December 2021 compared to \$29.8m at 31 December 2020. The movement during the year included additions of \$2.1m and modifications of \$0.9m, offset by depreciation of \$6.7m, foreign exchange movements of \$0.3m and disposals of \$1.1m in respect of the surrender of the Group's lease at Biggin Hill, leading to an overall decline of \$5.1m being recorded.

Goodwill of \$164.1m was largely unchanged at the balance sheet date compared to the 2020 year-end position of \$164.2m.

Other intangible assets ("OIA") reduced by \$6.7m to \$36.2m at 31 December 2021, primarily due to the amortisation charge of \$9.3m recorded in the year (2020 – \$20.8m). The amortisation charge for the year is significantly lower following the impairment of customer relationships and unpatented technology in 2020. The total reduction to OIA, including foreign exchange movements of \$0.1m, was offset by additions of \$2.7m on internal development of new products and software systems.

Investments in associates increased by \$1.3m to \$19.4m at 31 December 2021. The acquisition of the 27% interest in Cumberland Additive for \$5.1m was offset by the Group's share of post-tax losses from associates recognised in the year of \$3.5m, together with an amortisation charge of \$0.3m on acquired intangible assets recognised on the acquisition of the Rival equity interest.

As part of the preparation of the full-year accounts, reviews of the carrying values of the Group's current and non-current assets were undertaken, including an assessment of triggers to impairments, given that a number of the Group's regional markets had not recovered at the rate assumed by management at the start of the year. At the year-end, net inventory provisions of \$25.8m were recorded as certain inventory was written down to its net realisable value due to reduced turn rates, increased ageing of inventories and inventory selling prices being lowered.

Working capital (NGM C) reduced by \$80.3m, with the balance at 31 December 2021 being \$278.0m (2020 – \$358.3m). The reduction was mainly driven by a net inventory reduction of \$84.0m that includes the \$31.5m disposal of OCTG to Marubeni-Itochu as part of the restructuring of the Group's European OCTG businesses and \$25.8m of net inventory impairments, together with management's ongoing drive to reduce stock levels across all of the Group's segments. Trade receivables increased by \$19.3m and payables increased by \$15.6m in the year as activity levels improved, particularly in Q4 2021. However, given the reduction in inventory, the Group recorded a reduction in working capital.

Net tax assets on the balance sheet have reduced from \$6.0m at 31 December 2020 to \$1.4m at 31 December 2021. This reduction reflected the tax charge for the year of \$4.2m, including \$1.6m for prior year true-ups and increases in deferred tax due to changes in tax rates of \$0.8m, net cash receipts of \$0.6m, with a small offset from foreign exchange movements.

Provisions decreased to \$8.1m (2020 – \$8.9m) in the year and other net assets increased by \$1.1m to \$2.7m (2020 – \$1.6m).

As a result of the above changes, capital employed in the Group decreased by \$126.3m to \$792.8m. The underlying return on average capital employed was -4% in 2021 compared to -2% in 2020 (NGM P).

Total cash and bank balances increased by \$12.5m, as described above, to \$114.2m (NGM H). Net cash (NGM I) at 31 December 2021 was \$78.5m (2020 – \$57.5m). Net cash includes \$31.8m of lease liabilities, which decreased by \$8.5m during the year.

Total equity at 31 December 2021 was \$871.3m, which, after non-controlling interests of \$1.4m, resulted in equity shareholders' funds of \$869.9m (2020 – \$964.4m). This is a decrease of \$94.5m over 31 December 2020 and reflects the reported loss for the year attributable to equity shareholders of \$85.8m; dividends paid of \$12.8m; and the net purchase of treasury shares of \$7.8m, being offset by a net credit of \$8.5m in relation to share awards and the acquisition of the non-controlling interest in HES UK from Marubeni-Itochu resulting in a gain of \$3.4m.

Financial Capital Management

Hunting ended 2021 with a robust balance sheet and a total cash and bank balance of \$114.2m (2020 – \$101.7m).

As noted below, the Group entered a new \$150m Asset Based Lending ("ABL") facility on 7 February 2022, which replaced the \$160m Revolving Credit Facility ("RCF"). Given the "covenant-light" structure of the ABL, the new facility has materially increased the Group's liquidity through the trading cycle and provides Hunting with a more flexible and reliable source of committed funding to pursue new growth opportunities.

In our Going Concern assessment on page 93, the Directors consider the likelihood that the Group will require access to our new facility, or any other source of external funding, to support our existing operations in the next 12 months as remote.

Capital employed is managed in order to ensure an appropriate level of financing is available for the Group's day-to-day operations. The balance of debt and equity is managed having due regard to the respective cost of funds and their availability.

The Group operates a centralised treasury function, with policies and procedures approved by the Board. These cover funding, banking relationships, foreign currency, interest rate exposures and cash management, together with the investment of surplus cash.

The Group operates in a number of geographic territories and results are generated in a number of different currencies. The US dollar is the most significant functional currency; however, where this is not the case, the Group is subject to the effects of foreign exchange rate fluctuations with respect to currency conversions. Individual entities are generally required to borrow from the central treasury function in their functional currency. The treasury function's strategy is to manage its own currency exposure by using foreign exchange swaps to convert US dollars into the different currencies required by the entities. Spot and forward foreign exchange contracts are also used to mitigate the exposure caused by purchases and sales in non-functional 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 31.

(a) \$160m Revolving Credit Facility

While the Group maintained a healthy total cash and bank balance throughout the year, the Group retained its \$160m multi-currency RCF, with the bank covenants and terms remaining unchanged until the facility was cancelled on 7 February 2022. The covenants prevailing during 2021, which exclude the impact of IFRS 16 adoption for covenant testing purposes, included:

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

The revolving credit facility was not utilised in the year.

For covenant testing purposes, the Group's definition of EBITDA is adjusted to exclude exceptional items, include the share of associates' post-tax results and exclude the fair value charge for share awards. Similarly, net cash/debt and finance expenses are adjusted to accord with the definition within the facility agreement and accordingly exclude the lease liabilities recognised following the adoption of IFRS 16. EBITDA, for covenant testing purposes, is based on the previous 12-month period, measured twice yearly at 30 June and 31 December.

During the year, it was necessary for the Group to obtain a covenant compliance waiver from the RCF lenders in respect of the 30 June test date, specifically with regards to the interest cover covenant, as described above, despite having total cash and bank balances of \$105.7m and no loans outstanding under the RCF as at that date. The Group reported a negative consolidated EBITDA outcome (based on the RCF adjusted EBITDA definition) for the 12 months to 30 June 2021 and consequently the Group was unable to access the RCF at any point from July 2021 onwards. The Group obtained a precautionary covenant compliance waiver from the RCF lenders in respect of the 31 December test date prior to the year-end, again with regards to the interest cover covenant. However, as a result of the positive cash balances held by the Group throughout the year, the net debt-to-EBITDA covenant had been met for the 12 months to 30 June 2021 and also for the successive testing period ending on 31 December 2021.

Further details of the facility, including the terms and conditions applicable until its cancellation, are given in note 31.

(b) \$150m Asset Based Lending Facility

On the 7 February 2022, the Company concluded a refinancing of its core borrowing facilities by entering into a new \$150m Asset Based Lending facility ("ABL"). The ABL facility has a four-year term, maturing on 7 February 2026 and replaces the \$160m Revolving Credit Facility, as described above, that was cancelled as part of the ABL completion process. An accordion feature of up to \$50m has also been agreed. Assuming there is Lender support to do so at the appropriate time, this feature allows the Company to increase the total facility quantum to \$200m.

Although the ABL is a "covenant-light" funding solution, financial covenants are still a feature. However, unlike the RCF, the ABL financial covenants are only measured under certain conditions, principally once utilisation of the facility goes through a predefined threshold i.e. 87.5% of the "Line Cap" ("Line Cap" is defined as the lesser of the total facility amount and the Borrowing Base), at which point the Fixed Charge Cover Ratio ("FCCR") is measured and must be complied with. The FCCR is a financial covenant that looks back over the trailing 12-month period to assess whether EBITDA (as defined by the ABL facility agreement) covers the Company's Fixed Charges (again, as defined by the facility agreement) at a ratio of at least 1:1.

The main objective of the refinancing was to deliver a more flexible funding arrangement, leveraging the strength of the Company's balance sheet to unlock bank funding by linking the Company's borrowing capacity to secured asset values rather than earnings. The ABL construct provides a degree of insulation against the historical cyclical of the oil and gas sector and the sensitivity of a conventional RCF earnings based covenant regime.

The three asset classes that form the "Borrowing Base" against which bank capital can be advanced are North American trade receivables, inventories and freehold properties. These asset classes have demonstrated strong value resilience "through the cycle". The Borrowing Base may be recalibrated periodically based on the then-prevailing in-scope asset values, as would be typical for facilities of this nature. Accordingly, availability under the ABL facility will fluctuate to the extent that the underlying asset values change over time, either up or down.

Whereas the RCF depended on a certain level of EBITDA being maintained to access the facility, the amount available in an ABL structure moves in line with the borrower's balance sheet, which, in Hunting's case, is historically much more stable than earnings. It is this robustness in Hunting's balance sheet that underpins the commercial justification for moving the Company's funding base from a conventional earnings-based RCF into an ABL arrangement.

At inception of the ABL (and annually thereafter), a field examination and asset appraisal process will be completed by specialist, bank-appointed, third-party valuation firms in order to assess the nature and commercial viability of the secured ABL assets so that appropriate discounts, or "advance rates", can be determined. The initial asset appraisals were completed in H2 2021 and consequently the advance rates to be applied in each category for the first 12 months of the ABL's tenor were imputed. Applying these advance rates to the December 2021 carrying values of the in-scope asset classes, Hunting's opening availability under the ABL is in excess of \$100m.

The opening availability at 7 February 2022 is based on in-scope trade receivables and inventories balances. The legal process that will finalise accession of the in-scope freehold properties is expected to complete during March 2022, at which point an additional \$50m will be added to the Borrowing Base.

The ABL structure will provide the Group with access to consistently higher levels of committed liquidity than would have been available under the now-cancelled RCF, due to significantly reduced sensitivity to the prevailing earnings environment. It is management's view, therefore, that the primary refinancing objective has been accomplished and this new ABL facility provides a strong foundation to support the strategic growth aspirations of the Company.

On behalf of the Board



Jim Johnson
Chief Executive

3 March 2022



Bruce Ferguson
Finance Director

2021 has seen a steady improvement in US onshore activity, driven predominantly by the higher WTI crude oil price. Our US offshore and international businesses were adversely impacted by the slower-than-anticipated rate of recovery.

All our segments have made steps to position themselves for the future, including new technology development, revenue diversification and preparing for the energy transition.

Segmental Review

Hunting Titan

The segment saw a return to growth in 2021, as the US onshore rig count increased and drilling expenditures accelerated as commodity prices improved.

Hunting Titan launched new products in the year, including the H-3™ perforating system, which aligns with evolving onshore completion techniques. The business also increased its capacity for Pre-Loaded Guns to address customer demand. To meet this increasing demand, Hunting Titan has reopened its manufacturing facility at Oklahoma City.



Overview

Strategic Report

Corporate Governance

Financial Statements

Other Information



North America

The segment's sales declined year-on-year, as US offshore and international drilling projects slowed.

The Subsea Spring and Trenchless business units did, however, report revenue increases during 2021 as new orders were secured for the Group's titanium stress joints, as well as the ongoing robust investment in US infrastructure.

Hunting's Premium Connection business has also reported good sales growth in Canada, as drilling investment increased.

EMEA

Activity levels across the EMEA region declined in 2021 as new lockdown measures were implemented in the first half of the year, which impacted drilling in the UK, Europe and the Middle East.

The Group restructured its European OCTG operations to prepare for the region's return to growth. As part of this process, Hunting purchased the 40% equity interest in the Hunting Energy Services (UK) Limited business not already owned and is now the sole shareholder in the business.

The management team in Europe has formed an Energy Transition team to pursue new carbon capture and geothermal projects, with a project delivered in the UK in 2021.



Asia Pacific

The Asia Pacific segment was impacted by rising raw material and freight costs in China, which reduced our competitiveness within large international OCTG tenders. The segment has, however, continued to win smaller tenders in the year.

The Group's Singapore operations are currently being consolidated into a single location, which is expected to be completed by April 2022.

The segment also completed its first sales of its micro hydro generators, as part of efforts to diversify its revenue streams.



Hunting Titan

		2021	2020
Market Indicators*			
US Land – average rig count	#	459	419
Canada – average rig count	#	131	90
Revenue			
Perforating	\$m	66.1	48.8
Energetics	\$m	49.1	41.6
Instruments	\$m	61.9	60.6
Perforating Systems	\$m	177.1	151.0
Other product lines	\$m	7.3	6.0
External revenue	\$m	184.4	157.0
Inter-segment revenue	\$m	4.9	4.7
Segment revenue	\$m	189.3	161.7
Profitability			
Reported operating loss	\$m	(9.0)	(126.0)
Acquisition amortisation and exceptional items	\$m	8.1	120.4
Underlying operating loss	\$m	(0.9)	(5.6)
Underlying operating margin	%	0	-3
Cash flow			
Capital investment	\$m	1.1	3.9
Balance sheet			
Property, plant and equipment	\$m	54.0	57.6
Inventory	\$m	85.5	105.9
Operational			
Headcount (period end)	#	517	380
Headcount (average)	#	449	481
Operating sites	#	5	4
Service and distribution sites	#	12	14
Operational footage	Kft ²	651	613

*Source – Spears & Associates DPO December 2021.

Introduction

Hunting Titan's business focuses predominantly on the US and Canadian onshore drilling and completion markets. The segment manufactures from five main operating sites, four in the US and one in Mexico.

Hunting Titan has a network of distribution centres throughout the US and Canada, from which the majority of the segment's sales are derived.

In more normal markets, Hunting Titan utilises the global manufacturing footprint of the wider Group to assist in meeting customer demand. In the year, the Electronics business continued to manufacture switches for Titan.

Market Overview

US onshore drilling and production spend increased by 8% in 2021 to \$70.8bn, up from \$65.5bn in 2020. The average US onshore rig count increased by 10% in 2021 at 459 active units compared to 419 units in 2020.

In Canada, drilling expenditure increased 48% from \$6.9bn in 2020 to \$10.2bn in 2021, while the average rig count increased by 46% in the year to 131 active units, compared to 90 units in 2020.

This market data underpins the strengthening performance of Hunting Titan throughout the year.

With the steady decrease in drilled-but-uncompleted wells ("DUCs") since mid-2020, along with limited investment in new wells, Hunting Titan has reported good demand for its products as new completion activity grew which, along with the increase in the number of active frac-crews in the year, supported growth in 2021 and provides a robust outlook for the business into 2022.

Segment Performance

Segment revenue increased 17% to \$189.3m (2020 – \$161.7m), given the strengthening US and Canadian onshore drilling markets. With increasing sales, the segment was able to return to bottom line profitability during Q4 2021, although reporting an underlying loss from operations of \$0.9m for the full year (2020 – \$5.6m).

During the year, Hunting Titan's international sales have increased by 23% from \$22.2m in 2020 to \$27.2m in 2021, as interest in the Group's various product lines increased in Asia Pacific, the Middle East and South America.

Following the charge for amortisation of acquired intangible assets of \$4.9m (2020 – \$14.8m) and exceptional items of \$3.2m, including \$3.1m of net inventory impairments, the reported loss from operations for the year was \$9.0m (2020 – \$126.0m).

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

Perforating Guns and Hardware

Sales of Perforating Guns and Hardware increased by 35% in the year from \$48.8m in 2020 to \$66.1m, as market conditions improved across the US and Canada.

The H-1™ perforating system continues to see modest demand and in the year the H-3™ perforating system was launched to clients, leading to good customer uptake in H2 2021. The H-3™ system is shorter than the H-1™ system and other conventional guns, in line with industry efforts to reduce tool string length and weight.

Hunting Titan also increased the manufacturing capacity for its Pre-Loaded Gun offering in the year, which has seen good demand from customers. The Group has invested in its Milford, Pampa, DuBois and Odessa facilities to meet this increasing demand.

The business has continued to roll out its E-Gun perforating gun to international clients and during 2021 received interest from Norway, Saudi Arabia and other key drilling regions. Management notes that US completion practices continue to be adopted internationally, which has supported increased interest for Hunting Titan's products outside of North America.

Energetics

Sales of Energetics charges and associated products increased from \$41.6m in 2020 to \$49.1m in 2021 as the North America onshore drilling market continued its return to growth.

The business has seen a further increase in the demand for its EQUAfrac™ consistent hole shaped charges. In line with the evolving market, Hunting Titan increased its bundled product offering to clients, to include charges, switches and detonation cord, which contributed to the increase in revenue in the year.

Hunting Titan has also started discussions with a number of defence-related customers to develop products outside of the oil and gas industry.

A ControlFire® Exploded Foil Initiator Cartridge.



Instruments

Sales of Hunting Titan's Instruments product lines have increased from \$60.6m in 2020 to \$61.9m in 2021.

The T-Set One rental tool offering continues to gain traction within North America.

New Technology

New products and systems continue to be a critical element of Hunting Titan's growth strategy and, in 2021, the business launched technology to clients to align with the evolving completions market.

The business has launched the H-3™ perforating system, as noted above, and has commenced the development of a new self-orienting perforating system to align with customer needs.

Hunting Titan also commercialised new EQUAfrac™ shaped charges, which not only address the demand for self-orienting products in the US market, but also charges for plug and abandonment products in international markets.

The HT71 modular detonator was launched, in tandem with the H-3™ system.

The business also introduced new variants of its detonation cord, which incorporates HMX technology.

In December 2021, Hunting Titan concluded a licence agreement with Nammo Defense Systems Inc. to utilise its extrudable time delay technology for completion processes. Time delay fuses provide a controlled delay for operators to position perforating guns after commencing the firing sequence in a tubing-conveyed perforating operation. The licensing agreement allows Hunting Titan to enter the oil and gas market with its own version of time delay products and removes constraints associated with purchasing time delay fuses from outside manufacturers.

As noted in the Chief Executive's Report, Hunting has provided convertible financing to Well Data Labs ("WDL"). Hunting Titan has commenced a number of product development programmes with the business to integrate WDL's software into Hunting Titan's instrumentation products as well assisting the development of other new product lines.

In Q1 2022, Titan will also launch a new Perf+ automated shooting panel for use on the ControlFire™ platform.

Manufacturing and Distribution

Hunting Titan aligned its manufacturing and distribution footprint with the strengthening onshore market conditions across North America, leading to the reopening of the Oklahoma City manufacturing facility and the closing of two distribution centres in the year.

At the year-end, the business operated from five operating sites and 12 distribution centres, located in the US, Canada and Indonesia.

Other Financial Information

During the year, Hunting Titan recorded capital investment of \$1.1m (2020 – \$3.9m) mainly relating to investment in Hunting's Pre-Loaded Gun and detonation cord product lines.

Inventory decreased by \$20.4m to \$85.5m in the year, as efforts to work off excess stock continued, in addition to an increase in provisions of \$3.7m.

As the US onshore drilling market improved throughout the year, selected recruitment commenced within the segment, leading to a 36% year-on-year increase in headcount to 517 (2020 – 380).

North America

		2021	2020
Market Indicators*			
US Land – average rig count	#	459	419
US Offshore – average rig count	#	14	16
US Total – spend	\$bn	73.0	68.4
Canada – average rig count	#	131	90
Canada – spend	\$bn	10.2	6.9
Revenue			
OCTG & Premium Connections	\$m	97.1	112.1
Advanced Manufacturing	\$m	55.4	71.7
Subsea	\$m	58.8	69.8
Drilling Tools	\$m	–	8.9
Intervention Tools	\$m	5.8	6.1
Other product lines	\$m	15.8	15.0
External revenue	\$m	232.9	283.6
Inter-segment revenue	\$m	21.7	28.0
Segment revenue	\$m	254.6	311.6
Profitability			
Reported operating loss	\$m	(38.7)	(62.0)
Acquisition amortisation and exceptional items	\$m	22.6	58.5
Underlying operating loss	\$m	(16.1)	(3.5)
Underlying operating margin	%	-6	-1
Other financial measures			
Capital investment	\$m	4.1	8.8
Property, plant and equipment	\$m	195.1	211.6
Inventory	\$m	78.1	105.0
Operational			
Headcount (period end)	#	836	880
Headcount (average)	#	837	1,150
Operating sites	#	14	15
Service and distribution sites	#	2	2
Operating footage	Kft ²	1,380	1,403

*Source – Spears & Associates DPO December 2021.

Introduction

Hunting's North America segment incorporates the US businesses and the OCTG business in Canada and generates revenue from all the Group's product lines. On 1 January 2021, the US and Canada segments were merged, with prior-year financial data being restated to reflect this change in reporting.

The main areas of focus for most businesses in the segment are the domestic US and Canada markets, with the Subsea and Advanced Manufacturing businesses more internationally focused. In addition, the segment manufactures components on behalf of Hunting Titan when required.

The segment also generates a large proportion of the Group's non-oil and gas sales, which are derived from the Trenchless business that services the telecommunications sector, and the Advanced Manufacturing group.

Market Overview

US onshore drilling and production spend increased by 8% in 2021 to \$70.8bn, up from \$65.5bn in 2020, while US offshore drilling expenditure decreased in 2021 by 21% to \$2.2bn compared to \$2.8bn in 2020.

The average US onshore rig count increased by 10% in 2021 to 459 active units compared to 419 units in 2020, which supported Hunting's onshore businesses within the North America segment. The average US offshore rig count declined by 13% in the year to 14 active units compared to 16 units in 2020.

In Canada, drilling expenditure increased 48% from \$6.9bn in 2020 to \$10.2bn in 2021, while the average rig count increased by 46% in the year to 131 active units compared to 90 units in 2020.

Segment Performance

The segment's performance in 2020 reflected stronger trading in Q1, supported by a robust order book, which slowly unwound throughout the year. This led to the Group's North America businesses starting 2021 with lower backlogs leading to the lower sales reported in the year. However, in the second half of the year, a notable increase in the order book was reported. Segment revenue therefore decreased 18% from \$311.6m in 2020 to \$254.6m in 2021, with \$8.9m of the decline relating to the Drilling Tools business that was sold in December 2020. The underlying operating loss for the segment widened in the year to \$16.1m (2020 – \$3.5m). This reflected the strong capital discipline put in place by customers, which limited equipment purchasing during the year, the decline in US and global offshore drilling markets, and the continued impact of COVID-19, resulting in slower economic growth and impacting operating efficiency. Following the charges for the amortisation of acquired intangible assets and exceptional items, which totalled \$22.6m in the year (2020 – \$58.5m) and included \$18.1m net inventory provisions, the segment recorded a reported loss from operations of \$38.7m (2020 – \$62.0m).

OCTG, Premium Connections and Accessories

The Group's OCTG, Premium Connections and Accessories businesses now incorporate results from Canada, given the merging of the US and Canada segments on 1 January 2021.

Hunting's Premium Connections business, while reporting a year-on-year decline in revenue, saw a solid contribution from Canada, driven by the increasing rig count, but also from a strong, renewed interest in the TKC 4040™ semi-premium connection for heavier oil drilling applications. In Canada, Hunting has a number of third-party licencees for its connection technology which have supported this demand in the year. In the US, the Group's TEC-LOCK Wedge™ connection reported sustained demand from onshore clients while, offshore, Hunting's WEDGE-LOCK™ connection continued to report modest demand from a number of clients who continued their drilling programmes in the Gulf of Mexico.

The Group's Accessories Manufacturing business reported difficult trading during 2021 as US offshore and international drilling markets continued to decline. In H2 2021, the business was also impacted by Hurricane Ida, which halted production at its Louisiana facilities for between two to three weeks as local infrastructure was repaired.

Advanced Manufacturing

The Advanced Manufacturing group comprises the Dearborn, Electronics and Specialty business units.

In the year, the Dearborn and Electronics businesses continued to be impacted by subdued global oil and gas markets, predominantly driven by the cost discipline of clients leading to lower capital equipment purchasing for downhole MWD/LWD tools.

Despite this, the Electronics business continued to support Hunting Titan in the manufacture of firing switches for onshore drilling clients. The unit also continued to diversify its revenue and, in the year, secured new sales for medical and military applications following qualifications received in prior years.

The Dearborn business also continued to diversify its revenue and, during 2021, secured new orders from SpaceX and Blue Origin for their commercial space programmes.

Revenue and losses within the Specialty business were broadly consistent with 2020, despite the increase in US onshore rig count, with customer capital constraints limiting activity.

Subsea

Hunting's Subsea business comprises the Stafford, Spring and Enpro business units.



Following the acquisition in August 2019, the Subsea Spring unit has made strong progress under Hunting's ownership and, in the year, secured a number of major orders for its titanium stress joints for projects in the Gulf of Mexico, Guyana and Brazil. This has led to a material increase in year-on-year revenue. In December 2021, the business secured a major multi-year contract with ExxonMobil whereby titanium stress joints will be applied to floating production, storage and offloading units.

The Subsea Stafford and Enpro businesses, after a strong 2020, have reported lower sales in 2021 as some offshore projects were deferred. However, with the increased oil price, new tenders have increased in the year, supporting a stronger outlook for the businesses.

Intervention Tools

Well intervention tool sales were marginally lower in the year compared to 2020, despite the increasing onshore drilling activity across North America.

Trenchless

Hunting's Trenchless business has reported a year-on-year increase in revenue, as 5G fibre rollouts continued across the US along with other new infrastructure investment.

The business also incorporates Hunting's Pipe trading interests, which were merged early in 2021 as part of a restructuring undertaken in response to the general market outlook.

Other Financial Information

During the year, the North America segment recorded capital investment of \$4.1m (2020 – \$8.8m), primarily due to \$1.5m of equipment purchases and upgrades at the Group's facilities at Ameriport and Trenchless; \$0.7m on rental fleet; \$0.5m was spent as part of the relocation of Specialty to the Group's Conroe facility; and other items of \$1.4m.

Inventory decreased by \$26.9m to \$78.1m as efforts to reduce stock and generate cash continued throughout the year. The fall of \$26.9m is largely due to increased inventory provisions; however, reductions were also achieved through the focus on minimising working capital. Provisions for pressure control equipment inventory increased by \$11.3m as the turn rates in 2020 and 2021 substantially reduced as a result of capital constraints applied by customers during the global downturn.

The segment relocated its Specialty business to the Group's former Drilling Tools facility at Conroe, leading to the closure of one operating site.

The year-end headcount decreased to 836 (2020 – 880), as further cost-reduction measures were implemented, specifically within the US Manufacturing and Pipe business units.

EMEA

(Europe, Middle East and Africa)

		2021	2020
Market indicators*			
Europe – average rig count	#	81	90
Europe – well count	#	711	778
Europe – spend	\$bn	12.5	11.9
North Sea – average rig count	#	26	22
North Sea – spend	\$bn	11.2	10.2
Middle East – spend	\$bn	16.6	20.4
Revenue			
OCTG & Premium Connections	\$m	30.3	42.2
Intervention Tools	\$m	15.4	24.4
Perforating Systems	\$m	4.6	3.5
Other product lines	\$m	7.4	8.0
External revenue	\$m	57.7	78.1
Inter-segment revenue	\$m	0.4	0.7
Segment revenue	\$m	58.1	78.8
Profitability			
Reported operating loss	\$m	(26.2)	(33.9)
Acquisition amortisation and exceptional items	\$m	15.0	21.9
Underlying operating loss	\$m	(11.2)	(12.0)
Underlying operating margin	%	-19	-15
Other Financial Measures			
Capital investment	\$m	0.5	1.0
Property, plant and equipment	\$m	9.7	11.6
Inventory	\$m	23.1	59.7
Operational			
Headcount (period end)	#	224	229
Headcount (average)	#	220	279
Operating sites	#	8	8
Operating footage	Kft ²	236	236

*Source – Spears & Associates DPO December 2021.

Introduction

Hunting's European operations comprise businesses in the UK, Netherlands and Norway. These operations provide OCTG (including threading, pipe storage and accessories manufacturing) and well intervention products in the UK; OCTG and well testing equipment manufacturing in the Netherlands; and well intervention services and distribution in Norway. Hunting's Middle East operations are located in Dubai, UAE and Dammam, Saudi Arabia. The Group's operations in Saudi Arabia are through a 65% arrangement with Saja Energy.

From 1 January 2021, the Group's Singaporean Well Intervention business was transferred to the Asia Pacific operating segment as part of a management restructuring. This contributed to the lower revenue reported by the EMEA segment in the year.

On 31 December 2021, Hunting announced the completion of a restructuring of its European Oil Country Tubular Goods ("OCTG") businesses. As part of the transaction, Marubeni-Itochu ("MI") purchased \$31.5m of OCTG inventory from the Hunting Energy Services (UK) Limited ("HES UK") businesses and will assume ownership and control over existing OCTG supply and storage contracts with clients in the North Sea.

HES UK has entered into a Preferred Manufacturer agreement with MI whereby OCTG threading, accessories manufacturing and storage services will be provided on an exclusive basis for an initial period of three years.

This restructuring simplifies the Group's presence in the North Sea and positions Hunting for the return to growth anticipated for the region.

Market Overview

The Group's EMEA markets further declined in 2021, as COVID-19 continued to impact sentiment within Hunting's client base. Across the European region as a whole, the average rig count declined from 90 units to 81 units. However, drilling spend in the region increased marginally from \$11.9bn in 2020 to \$12.5bn in 2021.

In the Middle East, drilling spend decreased from \$20.4bn in 2020 to \$16.6bn in 2021, with the average rig count reducing from 316 to 246 units. The declines in rig count recorded in the Middle East were particularly high in Kuwait and Saudi Arabia.

Segment Performance

The EMEA operating segment's revenue was \$58.1m in the year compared to \$78.8m in the prior period as activity levels declined, leading to an underlying operating loss of \$11.2m compared to a loss of \$12.0m in 2020. As noted above, the Singaporean Well Intervention business was transferred to the Asia Pacific segment at the start of the year, which had contributed \$3.2m in sales in 2020.

Following the charges for the amortisation of acquired intangible assets and exceptional items, which totalled \$15.0m, the reported operating loss was \$26.2m compared to a loss of \$33.9m in 2020.

OCTG

The Group's North Sea business started 2021 with a degree of optimism, as clients began detailed planning of drilling programmes for completion in the year. With new lockdown measures implemented, the market recovery slowed materially, leading to an overall year-on-year decline in revenue, as projects were again deferred and ad-hoc pipe sales slowed. The business continued to support those customers which sustained their drilling plans and, in the second half of the year, the order book of the UK business increased. Within the Netherlands OCTG operation, a major order was secured with Tubacex in Spain for a project in South America, which is due to be delivered in 2022-23.

As the year progressed, the business secured price increases on its existing contracts. In addition, with the restructuring noted above, Hunting can focus on its core expertise of pipe threading and accessories manufacturing, which provides the opportunity for further working capital efficiency gains in the future.

Well Intervention and Well Testing

The segment's well intervention revenue was down by more than one-third versus 2020. However, the majority of the decline arose due to two large orders for Qatar that were placed in early 2020 prior to the COVID-19 outbreak, with the remainder due to capital discipline being applied by customers.

In Norway, the Group reports higher revenue in the year, as interest in Hunting's perforating and well intervention product lines increased.

Organic Oil Recovery

In the year, the Organic Oil Recovery technology continued to increase in profile across the industry, particularly in the Middle East. The segment received its first commercial sales order in the year for a multi-well treatment programme. Other field trials have been successfully completed, which have delivered strong increases in the production for end-of-life fields. These trials have served to broaden interest with major integrated energy companies in the Middle East and Central Asia.

Other Financial Information

During the year, there was limited investment in property, plant and equipment.

Inventory declined by \$36.6m compared to December 2020, with \$31.5m sold as part of the restructuring deal with Marubeni-Itochu after \$5.2m of impairment had been reflected as part of the transaction values agreed.

There was a modest decline in the year-end headcount from 229 at the end of 2020 to 224. As part of the deal with Marubeni-Itochu, 11 employees will be transferred in 2022.

Asia Pacific

		2021	2020
Market Indicators*			
Far East – average rig count	#	160	171
Far East – spend	\$bn	12.8	12.5
Middle East – spend	\$bn	16.6	20.4
Revenue			
OCTG & Premium Connections	\$m	42.0	107.2
Other product lines	\$m	4.6	0.1
External revenue	\$m	46.6	107.3
Inter-segment revenue	\$m	1.5	2.0
Segment revenue	\$m	48.1	109.3
Profitability			
Reported operating (loss) profit	\$m	(6.8)	1.9
Acquisition amortisation and exceptional items	\$m	(0.1)	2.8
Underlying operating (loss) profit	\$m	(6.9)	4.7
Underlying operating margin	%	-14	4
Other Financial Measures			
Capital investment	\$m	0.4	1.0
Property, plant and equipment	\$m	6.5	7.9
Inventory	\$m	18.8	22.1
Operational			
Headcount (period end)	#	302	364
Headcount (average)	#	341	426
Operating sites	#	4	4
Operating footage	Kft ²	545	545

*Source – Spears & Associates DPO December 2021.

Introduction

Hunting's Asia Pacific operating segment covers four operating facilities across China, Indonesia and Singapore and services OCTG customers predominantly in Asia Pacific and the Middle East.

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.

On 1 January 2021, the Group's Singaporean Well Intervention business was transferred from the EMEA segment. The Asia Pacific segment is currently consolidating its facilities in Singapore to a single operating site in the Tuas port area. This initiative is scheduled to be completed by April 2022.

Market Overview

Across the Asia Pacific region the average rig count declined by 6% from 171 active units to 160 units as the impact of COVID-19 persisted during the year. Drilling spend was, however, materially unchanged at \$12.8bn in 2021 compared to \$12.5bn in 2020.

As noted previously, in the Middle East drilling spend decreased from \$20.4bn in 2020 to \$16.6bn in 2021, which reduced revenue within the segment.

Segment Performance

Revenue in the year decreased 56% to \$48.1m compared to \$109.3m in the prior year, leading to an underlying loss from operations of \$6.9m in 2021 compared to a \$4.7m profit in 2020.

Following the net credits for the amortisation of acquired intangible assets and exceptional items, which totalled \$0.1m, the reported operating loss was \$6.8m compared to a \$1.9m profit in 2020.

OCTG

2021 was an extremely challenging year for the segment, driven in part by the ongoing impact of COVID-19 as well as the market changes emanating from China.

As widely reported, raw material costs increased in the first half of the year and, in addition, freight charges from mainland China also increased. Further, in August 2021 the Chinese government removed a tax rebate on OCTG exports, which further exacerbated the already declining market conditions in the region. These actions had the overall impact of increasing the costs of OCTG supply into international markets, which made Hunting less competitive in large OCTG international tenders.

However, the business continued to win small- to medium-size OCTG tenders in the year and, as market conditions improved in the Middle East, particularly in Kurdistan, the outlook for the segment has improved materially from Q4 2021.

Through its partnership with Jindal Saw Limited ("Jindal"), a number of OCTG supply contracts were also secured in the year.

India Joint Venture

On 23 December 2021, Hunting announced the formation of a new 49:51 joint venture with Jindal SAW. The agreement formalises a closer working partnership between the two companies, following the formation of a strategic alliance in 2019 when Hunting and Jindal began cooperating to develop their presence in the rapid growth OCTG market in India.

Under the terms of the joint venture agreement, Hunting and Jindal will build a dedicated premium connection threading facility in Nashik district, India, near Jindal's existing steel mill operations, with a proposed 130,000sqft manufacturing footprint.

The facility is targeted to be operational by the end of 2022, with up to three threading lines being commissioned over time with an annual capacity of 50,000 metric tonnes of OCTG. It is anticipated that the venture will employ c.100 staff once fully operational.

As part of the commercial agreement with Jindal, Hunting will provide a premium connection threading licence to the joint venture.

New Technology

The Asia Pacific segment has continued to assist in the development of a micro hydro generation system. Prototypes have been installed in the Philippines and the first sales order was delivered in the year. Further trials are anticipated in 2022.

Other Financial Information

Inventory decreased during the year to \$18.8m (2020 – \$22.1m).

Additions of \$0.4m to PPE in the year were modest.

The headcount also reduced from 364 to 302 in the year, as cost reduction measures were implemented.